

BUYING GOOD HEALTH

HEALTHCARE STOCK PITCH(ES) – MARCH 25TH, 2015

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PITCH: CELGENE CORP

CELGENE CORP

COMPANY OVERVIEW

SUMMARY

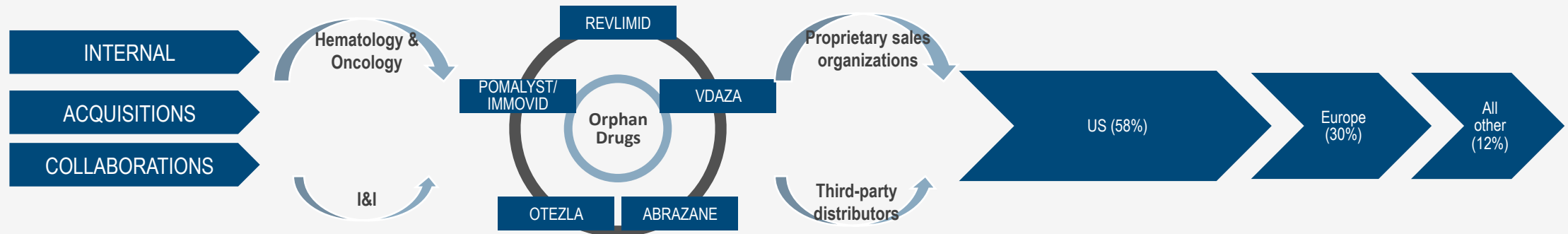
- Founded in 1986, global integrated biopharmaceutical company engaged in the discovery, development and commercialization of innovative therapies to treat cancer and immune-inflammatory diseases
- ~6,500 employees globally and ~10 commercialized products

MARKET SUMMARY

| | |
|-----------------------|----------------|
| Share Price | \$116.99 |
| Market Capitalization | \$93.6B |
| Enterprise Value | \$92.9B |
| 52-Week Range | \$66.85-129.06 |
| Beta | 1.14 |

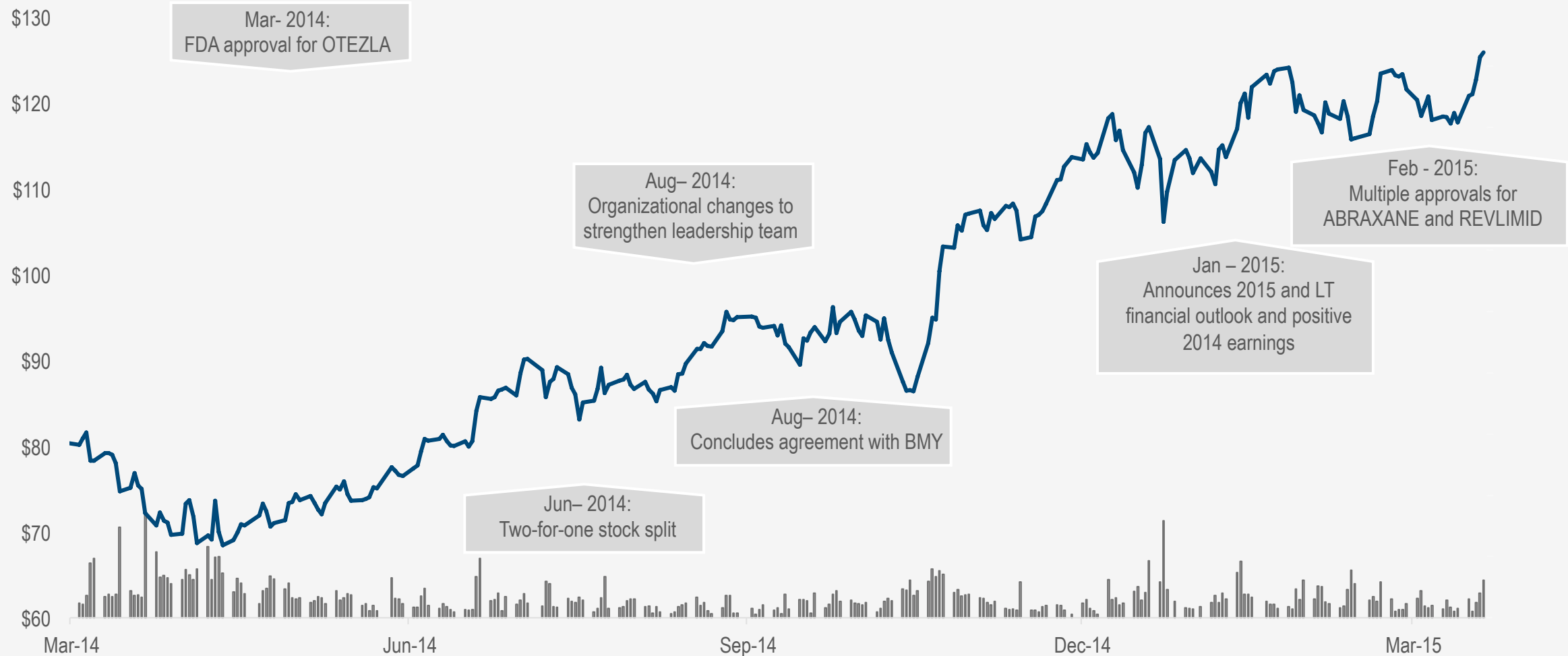
Market summary data as of 3/25/2015.

BUSINESS MODEL



1Y TRADING PERFORMANCE

ANNOTATED PRICE CHART



INVESTMENT THESIS

THE TOP-DOWN APPROACH

BEST OPERATOR IN BEST SECTOR

EXTERNAL

BIOTECH

Biotech industry has flourished rising almost 300% during the past five year. BONUS: DCM needs exposure to the sector

BIG BIOTECH

Given the biotech “bubble”, small caps are trading at an unwarranted premium. Larger players are a better option.

CELGENE

Key stock strategically positioned to withstand industry risks including regulatory risk and pricing pressure.

MARKET LEADER IN ORPHAN DRUGS

Celgene is the world’s #1 orphan drug producer and leads with it’s multiple myeloma treatment REVLIMID. Sales of REVLIMID are expected to double and reach over \$8B by 2020

GROSS MARGIN KING

95% gross margins leads core comparables group. Celgene’s leading gross margins are sustainable because of their internal sales force model

NEW KEY DRUG IN THE PIPELINE

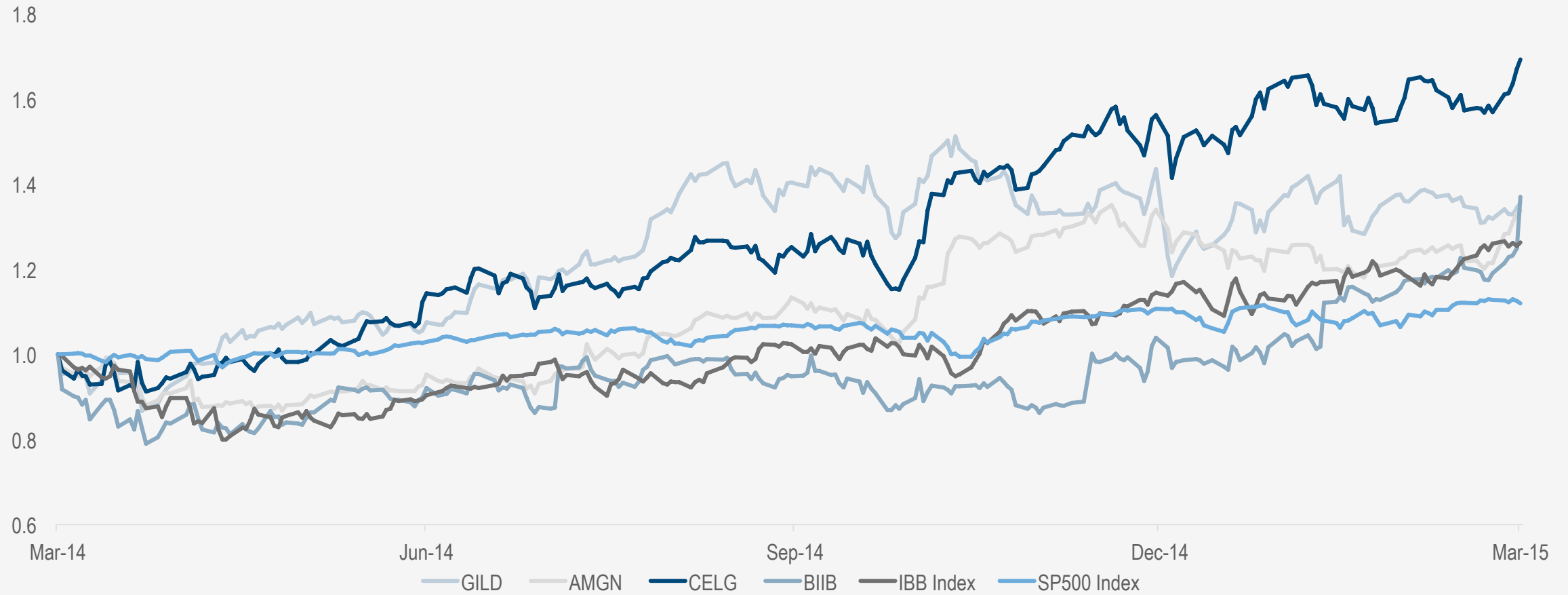
Otezla to reach 33% revenue share by 2019 and will vastly improve revenue segmentation. REVLIMID currently represents 65% of revenues and will drop to 33% as Otezla share increases

INTERNAL

EXTERNAL ENVIRONMENT

1Y PRICE APPRECIATION

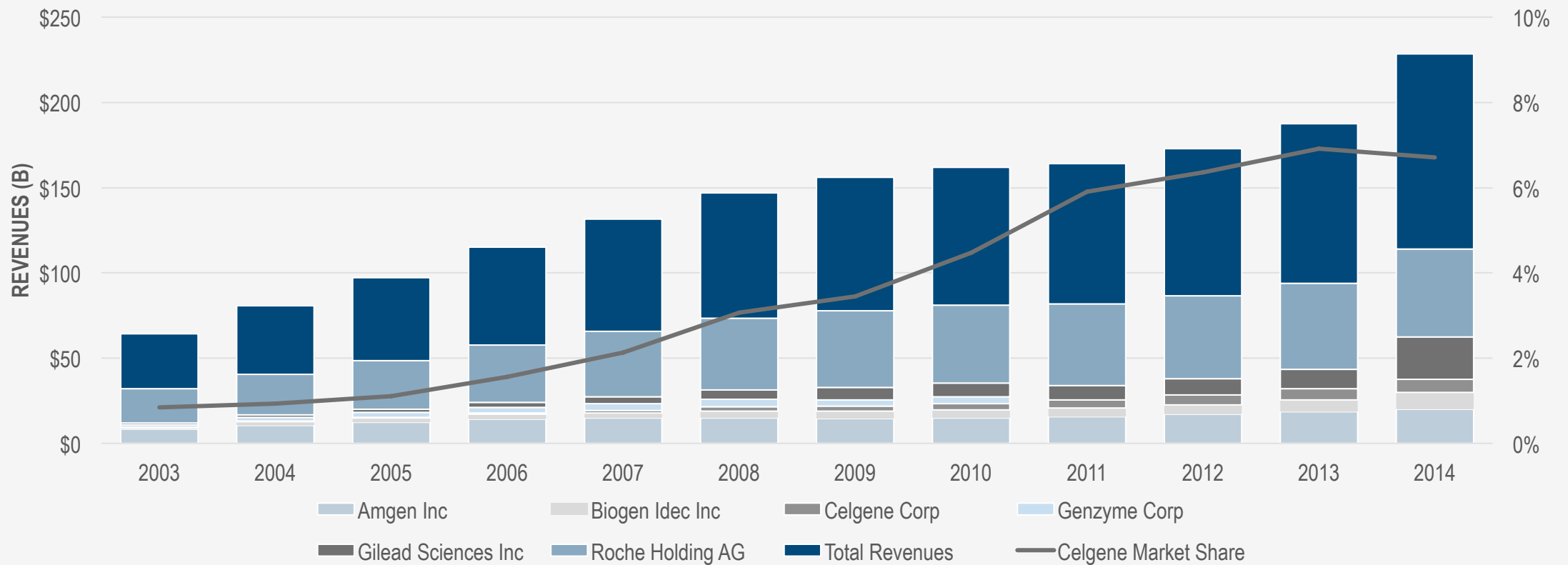
STRONG MOVER OVER COMPETITION AND SECTOR



PROMISING OUTLOOK

COMBINATION OF BIOTECH MARKET GROWTH AND STRATEGIC POSITIONING

GROWING MARKET SHARE WHILE KEEPING FOCUS ON NICHE SEGMENTS



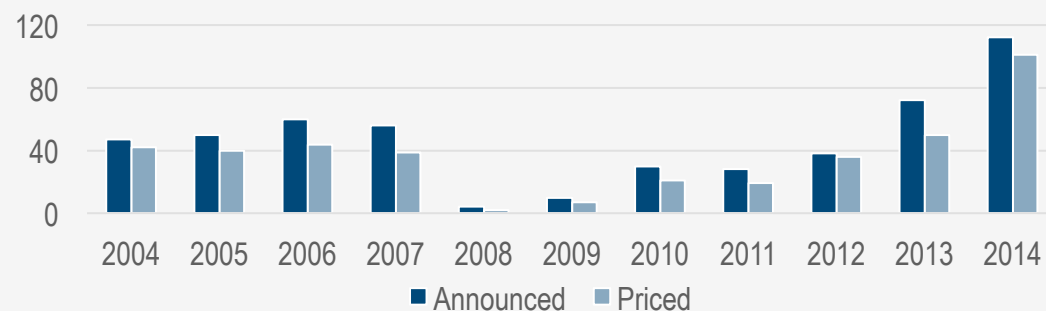
BIOTECH BULLS

THEMES FUELING BIOTECH TAILWINDS

CONTINUED INNOVATION AND HEALTHY RETURNS

- Recently, big biotech stocks reported strong earnings and repeatedly positive clinical and regulatory read-outs
- Consensus calls for doubling of sales by 2018, with net income expected to grow 165% to \$48B, with \$41B coming from mature biotech alone

DRUG IPOs HAVE BEEN HOT



Source: Bloomberg IPO Function, BI

M&A: SEARCH AND DEVELOP MODEL

- Large pharma companies viewing biotech as a discovery engine is leading to competitive licensing and M&A deals
- Boosting asset valuation among smaller biotech companies

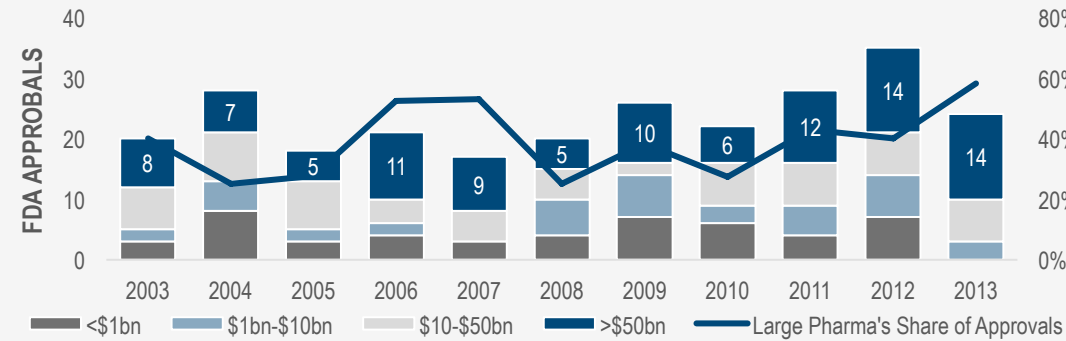
| DATE | TARGET | ACQUIRER | TRANSACTION VALUE (M) | PREMIUM |
|-------------|-------------------|-----------------|-----------------------|---------|
| 03/04/2015* | Pharmacyclics Inc | AbbVie Inc | \$19,822 | 44% |
| 12/08/2014 | Cubist Pharma | Merck&Co Inc | \$8,277 | 39% |
| 11/24/2014 | Prosensa Holdings | BioMarin Pharma | \$545 | 51% |
| 08/24/2014 | InterMune Inc | Roche Holding | \$7,807 | 54% |
| 06/30/2013 | Onyx Pharma Inc | Amgen Inc | \$8,530 | 43% |

*Pending

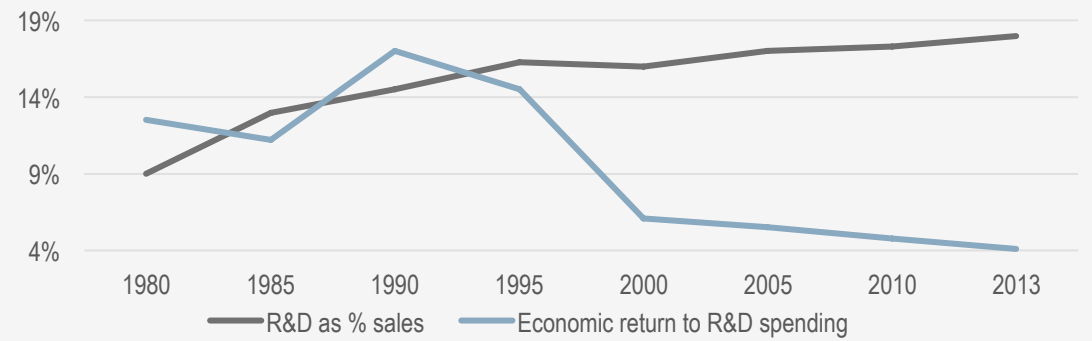
INDUSTRY RISK 1

CLINICAL EFFECTIVENESS SHOULD BE FIRST FOCUS

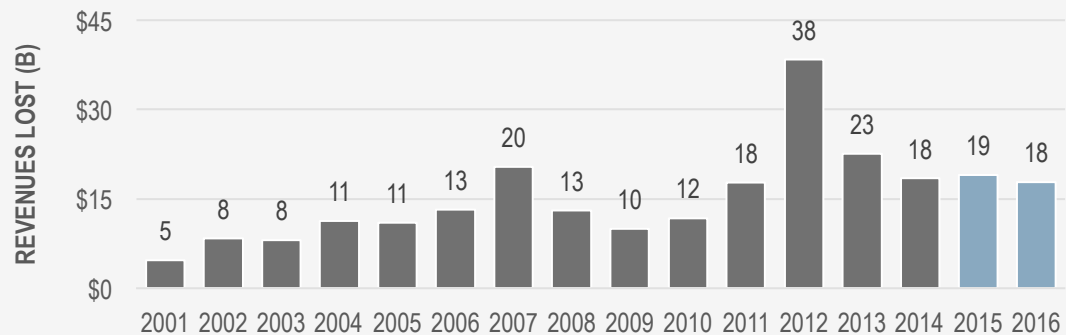
1. FDA BIOTECH APPROVALS: SIZE MATTERS



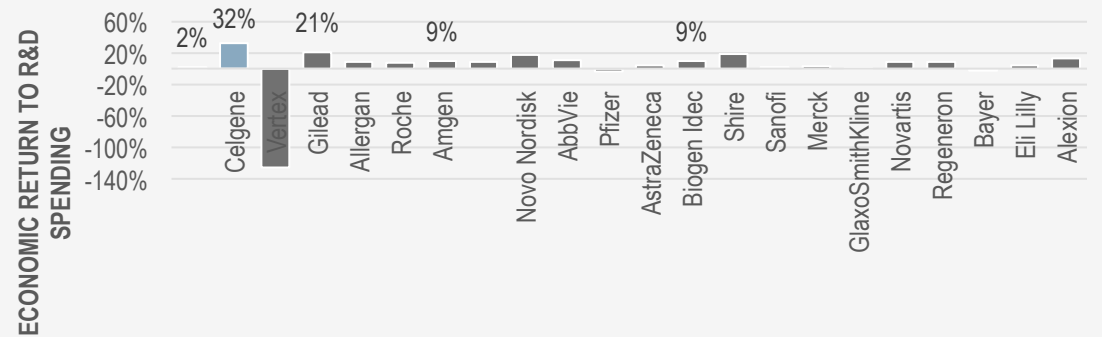
3. R&D SPEND BECOMING LESS EFFECTIVE



2. THE PATENT CLIFF IS REAL AND HURTS



4. SO PICK AN EFFICIENT OPERATOR



Source: EvaluatePharma, PhRMA and SSR Health, Accenture based on EvaluatePharma

INDUSTRY RISK 2

VIABILITY OF BRANDED DRUG PRICING MODEL

WHO ARE THE PLAYERS IN THE PRICING GAME?

1. GOVERNMENT

Direct federal gov't intervention is barred under US law but the ACA has created incentive to control costs

2. WHOLESALERS AND PHARMACIES

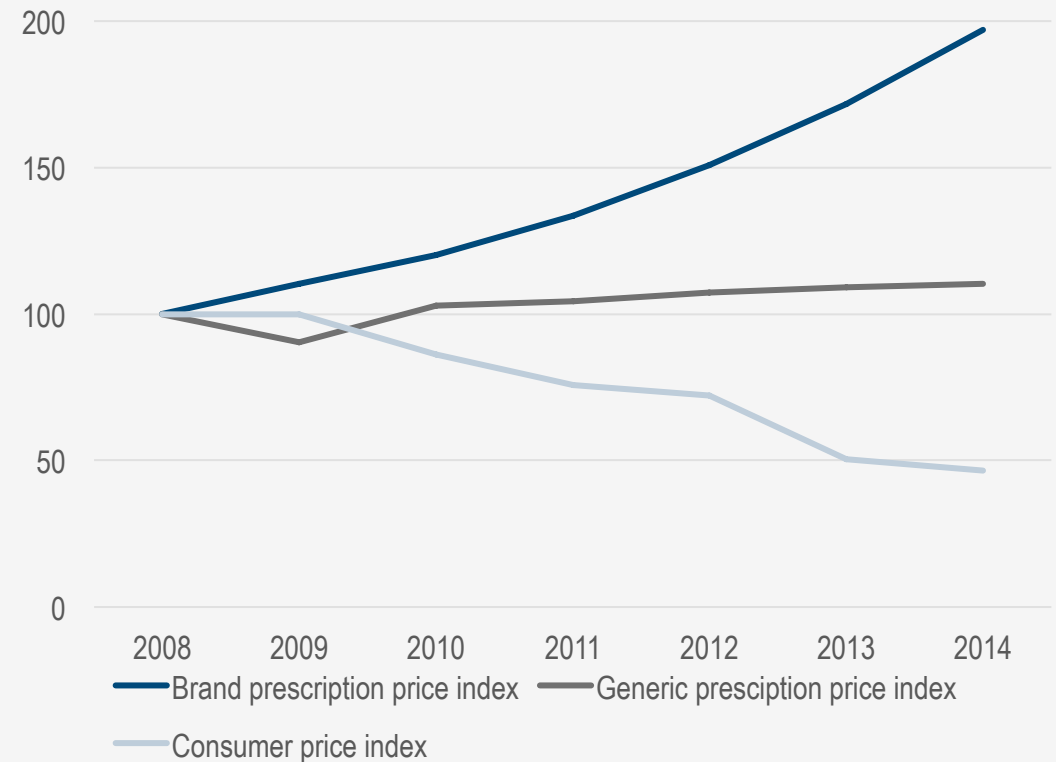
Network is continuing to undergo consolidation, which will increase competitive and pricing pressures

3. INSURERS

Pressure exerted by health insurers has expanded from medicines used to treat common maladies to specialized fields, like cancer

Source: Express Scripts Prescription Price Index

LOOKS LIKE ALL BARK NO BITE



PRICING CASE STUDY

AS A WHOLE BIOTECH PRICING MAY BE SAFE BUT INDIVIDUALLY NO SO SAFE

THE STINK ABOUT SOVALDI

↓
Gilead's Hep. C drug Sovaldi has raised wider concerns about sustainability of US drug pricing

PROGNOSIS: NEGATIVE

↓
As soon as US regulators approved Sovaldi's competitor, Express Scripts Co dropped reimbursement for the Gilead drug

WHY DO WE CARE?

Drugs need to be innovative: increased price competition if a product is viewed as a commodity.

RISE AND FALL OF GILD TIED TO PRICING WAR



TO BE SAFE: FOCUS ON ORPHAN DRUGS

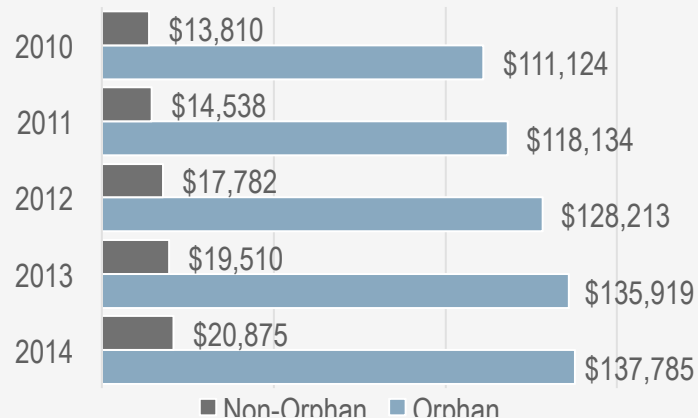
CELGENE IS THE KING OF THE ORPHAN DRUG HILL

ORPHAN DRUG ACT

Enacted in 1983 in the US to facilitate development and commercialization of drugs to treat rare diseases (<200,000 people)

TBT: CUBIST

LUCRATIVE: PATIENT COST

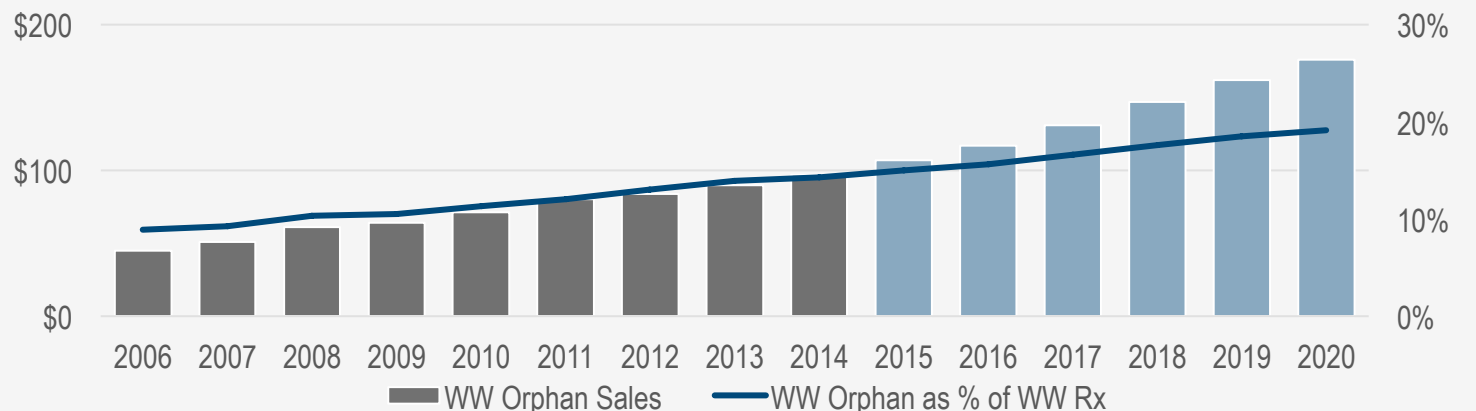


Source: EvaluatePharma

MARKET OUTLOOK: FDA ORPHAN APPROVALS



MARKET OUTLOOK: REVENUE GROWTH (B)

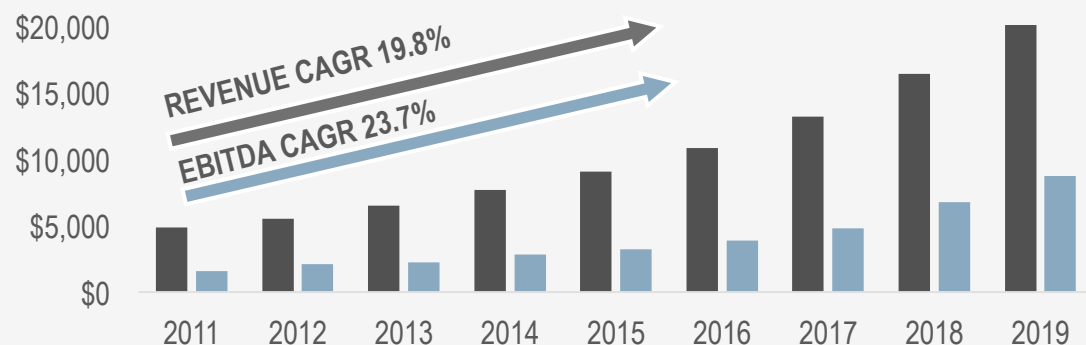


INTERNAL ENVIRONMENT

CELGENE CORP

REVENUE & EBITDA BREAKDOWN

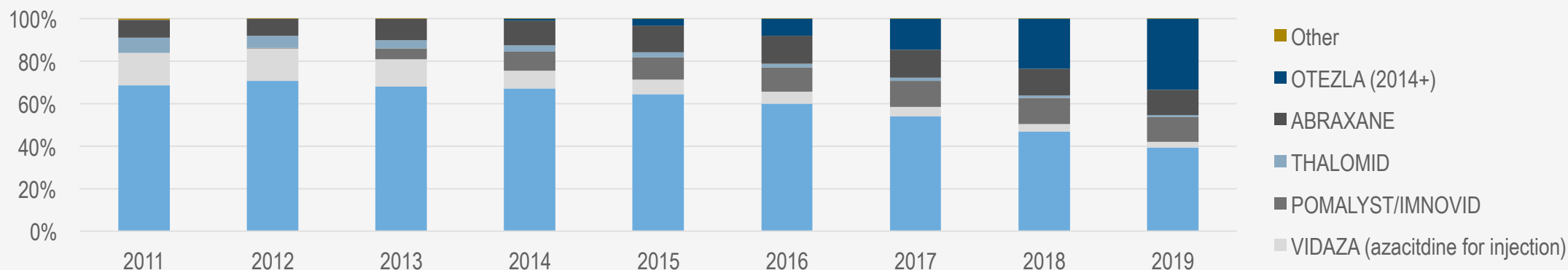
1. REVENUE & EBITDA GROWTH (M)



3. KEY HIGHLIGHTS

- OTZELA drug to grow 33% of revenue by 2019
- Celgene's revenue segmentation will become more diversified as OTZELA grows and REVLIMID contracts as % of total sales
- VIDAZA is expected to experience a small sales decline throughout the forecast period, and fall to 3% of sales
- ABRAXANE to grow at 26% CAGR but only mild change in total revenue share

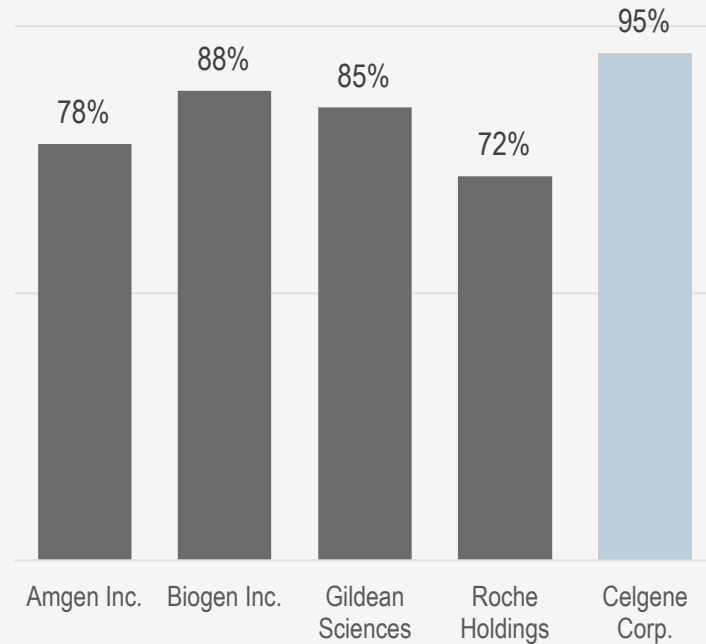
2. REVENUE SEGMENTATION



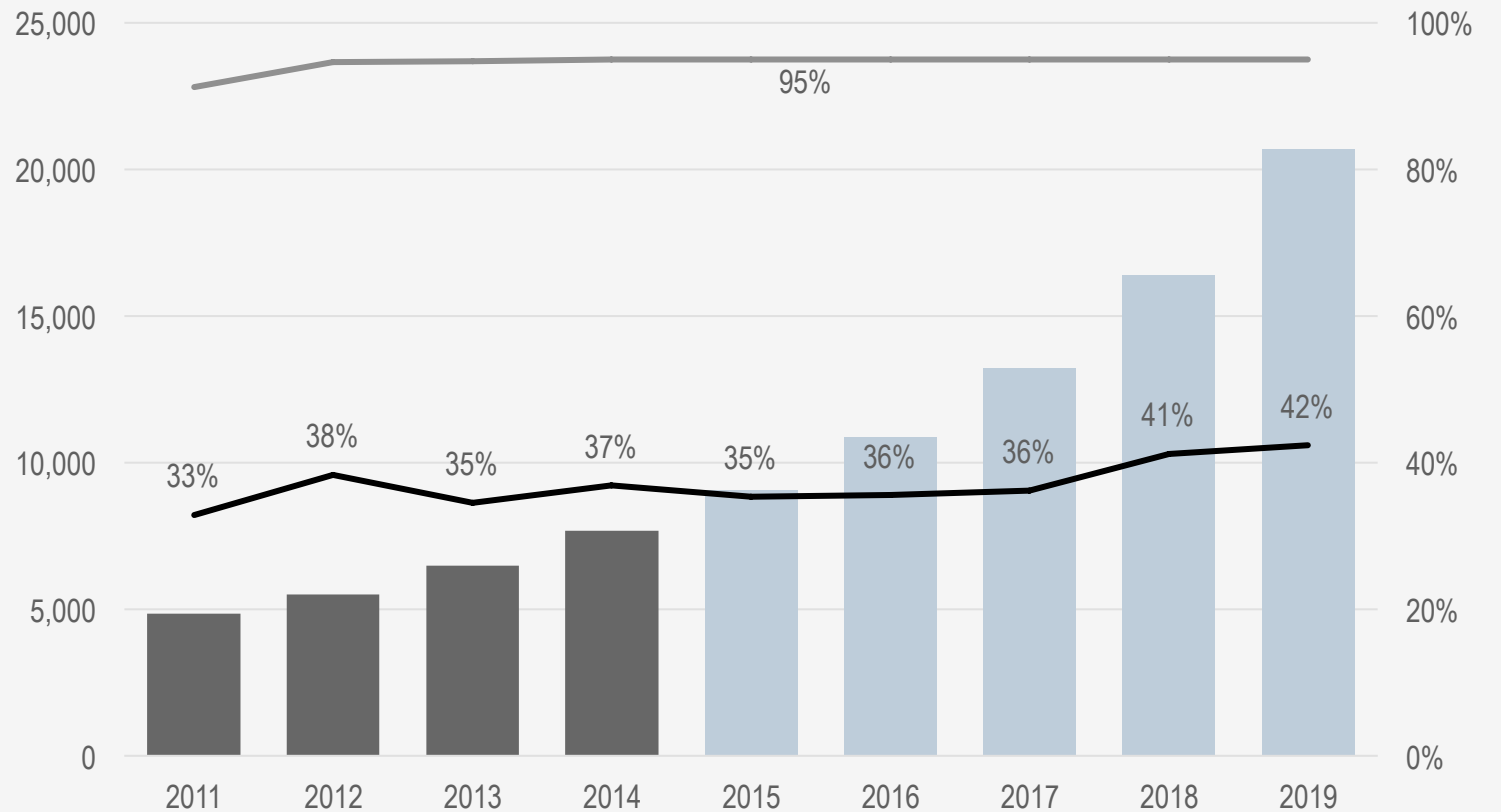
OPERATING MARGINS

MARGINS? SO GROSS!

GROSS MARGINS



BEAUTIFUL MARGIN EXPANSION WITH REVENUE GROWTH



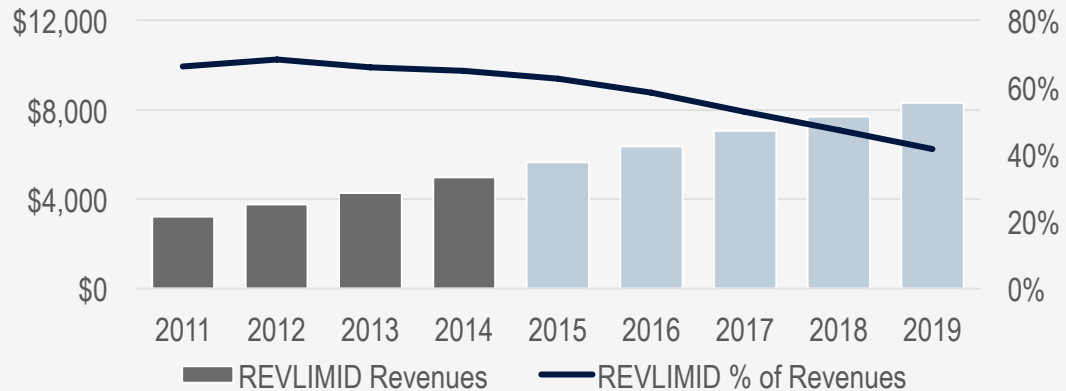
OUR DRUGS

CONTINUED DEVELOPMENT OF BLOCKBUSTERS

CURRENT FOCUS: REVLIMID

↓ Treatment for multiple myeloma. REVLIMID represents 65% of Celgene's sales in 2014 (2019E 39%). REVLIMID is the top-selling orphan drug in the world

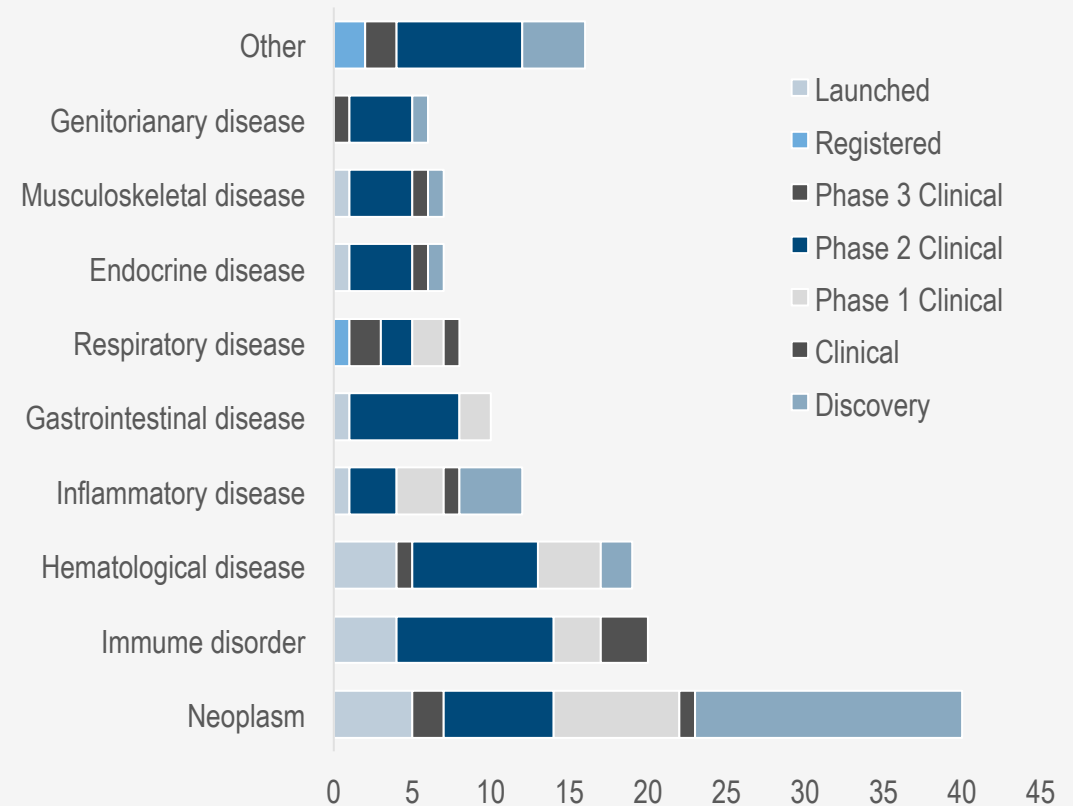
THE BIGGEST GETTING BIGGER



CELGENE IS THE #1 ORPHAN DRUG PRODUCER IN THE WORLD

Source: EvaluatePharma.

FUTURE FOCUS: DIVERSIFIED PIPELINE

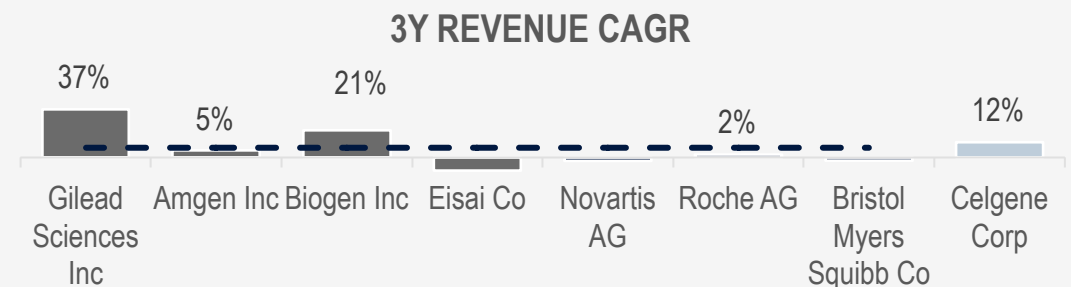
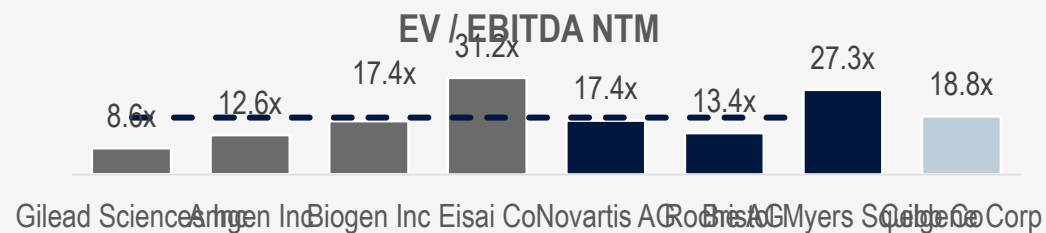


VALUATION

COMPARABLE COMPANIES

WORTHY OF ITS PREMIUM

| COMPANY | MKT CAP (M) | EV (M) | EV / EBITDA | | P / E | | 1Y PEG | ROE | 3Y REVENUE CAGR |
|----------------------------|---------------|---------------|--------------|--------------|--------------|--------------|-------------|---------------|-----------------|
| | | | LTM | NTM | CURRENT | NTM | | | |
| TRADITIONAL BIOTECH | | | | | | | | | |
| Gilead Sciences Inc | \$152.4 | \$153.4 | 9.4x | 8.6x | 12.9x | 10.5x | 0.8x | 90.32% | 36.90% |
| Amgen Inc | \$129.1 | \$132.8 | 16.0x | 12.6x | 25.1x | 17.8x | 1.7x | 21.55% | 5.12% |
| Biogen Inc | \$102.7 | \$100.0 | 21.5x | 17.4x | 35.5x | 24.9x | 1.5x | 30.21% | 20.67% |
| Eisai Co | \$17.9 | \$18.6 | 21.1x | 31.2x | 52.6x | 85.4x | - | 7.35% | -9.98% |
| MEDIAN | | | 18.6x | 15.0x | 30.3x | 21.3x | 1.1x | 25.88% | 12.9% |
| ORPHAN DRUG FOCUS | | | | | | | | | |
| Novartis AG | \$276.7 | \$283.3 | 17.0x | 17.4x | 24.3x | 18.9x | 2.9x | 14.07% | -2.57% |
| Roche AG | \$242.8 | \$258.8 | 14.2x | 13.4x | 23.5x | 20.0x | 4.0x | 47.81% | 2.26% |
| Bristol Myers Squibb Co | \$112.6 | \$108.8 | 35.5x | 27.3x | 56.0x | 37.2x | 2.4x | 13.36% | -2.38% |
| AVERAGE | | | 22.2x | 19.4x | 34.6x | 25.4x | 3.1x | 25.08% | -0.90% |
| Celgene Corp | \$96.5 | \$95.8 | 33.5x | 18.8x | 48.0x | 23.5x | 1.0x | 33.02% | 11.66% |



Market data as of 2/7/2015.

VALUATION

DCF OPERATING ASSUMPTIONS

WORST CASE

- Sales growth: Lower range of management guidance for 2017 and 2020
- R&D: 33%
- SG&A: Below industry average of 28% but higher than historical average

BASE CASE

- Sales growth: Middle range of management guidance for 2017 and 2020 + subsector trends
- R&D: 32% (historical average)
- SG&A: Assume historical average of 26%

BULL CASE

- Sales growth: Upper range of management guidance for 2017 and 2020
- R&D: Anticipate increase in efficacy, lower to 30%
- SG&A: Anticipate operating margin improvements lower to 25%

Price Target: \$110

Upside: -6%

Price Target: \$134

Upside: 15%

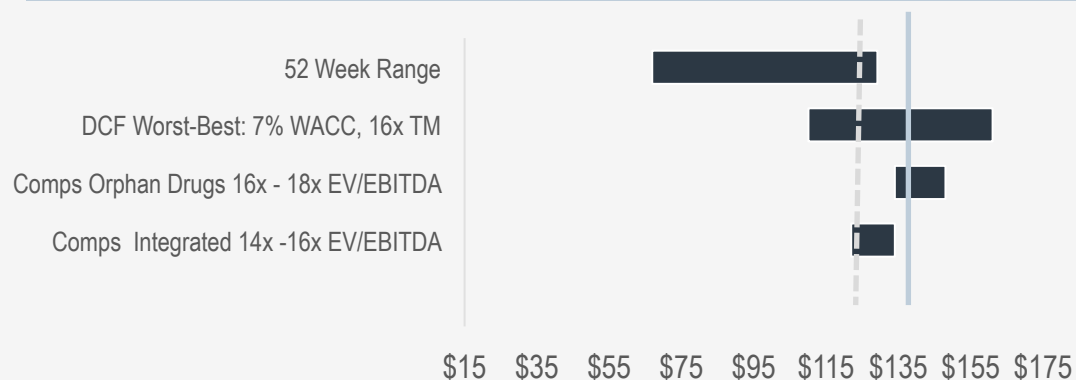
Price Target: \$161

Upside: 38%

VALUATION SUMMARY

STILL INTRINSICALLY ATTRACTIVE

SUMMARY



| (US\$M) | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----------------------|---------|----------|----------|----------|----------|
| Revenues | 9,041.2 | 10,906.6 | 13,389.3 | 16,288.0 | 19,967.6 |
| EBIT | 3,011.5 | 3,714.7 | 4,718.9 | 5,880.9 | 7,451.3 |
| Net Income | 2,598.1 | 3,278.2 | 4,128.9 | 5,113.3 | 6,444.7 |
| Diluted EPS | 3.1 | 4.0 | 5.0 | 6.2 | 7.8 |
| Gross Profit Margin % | 95.0% | 95.0% | 95.0% | 95.0% | 95.0% |

SENSITIVITY ANALYSIS: MULTIPLE

| | | Discount Rate | | | | |
|-------------------|------|---------------|-------|-------|-------|-------|
| | | 6% | 6.5% | 7% | 7.5% | 8% |
| Terminal Multiple | 14.5 | \$128 | \$126 | \$123 | \$121 | \$118 |
| | 15.0 | \$132 | \$129 | \$127 | \$124 | \$122 |
| | 15.5 | \$135 | \$133 | \$130 | \$127 | \$125 |
| | 16.0 | \$139 | \$136 | \$134 | \$131 | \$128 |
| | 16.5 | \$143 | \$140 | \$137 | \$134 | \$131 |
| | 17.0 | \$146 | \$143 | \$140 | \$137 | \$134 |
| | 17.5 | \$150 | \$146 | \$143 | \$140 | \$138 |

SENSITIVITY ANALYSIS: SCENARIO

| | | Discount Rate | | | | |
|-------|-------|---------------|-------|-------|-------|----|
| | | 6% | 6.5% | 7% | 7.5% | 8% |
| Worst | \$113 | \$111 | \$109 | \$107 | \$105 | |
| Base | \$139 | \$136 | \$134 | \$131 | \$128 | |
| Best | \$166 | \$163 | \$161 | \$156 | \$153 | |

WRAP UP

WHAT LIES AHEAD

IT'S ALL ABOUT THE RISK-RETURN TRADE OFF

RISK

HIGH DEPENDENCE ON REVLIMID SALES

Forecasted to fall as a % of revenues, however pricing trends or market share loss remain a risk

GENERIC COMPETITION VIDAZA

In 2013, Dr Reddy's Lab launched its generic version. CELG fought back by contracting with Sandoz to sell its own generic version

CONSOLIDATION AMONG DRUG WHOLESALERS

Sell through specialty contracted pharmacies and consolidation trend shifts bargaining power to buyers

REDUCTION IN THIRD-PARTY REIMBURSEMENT

Increased utilization of generic pharmaceuticals given lower reimbursement levels could negatively impact margins

CATALYSTS

CONTINUED SHARE-REPURCHASE PROGRAM

Unlocking value for shareholders as EPS is growing fast than top line.

REALIZATION OF OTEZLA'S POTENTIAL

Comes into a market dominated by some of the best-selling drugs in the world but instead of an injection, Celgene's drug is a pill

OUTCOME OF BINARY EVENTS

Lifeblood of investing in biotech but market anticipates positive late stage clinical results for upcoming years

INCREASED TRADING VOLUME

Recent insider activity as well as hedge funds increasing their position

VALUE REALIZATION: STANDS TO BE A PRIME BENEFICIARY OF THE STRONG U.S. BIOTECH

**BIOTECH IS A GREAT
OPPORTUNITY BUT IT'S
NOT A THING WHERE WE
WANT TO PUT ALL OF OUR
EGGS IN ONE BASKET**

- GRETA VON UNRUH

APPENDIX