

## **Innogenetics reports profitable diagnostics activities and increased R&D investments for the first nine months of 2002**

**Gent, November 15, 2002** – Innogenetics today announced its results for the first nine months ending September 30, 2002.

### **Highlights**

- Diagnostics Division profitable
- Product sales increase 11% to €34.4 million
- Gross margin reaches 54.0% versus 51.5% for same period in 2001
- R&D investments increase by 17% driven by therapeutic programs
- Operating loss of €9.7 million
- Strong cash position at €41.7 million
- Start of XCELLentis phase 2 clinical study with LyphoDerm for treatment of chronic hard-to-heal venous leg ulcers
- Positive phase 2 liver histology results of hepatitis C therapeutic candidate vaccine

Philippe Archinard, CEO of Innogenetics, commented: "During the nine months, Innogenetics has delivered on its promises by achieving profitability in its diagnostic activities and scoring significant successes in its therapeutic programs. The need for additional investments in our promising therapeutic pipeline will lead to a 20% increase in R&D expenditures in 2002. These investments affect our overall operating results, but will be buffered by continued profitability in our Diagnostics Division. The strong cash position will ensure the further implementation of the current projects. Finally, we are pleased to report our operating results by activity segment for the first time, confirming our continuing efforts to improve our communication with the investor community."

### **Profitable Diagnostics operations**

For the first three quarters of 2002, Innogenetics' Diagnostics activities made an operating profit of €2.0 million, with diagnostic product sales reaching €34.3 million and excluding any new one-time license fee income.

The continued efforts to optimize productivity and control costs have resulted in an improvement in gross margin to a level of 54%, while the Diagnostics operating expenses remain in line with expectations.

### **Increased R&D investment in Therapeutics**

R&D expenses for the Therapeutics program amounted to €11.5 million for the first nine months of 2002, reflecting a significant increase compared to 2001. The increase is mainly due to expanding clinical efforts in the fields of hepatitis C and wound care, and investment in preclinical programs.

Levels of R&D spending in 2002 will be maintained in 2003, and will enable the Company to fully exploit its promising therapeutic opportunities, especially the hepatitis C programs and XCELLentis' LyphoDerm for the treatment of chronic recalcitrant venous leg ulcers.



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### **Increased total revenues**

Total revenues for the nine months amounted to €47.1 million.

Product sales increased 11% to €34.4 million, despite the fact that the equivalent nine months of 2001 partly included direct sales of Innogenetics' HCV genotyping and HIV resistance tests. This increase occurred across all diagnostics fields: infectious diseases, neurodegeneration, and genetic testing.

Royalty income for the nine months remained stable, while license fee income was €4.4 million.

Grants and R&D funding income rose to €5.8 million compared to €3.5 million in 2001, mainly reflecting the collaborations with Bayer and Roche.

### **Expenses under control**

Confirming the trend in productivity improvement, the gross margin for the first nine months of 2002 increased to 54.0% against 51.5% for the same period in 2001.

R&D expenses reached €20.3 million in the first three quarters of 2002, representing a 17% increase compared to the same period in 2001. As a result of new therapeutic preclinical and clinical studies, these expenses are expected to further rise in the coming quarter and result in an overall annual growth of 20% for 2002.

Sales & Marketing expenses decreased slightly for the nine months, while General & Administrative expenses remained stable, further confirming the improvement in operational efficiency.

### **Operating results**

For the first nine months of 2002, Innogenetics posted an operating loss of €9.7 million, compared to €6.6 million for the same period of 2001. The increased operating loss reflects lower one-time license fee income as well as higher R&D investments.

A net loss of €10 million was reached for the first nine months of 2002.

### **Cash position**

As of September 30, 2002, Innogenetics' cash position was €41.7 million compared to €58.3 million at the end of September 2001. Such a solid cash position will ensure the continuation of the planned projects without the need for any refinancing.

The cashflow for this first 9-month period was mainly influenced by an increase in accounts receivable, a one-time settlement payment to a former distributor, higher expenditures for intellectual property protection, and new investments in computer and laboratory equipment.

The increase in accounts receivable is due to a temporary rise in trade receivables (especially in Spain), and to more royalties, grants, and R&D contract income awarded but not yet received. The collection process in Spain is still being delayed by the reorganization within the healthcare system, but Innogenetics' Spanish subsidiary is actively pursuing its resolution.

### **Outlook 2002 and 2003**

The positive operating profit of the Diagnostics Division will be offset by lower license fee income and higher expenditures in therapeutic R&D, resulting in decreased operating results for 2002 compared to 2001.

The Company expects the Diagnostic Division to generate further profits in 2003 which, along with stable investments in R&D, should produce significantly improved operating results for 2003.

Further details on the outlook for 2003 will be announced on January 15, 2003.



### **About Innogenetics**

Innogenetics, a Belgium-based, international biotechnology company, is pursuing a challenging twofold growth strategy, encompassing both diagnostics and therapeutics.

The Company is committed to becoming a worldwide leader in high value-added diagnostics (especially "theranostics") focusing on infectious diseases, neurodegeneration, and genetic testing. With its vertically integrated diagnostics activities, Innogenetics is leveraging its intellectual property, know-how, and product offerings through strategic partnerships with leading in vitro diagnostic players such as Bayer, Roche, and Abbott. By running a profitable diagnostic business, Innogenetics can therefore finance the development of new therapeutics.

At present, the Company's therapeutics portfolio consists of innovative candidates in the fields of hepatitis C, immune disorders, and wound care (the latter through its wholly owned subsidiary XCELLentis). Its clinical development program for a hepatitis C therapeutic vaccine is currently in phase 2. Preclinical programs are also underway for the treatment of pulmonary edema and sepsis, as well as for a hepatitis C prophylactic vaccine. Finally, phase 2 clinical trials are ongoing in the field of wound care, based on cultured keratinocytes or their lysate.

Founded in 1985, Innogenetics has been listed on NASDAQ Europe since November 1996. The Company has its headquarters in Gent, Belgium, with sales affiliates located in France, Germany, Italy, the Netherlands, Spain, and the USA. It employs over 600 people worldwide.

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#### **SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

*This press release contains forward-looking statements that involve risks and uncertainties, including but not limited to projections of future revenues, operating income, and other risks. Prospective investors should be aware that these statements are estimates, reflecting only the judgment of our management, and they should not place undue reliance on any forward-looking statements.*

## Unaudited Consolidated Statement of Operations for the three and nine months ended September 30, 2002

*In thousands of euro*

	9 months ended		3 months ended	
	Sep. 2002	Sep. 2001	Sep. 2002	Sep. 2001
<b>Revenues</b>				
Product sales	34.446	30.930	10.757	9.531
Royalties	2.463	2.359	830	404
License fees	<u>4.351</u>	<u>8.732</u>	<u>700</u>	<u>716</u>
	<b>41.260</b>	<b>42.021</b>	<b>12.287</b>	<b>10.651</b>
<b>Cost of sales</b>	<u>(15.846)</u>	<u>(15.009)</u>	<u>(4.895)</u>	<u>(4.488)</u>
<b>Gross income (loss)</b>	<b>25.414</b>	<b>27.012</b>	<b>7.392</b>	<b>6.163</b>
<b>Research and development</b>				
Grants received for R&D	1.228	1.124	295	192
Contract income	4.595	2.412	1.498	1.338
R&D expenses	<u>(20.345)</u>	<u>(17.400)</u>	<u>(7.475)</u>	<u>(6.193)</u>
	<b>(14.522)</b>	<b>(13.864)</b>	<b>(5.682)</b>	<b>(4.663)</b>
<b>Operating expenses</b>				
Sales and marketing	(12.165)	(12.644)	(3.766)	(3.992)
General and administrative	<u>(8.456)</u>	<u>(7.129)</u>	<u>(2.796)</u>	<u>(2.674)</u>
	<b>(20.621)</b>	<b>(19.773)</b>	<b>(6.562)</b>	<b>(6.666)</b>
<b>Operating income (loss) from operations</b>	<b>(9.729)</b>	<b>(6.625)</b>	<b>(4.852)</b>	<b>(5.166)</b>
<b>Other income (expenses)</b>				
Interest expenses	(966)	(1.033)	(300)	(397)
Interest income	1.180	1.571	348	615
Investment income and other	<u>(252)</u>	<u>(123)</u>	<u>(146)</u>	<u>114</u>
	<b>(38)</b>	<b>415</b>	<b>(98)</b>	<b>332</b>
<b>Result before taxes</b>	<b>(9.767)</b>	<b>(6.210)</b>	<b>(4.950)</b>	<b>(4.834)</b>
<b>Taxes</b>	<b>(214)</b>	<b>(242)</b>	<b>(14)</b>	<b>(25)</b>
<b>Net income (loss)</b>	<b>(9.981)</b>	<b>(6.452)</b>	<b>(4.964)</b>	<b>(4.859)</b>

## Unaudited Consolidated Statement of Operations for the three and nine months ended September 30, 2002 Continued

*In thousands of euro*

	9 months ended		3 months ended	
	Sep. 2002	Sep. 2001	Sep. 2002	Sep. 2001
Net income (loss) per share basic	(0.39)	(0.26)	(0.20)	(0.19)
Shares used in computing per share amount basic	25.373.838	25.173.020	25.373.838	25.173.020
Net income (loss) per share diluted	(0.39)	(0.26)	(0.20)	(0.19)
Shares used in computing per share amount diluted	25.373.838	25.173.020	25.373.838	25.173.020

## Note to the unaudited consolidated statement of operations

*In thousands of euro*

	9 months ended		3 months ended	
	Sep. 2002	Sep. 2001	Sep. 2002	Sep. 2001
<b>Total Revenues</b>				
Product sales	34.446	30.930	10.757	9.531
Royalties	2.463	2.359	830	404
License fees	4.351	8.732	700	716
Grants received for R&D	1.228	1.124	295	192
R&D Contract income	<u>4.595</u>	<u>2.412</u>	<u>1.498</u>	<u>1.338</u>
	<b>47.083</b>	<b>45.557</b>	<b>14.080</b>	<b>12.181</b>

## Unaudited Consolidated Balance Sheet as at September 30, 2002

*In thousands of euro*

	Sep. 30 2002	Sep. 30 2001
Cash	41.733	58.343
Trade receivables	14.717	16.400
R&D contracts	1.266	25
Grants	1.067	431
Royalties	1.558	745
Other	<u>2.267</u>	<u>1.651</u>
Total accounts receivable	20.875	19.252
Inventories	7.153	6.619
Investments in marketable securities	1.949	1.458
Prepaid expenses and deposits	<u>1.210</u>	<u>794</u>
<b>Total current assets</b>	<b>72.920</b>	<b>86.466</b>
<b>Property plant and equipment, net</b>	<b>30.020</b>	<b>31.494</b>
<b>Patents and goodwill, net</b>	<b><u>6.121</u></b>	<b><u>5.390</u></b>
<b>Total assets</b>	<b>109.061</b>	<b>123.350</b>



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## Unaudited Consolidated Balance Sheet as at September 30, 2002 Continued

*In thousands of euro*

	Sep. 30 2002	Sep. 30 2001
Current installments of long-term obligations	2.392	4.651
Notes payable to bank	534	1.415
Trade accounts payable	6.499	5.210
R&D advances	882	1.952
Accrued payroll	4.962	4.491
Deferred income	2.768	2.768
<u>Other current liabilities</u>	<u>12.924</u>	<u>9.282</u>
<b>Total current liabilities</b>	<b>30.961</b>	<b>29.769</b>
Deferred income	9.272	12.040
<u>Bank loans &amp; lease commitments</u>	<u>21.186</u>	<u>22.057</u>
<b>Total long-term obligations</b>	<b>30.458</b>	<b>34.097</b>
Common stock	15.942	15.937
Additional paid-in capital	96.049	95.802
Accumulated result	(64.975)	(51.780)
<u>Comprehensive income</u>	<u>626</u>	<u>(475)</u>
<b>Total shareholders' equity</b>	<b>47.642</b>	<b>59.484</b>
 <b>Total liabilities and shareholders equity</b>	 <b>109.061</b>	 <b>123.350</b>

## Unaudited Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2002

*In thousands of euro*

	9 months ended		3 months ended	
	Sep. 2002	Sep. 2001	Sep. 2002	Sep. 2001
<b>Cash flows from operating activities</b>				
Net income (loss)	(9.981)	(6.452)	(4.965)	(4.859)
<b>Adjustment to reconcile net income (loss) to net cash used in (provided by) operating activities</b>				
Depreciation and amortization	5.077	4.853	1.735	1.652
Gain on disposal of property and equipment	(26)	(123)	0	0
Loss on disposal of property and equipment	0	85	0	0
<b>(Increase) decrease in assets</b>				
Accounts receivable	(2.555)	(101)	(26)	1.682
Inventories	(45)	1.115	(348)	6
Prepaid expenses and deposits	(453)	(250)	(43)	3.954
<b>Increase (decrease) in liabilities</b>				
Accounts payable	(962)	(1.986)	457	(315)
Research and development advances	204	682	(101)	682
Accrued and other liabilities	691	4.041	1.604	1.697
<b>Total adjustments</b>	<b>1.931</b>	<b>8.316</b>	<b>3.278</b>	<b>9.358</b>
<b>Total net cash provided by (used in) operating activities</b>	<b><u>(8.050)</u></b>	<b><u>(1.864)</u></b>	<b><u>(1.687)</u></b>	<b><u>4.499</u></b>
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(2.062)	(1.500)	(814)	566
Intangibles	(1.658)	(1.039)	(728)	(250)
<b>Total net cash provided by (used in) investing activities</b>	<b><u>(3.720)</u></b>	<b><u>(2.539)</u></b>	<b><u>(1.542)</u></b>	<b><u>(816)</u></b>
<b>Cash flows from financing activities</b>				
Proceeds from sale & lease back	537	0	0	0
Payments on long-term obligations	(1.861)	(2.867)	(611)	(1.725)
Proceeds from long-term obligations	(1.817)	12.875	(639)	(1.305)
Payments on notes payable to bank	(1.421)	(1.206)	(344)	(304)
Proceeds from notes payable to bank	61	1.101	0	427
Proceeds from issuance of common stock (net of issue costs) & currency translation on equity	256	10.149	(216)	27
<b>Net cash provided by (used in) financing activities</b>	<b><u>(4.245)</u></b>	<b><u>20.052</u></b>	<b><u>(1.810)</u></b>	<b><u>(2.880)</u></b>
<b>Net increase / (decrease) in cash</b>	<b>(16.015)</b>	<b>19.377</b>	<b>(5.039)</b>	<b>803</b>



**Unaudited Consolidated Statement of Operations  
by Activity Segment  
for the nine months ended September 30, 2002**

*In thousands of euro*

	9 months ended September 30, 2002		
	Diagnostics	Therapeutics	Consolidated Group
<b>Revenues</b>	<b>41.037</b>	<b>223</b>	<b>41.260</b>
<b>Gross income (loss)</b>	<b>25.414</b>	<b>0</b>	<b>25.414</b>
<b>Research and development</b>			
R&D income	3.777	2.046	5.823
R&D expenses	<u>(8.872)</u>	<u>(11.473)</u>	<u>(20.345)</u>
	<b>(5.095)</b>	<b>(9.427)</b>	<b>(14.523)</b>
<b>Operating expenses</b>	<b>(18.308)</b>	<b>(2.313)</b>	<b>(20.621)</b>
<b>Operating income (loss) from operations</b>	<b>2.011</b>	<b>(11.740)</b>	<b>(9.729)</b>