

September 11, 2019

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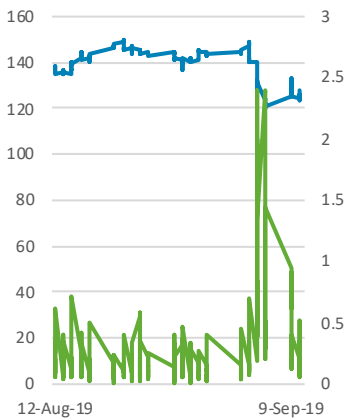
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### BeiGene Ltd. (BGNE US)

Share Price	\$ 127.45
Market Cap (mln)	\$ 7,683.1

BeiGene (BGNE US) last share price in USD (blue, left) and volume (green, right, mln shares)



Source: Bloomberg September 11, 2019

## BeiGene, Ltd. (BGNE US)

# Digging a Deeper Hole

BeiGene's September 8 investor call was heavy on declarations of the company's integrity and light on facts.

In attempting to rebut our findings, BeiGene made a number of statements that are provably false. On several occasions they failed to refute our core assertions. In fact, they confirmed some of them.

The call wasn't all bad. We want to praise the company for finally disclosing that it uses an exclusive distributor for all drug sales in China, a fact that had been hidden from investors for the three and a half years the company has been listed. We also want to commend BeiGene for admitting that it has inventory of Celgene drugs in China. Since BeiGene buys from Celgene then sells all the drugs to its distributor, China Resources, offshore, any inventory in China has to have been repurchased from China Resources. That is round-tripping, plain and simple.

#### 7. Inventories

The Company's inventory balance of \$ 16,242 and \$10,930 as of December 31, 2018 and 2017, respectively, consisted entirely of finished goods product purchased from Celgene for distribution in the PRC.

Source: Page F-29, 2018 10-K

There's a lot of product in inventory. The company claimed on the call that it orders several times a month. But it holds nine months of inventory. Which is it?

	State	As of	
		June 30, 2019	December 31, 2018
		\$ (unaudited)	\$ (audited)
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		9,894	712,937
Short-term restricted cash	5	14,567	14,544
Short-term investments	5	6,880	1,064,509
Accounts receivable		58,108	41,056
Unbilled receivable		—	8,612
<b>Inventories</b>	<b>8</b>	<b>49,044</b>	<b>16,242</b>
Prepaid expenses and other current assets	12	96,206	81,942
<b>Total current assets</b>		<b>1,755,680</b>	<b>1,943,842</b>

Source: BeiGene 2018 10-K

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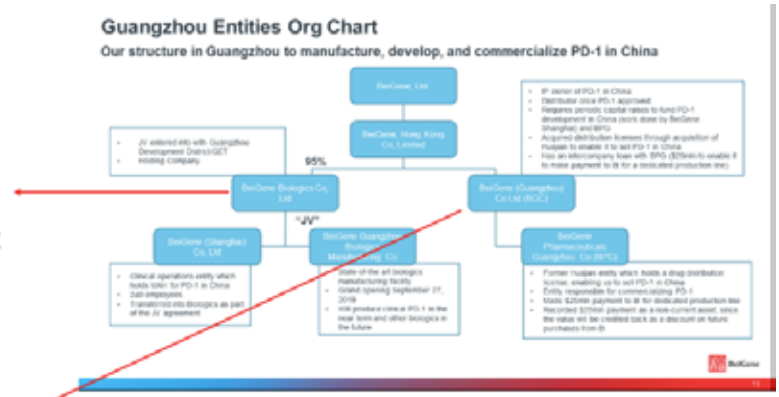
If we add the \$21 mln minimum purchase commitment for Celgene drugs to the \$49 mln inventory already in stock, that's over a year's supply of inventory in stock or on order.

**The Shell Company: An Outright Lie**

To explain heavy capital injections, CFO Howard Liang claimed that BeiGene's Guangzhou-based shell company, registered to a non-existent address, is funding construction of BeiGene's biologics factory. This is simply untrue. BeiGene Guangzhou, the company that has received heavy capital injections from its BeiGene parent, is the owner of BPG, the pharmaceutical distribution company, as is clearly shown in the company's own slide presentation. It is NOT the owner of the biologics factory and cannot legally contribute capital to that project.

Parent company of the biologics manufacturing facility. This company injected its Shanghai assets, commercialization rights for tislelizumab, plus ¥900 mln, which it borrowed at 7% from its JV partner, in return for its equity in the company.

Parent company of BeiGene's drug-distribution company. This company has received capital injections to \$90 mln.



Source: BeiGene investor presentation September 8, 2019, with J Capital comments

Furthermore, on the slide above, BeiGene says it lent money to BeiGene Guangzhou for a manufacturing line. On the call, they specified: "It is actually a payment for production capacity expansion at our manufacturing partner Boehringer Ingelheim."

Boehringer is BeiGene's manufacturing partner.<sup>1</sup> But if the loan is for manufacturing capacity, why push the money through a drug distributor?

1 <https://www.boehringer-ingelheim.com/BeiGene-and-Boehringer-Ingelheim-Announce-Commercial-Supply-Agreement>

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**Misplaced IP**

The slide also says that this subsidiary, BeiGene Guangzhou, is the IP owner of BeiGene’s PD-1 drug, tislelizumab.

- IP owner of PD-1 in China
- Distributor once PD-1 approved
- Requires periodic capital raises to fund PD-1 development in China (work done by BeiGene Shanghai) and BPG
- Acquired distribution licenses through acquisition of Huajian to enable it to sell PD-1 in China
- Has an intercompany loan with BPG (\$25m to enable it to make payment to BI for a dedicated production line)

Source: BeiGene presentation slide caption describing BeiGene Guangzhou Co. Ltd.

That is simply not true. Tislelizumab patents are registered to BeiGene Ltd. in the Caymans.

China Invention Patent

Applicant: BeiGene, Ltd. Cayman Islands

(10) 中华人民共和国国家知识产权局

(12) 发明专利申请

(10) 申请公布号 CN 105222986 A

(43) 申请公布日 2016.03.27



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(22) 申请日 2015.09.13

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(51) Int. Cl. G06F 16/00(2006.01)  
A61P 28/00(2006.01)

(54) 发明名称 抗 PD1 抗体及其作为治疗剂与诊断剂的应用

(57) 摘要 本发明提供特异性结合程序性死亡-1 (PD1), PD1-1 或 CD276, 特别免疫球蛋白 Fc 分子的融合蛋白及其制备方法, 并组合 PD1 的抗体并需要的一级免疫原的肽段, 及这些抗体或其衍生物 PD1 分子的过表达和抑制的用途, 免疫性抗体或抗体衍生物的用途。

Copy of BeiGene's patent registration for tislelizumab. Source: China Patent Office

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Chinese government websites<sup>2</sup> confirm that development rights for tislelizumab, BeiGene’s PD-1 drug, are registered to BeiGene (Shanghai) Co., Ltd.

16	国科进办审字 [2018] 248 号	2018 (5)	一项探索BGB-A317 (抗PD-1抗体) 对照多西他赛用于在既往含铂类药物的治疗方案期间出现疾病进展的非小细胞肺癌患者的有效性和安全性的II期、开放标签、多中心、随机研究	南通市肿瘤医院	百济神州 (上海) 生物科技有限公司	2018年3月
17	国科进办审字 [2018] 249 号	2018 (5)	一项探索BGB-A317 (抗PD-1抗体) 对照多西他赛用于在既往含铂类药物的治疗方案期间出现疾病进展的非小细胞肺癌患者的有效性和安全性的II期、开放标签、多中心、随机研究	广州医科大学附属肿瘤医院	百济神州 (上海) 生物科技有限公司	2018年3月
18	国科进办审字 [2018] 250 号	2018 (5)	一项探索BGB-A317 (抗PD-1抗体) 对照多西他赛用于在既往含铂类药物的治疗方案期间出现疾病进展的非小细胞肺癌患者的有效性和安全性的II期、开放标签、多中心、随机研究	温州医科大学附属第一医院	百济神州 (上海) 生物科技有限公司	2018年3月

Screenshot from Ministry of Science and Technology website showing trials of BeiGene’s PD-1 drug, tislelizumab, run by the drug’s legal owner, BeiGene Shanghai

In 2017, BeiGene injected all the equity interests of BeiGene Shanghai into BeiGene Biologics, the company that is a joint venture with the Guangzhou government. The development rights to tislelizumab went to BeiGene Guangzhou Biologics with the rest of the Shanghai assets.

In the fourth quarter of 2017, BeiGene HK and BeiGene Biologics entered into an Equity Transfer Agreement to transfer 100% of the equity interest of BeiGene Shanghai into BeiGene Biologics. The transfer consideration for the purchased interests under this Equity Transfer Agreement is the fair value of the 100% equity of BeiGene Shanghai appraised by a qualified Chinese valuation firm under the laws of the PRC. Upon the transfer of equity in BeiGene Shanghai, BeiGene HK’s equity interest in BeiGene Shanghai became 95%. As of December 31, 2018, the Company and GET held 95% and 5% equity interests in BeiGene Biologics, respectively.

Source: Page F-30, BeiGene’s 2018 10-K

This is not only a legal consequence of the asset transfer but is also the reason BeiGene Shanghai was valued at ¥1 bln when the assets were injected. Those development rights are what BeiGene’s partner, GET, valued highly in forming the joint venture.

**Auditors: Another Lie**

An analyst on the September 8 call asked CFO Liang to confirm that the same Ernst & Young team audits European, U.S., and Chinese operations. Liang said yes. This is patently untrue. The Chinese auditor is an affiliate of Ernst & Young called E&Y Hua Ming. The audit team cannot legally or organizationally be the same audit team for all territories. BeiGene warns in its 10-K that its Chinese auditor, unlike its auditor in other territories, is not subject to PCAOB inspection:

<sup>2</sup> For example, MOST from 2019: [http://www.most.gov.cn/bszn/new/rlyc/jgcx/201903/t20190308\\_145464.htm](http://www.most.gov.cn/bszn/new/rlyc/jgcx/201903/t20190308_145464.htm) The Guangzhou Bureau of Personnel in May 2018: <https://rencai.gov.cn/Index/detail/14157>

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The audit report included in our Annual Report on Form 10-K filed with the SEC is prepared by auditors who are not inspected fully by the Public Company Accounting Oversight Board, or the PCAOB, and, as such, investors are deprived of the benefits of such inspection.

As an auditor of companies that are publicly traded in the United States and a firm registered with the PCAOB, Ernst & Young Hua Ming LLP is required under the laws of the United States to undergo regular inspections by the PCAOB. However, because we have substantial operations within the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese government authorities, our auditor and its audit work is not currently inspected fully by the PCAOB.

Source: Page 81, 2018 10-K

**“Everyone accounts for R&D that way”**

BeiGene claimed that budgeting R&D (including spending on clinical trials— which the company says is 75% of the cost) on a company-wide basis rather than by drug program is “industry practice.” This is completely untrue, and in fact ludicrous. We refer BeiGene management to the many Google results for “clinical trial budgeting,” which offer highly detailed templates for costs by drug program. There are many pieces of software commercially available that BeiGene might want to look into. Oracle’s ClearTrial and IBM’s Clinical Trial Management System might be a good start; each offers detailed budgeting by drug program.

**Clinical Trial Office Billing Grid Template**

**Study Information**

Code	Name	OFF Codes	Use Q1-Q3 initials if the State or service to the right will be changed to ROK	Screen	CRV1	CRV2	CRV3	CRV4	CRV5	CRV6	CRV7	CRV8	CRV9	CRV10	CRV11	CRV12	CRV13	CRV14	CRV15	CRV16	CRV17	CRV18	CRV19	CRV20	CRV21	CRV22	CRV23	CRV24	CRV25	CRV26	CRV27	CRV28	CRV29	CRV30	CRV31	CRV32	CRV33	CRV34	CRV35	CRV36	CRV37	CRV38	CRV39	CRV40	CRV41	CRV42	CRV43	CRV44	CRV45	CRV46	CRV47	CRV48	CRV49	CRV50	CRV51	CRV52	CRV53	CRV54	CRV55	CRV56	CRV57	CRV58	CRV59	CRV60	CRV61	CRV62	CRV63	CRV64	CRV65	CRV66	CRV67	CRV68	CRV69	CRV70	CRV71	CRV72	CRV73	CRV74	CRV75	CRV76	CRV77	CRV78	CRV79	CRV80	CRV81	CRV82	CRV83	CRV84	CRV85	CRV86	CRV87	CRV88	CRV89	CRV90	CRV91	CRV92	CRV93	CRV94	CRV95	CRV96	CRV97	CRV98	CRV99	CRV100	CRV101	CRV102	CRV103	CRV104	CRV105	CRV106	CRV107	CRV108	CRV109	CRV110	CRV111	CRV112	CRV113	CRV114	CRV115	CRV116	CRV117	CRV118	CRV119	CRV120	CRV121	CRV122	CRV123	CRV124	CRV125	CRV126	CRV127	CRV128	CRV129	CRV130	CRV131	CRV132	CRV133	CRV134	CRV135	CRV136	CRV137	CRV138	CRV139	CRV140	CRV141	CRV142	CRV143	CRV144	CRV145	CRV146	CRV147	CRV148	CRV149	CRV150	CRV151	CRV152	CRV153	CRV154	CRV155	CRV156	CRV157	CRV158	CRV159	CRV160	CRV161	CRV162	CRV163	CRV164	CRV165	CRV166	CRV167	CRV168	CRV169	CRV170	CRV171	CRV172	CRV173	CRV174	CRV175	CRV176	CRV177	CRV178	CRV179	CRV180	CRV181	CRV182	CRV183	CRV184	CRV185	CRV186	CRV187	CRV188	CRV189	CRV190	CRV191	CRV192	CRV193	CRV194	CRV195	CRV196	CRV197	CRV198	CRV199	CRV200	CRV201	CRV202	CRV203	CRV204	CRV205	CRV206	CRV207	CRV208	CRV209	CRV210	CRV211	CRV212	CRV213	CRV214	CRV215	CRV216	CRV217	CRV218	CRV219	CRV220	CRV221	CRV222	CRV223	CRV224	CRV225	CRV226	CRV227	CRV228	CRV229	CRV230	CRV231	CRV232	CRV233	CRV234	CRV235	CRV236	CRV237	CRV238	CRV239	CRV240	CRV241	CRV242	CRV243	CRV244	CRV245	CRV246	CRV247	CRV248	CRV249	CRV250	CRV251	CRV252	CRV253	CRV254	CRV255	CRV256	CRV257	CRV258	CRV259	CRV260	CRV261	CRV262	CRV263	CRV264	CRV265	CRV266	CRV267	CRV268	CRV269	CRV270	CRV271	CRV272	CRV273	CRV274	CRV275	CRV276	CRV277	CRV278	CRV279	CRV280	CRV281	CRV282	CRV283	CRV284	CRV285	CRV286	CRV287	CRV288	CRV289	CRV290	CRV291	CRV292	CRV293	CRV294	CRV295	CRV296	CRV297	CRV298	CRV299	CRV300	CRV301	CRV302	CRV303	CRV304	CRV305	CRV306	CRV307	CRV308	CRV309	CRV310	CRV311	CRV312	CRV313	CRV314	CRV315	CRV316	CRV317	CRV318	CRV319	CRV320	CRV321	CRV322	CRV323	CRV324	CRV325	CRV326	CRV327	CRV328	CRV329	CRV330	CRV331	CRV332	CRV333	CRV334	CRV335	CRV336	CRV337	CRV338	CRV339	CRV340	CRV341	CRV342	CRV343	CRV344	CRV345	CRV346	CRV347	CRV348	CRV349	CRV350	CRV351	CRV352	CRV353	CRV354	CRV355	CRV356	CRV357	CRV358	CRV359	CRV360	CRV361	CRV362	CRV363	CRV364	CRV365	CRV366	CRV367	CRV368	CRV369	CRV370	CRV371	CRV372	CRV373	CRV374	CRV375	CRV376	CRV377	CRV378	CRV379	CRV380	CRV381	CRV382	CRV383	CRV384	CRV385	CRV386	CRV387	CRV388	CRV389	CRV390	CRV391	CRV392	CRV393	CRV394	CRV395	CRV396	CRV397	CRV398	CRV399	CRV400	CRV401	CRV402	CRV403	CRV404	CRV405	CRV406	CRV407	CRV408	CRV409	CRV410	CRV411	CRV412	CRV413	CRV414	CRV415	CRV416	CRV417	CRV418	CRV419	CRV420	CRV421	CRV422	CRV423	CRV424	CRV425	CRV426	CRV427	CRV428	CRV429	CRV430	CRV431	CRV432	CRV433	CRV434	CRV435	CRV436	CRV437	CRV438	CRV439	CRV440	CRV441	CRV442	CRV443	CRV444	CRV445	CRV446	CRV447	CRV448	CRV449	CRV450	CRV451	CRV452	CRV453	CRV454	CRV455	CRV456	CRV457	CRV458	CRV459	CRV460	CRV461	CRV462	CRV463	CRV464	CRV465	CRV466	CRV467	CRV468	CRV469	CRV470	CRV471	CRV472	CRV473	CRV474	CRV475	CRV476	CRV477	CRV478	CRV479	CRV480	CRV481	CRV482	CRV483	CRV484	CRV485	CRV486	CRV487	CRV488	CRV489	CRV490	CRV491	CRV492	CRV493	CRV494	CRV495	CRV496	CRV497	CRV498	CRV499	CRV500	CRV501	CRV502	CRV503	CRV504	CRV505	CRV506	CRV507	CRV508	CRV509	CRV510	CRV511	CRV512	CRV513	CRV514	CRV515	CRV516	CRV517	CRV518	CRV519	CRV520	CRV521	CRV522	CRV523	CRV524	CRV525	CRV526	CRV527	CRV528	CRV529	CRV530	CRV531	CRV532	CRV533	CRV534	CRV535	CRV536	CRV537	CRV538	CRV539	CRV540	CRV541	CRV542	CRV543	CRV544	CRV545	CRV546	CRV547	CRV548	CRV549	CRV550	CRV551	CRV552	CRV553	CRV554	CRV555	CRV556	CRV557	CRV558	CRV559	CRV560	CRV561	CRV562	CRV563	CRV564	CRV565	CRV566	CRV567	CRV568	CRV569	CRV570	CRV571	CRV572	CRV573	CRV574	CRV575	CRV576	CRV577	CRV578	CRV579	CRV580	CRV581	CRV582	CRV583	CRV584	CRV585	CRV586	CRV587	CRV588	CRV589	CRV590	CRV591	CRV592	CRV593	CRV594	CRV595	CRV596	CRV597	CRV598	CRV599	CRV600	CRV601	CRV602	CRV603	CRV604	CRV605	CRV606	CRV607	CRV608	CRV609	CRV610	CRV611	CRV612	CRV613	CRV614	CRV615	CRV616	CRV617	CRV618	CRV619	CRV620	CRV621	CRV622	CRV623	CRV624	CRV625	CRV626	CRV627	CRV628	CRV629	CRV630	CRV631	CRV632	CRV633	CRV634	CRV635	CRV636	CRV637	CRV638	CRV639	CRV640	CRV641	CRV642	CRV643	CRV644	CRV645	CRV646	CRV647	CRV648	CRV649	CRV650	CRV651	CRV652	CRV653	CRV654	CRV655	CRV656	CRV657	CRV658	CRV659	CRV660	CRV661	CRV662	CRV663	CRV664	CRV665	CRV666	CRV667	CRV668	CRV669	CRV670	CRV671	CRV672	CRV673	CRV674	CRV675	CRV676	CRV677	CRV678	CRV679	CRV680	CRV681	CRV682	CRV683	CRV684	CRV685	CRV686	CRV687	CRV688	CRV689	CRV690	CRV691	CRV692	CRV693	CRV694	CRV695	CRV696	CRV697	CRV698	CRV699	CRV700	CRV701	CRV702	CRV703	CRV704	CRV705	CRV706	CRV707	CRV708	CRV709	CRV710	CRV711	CRV712	CRV713	CRV714	CRV715	CRV716	CRV717	CRV718	CRV719	CRV720	CRV721	CRV722	CRV723	CRV724	CRV725	CRV726	CRV727	CRV728	CRV729	CRV730	CRV731	CRV732	CRV733	CRV734	CRV735	CRV736	CRV737	CRV738	CRV739	CRV740	CRV741	CRV742	CRV743	CRV744	CRV745	CRV746	CRV747	CRV748	CRV749	CRV750	CRV751	CRV752	CRV753	CRV754	CRV755	CRV756	CRV757	CRV758	CRV759	CRV760	CRV761	CRV762	CRV763	CRV764	CRV765	CRV766	CRV767	CRV768	CRV769	CRV770	CRV771	CRV772	CRV773	CRV774	CRV775	CRV776	CRV777	CRV778	CRV779	CRV780	CRV781	CRV782	CRV783	CRV784	CRV785	CRV786	CRV787	CRV788	CRV789	CRV790	CRV791	CRV792	CRV793	CRV794	CRV795	CRV796	CRV797	CRV798	CRV799	CRV800	CRV801	CRV802	CRV803	CRV804	CRV805	CRV806	CRV807	CRV808	CRV809	CRV810	CRV811	CRV812	CRV813	CRV814	CRV815	CRV816	CRV817	CRV818	CRV819	CRV820	CRV821	CRV822	CRV823	CRV824	CRV825	CRV826	CRV827	CRV828	CRV829	CRV830	CRV831	CRV832	CRV833	CRV834	CRV835	CRV836	CRV837	CRV838	CRV839	CRV840	CRV841	CRV842	CRV843	CRV844	CRV845	CRV846	CRV847	CRV848	CRV849	CRV850	CRV851	CRV852	CRV853	CRV854	CRV855	CRV856	CRV857	CRV858	CRV859	CRV860	CRV861	CRV862	CRV863	CRV864	CRV865	CRV866	CRV867	CRV868	CRV869	CRV870	CRV871	CRV872	CRV873	CRV874	CRV875	CRV876	CRV877	CRV878	CRV879	CRV880	CRV881	CRV882	CRV883	CRV884	CRV885	CRV886	CRV887	CRV888	CRV889	CRV890	CRV891	CRV892	CRV893	CRV894	CRV895	CRV896	CRV897	CRV898	CRV899	CRV900	CRV901	CRV902	CRV903	CRV904	CRV905	CRV906	CRV907	CRV908	CRV909	CRV910	CRV911	CRV912	CRV913	CRV914	CRV915	CRV916	CRV917	CRV918	CRV919	CRV920	CRV921	CRV922	CRV923	CRV924	CRV925	CRV926	CRV927	CRV928	CRV929	CRV930	CRV931	CRV932	CRV933	CRV934	CRV935	CRV936	CRV937	CRV938	CRV939	CRV940	CRV941	CRV942	CRV943	CRV944	CRV945	CRV946	CRV947	CRV948	CRV949	CRV950	CRV951	CRV952	CRV953	CRV954	CRV955	CRV956	CRV957	CRV958	CRV959	CRV960	CRV961	CRV962	CRV963	CRV964	CRV965	CRV966	CRV967	CRV968	CRV969	CRV970	CRV971	CRV972	CRV973	CRV974	CRV975	CRV976	CRV977	CRV978	CRV979	CRV980	CRV981	CRV982	CRV983	CRV984	CRV985	CRV986	CRV987	CRV988	CRV989	CRV990	CRV991	CRV992	CRV993	CRV994	CRV995	CRV996	CRV997	CRV998	CRV999	CRV1000
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**Study Key Codes**

- SP: Standard Procedure
- N/A: Not Applicable
- ROK: Reasonable of Kind
- INV: Investigational

Financial Analyst Signature: \_\_\_\_\_  
 CTO Director Signature: \_\_\_\_\_

Source: “Clinical Trial Budgeting and Negotiation March 2018,” Boston Medical

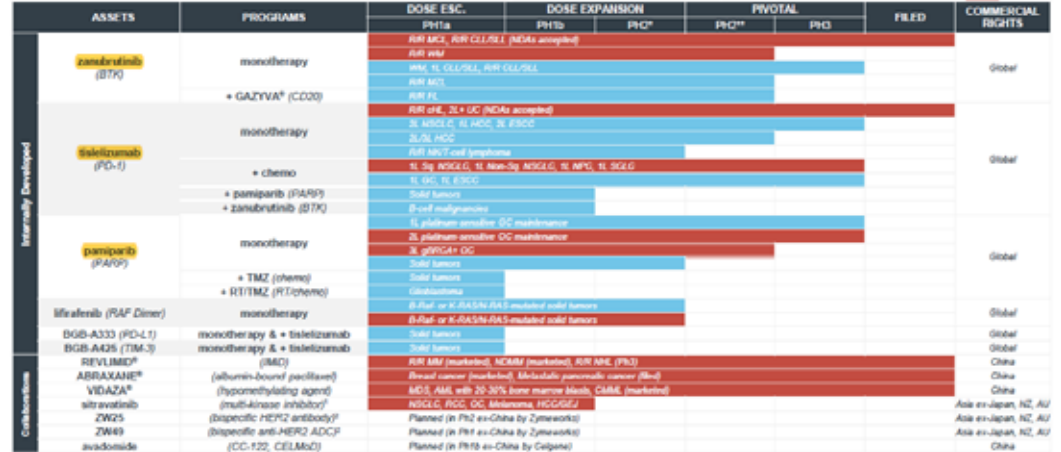
The components of income (loss) before income taxes are as follows:

	Year Ended December 31,		
	2018	2017	2016
PRC	\$ (130,552)	\$ (59,590)	\$ (7,352)
U.S.	15,036	6,928	678
Other	(574,313)	(38,402)	(112,489)
Total	(689,829)	(91,064)	(119,163)

What about the chart displayed in the BGNE call presentation showing the company's R&D spend vs the number of Phase 3 clinical trials?

**BeiGene Product Portfolio and Pipeline**

Three marketed products in China, three late-stage assets, seven early-stage clinical assets



\*Some indications will not require a non-pivotal Phase 2 clinical trial prior to beginning pivotal Phase 3 clinical trials. \*\*Concomitant clinical trials post approval are required for accelerated approvals. \*\*\*REVLIMID® approved as a combination therapy with doxorubicin. 1. Collaboration with Merck Therapeutics, Inc. APAC study. 2. Collaboration with Ajinomoto. BeiGene logo.

Source: BeiGene call presentation September 9, 2019

Showing R&D spend versus the number of clinical trials is a complete joke. Just to choose a few issues, the company's chart failed to differentiate critical areas:

- ▶ The size of comparative peer-group trials. Hey, why not double the number of trials and halve the number of patients per trial, which will make BGNE look even more favorable in its peer-group chart?
- ▶ The cumulative costs from previous periods - the data were only for H1 2019
- ▶ The figures used are for R&D spend, not just for Phase 3 trials. This may not necessarily be an appropriate comparable for other pharmaceutical companies.
- ▶ The effectiveness of the clinical trials - what is BGNE's commercialization history from clinical trials vs its peer-group clinical trials?
- ▶ Some R&D expenses are front-loaded, for example, in collaboration arrangements. This can distort peer comparatives in any period.
- ▶ The type of drug trialed.
- ▶ Trial costs per drug - some peers may conduct different numbers of trials per drug. From the company's own presentation, its trials are for three late-stage drugs only, whereas the chart it shows are for numerous trials.

It seems that the best BeiGene can do in its half-hearted effort to be transparent is the table. This provides a lot of information, but none of it is very meaningful.

**Independent survey supports J Capital's sales estimates**

Before the company was able to rush out a response to our report, a sell-side ana-

September 11, 2019

lyst published a report citing data that it had somehow never mentioned before in its coverage of BeiGene. The data came from the Chinese Pharmaceutical Association (CPA).

The analyst used a survey from the CPA in an attempt to refute our estimate that BeiGene overstates sales of Celgene drugs by 133%. While the headline numbers in the survey seem supportive of the company’s narrative, once you review the detail, you find that the survey supports our conclusion.

The survey covers just 3.5% of China’s roughly 29,500<sup>3</sup> hospitals,<sup>4</sup> critically, it covers nearly all of the Category 3 (the biggest) hospitals in Tier 1 and Tier 2 cities, where most of the specialist facilities for cancer treatment that use foreign drugs are located. Celgene drugs are sold almost exclusively in Class 3 hospitals, so the survey dramatically over-represents Celgene drug sales. Our understanding is backed up by interviews we conducted with BeiGene’s distributors and Chinese oncologists. We featured the following distributor’s comment on page 7 of our [report](#): “Only Tier 1 city top hospitals will buy these medicines [Celgene’s].”

The analyst report says that foreign drug company sales are typically 2 to 5x the reported CPA survey sales data of drugs from companies like Pfizer, Sanofi and AstraZenica, which are selling mass-market drugs distributed in all level of hospital in all cities. For Celgene drugs, the analyst estimates an “amplifying factor” of up to 8.23x (for Revlimid). There is no basis for this; it’s plucking a number out of the sky to back-solve for an answer. In fact, since the Celgene drugs are selling to a highly specialized channel, the survey should capture around 60% of BeiGene’s sales of the drugs.

CPA data indicate that Celgene drug sales in 2018 were \$62 mln. With the “amplifying factor,” that would mean about \$100 mln in sales. That supports our contention that BeiGene’s sales of Celgene products were in the range of \$90-100 mln, with around \$42.7 mln potentially sold to themselves.

We wonder what BeiGene is asking that investors invest in. The company says its China R&D is more expensive than that of Chinese companies, because it is high-quality, then it claims a cost advantage in China. Yet most costs are outside of China. What’s the story? Is BeiGene principally competing in the China market or internationally? What’s the strategy?

<sup>3</sup> [https://www.dbs.com/aics/pdfController.page?pdfpath=/content/article/pdf/AIO/012019/190114\\_insights\\_china\\_pharma\\_distribution\\_sector.pdf](https://www.dbs.com/aics/pdfController.page?pdfpath=/content/article/pdf/AIO/012019/190114_insights_china_pharma_distribution_sector.pdf)

<sup>4</sup> [https://www.mckinsey.com.cn/wp-content/uploads/2018/11/2018-CPA-report\\_EN.pdf](https://www.mckinsey.com.cn/wp-content/uploads/2018/11/2018-CPA-report_EN.pdf)



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September 11, 2019

We are frankly shocked that BeiGene management, while proclaiming its integrity, is flat-out lying to investors. We remain short BeiGene.

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