ALLIANCE/IBA MERGER INQUIRY

Summary of a hearing with AAA held on 22 May 2014

1. AAA itself was not currently operating in the UK market. It had acquired Imaging Equipment Limited (IEL) to gain a presence in the UK. AAA did not have a deep knowledge of the UK market, and relied on IEL's management, which operated independently. It had acquired IEL to distribute future AAA products in the UK (Lutetium-177 dotate (Lutathera), Gallium-68 dotate (Somakit), and various Alzheimer's tracers). When IEL had been acquired, AAA had discussed strategy with its management, including options for investing in F-18 production for a UK PET drug business. The FDG market was currently difficult across Europe. AAA was therefore focused on investing in new products as it regarded having a range of PET radiopharmaceuticals as necessary for operating in the PET market. It would be interested in having a profitable F-18 PET business in the UK, so IEL was looking into possible sites.

2. AAA's overall view of the UK tracer market was that up to now it had been too small to support three or four participants. Also, the fact that the NHS paid for scanning services rather than paying separately for FDG (as was the case in many other European countries) meant that the FDG price was too low as it was bundled into the cost of scans.

3. AAA was now investigating opportunities in the UK via IEL. AAA had not yet had a formal meeting with IEL's management about what opportunities might exist. AAA had initially dealt with IEL in order to distribute Lutetium and other products in the UK but having dealt with IEL AAA had liked IEL's management and considered they would build a good relationship for AAA in the UK market, so it had decided to purchase IEL. As part of the IEL acquisition, IEL's management had become shareholders in AAA, which would ensure that IEL would be focused on AAA's overall interests.

4. Prior to its acquisition by AAA, IEL had been talking to universities and other non-commercial entities which owned cyclotrons to see if these could be used for commercial production. AAA noted that there were already a number of commercial cyclotrons in the UK, so it did not consider that building a new one in order to enter the market to produce FDG was a viable or profitable solution in a small market with a low price. AAA wanted to enter the UK market by acquiring an existing, and ideally profitable, business along with a

knowledgeable management team. AAA was expanding on a number of fronts so was not able to devote its own management time to expansion in a new country, which was why it wanted IEL to develop its own proposals and present them to AAA.

5. In 2008, AAA had looked at acquiring Erigal, a UK producer of F-18, but the UK market was not very large and prices were low. Also Erigal was only producing FDG and having reviewed its accounts, AAA decided that [✂] because Erigal had made too [✂]. Another company, [✂], had also been interested in buying Erigal but had not gone ahead following its due diligence process. The situation was little changed in 2012–2013 when AAA had again looked at buying Erigal. AAA would have needed to [✂]. AAA considered that Erigal's production sites were too close together and that it still had too [✂], if it had succeeded in acquiring it. AAA's view was that by cutting costs and with some scale efficiencies from its European operations, it could [✂] by introducing new products. AAA had tried repeatedly to discuss an acquisition with Erigal and subsequently with Alliance in 2013 but had never managed to arrange these discussions. Alliance was aware that AAA would like to buy Erigal, but AAA noted that there had been a number of changes to Alliance's management during this period, which might have been why Alliance never followed up AAA's interest.

6. AAA never considered negotiating with another manufacturer, ie PETNET or IBA, about the possibility of buying a facility in the UK as it did not think either would want to sell to AAA as they were its European-wide competitors (unlike Alliance which focused on the PET-CT scanning business and was a customer in other European countries). AAA was very surprised that IBA had left the UK market as the messages that IBA's new shareholders (SK Capital) had been circulating had been that it would invest in IBA's businesses. IBA leaving the UK did not fit with what AAA had perceived IBA's strategy to be, which was to have a European-wide network through which it could distribute its products, a strategy that was similar to AAA's. AAA had never had contact with SK or IBA about buying the IBA assets in the UK. AAA never considered buying the mothballed Dinnington site as it was owned by IBA (ie a European competitor). AAA was still interested in entering the UK market in the longer term in order to sell its new drugs as it was one of the top five markets in Europe, and this was why it had acquired IEL to look for opportunities. If IEL was able to identify a potentially profitable way for AAA to enter the UK market, even if it lost money for a couple of years, AAA would consider this.

7. AAA had been surprised not just by IBA's exit from the UK market but also by IBA's agreement to supply Alliance in a number of European countries. This deal had cost AAA its FDG supply arrangement with Alliance in Italy. If AAA

had been able to buy Erigal, it might have been in a position to make a similar agreement with Alliance.

8. IBA Molecular was a company which had focused on diagnostic radiopharmaceuticals, while AAA developed and sold therapeutic ones. AAA did not have a good view of how IBA's business worked, its margins or how profitable it was.

9. Vertical integration between radiopharmaceutical producers and scanning companies was unknown on the Continent, and AAA never considered this business model itself. It thought that it would be difficult to operate as a stand-alone scanning provider in a market where the suppliers of tracers also had their own scanning businesses, since the integrated companies would always favour their own scanning businesses as far as tracer supply was concerned. If AAA ran a scanning business it would be need to be totally vertically integrated and only produce tracers for its own scanners, so it would not lose money. It would not wish to buy tracers from a competitor, nor would it want to sell them to one. In AAA's view the vertical integration model contained a built-in conflict of interest.

10. FDG prices in the UK were lower than those elsewhere in Europe, where prices had also come under significant pressure in recent years and were becoming unsustainable. AAA had recently been approached by [✂] about buying a cyclotron producing FDG in Spain, but AAA had refused the offer as the facility [✂] its price per dose for FDG had only been €[✂]. [✂] had recently won a tender in France to produce FDG in [✂] at €[✂] euros a dose, which AAA [✂] in that market. AAA's view was that FDG-only production was not profitable and to make a business successful it needed to produce other products and develop new products and bring them to market. Because products were not protected by patents, it was important to be first to bring to market new tracers continually in order make profits, as the price of new products would be rapidly eroded as competitors would start production.

    In AAA's experience building a greenfield site from scratch would cost around €5 million plus personnel costs and a further €1 million to obtain the necessary authorisations to operate the site. The length of time this would take depended on the country but would be at least two years. As AAA had not been involved in the UK market, it did not know what the exact costs and timings would be there. The costs and times required to get a mothballed site back into production and into profitable operation would depend on the state of the facility, the amount of upgrading required to meet regulatory and AAA's standards and the types of radiopharmaceuticals to be produced. AAA did not have a standard methodology for evaluating investment opportunities.