Interview with Thomas Lingelbach, CEO, Intercell

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Can you give a brief summary of how Intercell started, how it developed and where it stands today?

Intercell was created in 1997 as a spinoff from Vienna University. From the beginning, Intercellâ??s mission was to develop innovative vaccines to prevent and treat infectious diseases. It started primarily with two technology platforms: an antigen identification platform, which determined surface expressed functional bacterial antigens for Vaccines development, and an adjuvant to increase qualitative immune response. From an early start, Intercell attracted big Pharma partners which provided revenues to the company. These deals enabled Intercell to develop its pipeline of own proprietary programs

The company went public in 2005 and shortly after entered into a strategic alliance with Novartis, which acquired rights to Intercellâ??s vaccine pipeline based on an opt-in-structure. As part of this deal, Novartis became a major shareholder of Intercell, with a ~15 percent stake as of today.

Intercell used the revenues also to develop a program in-house to market â?? a niche travel vaccine against Japanese Encephalitis. This differentiated Intercell from many other vaccine biotech companies; the company did not stop at the point of technology out-licensing but took the risk to go into its own product development.

Intercell managed the development of its JE vaccine from the bench to global licensure, including in-house manufacturing, in record time, and the product is now approved in more than 30 countries worldwide. This achievement increased attention on Intercell (only 3-4 percent of biotech companies even bring a product to the market). The capital markets believed that if Intercell had done it once, it could do it again, without taking into account the risks involved in developing new vaccines .

Intercell grew strategically by acquiring a company in the US called Iomai. It was the first vaccine company working on a patch-delivered vaccine for travelerâ??s diarrhea. Intercell entered into a deal with GSK for the patch technology. Intercell developed the Travelerâ??s Diarrhea product candidate into the final Phase III efficacy trial. Unfortunately this trial did not confirm the results that were previously seen in Phase II.

Six months later, Merck, Intercellâ??s first strategic partner, decided to discontinue their development program for S. aureus in the middle of phase II/III. As a result, Intercell restructured the business and costs incl. R&D was cut by 60 percent in 2011.

This was a tough time for Intercell; a strategic option would have been to stop R&D, sell the company and pay the money out to the shareholders.

However, the Management and Board believed in Intercellâ??s capabilities, the interesting pipeline programs and its ability to develop such programs through the existing engine. So the company

decided to put in place a restructuring strategy in June 2011. As part of this strategy Intercell completed a R&D prioritization and restructuring program as well as a follow-up financing (a combination of debt and equity) leading to a financial stabilization. The company also delivered on guidance according to its strategic plan.

However, the capital markets remained difficult for small companies. Hence, Intercell needed to create a new value proposition that was attractive to the international capital markets. Intercell went through a long and comprehensive process and announced its intention in December 2012 to merge with Vivalis to create a European biotech leader in vaccines and antibodies.

Austria seems to be a harsh environment for failure, compared to the US which is more forgiving, and takes it as more as a learning experience. Would you say this is symptomatic of Austria, or more of a European attitude?

This is seen more in the German-speaking environment. This concerns not only public perception, but also the perception among the investor community. Investing in biotech means investing in risk. I think that high risk and high return is not so much appreciated in the German-speaking world today. There are many examples where companies with respective drawbacks did not get an opportunity for revival.

Why did Vivalis choose to merge with you? What did you have to offer?

Both parties looked for a merger as a strategic growth opportunity. Both companies, although small, had a financial self-sustainability strategy in place. This was a good foundation to start. The two companies are highly complementary in a biotech sense in terms of capabilities, existing partnerships, high-risk and low-risk revenue streams and programs/activities. On the revenue side we are diversifying and acquiring more revenue streams not only from one product but also from existing Vivalis partnerships. With this combination, we had the unique opportunity to attract additional capital market investments, and with the merger we have a committed â?¬40 million capital increase. Additionally, over the course of restructuring, Intercell has significantly reduced its discovery which means that at the moment we are a development company. Vivalis is a research and discovery company and will recreate the full value chain for the merged company. By bringing two SMEâ??s together, we have the opportunity to leverage synergies without losing our key programs and talent. The merger also creates a very stable shareholder base. More than 40 percent of the companyâ??s future shareholders are people who see this as a strategic long-term investment.

Many analysts in the industry noted that the valuation of Intercell as part of the merger was very high. How do you explain this?

Not all analysts felt this way. Ultimately you need to find a balance that is fair to all parties. You need to reflect the fact that the Intercell shareholders see their company being heavily undervalued, along the Vivalis shareholders who have experienced a major increase over the last couple of years, and build this into an equation. European cross-border mergers require an assessment of the relative valuation by an independent cross-border audit team, which I believe is fair.

According to Valnevaâ??s website, the goal is to become a European leader of vaccines and antibodies. As CEO, how do you plan to do that?

Our vision is to be a leader in vaccine development and antibody discovery. We plan to rapidly progress the clinical development of at least two vaccines. Alongside we will invest in our antibody discovery platform and ensuring that we get additional major licensing deals over the next three years. Valneva aims to be financially self-sustainability in about three years. We believe that with the

respective programs and continuous growth of our existing revenue streams, and its strategic partnerships with the â??big fiveâ?• pharma companies in vaccines Valneva will have enough resources to move forward product candidates through clinical development to market.

Valneva marks a meaningful sizeable biotech consolidation in Europe since many years. It is a true merger of equals. We have balanced management teams, structures, governance and locations. We believe that we are able to consolidate innovation power within Europe. As Lyon is one of the growing biopharmaceutical hubs in Europe, it makes sense to move headquarters there.

Lyon is known for its vaccine hub very well; what does Vienna have to offer to assert itself as a leader of biotech in Europe in general?

Vienna has a very interesting infrastructure with different universities, international pharmaceutical companies, and there are different grant and state funding systems that allow biotechs to develop. This attracts talent in combination with the fact that Vienna is a beautiful city in which to live. Biotech is all about talent and if the infrastructure and talent are there, there is a visible incubator effect. The entrepreneurial spirit that has developed here is unique and there are only few such hubs in Europe.

In terms of your portfolio in the next three to four years, what would you like to achieve?

We would like to have a coherent pipeline. We want to show that we have clinical candidates if possible at every single phase of development. We have a vaccine against Pseudomonas aeruginosa program that is advanced in Phase II/ III. We aim to have a second commercial product on the market in the next five to seven years.

If you were to give a piece of advice to a young Austrian entrepreneur looking to start up his/her own biotech company, what would it be?

There are three things. Firstly, get someone to scientifically validate that your idea is really great. Secondly, ensure that you have a favorable IP situation that gives you a solid time horizon. Thirdly, pair up with someone who comes from the business side; someone who understands capital markets, the industry, and knows how to cut deals and set up or position a company funding. You can have the greatest idea in the world, but no biotech company will ever have the financial muscle to bring such a great idea into any kind of meaningful sustainable financial business until, and unless, you are able to cut your first partnership deal after a few years.

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