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Equity Research

HEALTH CARE
Biotechnology

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Basic Report (02-066)

Ticker:	DNA
Price:	$33.48
52-week:	$25–$59

Stock Rating:
Market Perform

Company Profile:
Established Growth

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Genentech, Inc.

Diverse Product Mix, Robust Pipeline, and Financial Performance Justify Established Growth Company Profile

We Recently Changed Our Company Profile for Genentech to Established Growth From Core Growth; Our Market Perform Rating Is Unchanged. The company profile change reflects our belief that Genentech's risk profile approaches that of an established pharmaceutical company, given its proven record in developing and bringing to market drugs, producing a solid and profitable base of revenue generated by varied products across multiple medical indications.

Operating Performance Reflects Nearly 20 Years of Marketing Experience. Genentech launched its first product, the recombinant human growth hormone Protropin, in 1985. It currently markets 10 products in 4 therapeutic areas—more than any other biotech company. We expect Genentech to generate revenue of $2.5 billion in 2002.

Robust Pipeline Suggests Strong Growth Can Continue. Genentech has five products in late-stage clinical trials, each with the potential, in our opinion, to generate annual sales in excess of $500 million. We believe the company is poised to post long-term earnings growth near 20%, with lower risk relative to other biotechs, given its diverse commercialized product and customer base.

Recommend Purchase for Intermediate- to Long-term-oriented Investors. There remains some uncertainty regarding Genentech's late-stage pipeline and the near-term upside performance of its most important marketed products—Rituxan and Herceptin for cancer. However, we believe Genentech's diversified product portfolio, productive research and development engine, and strong and financially oriented management team justify stock ownership for intermediate- to long-term-oriented investors.

Genentech is a leading fully integrated biotechnology company that discovers, manufactures, and markets biological drugs. The company derives about 60% of its revenues from two cancer drugs, Rituxan and Herceptin. Genentech is testing several new products that could contribute to earnings between 2003 and 2006.

FINANCIAL SUMMARY

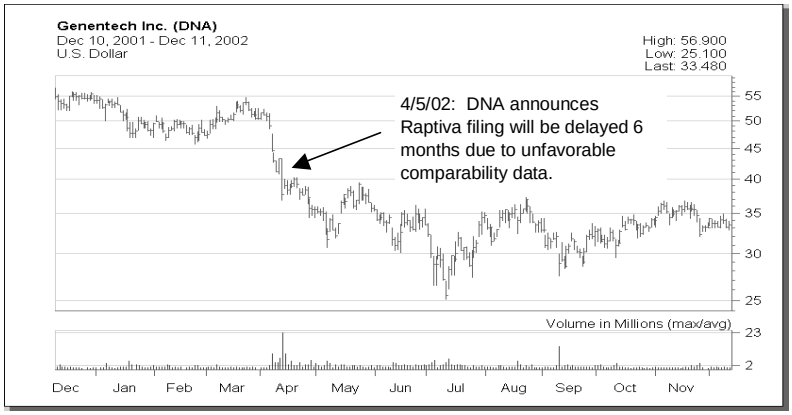
Fiscal Year Ends:	December	R&D Expenditure (2002E):	$585.4 million
Long-term EPS Growth Rate:	19%	Dividend/Yield:	None
1997-2002E EPS Growth Rate:	29%	Diluted Common Shares:	519 million
Long-term Debt/Total Cap.:	12%	Market Value:	$17.4 billion
Net Margin (2002E):	19%	Insider Ownership (Roche):	60%

FISCAL YEAR	2001A	2002E	2003E
ESTIMATES			
Earnings Per Share	$0.76	$0.92	$1.05
Free Cash Flow (mil.)	$267	$240	$243
Revenue (million)	$2,072	$2,532	$2,794
VALUATION			
Price/Earnings Ratio	44.1x	36.4x	31.9x

Please consult the last page of this report for all disclosures.

Contents

Figure 1
Genentech, Inc.
Historical Stock Price



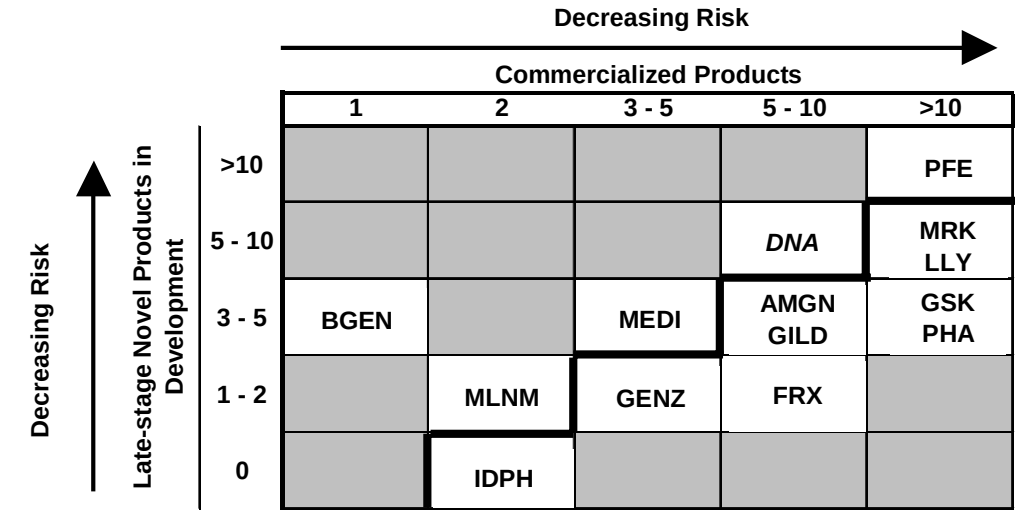
Source: FactSet

Investment Opinion: Market Perform Rating With Established Growth Company Profile

We recently changed our company profile for Genentech to Established Growth from Core Growth, while leaving our Market Perform rating unchanged. We base this change on the belief that Genentech's diverse mix of 10 revenue-generating products and extensive experience in developing and marketing drugs suggest a risk profile approaching that of an established pharmaceutical company. In addition, we believe that Genentech's late-stage pipeline, which consists of five products, each with the potential to generate peak annual sales in excess of $500 million, is one of the most attractive in the drug industry.

The following figures illustrate Genentech's risk profile relative to other companies in the biotech and pharmaceutical sectors. Figure 2 shows that Genentech has advanced further than any other biotech company in terms of drug development and marketing experience, which we believe suggests a lower risk profile relative to other biotech companies. As illustrated in figure 3, on the following page, our long-term earnings growth expectation of 19% for Genentech appears achievable, given the strength of its commercialized products and its promising late-stage pipeline. In our view, Genentech's favorable balance of existing and potential new products implies a lower risk profile relative to other biotech companies as well as some established pharmaceutical companies.

Figure 2
Genentech, Inc.
Risk Profile Approaches That of an Established Pharmaceutical Company



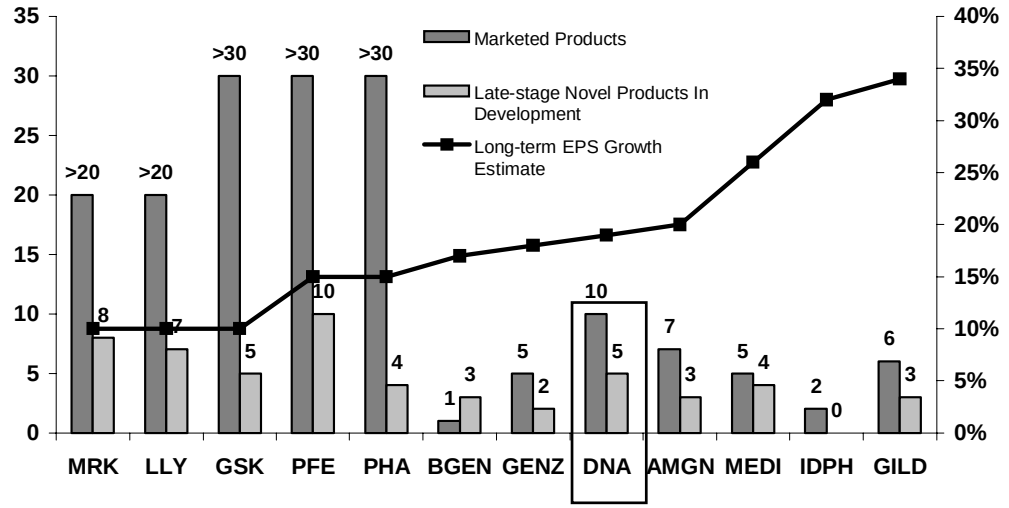
Source: William Blair & Company, L.L.C. estimates

We believe Genentech's shares could be volatile over the next 12 months as additional visibility is gained regarding the timing of potential new drug approvals for Xolair (asthma) and Raptiva (psoriasis) as well as the near-term financial performance of Rituxan (non-Hodgkin's Lymphoma) and Herceptin (breast cancer). However, through its diverse commercialized product base, experienced and financially oriented management team, and promising late-stage pipeline, we believe Genentech offers the potential for long-term growth approaching 20%, with significantly lower risk than other biotech companies. Therefore, we recommend purchase for intermediate- to long-term-oriented investors.

Figure 3

Genentech, Inc.

Long-term Earnings Growth Expectations for Genentech Appear Achievable Given Diversified Products and Robust Pipeline



Source: Company reports, First Call, and William Blair & Company, L.L.C. estimates

Introduction

Genentech played a pivotal role in the creation of the commercial biotech industry and remains at the forefront in terms of innovation and operating performance. The company began as a research lab in 1976 under founders Herbert Boyer, a biochemist at the University of California at San Francisco, and Robert Swanson, a venture capitalist. Herbert Boyer, who continues to serve on Genentech's board of directors, along with his research partner Stanley Cohen, laid the foundation for the modern biotech industry by inventing and patenting a method for creating recombinant DNA using Escherichia coli (E. coli) bacteria and plasmid vectors (the so-called Cohen-Boyer patents). In 1980, Genentech was the first biotech company to complete an initial public offering, raising $35 million. In 1985, it became the first biotech pure play to commercialize a drug product that utilizes recombinant DNA technology, when it launched Protropin for growth hormone deficiency. Since then, the company's world-class research and development organization consistently has delivered products to market. Today, Genentech markets 10 products in 4 therapeutic categories.

Under current management, headed by CEO Arthur Levinson since 1995, Genentech consistently has delivered strong operating performance while maintaining a culture of innovation, evidenced by what we believe is one of the most productive research and development organizations in the drug industry. The company delivered a compounded annual growth rate (CAGR) in earnings of 31% between 1997 and 2001, driven by the introductions of cancer drugs Rituxan, which is approved for relapsed or refractory, low-grade or follicular, CD20 positive B-cell non-Hodgkin's lymphoma (NHL), and Herceptin, which is approved as a first-line treatment in combination with paclitaxel or as a single agent for second- and third-line treatment of human epidermal growth factor receptor2 (HER2) positive metastatic breast cancer.

Table 1
Genentech, Inc.
Product Profiles

Product	Generic Name	FDA Approval	Partners	Approved Indications	Key Ongoing Studies
Oncology:					
Rituxan	rituximab	June 1997	IDEC, Roche, Zenyaku Kogyo	Relapsed or refractory, low-grade or follicular, CD20 positive, B-cell non-Hodgkin's lymphoma (NHL) - including retreatment, 8x, and bulky disease	High-grade or aggressive NHL (Phase III), Rheumatoid Arthritis (Phase III), immune thrombocytopenic purpura (Phase II)
Herceptin	trastuzumab	September 1998	Roche	HER2+ metastatic breast cancer (First-line combo with paclitaxel, second- and third-line single agent)	Adjuvant breast cancer setting with chemotherapy (Phase III), other forms of cancers expressing HER2 (Phase II)
Cardiovascular:					
TNKase	tenecteplase	June 2000	Boehringer Ingelheim, Kyowa Hakko Kogyo, Roche	Acute myocardial infarction (AMI)	Combination therapy with other antithrombolytics for the treatment of AMI (Phase II and III)
Activase	alteplase	November 1987	Boehringer Ingelheim, Roche	AMI, acute ischemic stroke, and acute, massive pulmonary embolism	
Cathflo Activase	alteplase	September 2001	Boehringer Ingelheim	Central venous access device clearance	
Endocrinology					
Protropin	somatrem	October 1985	Pharmacia	Pediatric growth hormone deficiency (GHD)	
Nutropin	somatropin	November 1993	Roche	GHD in children and adults, growth failure associated with chronic renal insufficiency, and short stature associated with Turner syndrome	
Nutropin Depot	somatropin	December 1999	Alkermes, Roche	Pediatric GHD	GHD in adults
Nutropin AQ	somatropin	December 1995	Sumitomo, Roche	GHD in children and adults, growth failure associated with chronic renal insufficiency, and short stature associated with Turner syndrome	Nutropin AQ pen delivery device approved in early 2002.
Pulomonary					
Pulmozyme	dornase alfa	December 1993	Roche	Cystic fibrosis	

Source: Company reports and William Blair & Company, L.L.C.

Year-to-date, Genentech is well on its way to achieving our 2002 sales estimates of $1,125 million for Rituxan (a 37% increase from 2001) and $377 million for Herceptin (a 9% increase), as well as our EPS estimate of $0.92, which is in line with the current Street consensus estimate.

Risks

Investors should be aware of the following risks to our outlook and/or Genentech's operating performance.

Near-term Slowdown in Product Sales Growth

Genentech's two most successful drugs—Rituxan and Herceptin—play a significant role in powering the company's overall earnings growth rate. Our combined 2003 sales estimate of $1,766 million for Rituxan and Herceptin represents 75% of our $2,352 million estimate for Genentech's total products sales in 2003.

Although Genentech has not yet provided 2003 financial guidance, we anticipate a deceleration in year-over-year combined sales growth of Rituxan and Herceptin to 18% in 2003 from 29% growth in 2002. In particular, we expect Rituxan sales growth of 19% in 2003, relative to 37% in 2002, driving year-over-year total sales growth for Genentech of 11% in 2003, compared with 22% in 2002. While we believe our expectations for decelerating sales growth in 2003 are widely held and largely reflected in Genentech's current valuation,

the primary near-term risk, in our view, would be a steeper-than-anticipated drop in Rituxan sales, especially if coupled with unforeseen setbacks in the company's late-stage pipeline. These kinds of events, in succession, likely could trigger share price volatility.

We project that Rituxan's slowdown in 2003 will be offset partially by Herceptin sales growth of 13% in 2003, compared with our estimate of 9% growth in 2002. Beginning in 2003, Genentech's marketing partner, Roche, will manufacture Herceptin at its own facility in Germany for sale outside the United States, meaning Genentech no longer will receive revenue for bulk sales of Herceptin to Roche. For the first nine months of 2002, sales of Herceptin to Roche accounted for 11% of the product's total sales of $279 million. The impact to earnings from this change should be negligible given the low gross margins associated with Genentech's manufacturing arrangement with Roche, and the fact that Genentech will continue to receive royalties from Herceptin sales outside the United States. However, our 2003 Herceptin sales estimate of $427 million may prove difficult to achieve unless Genentech can make meaningful progress in accelerating adoption of Herceptin in the United States, particularly in the front-line setting. Our estimate assumes Herceptin sales growth primarily will be driven by a restructuring of Genentech's salesforce, which occurred during 2002, as well as the recent addition of fluorescence in situ hybridization (FISH) testing to Herceptin's label, which could lead to wider and more accurate identification of viable candidates (i.e., breast cancer patients who overexpress the HER2 protein) for Herceptin treatment.

New Product Approvals

Genentech's long-term EPS growth, which we expect to approach 20%, depends on significant financial contributions from products that have yet to receive FDA approval. Because of this dependency, we expect shares to be sensitive to even small product candidate setbacks or progress in the near term. While we are optimistic regarding the long-term potential of the company's late-stage product candidates, which include Xolair for asthma, Raptiva for psoriasis, and Avastin and Tarceva for cancer, we believe investors with an investment horizon of less than 12 months may consider waiting to purchase shares until additional visibility regarding the likelihood and timing of approvals is available.

Legal Disputes

Earlier this year, a jury ordered Genentech to pay $500 million in punitive and compensatory damages to the City of Hope medical center for breaching a 1976 contract between the two parties. Although no cash has yet changed hands, the company on October 3 pledged $630 million in cash and investments (which will be recorded as restricted cash in the long-term assets section of the balance sheet) to secure a bond. The bond will be used to cover the cost of damages should Genentech lose its ongoing appeal, which the company believes could last one to three years. With $500 million to $600 million in cash and equivalents (excluding the cash pledged for the City of Hope bond), we believe Genentech's balance sheet remains in good shape. However, we believe an unfavorable appeals ruling represents an additional potential source of near-term volatility to Genentech's shares.

On a positive note, Genentech in September 2002 announced that a jury ruled in its favor regarding a patent infringement lawsuit brought against Genentech by Chiron. Chiron had sought damages on the order of $1 billion, claiming that Herceptin's manufacturing process infringes one of Chiron's patents. Chiron can and will appeal this ruling within the next six months. There is a separate dispute between these two companies regarding Herceptin that will not be heard until 2004. Also in September, Genentech settled its two patent-related lawsuits with GlaxoSmithKline for undisclosed terms. We believe Genentech will continue to be involved in litigation going forward given the general contestability of biotechnology patents—which are numerous, often complex, and overlapping—and Genentech's extensive history as an active research and development concern.

Roche Ownership

Genentech has been actively repurchasing its shares for the past several quarters under its currently approved share repurchase program, which recently was expanded from $625 million to $1 billion. As a result, the percentage of Genentech's outstanding shares owned by Roche has been increasing steadily. As of the close of third quarter 2002, Roche's majority ownership of Genentech stood at 59.6%, up from 59.2% the prior quarter and well above the 50% ownership threshold stipulated in the companies' agreement. While the implications of this, if any, are difficult to define, it is possible that Roche may choose to sell a portion of its holdings, which could create near-term downward pressure on Genentech's share price. We recall that in June 1999 Roche purchased all of Genentech's common shares and since has reissued 203 million shares in an IPO and two secondary offerings, the most recent of which occurred in March 2000.

Longer-term, as long as Roche owns in excess of 50% of Genentech's common stock, it effectively could control the outcome of actions requiring the approval of shareholders. Genentech's bylaws stipulate that under current ownership levels the composition of the board of directors will comprise two Roche directors, three independent directors nominated by a nominating committee, and one Genentech employee nominated by the same committee. In addition, as long as Roche owns in excess of 50% of Genentech common stock, Roche directors will constitute two of the three members of the nominating committee.

The affiliation agreement has the potential to limit Genentech's decision-making in ways that could affect investment, disinvestment, or affiliation activities that otherwise might benefit the company and/or its minority shareholders. Directors designated by Roche must approve any acquisition or disposition of assets representing 10% or more of total assets, or any significant affiliations. The agreement also has the potential to affect Genentech's liquidity in ways that are adverse to the interests of minority shareholders. For instance, Genentech may be required to repurchase its own stock in response to option issuance that dilutes Roche's percentage ownership interest.

Regarding the Roche-Genentech international co-development and co-marketing agreement, Genentech believes that the arrangement, in which Roche has the right of first refusal to develop and market any of Genentech's pipeline products outside the United States, is more profitable than many of its competitors' international drug development and commercialization organizations. Although difficult to validate, we believe management's claim is reasonable, and coupled with the fact that Roche continues to take a hands-off approach in Genentech's day-to-day operations, we continue to believe that the positives of Genentech's affiliation with Roche outweigh the negatives.

Product Development Update and Outlook

We believe Genentech can continue to post strong top-line growth as its commercialized product base continues to expand through new product approvals over the next one to three years. The company currently has four products in Phase III development (Raptiva for psoriasis, Avastin and Tarceva for cancer, and rhuFab V2 for the wet form of age-related macular degeneration) and one partially filed with the FDA (Xolair for asthma).

Assuming Xolair gains regulatory approval, we expect its initial indication to be for moderate to severe forms of adult allergic asthma. Xolair, which is a humanized monoclonal antibody, is administered once or twice monthly, depending on a combination of the patient's body size and immunoglobulin E level, via subcutaneous injection. Although the market for allergic asthma sufferers is large (roughly 20 million Americans), given Xolair's less convenient administration route relative to traditional inhalation devices, we expect the product to initially target only those with severe and/or difficult to manage forms of the disease. In addition, Genentech will share worldwide Xolair profits under undisclosed terms with its partners Tanox and Novartis.

Regarding Tarceva, an orally administered inhibitor of epidermal growth factor receptor tyrosine kinase activity that is being developed in collaboration with Roche and OSI Pharmaceuticals, we expect results from three Phase III studies for non-small cell lung cancer (NSCLC)—two in combination with chemotherapy and one in a monotherapy setting—to be reported in mid-2003. Tarceva's outlook was called into question subsequent to the unfavorable outcome of Phase III studies earlier this year involving Iressa in combination with chemotherapy. Iressa is an AstraZeneca drug also being tested in NSCLC patients with a similar mechanism of action to Tarceva. However, Genentech and its partners were quick to point out that differences between Tarceva and Iressa, including chemical structure, product formulation and dosage strength, pharmacokinetics, and Phase III study design, could lead to different clinical outcomes for the two products. In addition, AstraZeneca drew criticism from the FDA regarding its non-randomized and non-controlled Phase II study design for Iressa as a monotherapy, which yielded a 10% response rate in NSCLC patients. OSI currently is enrolling patients for a randomized, controlled study for Tarceva as a monotherapy in the second- and third-line treatment of NSCLC. In addition, each of Tarceva's Phase III studies will measure survival as an endpoint, which is favored by the FDA in evaluating efficacy. Lastly, since Iressa's approval in Japan earlier in 2002, there have been 39 reported deaths from interstitial pneumonia in advanced NSCLC patients receiving Iressa (known as Gefitinib in Japan). To date, more than 2,000 patients have received Tarceva in clinical studies, with no reports of severe adverse reactions to our knowledge.

XOMA, Genentech's development partner for Raptiva, recently announced during a conference call that the two companies met with the FDA to discuss their strategy for filing Raptiva's biologic license application (BLA). Raptiva is a humanized monoclonal antibody administered via a weekly subcutaneous injection to treat moderate to severe psoriasis. Both companies are sticking with a year-end 2002 BLA submission deadline for Raptiva, suggesting that no significant unfavorable surprises came about during the meeting. Genentech in August announced that Serono would market Raptiva globally, excluding the United States, Japan, and certain other Asian countries. Development and marketing rights in the United States remain with Genentech and XOMA, while Genentech retains marketing rights in Japan and certain other Asian countries. Although financial terms of the agreement have not been disclosed, we expect Genentech initially to manufacture and sell Raptiva to Serono at a modest markup to cost for sale outside the United States. We believe Genentech will receive a share of profits on Serono's sales of Raptiva. Serono recently announced that it plans to file for regulatory clearance of Raptiva in Europe in the first quarter of 2003 and expects the product to be launched in 2004. Serono will create a psoriasis business unit that will focus its initial efforts exclusively on establishing Raptiva's presence in the European market for psoriasis treatments.

Lastly, we expect results from a 200-patient Phase III colorectal cancer study for Avastin in combination with chemotherapy to be announced during mid-2003. Avastin is a humanized monoclonal antibody designed to bind to and inhibit vascular endothelial growth factor (VEGF), a protein that plays an important role in tumor angiogenesis (the formation of new blood vessels to the tumor) and maintenance of established tumor blood vessels. We note that Genentech announced in September that Avastin failed to meet its primary endpoint of progression-free survival in a Phase III metastatic breast cancer study in combination with Roche's Xeloda. While there are several additional studies ongoing for Avastin in various tumor types, we believe unfavorable efficacy and/or safety results in the ongoing colorectal cancer study would represent a significant setback to Avastin's outlook. Moreover, our field research indicates that Avastin may demonstrate more success in earlier, rather than later, stages of cancer.

Longer-term, Genentech's intermediate-stage development portfolio is beginning to take shape, and we believe there are several promising candidates that may emerge over the next one to two years as potential drivers of revenue growth. Genentech recently announced plans to advance rhuFab V2 for the wet form of AMD into Phase III clinical trials during first quarter 2003, on the basis of favorable Phase Ib/II study results. The market for AMD treatments, while quite large, is growing increasingly competitive, with several treatments currently in the late stages of development. We believe products that halt or reverse the loss of vision that occurs in patients with the wet form of AMD will emerge as the leaders in this market. The rhuFab data thus far suggests that the product may achieve this clinical outcome.

In addition, Genentech recently announced favorable Phase I results for 2C4, the company's monoclonal antibody for cancer that targets the HER2-based signaling pathway, and we expect Phase II studies to commence in 2003.

Table 2
Genentech, Inc.
Key Products in Development

Product	Generic	Stage of Development	Partners	Targeted Indications	Expected Approval
Xolair	omalizumab	Phase III complete	Novartis & Tanox	Allergic Asthma and Allergic Rhinitis	2H03 - 1H04
Raptiva	efalizumab	Phase III	XOMA, Serono	Psoriasis and Rheumatoid Arthritis	2H03 - 2H04
Tarceva	erlotinib	Phase III	Roche & OSI	NSCLC, breast, head and neck, pancreatic, and ovarian cancer	Late 2004
Avastin	bevacizumab	Phase III	Roche	Metastatic breast and colorectal cancer, and NSCLC	Late 2004
rhuFab V2		Phase III		Wet form of age-related macular degeneration	2006
MLN02		Phase II	Millennium Pharmaceuticals	Crohn's disease and ulcerative colitis	2006
2C4 Antbody		Phase I	Roche	Variety of solid tumors	2007

Source: Company reports

Proprietary Analysis of Pipeline Suggests Continued Productivity

We performed a proprietary analysis of Genentech's current pipeline and historical product development performance relative to some of its biotech peers, as well as large pharmaceutical companies and the drug industry in total. We used data from Pharmaprojects, a leading source for historical drug development information, to derive attrition rates based on historical trends for the drug industry at each stage of product development. Our analysis suggests that Genentech's risk profile is lower than that of other biotech companies, given its strong pipeline and *broad experience* in advancing compounds through clinical development. Moreover, Genentech's historical success rates in the clinic are higher than average success rates for large pharmaceutical companies, as well as the drug industry in total.

Table 3 illustrates our conclusions. The cumulative success rates of products in clinical development are derived by studying the historical success rates of companies in advancing products through the various stages of clinical development, excluding projects that currently are in a particular phase of development. For example, since its inception Genentech has discontinued 6 projects in Phase II and has advanced 22 projects beyond Phase II. This excludes the two projects Genentech currently has in Phase II development. Therefore, we calculate that Genentech has a historical success rate of 78.6% (22/28) in advancing products from Phase II to Phase III development. Once we have generated success rates at each stage of development (Phase I to Phase II, Phase II to Phase III, and so on), we calculate a cumulative success rate of 59.1% for Genentech in advancing products through all stages of clinical development, including preregistration (regulatory filing with the FDA subsequent to the completion of clinical trials), and registration (regulatory approval prior to launch of a product). Genentech's cumulative success rate of 59.1% compares favorably with large pharmaceutical companies' 41.6% rate, as well as the total drug industry's 40.8%.

Table 3
Genentech, Inc.
Historical Relative Product Development Performance

	Launched*	Total Discontinued Clinical Projects	Projects Currently in Clinical Development	Total Clinical Development Projects	Cumulative Success Rate of Products in Clinical Development	Launched Products as a % of Total Clinical Development Projects
Genentech	**13**	**11**	**8**	**32**	**59.1%**	**40.6%**
Amgen	9	21	13	43	**33.1%**	**20.9%**
Gilead Sciences	7	2	5	14	**83.3%**	**50.0%**
Gilead (including Triangle)**	9	6	9	24	**68.9%**	**37.5%**
MedImmune	6	9	7	22	**45.2%**	**27.3%**
Genzyme	6	2	6	14	**81.5%**	**42.9%**
Total Drug Industry	2,626	4,636	2,505	9,767	**40.8%**	**26.9%**
Total Large Pharma	1,021	1,621	465	3,107	**41.6%**	**32.9%**
Average Large Pharma	**85**	**135**	**39**	**259**	**41.6%**	**32.9%**

** Launched products include out-licensed products for which royalties are received.*

*** Includes impact of recently proposed merger with Triangle Pharmaceuticals.*

Source: Pharmaprojects and William Blair & Company, L.L.C. estimates

Although table 3 suggests that Genzyme's or Gilead Sciences' historical success rates in the clinic are higher than Genentech's, this is based on less than half the number of clinical development projects, with about half the number of marketed products. We believe, in addition to Genentech's historical success ratio, factors such as the size of the top line, management's ability to focus its research and development efforts on potential blockbuster opportunities, and a company's level of experience in managing the drug development process also should play a

role in evaluating risk profiles for biotech companies. Genentech scores favorably on each of these metrics, in our view, in addition to its historically favorable clinical development success rates relative to the total drug industry. For example, although Genzyme and Gilead both score higher than Genentech in terms of the historical success rate metric, the two companies' *combined* number of clinical development projects in total (28) is less than Genentech's (32), while Genentech's last-12-months' (LTM) revenue of $2.5 billion also surpasses Genzyme's and Gilead's *combined* LTM revenue of $1.7 billion. Meanwhile, relative to Amgen, the only biotech with a larger revenue base, we note that Genentech has more products in late-stage clinical development and a better record of success in the clinic. Therefore, we believe Genentech has the potential to generate significant financial returns from its current pipeline, while its diverse commercialized product base and strong development and marketing experience serve to mitigate the risk associated with these returns, in our view.

On the basis of our proprietary analysis, we estimate that Genentech will market at least 15 products by 2010, or 5 more than it does today. Moreover, we believe our estimates for Genentech may prove conservative, given that we applied average total drug industry success rates in assessing Genentech's pipeline, even though historical information suggests the company can surpass these rates. If Genentech maintains its historical success rate, we estimate that the company will have 16 products on the market by 2010. *Our findings suggest this will remain the highest number of products marketed by any major biotech company.* Table 4 and figure 4 illustrate Genentech's favorable historical success rates in developing drugs relative to large pharmaceutical company and drug industry averages. In addition, the following exhibits demonstrate that if Genentech and Amgen maintain their respective historical success rates going forward, Genentech will maintain its lead in terms of total number of products marketed by 2010. Lastly, Genentech's development pipeline consists of novel products with strong commercial potential, reflecting the company's innovative research and development organization and suggesting that Genentech can continue to diversify its product base rather than rely on follow-on versions of its currently commercialized products. We note that our calculations are based exclusively on Genentech's current pipeline and exclude any impact from additional products gained through in-licensing opportunities and/or joint ventures with other drug companies that potentially could reach the market by 2010. In addition, Genentech's stated goal of advancing between two and four new drug candidates to the clinic per year should serve to expand the company's pipeline further over the next several years, providing potential upside.

Table 4
Genentech, Inc.
Analysis of New Products in Clinical Development

Company	Phase I	Phase II	Phase III	Pre-Reg.	Registered	Total
Genentech	**1**	**2**	**4**	**0**	**1**	**8**
Amgen	3	7	3	0	0	13
Gilead	2	0	2	0	1	5
Gilead***	2	3	2	1	1	9
MedImmune	1	5	0	1	0	7
Genzyme	2	2	1	1	0	6

Output of clinical pipeline assuming drug industry average and company-specific historical success rates

Projected Launched Products*

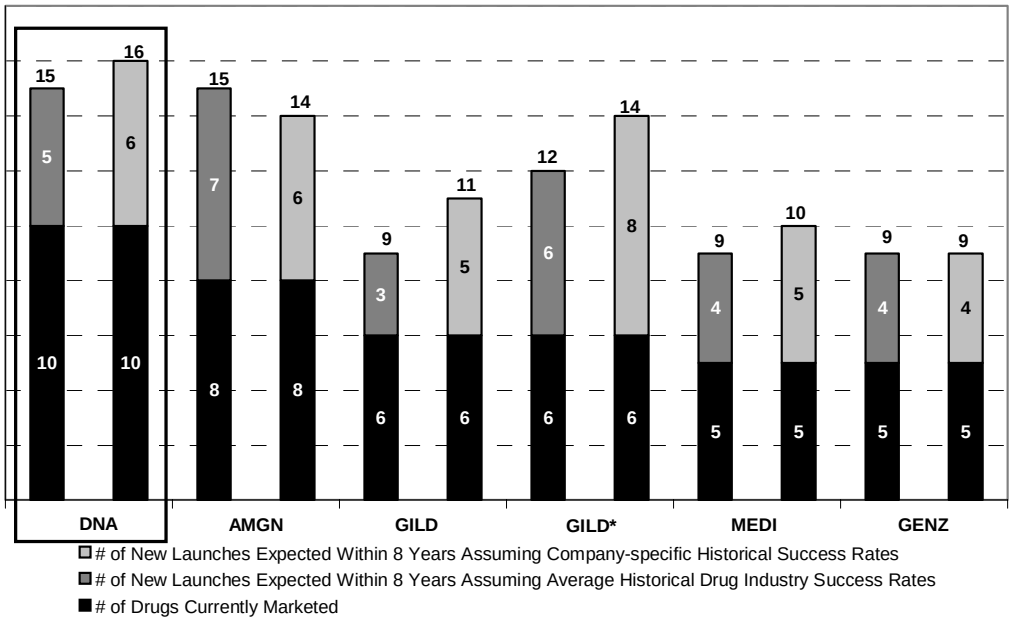
Company	Underperform Scenario	Drug Industry Average Performance	Outperform Scenario
Genentech	**NA**	**5**	**6**
Amgen	5	7	NA
Gilead	NA	3	5
Gilead***	NA	6	8
MedImmune	NA	4	4
Genzyme	NA	4	5

Historical Success Rates*

Drug Industry*	*83.6%*	*65.0%*	*84.4%*	*93.6%*	*97.0%*	*41.6%*
Genentech	**96.8%**	**78.6%**	**77.8%**	**100.0%**	**100.0%**	**59.1%**
Amgen	*100.0%*	*51.5%*	*64.3%*	*100.0%*	*100.0%*	*33.1%*
Gilead	*91.7%*	*90.9%*	*100.0%*	*100.0%*	*100.0%*	*83.3%*
Gilead***	*95.5%*	*72.2%*	*100.0%*	*100.0%*	*100.0%*	*68.9%*
MedImmune	*90.5%*	*71.4%*	*70.0%*	*100.0%*	*100.0%*	*45.2%*
Genzyme	*91.7%*	*88.9%*	*100.0%*	*100.0%*	*100.0%*	*81.5%*

** Assume two years per development phase.*
*** Historical success rates derived by William Blair & Company, L.L.C. using Pharmaprojects database.*
**** Includes impact of recently proposed merger with Triangle Pharmaceuticals.*
***** Excludes withdrawn products*
Source: Pharmaprojects and William Blair & Company, L.L.C. estimates

Figure 4
Genentech, Inc.
Genentech Is Poisted to Launch an Additional Five to Six Novel Products by 2010



** Includes impact of recently proposed merger with Triangle Pharmaceuticals.*

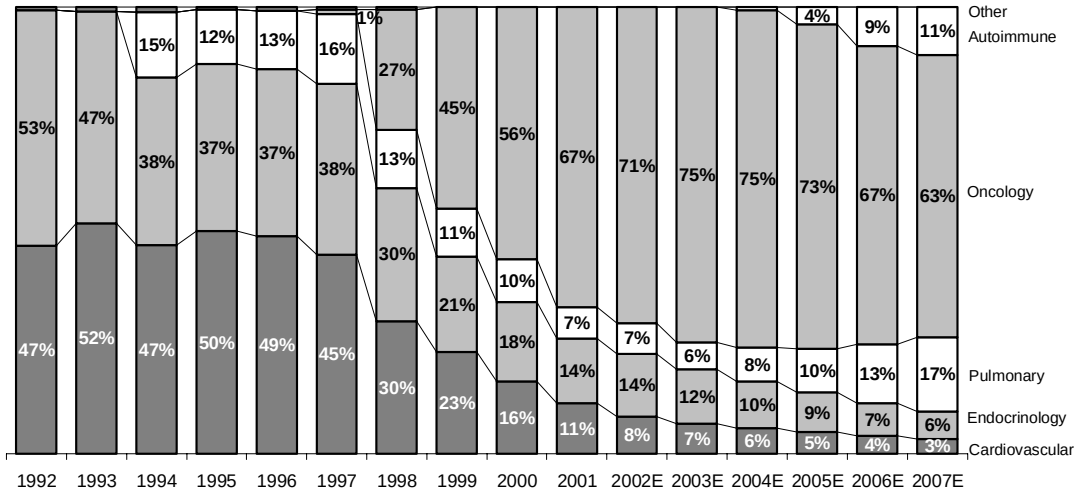
Source: Company reports, Pharmaprojects, and William Blair & Company, L.L.C. estimates

Commercial Outlook: Genentech Is Poised to Expand Its Presence in Several Attractive Markets

We expect Genentech's product sales mix to continue to shift toward its growth drivers in oncology, Rituxan and Herceptin, as well as Avastin and Tarceva, which are new cancer drugs that could be on the market by 2004. We anticipate solid growth in Genentech's pulmonary drug franchise subsequent to the introduction of Xolair for asthma in late 2003 or 2004, and the company should enter the autoimmune disease market with the introduction of Raptiva also in late 2003 or 2004, as well as new indications for Rituxan. Figures 5 and 6 and table 5 (at the end of this report) illustrate Genentech's historical product sales mix as well as our expectations going forward. Our product revenue model assumes 2004 launches for both Xolair and Raptiva, leaving room for potential upside to our revenue and earnings estimates if one or both of the products are launched in 2003.

In addition, Rituxan currently is in Phase II testing for rheumatoid arthritis (RA) and immune thrombocytopenic purpura (ITP), which are autoimmune diseases. Although it likely will be at least two to three years before Rituxan can gain approval in either of these indications, the RA market in particular represents a potential source for significant incremental long-term growth, with millions of patients suffering from severe and refractory forms of the disease worldwide. In the meantime, there may be off-label use. We have not assumed any sales from an RA indication for Rituxan, representing an additional source of potential upside to our long-term earnings growth estimate of 19%.

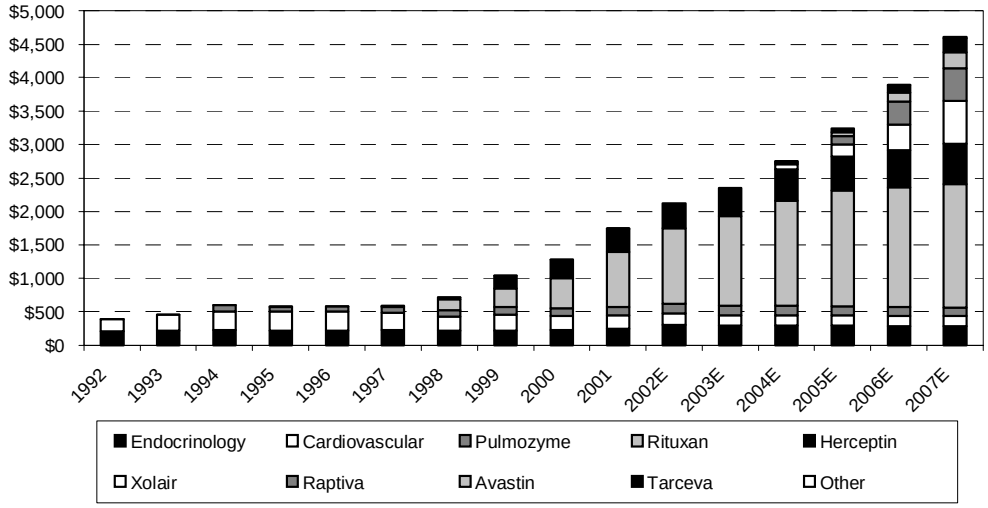
Figure 5
Genentech, Inc.
Product Sales Mix By Medical Indication



Oncology: Rituxan (1997), Herceptin (1998), Avastin (2004E), Tarceva (2004E)
Pulmonary: Pulmozyme(1994), Xolair (2004E)
Endocrinology: Protropin (1985), Nutropin (1993), Nutropin AQ (1995), Nutropin Depot (1999), Nutropin AQ Pen (2002)
Cardiovascular: Activase (1987), TNKase (2000), Cathflo Activase (2001)
Autoimmune: Raptiva (2004E)

Source: Company reports and William Blair & Company, L.L.C. estimates

Figure 6
Genentech, Inc.
Revenues Derived From Many Products

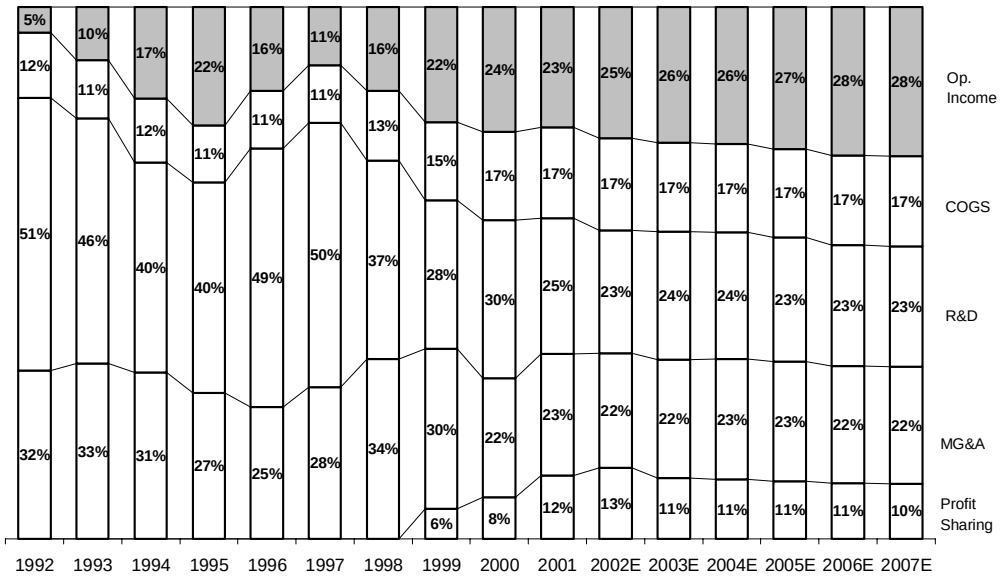


Source: Company reports and William Blair & Company, L.L.C. estimates

We expect intermediate- to long-term earnings growth to approach 20%, primarily driven by strong revenue growth and, to a lesser degree, modest operating margin expansion, mainly a result of decreasing research and development expenditures as a percentage of revenue. However, we expect Genentech to continue to expand its manufacturing, development, and marketing capabilities to optimize top-line growth. In total the company generated more than $500 million in free cash flow from 1992 to 2001, although some years were

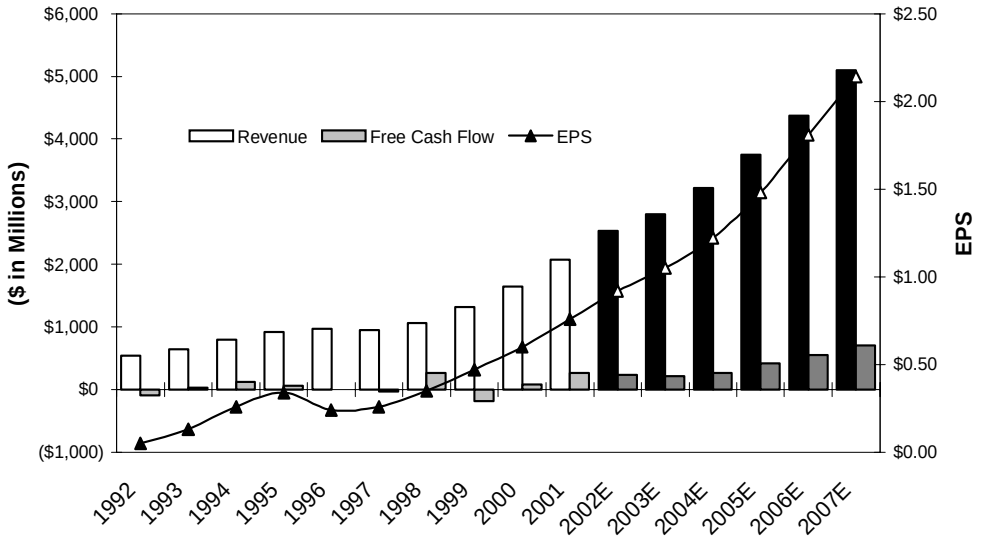
negative. As its product portfolio and research and development and marketing capabilities continue to expand and mature over the next several years, we expect the company to generate more consistent growth in free cash flow.

Figure 7
Genentech, Inc.
Operating Margin Analysis



Source: Company reports and William Blair & Company, L.L.C. estimates

Figure 8
Genentech, Inc.
Operating Performance



Source: Company reports and William Blair & Company, L.L.C. estimates

Operations Update

Genentech reported third quarter 2002 earnings per share of $0.23, which met the Street consensus. Earnings per share of $0.23 excluded noncash special charges of $51.4 million, comprising $12.5 million in interest payments related to the legal settlement with the City of Hope medical center and $38.9 million in nonoperating charges related to the redemption of Genentech's shares by Roche in 1999. Total revenue for the quarter was $654.3 million, which represented a 25% increase over third quarter 2001. Revenue growth primarily was driven by strong product sales, which were $551.8 million, compared with $448.7 million in the year-ago period, led by Rituxan and Herceptin.

Rituxan sales of $293.9 million represented a 7% increase over second quarter 2002 and a 38% increase over third quarter 2001, comprising $269.6 million in the United States and $24.3 million outside the United States. During the third quarter, Genentech believes that Rituxan became the No. 1 branded anti-tumor therapy in the United States in terms of revenues. According to the company, the product's penetration rate among eligible NHL and CLL patients dropped slightly during the quarter to 60%, from 63% in the second quarter. However, sales of Rituxan appear to have benefited from expanded therapy regimens, leading to an increased number of doses per patient.

For example, for the past four quarters, 80% of physicians who prescribe Rituxan report retreating patients with the therapy. In addition, we believe the company is making progress in expanding initial treatment with eight weekly injections of Rituxan (compared with four previously). Several studies presented at the recently held 44th Annual American Society of Hematology (ASH) meeting provide additional evidence supporting the expanded use of Rituxan in treating NHL patients, both in the original weekly course of therapy and as a longer-term, bi-monthly maintenance therapy.

In a study conducted by the Swiss Group for Clinical Cancer Research (SAKK), 185 indolent (slow-growing) NHL patients—57 of whom had received no prior therapy and 128 of whom had previously received chemotherapy—received an induction course of Rituxan (375mg/m2 weekly for 4 weeks). At week 12, 80% of patents achieved a complete response (disappearance of all signs of cancer), a partial response (decrease in tumor size of more than 50%), or stable disease. These 185 patients then were randomized into either an extended Rituxan therapy group (one 375mg/m2 dose at months 3, 5, 7, 9) or an observation group that received no additional Rituxan treatment. After a median of 35 months' follow-up, the primary endpoint of event-free survival (defined as ongoing survival without disease progression or relapse, death, or initiation of an alternative therapy) was a median of 23 months in the 73 patients who received extended Rituxan therapy, compared with a median 12 months for those who did not. In addition, of the patients who responded at week 12, 80% of patients in the extended therapy arm were in remission one year after initiation of the study, versus 56% in the observation arm. This study, in addition to several others that support expanded use of Rituxan, was presented to an audience of thousands of oncologists who attended the ASH meeting in early December 2002.

Our field research suggests that oncologists were receptive to the message that extended Rituxan treatment can improve event-free disease progression in NHL patients. However, the fact that 80% of physicians who prescribe Rituxan already are retreating patients suggests that additional revenue upside resulting from recent studies supporting expanded utilization of Rituxan could be modest. We consequently assume a deceleration in year-over-year Rituxan sales growth to 19% in 2003, from 37% in 2002.

Longer-term, Genentech has embarked on a broad label-expanding program for Rituxan that includes studies in ITP and RA. Favorable results recently were reported for a 122-patient Phase II study investigating Rituxan in RA and results from investigational studies

supported Rituxan's safety and efficacy in treating ITP. Based on the outcome of the latter studies, Rituxan recently was added to the compendia of ITP treatments by the United States Pharmacopoeia (USP). Both RA and ITP represent autoimmune diseases, which suggests that Rituxan's market could expand significantly beyond oncology over the long term. However, we believe it will be a minimum of two to three years before autoimmune uses of Rituxan begin to affect the top line, assuming clinical study results continue to be favorable.

Third-quarter Herceptin sales of $96.7 million ($88.3 million in U.S. sales and $8.4 million to Genentech's ex-U.S. marketing partner Roche) grew 2% sequentially and 15% year-over-year. The company continues to focus its promotional efforts for Herceptin on increased use as a first-line treatment, given that patients generally receive a higher number of doses in first-line setting relative to the second or third lines. Herceptin's penetration as a first-line treatment for eligible patients remained stable at 40% during the third quarter.

A study recently presented at the 25th Annual San Antonio Breast Cancer Symposium suggests that Herceptin is more effective when administered in combination with two chemotherapeutic agents—carboplatin and paclitaxel—compared with its currently approved indication, which calls for Herceptin to be administered in combination with paclitaxel alone. The study enrolled 194 women with evidence of HER2 overexpression based on immunohistochemistry (IHC) diagnostic testing. Results of the randomized study showed that women receiving the Herceptin/carboplatin/paclitaxel regimen had a median time to progression of 11.2 months, compared with 6.9 months for patients receiving the FDA approved combination of Herceptin and paclitaxel, representing a 62% improvement in median time to progression. In women with high IHC scores (a diagnostic indicator of HER2 expression), the improvement in median time to progression in patients treated with all three agents was 88%. We believe these results could lead to increased front-line use of Herceptin in breast cancer patients with HER2 overexpression. As we have stated previously, increased use in the front-line setting is the primary driver for accelerating Herceptin sales growth going forward, since patients receive a higher number of treatments in this setting.

Sales in Genentech's remaining franchises continued to be surprisingly strong during the third quarter. Sales of human growth hormone products, comprising the Nutropin line of products and Protropin, were $77.3 million, compared with $67.7 million in the year-ago period. The increase partly was driven by adoption of the Nutropin AQ pen, which was launched in the United States in July. The device fills a competitive gap in Genentech's endocrinology franchise, given that most of its competitors already had offered this mode of drug delivery. Sales of Genentech's thrombolytic products—Activase, Cathflo Activase, and TNKase—decreased year-over-year by $3.0 million in the third quarter, but increased $2.5 million sequentially to $45.6 million. This represented the second consecutive sequential increase in franchise sales, which Genentech attributes to strong sales of Cathflo Activase in the hospital setting for clearing blood clots from central venous access devices. Lastly, Pulmozyme sales reached $38.2 million in the third quarter, representing a $5.4 million increase over last year, attributable to increased use in early-stage cystic fibrosis patients and improved compliance by existing patients.

During the third quarter, Genentech announced it would initiate Phase II studies for its 2C4 antibody for cancer, based on favorable Phase I results, but chose to discontinue its development collaboration with Seattle Genetics for the preclinical candidate SGN-14 (anti-CD40 antibody).

Balance Sheet Has Taken a Hit From Litigation

Genentech finished the September 2002 quarter with $1,124 million in cash and short-term investments on its balance sheet, compared with $1,500 million a year ago. The decrease primarily is due to aggressive share repurchasing under the company's approved $625 million plan, of which $615 million has been exhausted. During the third quarter, the board voted to expand the company's repurchase program to $1 billion. We believe its aggressive share repurchasing this year is being driven by a combination of the decline in its share price (down 37% year-to-date in 2002) and its obligation to maintain Roche's ownership level at or above 50% (59.6% Roche ownership as of the close of third quarter 2002).

On October 3, Genentech entered into an agreement to post a $600 million bond for compensatory and punitive damages a jury recently awarded to City of Hope for its patent lawsuit against Genentech. The company is required to pledge $630 million in cash and investments (which will be recorded as restricted cash in the long-term assets section of the balance sheet) to secure the bond, which will be used to cover the cost of damages should Genentech fail in the appeals process, which is ongoing. No cash will change hands between the two parties unless Genentech loses in the appeals process, which it estimates could take between one and three years. With no other debt on the balance sheet currently, we do not view the reduction in the company's available cash as a threat to its operations or liquidity. However, the company has roughly $640 million in off-balance-sheet obligations related to synthetic leases for its corporate and manufacturing facilities. If Genentech were forced to bring this debt onto its balance sheet, its debt to equity ratio would go from 0% currently to roughly 12%.

Financial Outlook

Our 2002 EPS estimate of $0.92 implies that Genentech will post fourth-quarter 2002 EPS of $0.24. We recently raised our 2003 EPS estimate to $1.05 from $1.03, reflecting an increase in our 2003 Rituxan sales estimate to $1,339 million from our previous estimate of $1,274 million. We also raised our 2003 royalty estimate to $351 million from $325 million to better reflect Rituxan and Herceptin sales growth. Our 2003 EPS estimate, which is $0.02 below the current Street consensus estimate of $1.07, reflects a *near-term* deceleration of year-over-year EPS growth to 14%, relative to 22% year-over-year growth in 2002. We note that we *assume no new products are approved in 2003*, although we believe both Xolair for asthma and Raptiva for psoriasis have the potential to be launched by year-end 2003, which could result in modest upside to our 2003 EPS estimate. Genentech continues to expect both products' BLAs to be fully filed with the FDA by year-end 2002 and based on prescription drug user fee act dates, assuming the application submissions are completed by year-end, we would expect FDA action regarding Xolair by mid-2003 and for Raptiva by late 2003.

Our historical and forecast financial statements, including quarterly and annual income statements, balance sheet, and statement of cash flows, can be found at the end of this report.

Valuation and Investment Conclusion

As shown in table 6, on page 20, Genentech's shares currently trade at a modest premium to several other pharmaceutical and biotech companies on the basis of price to forward earnings, while trading at a discount on the basis of market cap to last-12-months' revenue.

Given Genentech's modest premium valuation to forward earnings, we believe the company's shares could be particularly sensitive to unfavorable news in late 2002 and 2003. Therefore, we are maintaining our Market Perform rating until we gain additional visibility regarding Rituxan's near-term outlook and the timing of regulatory filings. However, given Genentech's diversified platform of revenue-generating products and robust pipeline, and our belief that Genentech has the resources and expertise to successfully transition to a period of accelerating growth in 2004, we increasingly are optimistic regarding the company's intermediate- to long-term outlook, and we believe Genentech's shares deserve core-holding status. Therefore, we recently changed our company profile for Genentech to Established Growth from Core Growth, and recommend purchase for intermediate- to long-term-oriented investors.

Additional information is available upon request.

The full text of this report is available in electronic form to registered users via R*Docs™ at www.rdocs.com or www.williamblair.com.

DJIA:	8589.14
S&P 500:	904.96
NASDAQ:	1396.59

The prices of the common stock of other public companies mentioned in this report follow:

AstraZeneca	$36.39
Forest Labs	$93.50
Gilead Sciences	$37.42
Millennium	$9.44
OSI Pharmaceuticals	$18.47
Pharmacia	$42.95
Roche	$70.30
Serono	$13.85
Triangle Pharmaceuticals	$5.85

Table 5
Genentech, Inc.
Historical and Forecast Product Sales
($ in millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002E	2003E	2004E	2005E	2006E	2007E
Rituxan						$5.5	$162.6	$279.4	$444.1	$818.7	$1,124.8	$1,339.2	$1,580.3	$1,732.4	$1,792.0	$1,851.9
Herceptin							30.5	188.4	275.9	346.6	376.7	426.6	468.1	509.7	551.7	597.1
Cardiology	182.1	236.2	280.9	301.0	284.1	260.7	213.0	236.0	206.2	197.1	177.5	158.5	157.7	157.5	156.1	154.9
Endocrinology	205.9	216.8	225.4	219.4	218.2	223.6	214.0	221.2	226.6	250.2	297.9	288.0	288.5	289.1	286.0	283.4
Pulmozyme			88.3	111.3	76.0	91.6	93.8	111.4	121.8	122.9	143.5	140.1	139.0	136.0	130.9	124.0
Xolair													71.9	178.8	382.1	638.2
Raptiva													20.6	121.7	339.3	493.7
Avastin													15.4	61.9	136.5	232.3
Tarceva													12.1	53.3	111.6	218.9
Other	3.0	4.4	6.5	3.6	4.5	3.5	3.9	2.7	3.7	7.4	0.0	0.0	0.0	0.0	10.0	20.0
Total	$391.0	$457.4	$601.1	$635.3	$582.8	$584.9	$717.8	$1,039.1	$1,278.3	$1,742.9	$2,120.4	$2,352.4	$2,753.6	$3,240.5	$3,896.1	$4,614.3
% of Total Product Sales																
Rituxan	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	22.7%	26.9%	34.7%	47.0%	53.0%	56.9%	57.4%	53.5%	46.0%	40.1%
Herceptin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%	18.1%	21.6%	19.9%	17.8%	18.1%	17.0%	15.7%	14.2%	12.9%
Cardiology	46.6%	51.6%	46.7%	47.4%	48.7%	44.6%	29.7%	22.7%	16.1%	11.3%	8.4%	6.7%	5.7%	4.9%	4.0%	3.4%
Endocrinology	52.7%	47.4%	37.5%	34.5%	37.4%	38.2%	29.8%	21.3%	17.7%	14.4%	14.0%	12.2%	10.5%	8.9%	7.3%	6.1%
Pulmozyme	0.0%	0.0%	14.7%	17.5%	13.0%	15.7%	13.1%	10.7%	9.5%	7.1%	6.8%	6.0%	5.0%	4.2%	3.4%	2.7%
Xolair	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	5.5%	9.8%	13.8%
Raptiva	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	3.8%	8.7%	10.7%
Avastin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	1.9%	3.5%	5.0%
Tarceva	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	1.6%	2.9%	4.7%
Other	0.8%	1.0%	1.1%	0.6%	0.8%	0.6%	0.5%	0.3%	0.3%	0.4%	0.0%	0.0%	0.0%	0.0%	0.3%	0.4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Year-over-year Growth																
Rituxan							2856%	72%	59%	84%	37%	19%	18%	10%	3%	3%
Herceptin								518%	46%	26%	9%	13%	10%	9%	8%	8%
Cardiology		30%	19%	7%	-6%	-8%	-18%	11%	-13%	-4%	-10%	-11%	0%	0%	-1%	-1%
Endocrinology		5%	4%	-3%	-1%	2%	-4%	3%	2%	10%	19%	-3%	0%	0%	-1%	-1%
Pulmozyme				26%	-32%	21%	2%	19%	9%	1%	17%	-2%	-1%	-2%	-4%	-5%
Xolair														149%	114%	67%
Raptiva														491%	179%	46%
Avastin														301%	120%	70%
Tarceva														341%	110%	96%
Other																100%
Total		17%	31%	6%	-8%	0%	23%	45%	23%	36%	22%	11%	17%	18%	20%	18%

Source: Company reports and William Blair & Company, L.L.C. estimates

Table 6
Genentech Comparative Valuation
($ in Millions)

	Price as of 12/11/02	Market Cap	2003 EPS Estimate	Forward PE Ratio	Long-term Growth	PE to Growth	LTM Revenue	Market Cap/Revenue
DNA	**$33.48**	**$17,078**	**$1.05**	**31.9**	**19%**	**1.7**	**$2,431**	**7.0**
PFE	$31.61	195,525	$1.84	17.2	15%	1.1	34,207	5.7
MRK*	$58.39	132,455	$3.39	17.2	10%	1.7	21,163	6.3
GSK	$37.70	115,550	$2.56	14.7	10%	1.5	33,400	3.5
LLY	$65.85	74,255	$2.65	24.8	10%	2.5	10,951	6.8
AMGN	$47.27	60,595	$1.65	28.6	15%	1.9	4,881	12.4
GILD	$37.42	7,391	$0.70	53.5	30%	1.8	396	18.7
CHIR	$39.07	7,309	$1.45	26.9	20%	1.3	1,239	5.9
GENZ	$33.05	7,198	$1.38	23.9	18%	1.3	1,228	5.9
MEDI	$25.34	6,250	$0.96	26.4	26%	1.0	759	8.2
BGEN	$41.78	6,219	$1.72	24.3	17%	1.4	1,126	5.5
IDPH	$34.21	5,223	$1.11	30.8	30%	1.0	362	14.4
Averages				**26.2**	**18%**	**1.5**		**8.5**

** Excludes Medco sales*

Source: First Call, company reports, and William Blair & Company, L.L.C. estimates

Table 7
Genentech, Inc.
Quarterly Income Statement
($ in millions, except per share amounts)

	2001A					2002E					2003E					
	1Q	2Q	3Q	4Q	Full Year	1QA	2QA	3QA	4QE	Full Year	1Q	2Q	3Q	4Q	Full Year	2004E
Product Sales	$391.9	$410.3	$448.7	$492.0	$1,742.9	$476.5	$523.5	$551.8	$568.6	$2,120.5	$574.9	$601.0	$575.0	$601.5	$2,352.4	$2,753.6
Royalties	74.6	52.4	66.1	71.3	264.5	81.8	85.5	85.1	85.0	337.5	82.4	84.1	89.4	94.6	350.5	368.8
Contract Revenue	28.5	20.9	8.9	6.0	64.4	26.8	13.3	17.4	16.5	74.0	21.0	22.9	23.8	23.8	91.4	101.0
Total Revenues	495.0	483.6	523.7	569.4	2,071.7	585.2	622.3	654.3	670.1	2,531.9	678.3	708.0	688.1	719.9	2,794.3	3,223.4
COGS	83.8	76.2	96.0	98.4	354.4	102.4	106.9	112.5	115.9	437.7	114.2	119.4	114.2	119.6	467.4	536.2
Gross Profit	411.2	407.5	427.7	471.0	1,717.3	482.7	515.5	541.8	554.2	2,094.2	564.1	588.6	573.9	600.3	2,327.0	2,687.2
R&D	136.3	123.4	128.2	138.2	526.2	146.7	147.9	143.7	147.1	585.4	162.8	169.9	165.2	172.8	670.6	767.2
MG&A	127.9	107.8	109.4	129.3	474.4	123.6	126.9	145.4	148.9	544.9	151.3	157.9	153.5	160.5	623.1	728.5
Collaboration Profit Sharing	46.4	57.9	65.8	76.6	246.7	72.1	84.1	90.0	92.2	338.4	77.3	80.7	78.4	82.1	318.6	361.0
Operating Expenses	394.4	365.3	399.4	442.6	1,601.7	444.8	465.8	491.6	504.2	1,906.4	505.6	527.9	511.3	534.9	2,079.7	2,392.9
Operating Income	100.6	118.3	124.3	126.8	470.0	140.3	156.6	162.7	165.9	625.5	172.7	180.1	176.9	185.0	714.6	830.5
Interest & Other, Net	33.6	30.9	30.8	29.6	124.8	27.5	30.0	20.8	21.3	99.7	25.1	26.7	34.3	36.7	122.8	130.7
Income Before Taxes	134.2	149.2	155.1	156.4	594.8	167.9	186.5	183.6	187.3	725.2	197.8	206.8	211.2	221.6	837.4	961.3
Taxes	42.9	47.7	49.6	50.0	190.3	49.2	66.0	63.4	64.6	243.2	67.3	70.3	71.8	75.4	284.7	317.2
Net Income	91.2	101.4	105.4	106.3	404.5	118.7	120.5	120.2	122.7	482.0	130.6	136.5	139.4	146.3	552.7	644.0
Diluted Shares Outstanding	535.2	535.1	533.7	536.9	535.3	535.0	524.5	519.4	518.5	524.3	522.4	523.7	526.3	527.6	525.0	526.5
Diluted EPS (Excl. Special Items)	$0.17	$0.19	$0.20	$0.20	$0.76	$0.22	$0.23	$0.23	$0.24	$0.92	$0.25	$0.26	$0.26	$0.28	$1.05	$1.22
As a Percentage of Total Revenue:	**1Q**	**2Q**	**3Q**	**4Q**	**2001A**	**1Q**	**2Q**	**3Q**	**4Q**	**2002E**	**1Q**	**2Q**	**3Q**	**4Q**	**2003E**	**2004E**
Product Sales	79.2%	84.8%	85.7%	86.4%	84.1%	81.4%	84.1%	84.3%	84.9%	83.8%	84.8%	84.9%	83.6%	83.6%	84.2%	85.4%
Royalties	15.1%	10.8%	12.6%	12.5%	12.8%	14.0%	13.7%	13.0%	12.7%	13.3%	12.1%	11.9%	13.0%	13.1%	12.5%	11.4%
Contract Revenue	5.8%	4.3%	1.7%	1.1%	3.1%	4.6%	2.1%	2.7%	2.5%	2.9%	3.1%	3.2%	3.5%	3.3%	3.3%	3.1%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	16.9%	15.8%	18.3%	17.3%	17.1%	17.5%	17.2%	17.2%	17.3%	17.3%	16.8%	16.9%	16.6%	16.6%	16.7%	16.6%
Gross Profit	83.1%	84.2%	81.7%	82.7%	82.9%	82.5%	82.8%	82.8%	82.7%	82.7%	83.2%	83.1%	83.4%	83.4%	83.3%	83.4%
R&D	27.5%	25.5%	24.5%	24.3%	25.4%	25.1%	23.8%	22.0%	22.0%	23.1%	24.0%	24.0%	24.0%	24.0%	24.0%	23.8%
MG&A	25.8%	22.3%	20.9%	22.7%	22.9%	21.1%	20.4%	22.2%	22.2%	21.5%	22.3%	22.3%	22.3%	22.3%	22.3%	22.6%
Collaboration Profit Sharing	9.4%	12.0%	12.6%	13.4%	11.9%	12.3%	13.5%	13.8%	13.8%	13.4%	11.4%	11.4%	11.4%	11.4%	11.4%	11.2%
Operating Expenses	79.7%	75.5%	76.3%	77.7%	77.3%	76.0%	74.8%	75.1%	75.2%	75.3%	74.5%	74.6%	74.3%	74.3%	74.4%	74.2%
Operating Income	20.3%	24.5%	23.7%	22.3%	22.7%	24.0%	25.2%	24.9%	24.8%	24.7%	25.5%	25.4%	25.7%	25.7%	25.6%	25.8%
Interest & Other, Net	6.8%	6.4%	5.9%	5.2%	6.0%	4.7%	4.8%	3.2%	3.2%	3.9%	3.7%	3.8%	5.0%	5.1%	4.4%	4.1%
Income Before Taxes (IBT)	27.1%	30.8%	29.6%	27.5%	28.7%	28.7%	30.0%	28.1%	27.9%	28.6%	29.2%	29.2%	30.7%	30.8%	30.0%	29.8%
Taxes (as % of IBT)	32.0%	32.0%	32.0%	32.0%	32.0%	29.3%	35.4%	34.5%	34.5%	33.5%	34.0%	34.0%	34.0%	34.0%	34.0%	33.0%
Net Income	18.4%	21.0%	20.1%	18.7%	19.5%	20.3%	19.4%	18.4%	18.3%	19.0%	19.2%	19.3%	20.3%	20.3%	19.8%	20.0%
Year-over-year Growth:	**1Q**	**2Q**	**3Q**	**4Q**	**2002E**	**1Q**	**2Q**	**3Q**	**4Q**	**2002E**	**1Q**	**2Q**	**3Q**	**4Q**	**2003E**	**2004E**
Product Sales	38.4%	32.6%	34.3%	40.0%	36.3%	21.6%	27.6%	23.0%	15.6%	21.7%	20.6%	14.8%	4.2%	5.8%	10.9%	17.1%
Royalties	57.6%	5.6%	27.5%	22.1%	27.6%	9.7%	63.1%	28.8%	19.1%	27.6%	0.6%	-1.7%	5.0%	11.3%	3.9%	5.2%
Contract Revenue	-20.6%	-39.3%	-74.9%	-89.0%	-59.9%	-6.0%	-36.5%	94.8%	174.9%	14.9%	-21.5%	72.0%	36.4%	44.0%	23.6%	10.5%
Total Revenues	35.1%	22.9%	24.2%	22.6%	25.9%	18.2%	28.7%	24.9%	17.7%	22.2%	15.9%	13.8%	5.2%	7.4%	10.4%	15.4%
COGS	33.3%	14.9%	27.1%	46.2%	30.3%	22.3%	40.3%	17.1%	17.8%	23.5%	11.5%	11.7%	1.6%	3.1%	6.8%	14.7%
Gross Profit	35.5%	24.5%	23.6%	18.6%	25.0%	17.4%	26.5%	26.7%	17.7%	22.0%	16.9%	14.2%	5.9%	8.3%	11.1%	15.5%
R&D	22.4%	6.8%	12.8%	-7.4%	7.4%	7.6%	19.8%	12.1%	6.4%	11.2%	11.0%	14.9%	15.0%	17.4%	14.6%	14.4%
MG&A	53.0%	25.0%	16.2%	24.0%	28.8%	-3.4%	17.7%	33.0%	15.2%	14.9%	22.3%	24.4%	5.5%	7.8%	14.4%	16.9%
Collaboration Profit Sharing	152.9%	87.4%	74.8%	82.6%	91.5%	55.4%	45.2%	36.9%	20.4%	37.2%	7.3%	-4.0%	-12.9%	-11.0%	-5.9%	13.3%
Operating Expenses	42.8%	22.2%	24.4%	22.0%	27.2%	12.8%	27.5%	23.1%	13.9%	19.0%	13.7%	13.3%	4.0%	6.1%	9.1%	15.1%
Operating Income	11.6%	25.1%	23.5%	24.9%	21.5%	39.5%	32.3%	30.9%	30.9%	33.1%	23.1%	15.0%	8.7%	11.5%	14.2%	16.2%
Interest & Other, Net	66.3%	46.9%	25.3%	52.7%	46.6%	-18.0%	-3.0%	-32.2%	-27.9%	-20.1%	-8.8%	-11.0%	64.6%	71.8%	23.1%	6.5%
Income Before Taxes (IBT)	21.6%	29.1%	23.8%	29.3%	26.0%	25.1%	25.0%	18.4%	19.8%	21.9%	17.8%	10.9%	15.0%	18.3%	15.5%	14.8%
Taxes	24.8%	32.5%	27.2%	33.5%	29.5%	14.6%	38.3%	27.7%	29.1%	27.8%	36.7%	6.5%	13.3%	16.6%	17.1%	11.4%
Net Income	20.1%	27.5%	22.3%	27.4%	24.4%	30.1%	18.8%	14.0%	15.3%	19.2%	10.0%	13.2%	16.0%	19.2%	14.7%	16.5%
EPS (Excl. Special Items)	21.3%	28.3%	24.1%	27.6%	24.4%	30.1%	21.2%	17.1%	19.4%	21.7%	12.7%	13.4%	14.4%	17.2%	14.5%	16.2%

Source: Company reports and William Blair & Company, L.L.C. estimates

Table 8
Genentech, Inc.
Historical and Forecast Annual Income Statement
($ in millions, except per share amounts)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002E	2003E	2004E	2005E	2006E	2007E
Product Sales	$391.0	$457.4	$601.1	$635.3	$582.8	$584.9	$717.8	$1,039.1	$1,278.3	$1,742.9	$2,120.5	$2,352.4	$2,753.6	$3,240.5	$3,896.1	$4,614.3
Royalties	91.7	112.9	126.0	190.8	214.7	241.1	229.6	189.3	207.2	264.5	337.5	350.5	368.8	402.7	365.9	370.0
Contract Revenue	16.7	38.0	25.6	31.2	107.0	121.6	114.8	83.2	160.4	64.4	74.0	91.4	101.0	107.0	110.0	112.0
Total Revenues	499.4	608.2	752.6	857.3	904.6	947.6	1,062.2	1,311.6	1,646.0	2,071.8	2,531.9	2,794.3	3,223.4	3,750.2	4,372.0	5,096.3
COGS	66.8	70.5	95.8	97.9	104.5	102.5	138.6	192.2	272.1	354.4	437.7	467.4	536.2	623.8	737.0	868.5
Gross Profit	432.6	537.7	656.8	759.4	800.0	845.1	923.6	1,119.4	1,373.9	1,717.4	2,094.2	2,327.0	2,687.2	3,126.4	3,635.1	4,227.8
R&D	278.6	299.4	314.3	363.0	471.1	470.9	396.2	367.3	489.9	526.2	585.4	670.6	767.2	873.8	992.5	1,146.7
MG&A	172.5	214.4	248.6	251.7	240.1	269.9	358.9	393.7	368.2	474.4	544.9	623.1	728.5	843.8	961.9	1,121.2
Collaboration Profit Sharing								74.3	128.8	246.7	338.4	318.6	361.0	408.8	459.1	530.0
Operating Expenses	517.9	584.3	658.8	712.6	815.7	843.3	893.7	1,027.5	1,259.0	1,601.7	1,906.4	2,079.7	2,392.9	2,750.1	3,150.4	3,666.4
Operating Income	(18.5)	23.9	93.9	144.7	88.8	104.3	168.5	284.1	387.0	470.1	625.5	714.6	830.5	1,000.0	1,221.7	1,430.0
Interest & Other, Net	40.5	35.0	35.7	52.6	59.1	65.5	84.2	84.1	85.1	124.8	99.7	122.8	130.7	160.0	199.9	251.8
Income Before Taxes	21.9	58.9	129.6	197.3	147.9	169.8	252.7	368.2	472.1	594.8	725.2	837.4	961.3	1,160.0	1,421.5	1,681.8
Taxes	1.1	0.0	5.2	25.8	29.6	40.8	70.7	121.5	147.1	190.3	243.2	284.7	317.2	371.2	454.9	538.2
Net Income	20.8	58.9	124.4	171.4	118.3	129.0	182.0	246.7	325.0	404.5	482.0	552.7	644.0	788.8	966.6	1,143.6
Diluted Shares Outstanding	456.0	468.4	480.8	484.9	494.8	505.6	519.5	529.5	536.1	535.3	524.3	525.0	526.5	528.0	530.0	531.0
Diluted EPS	$0.05	$0.13	$0.24	$0.30	$0.24	$0.26	$0.35	($2.23)	($0.14)	$0.28	$0.92	$1.05	$1.22	$1.49	$1.82	$2.15
EPS (Excl. Special Items)	$0.05	$0.13	$0.26	$0.35	$0.24	$0.26	$0.35	$0.47	$0.61	$0.76	$0.92	$1.05	$1.22	$1.49	$1.82	$2.15
CAGR 1992 - 2007	**27.9%**															
CAGR 2001 - 2007	**19.1%**															
% of Total Revenue:	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002E**	**2003E**	**2004E**	**2005E**	**2006E**	**2007E**
Product Sales	78.3%	75.2%	79.9%	74.1%	64.4%	61.7%	67.6%	79.2%	77.7%	84.1%	83.8%	84.2%	85.4%	86.4%	89.1%	90.5%
Royalties	18.4%	18.6%	16.7%	22.3%	23.7%	25.4%	21.6%	14.4%	12.6%	12.8%	13.3%	12.5%	11.4%	10.7%	8.4%	7.3%
Contract Revenue	3.3%	6.2%	3.4%	3.6%	11.8%	12.8%	10.8%	6.3%	9.7%	3.1%	2.9%	3.3%	3.1%	2.9%	2.5%	2.2%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	13.4%	11.6%	12.7%	11.4%	11.6%	10.8%	13.0%	14.7%	16.5%	17.1%	17.3%	16.7%	16.6%	16.6%	16.9%	17.0%
Gross Profit	86.6%	88.4%	87.3%	88.6%	88.4%	89.2%	87.0%	85.3%	83.5%	82.9%	82.7%	83.3%	83.4%	83.4%	83.1%	83.0%
R&D	55.8%	49.2%	41.8%	42.3%	52.1%	49.7%	37.3%	28.0%	29.8%	25.4%	23.1%	24.0%	23.8%	23.3%	22.7%	22.5%
MG&A	34.5%	35.3%	33.0%	29.4%	26.5%	28.5%	33.8%	30.0%	22.4%	22.9%	21.5%	22.3%	22.6%	22.5%	22.0%	22.0%
Collaboration Profit Sharing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.7%	7.8%	11.9%	13.4%	11.4%	11.2%	10.9%	10.5%	10.4%
Operating Expenses	103.7%	96.1%	87.5%	83.1%	90.2%	89.0%	84.1%	78.3%	76.5%	77.3%	75.3%	74.4%	74.2%	73.3%	72.1%	71.9%
Operating Income	-3.7%	3.9%	12.5%	16.9%	9.8%	11.0%	15.9%	21.7%	23.5%	22.7%	24.7%	25.6%	25.8%	26.7%	27.9%	28.1%
Interest & Other, Net	8.1%	5.8%	4.7%	6.1%	6.5%	6.9%	7.9%	6.4%	5.2%	6.0%	3.9%	4.4%	4.1%	4.3%	4.6%	2.7%
Income Before Taxes (IBT)	4.4%	9.7%	17.2%	23.0%	16.4%	17.9%	23.8%	28.1%	28.7%	28.7%	28.6%	30.0%	29.8%	30.9%	32.5%	33.0%
Taxes (as % of IBT)	5.0%	0.0%	4.0%	13.1%	20.0%	24.0%	28.0%	33.0%	31.2%	32.0%	33.5%	34.0%	33.0%	32.0%	32.0%	32.0%
Net Income	4.2%	9.7%	16.5%	20.0%	13.1%	13.6%	17.1%	18.8%	19.7%	19.5%	19.0%	19.8%	20.0%	21.0%	22.1%	22.4%
Year-over-year Growth:		**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002E**	**2003E**	**2004E**	**2005E**	**2006E**	**2007E**
Product Sales		17.0%	31.4%	5.7%	-8.3%	0.4%	22.7%	44.8%	23.0%	36.3%	21.7%	10.9%	17.1%	17.7%	20.2%	18.4%
Royalties		23.1%	11.7%	51.4%	12.5%	12.3%	-4.8%	-17.6%	9.5%	27.6%	27.6%	3.9%	5.2%	9.2%	-9.1%	1.1%
Contract Revenue		126.9%	-32.7%	22.1%	243.0%	13.6%	-5.6%	-27.5%	92.8%	-59.9%	14.9%	23.6%	10.5%	5.9%	2.8%	1.8%
Total Revenues		21.8%	23.8%	13.9%	5.5%	4.8%	12.1%	23.5%	25.5%	25.9%	22.2%	10.4%	15.4%	16.3%	16.6%	16.6%
COGS		5.5%	35.9%	2.2%	6.7%	-1.9%	35.2%	38.7%	41.6%	30.3%	23.5%	6.8%	14.7%	16.3%	18.1%	17.8%
Gross Profit		24.3%	22.2%	15.6%	5.4%	5.6%	9.3%	21.2%	22.7%	25.0%	21.9%	11.1%	15.5%	16.3%	16.3%	16.3%
R&D		7.5%	5.0%	15.5%	29.8%	-0.1%	-15.9%	-7.3%	33.4%	7.4%	11.2%	14.6%	14.4%	13.9%	13.6%	15.5%
MG&A		24.3%	15.9%	1.2%	-4.6%	12.4%	33.0%	9.7%	-6.5%	28.8%	14.9%	14.4%	16.9%	15.8%	14.0%	16.6%
Collaboration Profit Sharing									73.4%	91.5%	37.2%	-5.9%	13.3%	13.2%	12.3%	15.5%
Operating Expenses		12.8%	12.7%	8.2%	14.5%	3.4%	6.0%	15.0%	22.5%	27.2%	19.0%	9.1%	15.1%	14.9%	14.6%	16.4%
Operating Income		-228.7%	293.3%	54.1%	-38.6%	17.4%	61.6%	68.6%	36.2%	21.5%	33.1%	14.2%	16.2%	20.4%	22.2%	17.0%
Interest & Other, Net		-13.4%	1.9%	47.4%	12.3%	10.8%	28.5%	-0.1%	1.2%	46.6%	-20.1%	23.1%	6.5%	22.4%	24.9%	26.0%
Income Before Taxes (IBT)		168.5%	120.0%	52.2%	-25.0%	14.8%	48.8%	45.7%	28.2%	26.0%	21.9%	15.5%	14.8%	20.7%	22.5%	18.3%
Taxes		-100.0%	#DIV/0!	398.6%	14.5%	37.9%	73.3%	71.9%	21.1%	29.4%	27.8%	17.1%	11.4%	17.0%	22.5%	18.3%
Net Income		182.7%	111.2%	37.8%	-31.0%	9.0%	41.1%	35.5%	31.7%	24.5%	19.2%	14.7%	16.5%	22.5%	22.5%	18.3%
EPS (Excl. Special Items)		175.2%	105.8%	36.6%	-32.3%	6.7%	37.3%	33.0%	30.1%	24.7%	21.7%	14.5%	16.2%	22.1%	22.1%	18.1%

Note: Pre-1999 share count adjusted for two 2-for-1 stock splits.

Source: Company reports and William Blair & Company, L.L.C. estimates

Table 9
Genentech, Inc.
Historical and Forecast Annual Balance Sheet Statement
($ in millions)

As of December 31	1997*	1998*	1999	2000	2001	2002E	2003E	2004E	2005E	2006E	2007E
Cash & Cash Equivalents	244.5	281.2	337.7	551.4	395.2	405.8	638.9	915.3	1,332.2	1,878.3	2,579.1
Marketable Securities	588.9	606.5	405.0	642.5	952.9	850.0	900.0	936.5	974.6	1,014.1	1,055.3
Cash and Marketable Securities	$833.3	$887.7	$742.7	$1,193.9	$1,348.1	$1,255.8	$1,538.9	$1,851.8	$2,306.8	$2,892.5	$3,634.4
Accounts Receivable, net	189.2	149.7	214.8	261.7	303.3	311.3	329.3	402.2	464.8	570.3	686.0
Inventories	116.0	148.6	275.2	265.8	356.9	414.3	439.6	475.8	515.0	557.5	603.4
Other Current Assets	55.3	55.9	93.8	72.1	201.0	200.0	211.0	219.6	228.5	237.8	247.4
Total Current Assets	**1,193.9**	**1,242.0**	**1,326.5**	**1,793.4**	**2,209.4**	**2,181.4**	**2,518.7**	**2,949.4**	**3,515.1**	**4,258.0**	**5,171.3**
Long-Term Marketable Securities	453.2	716.9	1,214.8	1,265.5	1,468.5	975.0	1,201.0	1,200.0	1,200.0	1,200.0	1,200.0
Property/Plant/Equipment, net	683.3	700.2	730.1	752.9	865.7	965.0	984.3	1,004.0	1,024.1	1,044.5	1,065.4
Other Intangible Assets	0.0	65.0	3,062.3	2,736.1	2,415.8	2,261.9	2,111.5	1,961.1	1,810.7	1,660.3	1,509.9
Other Long-term Assets	177.2	131.3	201.1	168.5	175.6	310.0	330.0	325.0	325.0	325.0	325.0
Total Assets	**2,507.6**	**2,855.4**	**6,534.8**	**6,716.4**	**7,134.8**	**6,693.2**	**7,145.5**	**7,439.4**	**7,874.8**	**8,487.8**	**9,271.6**
Short-term Debt	0.0	0.0	0.0	0.0	149.7	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Payable	49.0	40.9	33.1	39.1	33.3	53.9	57.0	69.7	80.5	98.8	118.8
Other Current Liabilities	240.6	250.4	444.3	414.2	468.7	475.0	450.0	440.0	430.0	420.0	410.0
Total Current Liabilities	**289.6**	**291.3**	**477.4**	**453.3**	**651.8**	**528.9**	**507.0**	**509.7**	**510.5**	**518.8**	**528.8**
Long-term Debt	150.0	150.0	149.7	149.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	0.0	43.8	626.5	349.8	447.8	180.0	160.0	180.0	200.0	220.0	240.0
Other Long-term Liabilities	36.8	26.5	11.3	89.4	115.5	585.0	562.0	582.0	602.0	622.0	642.0
Long-term Liabilities	186.8	220.2	787.5	588.9	563.3	765.0	722.0	762.0	802.0	842.0	882.0
Total Liabilities	**476.4**	**511.6**	**1,264.9**	**1,042.2**	**1,215.0**	**1,293.9**	**1,229.0**	**1,271.7**	**1,312.5**	**1,360.8**	**1,410.8**
Total Shareholders' Equity	2,031.2	2,343.8	5,269.9	5,674.2	5,919.8	5,399.3	5,916.5	6,167.8	6,562.3	7,127.0	7,860.8
Liabilities and SE	**2,507.6**	**2,855.4**	**6,534.8**	**6,716.4**	**7,134.8**	**6,693.2**	**7,145.5**	**7,439.4**	**7,874.8**	**8,487.8**	**9,271.6**
Synthetic Lease Detail:											
Current Portion						12.9	13.8	13.8	13.8	13.8	13.8
Fair Value						639.8	640.0	640.0	640.0	640.0	640.0

* Not restated for purchase of 100% of Genentech's shares by Roche in 1999.
Source: Company reports and William Blair & Company, L.L.C. estimates

Table 10
Genentech, Inc.
Historical and Forecast Annual Statement of Cash Flows
($ in millions)

As of December 31	1999	2000	2001	2002E	2003E	2004E	2005E	2006E	2007E
Cash Provided:									
Net Income	($1,245.1)	($74.2)	$150.2	$92.0	$552.7	$644.0	$788.8	$966.6	$1,143.6
Depreciation & amortization	236.4	463.0	428.1	275.0	245.0	245.0	245.0	245.0	245.0
Deferred income taxes	(143.4)	(235.3)	12.9	(265.0)	5.0	5.0	5.0	5.0	5.0
Gain (Loss) on sale of noncurrent marketable securities, net	(6.2)	(128.4)	(28.0)	(39.7)	(55.0)	(55.0)	(55.0)	(55.0)	(55.0)
Write-down of marketable securities, net	5.0	4.8	27.5	40.0	0.0	0.0	0.0	0.0	0.0
Other	872.6	1.1	4.2	24.9	0.0	0.0	0.0	0.0	0.0
Change in Working Capital:									
Change in investments in trading securities	(5.2)	(21.0)	(85.7)	(135.2)	(125.0)	(125.0)	(125.0)	(125.0)	(125.0)
Change in accounts receivable	(32.4)	(65.3)	(43.0)	(1.2)	(18.0)	(72.9)	(62.6)	(105.5)	(115.7)
Change in inventories and other assets	49.2	9.4	(91.1)	(48.8)	(36.2)	(44.8)	(48.1)	(51.7)	(55.6)
Litigation-related liabilities				539.0					
Change in accounts payable and other liabilities	138.1	239.4	105.6	53.5	(21.9)	2.6	0.8	8.3	10.0
Total Change in Working Capital	149.8	162.5	(114.3)	407.4	(201.1)	(240.1)	(234.9)	(274.0)	(286.3)
Net Cash Flow From Operations	**(131.0)**	**193.5**	**480.6**	**534.6**	**546.6**	**599.0**	**748.9**	**887.7**	**1,052.3**
Investing Activities:									
Purchases of marketable securities	(294.8)	(560.4)	(1559.2)	(506.9)	(475.0)	(475.0)	(475.0)	(475.0)	(475.0)
Proceeds from sales & maturities of marketable securities	505.5	574.1	1084.5	1083.3	475.0	475.0	475.0	475.0	475.0
Purchases of nonmarketable securities	(13.8)	(5.7)	(5.8)	(2.0)	0.0	0.0	0.0	0.0	0.0
Capital expenditures	(53.5)	(112.7)	(213.4)	(294.6)	(303.5)	(312.6)	(321.9)	(331.6)	(341.6)
Change in other assets	(62.4)	(55.6)	(10.1)	(15.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Net cash flows from investing activities	80.9	(160.2)	(704.0)	264.9	(313.5)	(322.6)	(331.9)	(341.6)	(351.6)
Net Cash Generated (Consumed)	(50.1)	33.3	(223.3)	799.5	233.1	276.4	416.9	546.1	700.8
Financing Activities:									
Stock issuances	95.9	180.4	106.9	70.0	225.0	225.0	225.0	225.0	225.0
Stock repurchases	0.0	0.0	(39.7)	(709.2)	(225.0)	(225.0)	(225.0)	(225.0)	(225.0)
Debt payments	0.0	0.0	0.0	(149.7)	0.0	0.0	0.0	0.0	0.0
Net cash flows from financing activities	95.9	180.4	67.2	(788.9)	0.0	0.0	0.0	0.0	0.0
Net Change in Liquidity	45.8	213.7	(156.2)	10.6	233.1	276.4	416.9	546.1	700.8
Cash and Cash Equivalents:									
Beginning of year	291.9	337.7	551.4	395.2	405.8	638.9	915.3	1332.2	1878.3
End of year	337.7	551.4	395.2	405.8	638.9	915.3	1332.2	1878.3	2579.1
Supplemental Cash Flow Data:									
Interest paid	7.5	7.5	(5.0)						
Income taxes paid (received)	28.7	(5.0)	546.4						
Stock received as consideration for outstanding loans	16.0	5.0	941.6						

Source: Company reports and William Blair & Company, L.L.C. estimates

Appendix: Upcoming Milestones

We expect several potential stock-moving announcements from Genentech over the next 12 months, as shown in the accompanying table. In particular, we expect the timing of Xolair and Raptiva's regulatory filings, which Genentech has stated will occur by year-end 2002, as well as Phase III study results for Avastin in colorectal cancer and Tarceva in NSCLC, which are expected in mid-2003, to affect Genentech's near-term share price movement. Assuming regulatory submissions for Xolair and Raptiva occur on schedule, both products could be approved by year-end 2003. Specifically, given that Genentech is submitting a rolling BLA for Xolair, the FDA has a six-month window to respond to the application under guidelines of the prescription drug user fee act (PDUFA). Raptiva's BLA submission will be reviewed over the standard 12-month timeline, suggesting the FDA could respond by year-end 2003. While it is impossible to predict the outcome of these events, we expect Genentech's shares to be particularly volatile over the next 12 months given the anticipated volume of news flow for the company. Therefore, we recommend investors with an investment horizon of 12 months or less await additional visibility regarding the near-term outlook for Genentech's late-stage pipeline before purchasing shares.

Table 11
Genentech, Inc.
Milestone Events and Potential Catalysts

Timing	Anticipated Event	Expected Magnitude of Stock Impact	Comment
Sept. 2002	Avastin: Phase III breast cancer study investigating Avastin in combination with Xeloda failed to meet primary endpoint.	Modest - Significant	Failed to meet primary endpoint. Full data to be presented at the San Antonio Breast Cancer Symposium Dec 11 - 14, 2002
Oct. 2002	rhu Fab V2: Go decision based on outcome of Phase Ib/II study (wet form of AMD)	Modest	Phase III studies will commence in Q1 2003
Q4 2002	Xolair: Amendments to BLA submitted for adult allergic asthma indication	Modest	Approved for marketing in Australia in June 2002.
	Raptiva: BLA filed for psoriasis	Modest	Favorable Phase III results announced in September 2002 using Genentech produced material.
	2C4: Go decision announced for 2C4 antibody based on outcome of ongoing Phase I study (cancer treatment via HER2 pathway)	Modest	Phase II studies expected to commence in 2003.
Late 2002	Avastin: Continuing enrollment for Avastin Phase III metastatic breast cancer study (front-line)	Minimal	
	Avastin: Enrollment complete for Avastin Phase III colorectal study (Avastin + CPT-11/5-FU/leucovorin)	Minimal	Enrollment of 900 patients complete as of September 2002.
	Avastin: Enrollment complete for Avastin Phase III colorectal study (Avastin + 5-FU/leucovorin vs. 5-FU/leucovorin alone)		Enrollment of 200 patients that are ineligible for CPT-11 treatment completed September 2002.
	Avastin: Enrollment complete for Avastin Phase II/III NSCLC study	Minimal	
	Tarceva: Enrollment complete for Tarceva Phase III NSCLC study	Minimal	Fast-track review status granted by FDA.
	Rituxan: Results from Phase III study by ECOG in intermediate to high-grade NHL	Modest - Significant	
	Rituxan: Detailed results from Rituxan Phase II study in RA	Modest	
Early 2003	MLN02: Phase II results of MLN02 (Crohn's and ulcerative cholitis) in ulcerative cholitis - Go/No-go Decision	Minimal to modest	In September 2002, Phase II study in Crohn's failed to meet primary endpoint - awaiting ulcerative chilitis study results in early 2003.
Mid-2003	Avastin: Results for 2 Phase III trials in colorectal cancer	Significant	
	Raptiva: Phase II study data for rheumatoid arthritis	Modest	
	Tarceva: Data from Phase III NSCLC study (combo study with chemo)	Significant	
	Xolair: Potential response from FDA regarding Xolair's rolling BLA for adult allergic asthma.	Modest - Significant	Six-month response window under PDUFA guidelines.
Late 2003	Nutropin Depot: Supplemental BLA approval for adult growth hormone deficiency indication	Minimal	
	Raptiva: Potential response from FDA regarding Raptiva's BLA for psoriasis.	Modest - Significant	
	Xolair: Supplemental BLA submitted for allergic rhinitis indication	Modest	
Late 2003 / Early 2004	Avastin: Results from Phase II/III Avastin study as first-line treatment of metastatic breast cancer.	Modest - Significant	
2003 to 2004	Tarceva: Data from Phase II breast cancer study	Modest	
2006 to 2007	Herceptin: Finalized Herceptin data available from clinical studies in adjuvant setting	Significant	

Source: Company reports and William Blair & Company, L.L.C. estimates

Current Rating Distribution (as of 11/29/02)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform	45%	Outperform	5%
Market Perform	38%	Market Perform	5%
Underperform	17%	Underperform	1%

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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