BeiGene, Ltd.
Form 10-Q
November 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number: 001-37686

BEIGENE, LTD.
(Exact name of registrant as specified in its charter)

Cayman Islands	98-1209416
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

c/o Mourant Ozannes Corporate Services
(Cayman) Limited
94 Solaris Avenue, Camana Bay
Grand Cayman

Cayman Islands	KY1-1108
(Address of principal executive offices)	(Zip Code)

+1 (345) 949 4123
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated Filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

¨

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of October 31, 2018, 772,363,184 ordinary shares, par value $0.0001 per share, were outstanding, of which 586,882,777 ordinary shares were held in the form of 45,144,829 American Depositary Shares, each representing 13 ordinary shares.

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BeiGene, Ltd.
Quarterly Report on Form 10-Q

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
BEIGENE, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands of U.S. Dollars (“$”), except for number of shares and per share data)

	Note	As of September 30, 2018 $ (unaudited)	December 31, 2017 $ (audited)
Assets			
Current assets:			
Cash and cash equivalents		643,485	239,602
Restricted cash, current	5	14,560	—
Short-term investments	5	1,390,276	597,914
Accounts receivable		37,372	29,428
Unbilled receivable		4,878	—
Inventories	6	19,699	10,930
Prepaid expenses and other current assets	12	69,925	35,623
Total current assets		2,180,195	913,497
Restricted cash, non-current	5	52,751	—
Property and equipment, net	7	111,262	62,568
Land use right, net	9	11,629	12,465
Intangible assets, net	10	7,299	7,250
Goodwill	4	109	109
Deferred tax assets	11	16,474	7,675
Other non-current assets	12	28,908	42,915
Total non-current assets		228,432	132,982
Total assets		2,408,627	1,046,479
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable		85,552	69,779
Accrued expenses and other payables	12	75,882	49,598
Deferred revenue, current		16,705	12,233
Tax payable	11	1,549	9,156
Current portion of long-term bank loan	13	8,736	9,222
Total current liabilities		188,424	149,988
Non-current liabilities:			
Long-term bank loan	13	40,824	9,222
Shareholder loan	14	146,409	146,271
Deferred revenue, non-current		14,660	24,808
Other long-term liabilities	12	34,879	31,959
Total non-current liabilities		236,772	212,260
Total liabilities		425,196	362,248
Commitments and contingencies	22		
Equity:			
Ordinary shares, US$0.0001 par value per share; 9,500,000,000 shares authorized; 771,063,184 and 592,072,330 shares issued and outstanding as of September 30,		77	59

2018 and December 31, 2017, respectively			
Additional paid-in capital		2,710,053	1,000,747
Accumulated other comprehensive loss	18	(724)	(480)
Accumulated deficit		(738,960)	(330,517)
Total BeiGene, Ltd. shareholders' equity		1,970,446	669,809
Noncontrolling interest	19	12,985	14,422
Total equity	19	1,983,431	684,231
Total liabilities and equity		2,408,627	1,046,479

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BEIGENE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands of U.S. Dollars ("$"), except for number of shares and per share data)
(Unaudited)

	Note	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
		$	$	$	$
Revenues					
Product revenue, net	15	38,447	8,822	93,123	8,822
Collaboration revenue	3	15,755	211,391	46,427	211,391
Total revenues		54,202	220,213	139,550	220,213
Expenses					
Cost of sales - product		(8,706)	(1,944)	(19,512)	(1,944)
Research and development		(147,590)	(87,660)	(421,541)	(177,678)
Selling, general and administrative		(48,820)	(15,641)	(122,895)	(35,187)
Amortization of intangible assets		(188)	(63)	(563)	(63)
Total expenses		(205,304)	(105,308)	(564,511)	(214,872)
(Loss) income from operations		(151,102)	114,905	(424,961)	5,341
Interest income (expense), net		4,553	(1,785)	7,997	(3,581)
Other income, net		1,585	1,103	2,389	1,541
(Loss) income before income tax expense		(144,964)	114,223	(414,575)	3,301
Income tax benefit	11	472	3,061	7,252	2,680
Net (loss) income		(144,492)	117,284	(407,323)	5,981
Less: net loss attributable to noncontrolling interests		(461)	(102)	(1,809)	(237)
Net (loss) income attributable to BeiGene, Ltd.		(144,031)	117,386	(405,514)	6,218
Net (loss) income per share attributable to BeiGene, Ltd.	16				
Basic (in dollars)		(0.19)	0.21	(0.58)	0.01
Diluted (in dollars)		(0.19)	0.20	(0.58)	0.01
Weighted-average shares used in net (loss) income per share calculation	16				
Basic (in shares)		739,789,269	547,546,656	703,482,491	527,329,985
Diluted (in shares)		739,789,269	600,612,680	703,482,491	561,237,818
Net (loss) income per American Depositary Share ("ADS")					
Basic (in dollars)		(2.53)	2.79	(7.49)	0.15
Diluted (in dollars)		(2.53)	2.54	(7.49)	0.14
Weighted-average ADSs used in net (loss) income per share calculation					
Basic (in ADSs)		56,906,867	42,118,973	54,114,038	40,563,845
Diluted (in ADSs)		56,906,867	46,200,975	54,114,038	43,172,139

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BEIGENE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Amounts in thousands of U.S. Dollars ("$"), except for number of shares and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	$	$	$	$
Net (loss) income	(144,492)	117,284	(407,323)	5,981
Other comprehensive (loss) income, net of tax of nil:				
Foreign currency translation adjustments	(4,217)	341	(1,912)	985
Unrealized holding gain, net	354	51	1,402	58
Comprehensive (loss) income	(148,355)	117,676	(407,833)	7,024
Less: comprehensive loss attributable to noncontrolling interests	(486)	(70)	(1,812)	(178)
Comprehensive (loss) income attributable to BeiGene, Ltd.	(147,869)	117,746	(406,021)	7,202

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BEIGENE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of U.S. Dollars ("$"), except for number of shares and per share data)
(Unaudited)

	Note	Nine Months Ended September 30, 2018	2017
		$	$
Operating activities:			
Net (loss) income		(407,323)	5,981
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization expense		7,025	2,704
Share-based compensation expenses	17	61,169	26,401
Acquired in-process research and development	1	10,000	—
Loss on disposal of property and equipment		1	85
Non-cash interest expense		5,964	4,796
Deferred income tax benefits		(8,799)	(5,871)
Disposal gain on available-for-sale securities		(822)	(10)
Non-cash amortization of bond discount		(4,441)	—
Changes in operating assets and liabilities:			
Accounts receivable		(7,944)	(10,521)
Unbilled receivable		11,429	(170,950)
Inventories		(8,769)	(5,712)
Prepaid expenses and other current assets		(34,302)	(10,967)
Other non-current assets		(8,499)	(635)
Accounts payable		5,577	21,420
Accrued expenses and other payables		26,284	22,371
Tax payable		(7,607)	1,122
Deferred revenue		(5,676)	38,609
Other long-term liabilities		12,910	180
Net cash used in operating activities		(353,823)	(80,997)
Investing activities:			
Purchases of property and equipment		(47,029)	(27,441)
Purchase of intangible assets		(221)	—
Prepayment of assets acquisition		(7,946)	—
Payment for the acquisition of land use right		—	(12,354)
Cash acquired in business combination, net of cash paid		—	19,916
Purchases of investments		(2,116,510)	(514,126)
Proceeds from sale or maturity of investments		1,330,850	245,928
Purchase of in-process research and development	1	(10,000)	—
Net cash used in investing activities		(850,856)	(288,077)
Financing activities:			
Proceeds from follow-on public offering, net of underwriter discount		758,001	189,191
Payment of follow-on public offering cost		(414)	(674)
Proceeds from sale of ordinary shares, net of cost		—	149,928
Proceeds from HK IPO and global follow-on public offering		875,368	—
Payment of HK IPO and global follow-on public offering costs		(5,659)	—
Proceeds from long-term loan	13	42,315	—

Repayment of long-term loan	13	(8,736)	—
Proceeds from short-term loan		—	2,470
Repayment of short-term loan		—	(2,470)
Capital contribution from noncontrolling interest		—	14,527
Proceeds from shareholder loan	14	—	132,757
Proceeds from option exercises		20,859	1,579
Net cash provided by financing activities		1,681,734	487,308
Effect of foreign exchange rate changes, net		(5,861)	2,762
Net increase in cash, cash equivalents, and restricted cash		471,194	120,996
Cash, cash equivalents, and restricted cash at beginning of period		239,602	87,514
Cash, cash equivalents, and restricted cash at end of period		710,796	208,510
Supplemental cash flow information:			
Cash and cash equivalents		643,485	208,510
Restricted cash, current		14,560	—
Restricted cash, non-current		52,751	—
Income taxes paid		12,151	1,429
Interest expense paid		1,546	940
Supplemental non-cash information:			
Discount provided on sale of ordinary shares for business combination		—	23,606
Acquisitions of equipment included in accounts payable		12,020	1,482
Changes in operating assets and liabilities adjusted through accumulated deficit		2,291	—

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BEIGENE, LTD.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of U.S. Dollar (“$”) and Renminbi (“RMB”), except for number of shares and per share data)
(Unaudited)

1. Description of Business, Basis of Presentation and Consolidation and Significant Accounting Policies

Description of business

BeiGene, Ltd. (the “Company”) is a commercial-stage biopharmaceutical company focused on developing and commercializing innovative molecularly targeted and immuno-oncology drugs for the treatment of cancer. The Company’s internally-developed lead drug candidates are currently in late-stage clinical trials, and it is marketing three in-licensed drugs in China from which it has been generating product revenue since September 2017.

The Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability in October 2010. The Company completed its initial public offering (“IPO”) on the NASDAQ Global Select Market in February 2016 and has completed subsequent follow-on public offerings and a sale of ordinary shares to Celgene Switzerland LLC (“Celgene Switzerland”) in a business development transaction, as described in Note 20, Shareholders’ Equity. On August 8, 2018, the Company completed its IPO on the Stock Exchange of Hong Kong Limited (“HKEx”) and a global follow-on public offering in which it raised approximately $869,709 in net proceeds, after deducting underwriting discounts and commissions and offering expenses. Effective August 8, 2018, the Company is dual-listed in both the United States and Hong Kong.

As of September 30, 2018, there were no changes to the Company's subsidiaries listed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("Annual Report"), except for the addition of a new wholly-owned subsidiary of BeiGene (Guangzhou) Co., Ltd. resulting from its acquisition of 100% of the equity interests of BeiGene Pharmaceuticals (Guangzhou) Co., Ltd. (Note 4).

Basis of presentation and consolidation

The accompanying condensed consolidated balance sheet as of September 30, 2018, the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2018 and 2017, the condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017, and the related footnote disclosures are unaudited. The accompanying unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), including guidance with respect to interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company’s Annual Report.

The unaudited condensed consolidated interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all normal recurring adjustments, necessary to present a fair statement of the results for the interim periods presented. Results of the operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results expected for the full fiscal year or for any future annual or interim period.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances between the Company and its subsidiaries are eliminated upon consolidation.

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries which are not attributable, directly or indirectly, to the controlling shareholders. The Company consolidates BeiGene Biologics Co., Ltd. ("BeiGene Biologics") under the voting model and recognizes the minority shareholder’s equity interest as a noncontrolling interest in its consolidated financial statements (as described in Note 8).

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Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Areas where management uses subjective judgment include, but are not limited to, estimating the useful lives of long-lived assets, estimating sales rebates and returns allowance to arrive at net product revenues, identifying separate accounting units and the best estimate of selling price of each deliverable in the Company's revenue arrangements, variable consideration in revenue arrangements (including evaluations of the expected value and the most likely value method to estimate variable payments), estimating the fair value of net assets acquired in business combinations, assessing the impairment of long-lived assets and goodwill, share-based compensation expenses, inventory, realizability of deferred tax assets and the fair value of financial instruments. Management bases the estimates on historical experience, known trends and various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

Recent accounting pronouncements

New accounting standards which have been adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-9, Revenue from Contracts with Customers (Topic 606), or ASU 2014-9. Subsequently, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), which adjusted the effective date of ASU 2014-9; ASU No. 2016-8, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amends the principal-versus-agent implementation guidance and illustrations in ASU 2014-9; ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies identifying performance obligations and licensing implementation guidance and illustrations in ASU 2014-9; ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which addresses implementation issues and is intended to reduce the cost and complexity of applying the new revenue standard in ASU 2014-9; ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior Securities and Exchange Commission, or SEC, Staff Announcements and Observer Comments (SEC Update), which codifies recent announcements by the SEC staff; and ASU No. 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606) (SEC Update), which adds ASC 606-10-S25-1 as a result of SEC Release 33-10403, or collectively, the Revenue ASUs. The Revenue ASUs provide an accounting standard for a single comprehensive model for use in accounting for revenue arising from contracts with customers, and supersedes most current revenue recognition guidance. The accounting standard is effective for interim and annual periods beginning after December 15, 2017, with an option to early adopt for interim and annual periods beginning after December 15, 2016. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (the full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). On January 1, 2018, the Company adopted the new standard using the modified retrospective method.

The Revenue ASUs apply to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Under the Revenue ASUs, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of the Revenue ASUs, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope the Revenue ASUs, the Company assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The impact to the Company on adoption of the Revenue ASUs relates to variable consideration related to its collaboration agreement with Celgene Corporation ("Celgene") and the anticipated opt-in to certain clinical trials that are to be run by the Company, and funded by Celgene. Under Topic 605, even though the Company believed it was probable that the

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performance obligation related to the variable consideration would be satisfied as of December 31, 2017, the variable consideration was not realizable because formal notice had not been received. Upon its adoption of the Revenue ASUs, the Company determined it was probable that Celgene would opt-in to the clinical trials as of December 31, 2017 such that the variable consideration was not constrained, and therefore, the related revenue would have been recognized. In March 2018, the Company obtained formal notice of opt-in by Celgene.

The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative effect of the changes made to the Company’s consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-9 resulted in an increase of $16,307 to both unbilled receivables and the opening balance of accumulated deficit. Please refer to the “Adoption of New Accounting Standards” section below for a tabular presentation of the impact.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The Company adopted ASU 2016-16 during the first quarter of 2018 using the modified retrospective adoption method. In 2017, BeiGene (Hong Kong) Co., Ltd.'s ("BeiGene HK's") contribution of BeiGene (Shanghai) Co., Ltd. ("BeiGene Shanghai") to BeiGene Biologics (and subsequent receipt of a related government grant) resulted in tax expenses $28,588, which were reflected as other non-current assets in the Company’s December 31, 2017 balance sheet. The related government subsidy of $9,990, which was received in 2017, was reflected as other long-term liabilities in the Company’s December 31, 2017 balance sheet. The adoption of this accounting standard resulted in an adjustment to beginning accumulated deficit for both of these items. In addition, the Company has now established a deferred tax asset resulting from a previous transfer of intellectual property to one of its wholly-owned subsidiaries. This deferred tax asset is entirely offset by a corresponding valuation allowance and therefore did not result in a change to beginning accumulated deficit. Please refer to the “Adoption of New Accounting Standards” section below for a tabular presentation of the impact.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash, which requires entities to present the aggregate changes in cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, the statement of cash flows will be required to present restricted cash and restricted cash equivalents as a part of the beginning and ending balances of cash and cash equivalents. The updated guidance became effective on January 1, 2018, and resulted in the presentation of restricted cash of $67,311 within the ending cash, cash equivalents, and restricted cash balance on the Company’s consolidated statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-1, Business Combinations: Clarifying the Definition of a Business. The new standard requires an entity to evaluate if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set would not be considered a business. The new standard also requires a business to include at least one substantive process and narrows the definition of outputs. The new standard is effective for interim and annual periods beginning on January 1, 2018, and may be adopted earlier. The Company elected to early adopt the updated guidance as of January 1, 2017. The standard is applied prospectively to any transaction occurring on or after the adoption date. The Company evaluated the acquisition of 100% of the equity interests of Celgene Pharmaceutical (Shanghai) Co., Ltd. (“Celgene Shanghai”) under the new guidance, and determined that the transaction represents a business combination, as disclosed further in Note 4.

In January 2017, the FASB issued ASU No. 2017-4, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment. This ASU simplifies the test for goodwill impairment by removing Step 2 from the goodwill impairment test. Companies will now perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value not to exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in this update are effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for goodwill impairment tests performed after

January 1, 2017. The Company elected to early adopt this ASU, and there was no material impact to the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-9, Compensation – Stock Compensation: Scope of Modification Accounting. This standard provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The updated guidance became effective on January 1, 2018, and there was no material impact to the Company's consolidated financial statements.

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In June 2018, the FASB issued ASU 2018-7, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This update expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. This update also specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. This update is effective in fiscal years, including interim periods, beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company elected to early adopt this ASU during the quarter ended September 30, 2018, and there was no material impact to the Company's consolidated financial statements.

Impact of adopted accounting standards

The cumulative effect of changes made to the Company's consolidated January 1, 2018 balance sheet for the adoption of the revenue ASUs and ASU 2016-16 were as follows:

	Balance at December 31, 2017	Adjustments Due to Revenue ASUs	Adjustments Due to ASU 2016-16	Balance at January 1, 2018
	$	$	$	$
Assets:				
Unbilled receivable	—	16,307	—	16,307
Other non-current assets	42,915	—	(28,588)	14,327
Liabilities:				
Other long-term liabilities	31,959	—	(9,990)	21,969
Equity:				
Accumulated other comprehensive loss	(480)	—	263	(217)
Accumulated deficit	(330,517)	16,307	(19,236)	(333,446)
Noncontrolling interest	14,422	—	375	14,797

New accounting standards which have not yet been adopted

In February 2016, the FASB issued ASU No. 2016-2, Leases. Subsequently, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which clarifies certain aspect of the guidance issued in ASU 2016-2; and ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides an additional transition method and a practical expedient for separating components of a contract for lessors (collectively, the "Lease ASUs"). The Lease ASUs require lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet. This standard also requires additional disclosures by lessees and contains targeted changes to accounting by lessors. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The Company is currently evaluating the financial statement impact of adoption. As of September 30, 2018, the Company had non-cancellable operating lease commitments of $32,311. The Company is in the process of evaluating its leasing arrangements to determine what extent these contractual commitments will affect the recognition of the related right-of-use assets and liabilities for future lease payments in the consolidated balance sheet. Some of the commitments under short term leases may be exempted from the recognition of relevant assets or liabilities under the Lease ASUs. The Company does not expect that the adoption of the Lease ASUs will result in significant impact on the operating performance, cash flows and net assets of the Group, but does expect that a certain portion of these operating lease commitments will be required to be recognized on the balance sheet as right-of-use assets and lease liabilities under the Lease ASUs.

In February 2018, the FASB issued ASU 2018-2, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update allows companies the option to reclassify to retained earnings the tax effects related to items in accumulated other comprehensive income (loss) as a result of the Tax Cuts and Jobs Act that was enacted in the United States on

December 22, 2017. This update is effective in fiscal years, including interim periods, beginning after December 15, 2018, and early adoption is permitted. This guidance should be applied either in the period of adoption or retrospectively to each period in which the effects of the change in the U.S. federal income tax rate in the Tax Cuts and Jobs Act is recognized. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

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In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The update eliminates, modifies, and adds certain disclosure requirements for fair value measurements. This update is effective in fiscal years, including interim periods, beginning after December 15, 2019, and early adoption is permitted. The added disclosure requirements and the modified disclosure on the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented. All other changes to disclosure requirements in this update should be applied retrospectively to all periods presented upon their effective date. The Company is currently evaluating the impact on its financial statements of adopting this guidance.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This update requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to defer and recognize as an asset. This update is effective in fiscal years, including interim periods, beginning after December 15, 2019, and early adoption is permitted. This guidance should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the impact on its financial statements of adopting this guidance.

Significant accounting policies

For a more complete discussion of the Company's significant accounting policies and other information, the consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements included in the Company's Annual Report for the year ended December 31, 2017.

Acquired in-process research and development expense

The Company has acquired rights to develop and commercialize product candidates. Upfront payments that relate to the acquisition of a new drug compound, as well as pre-commercial milestone payments, are immediately expensed as acquired in-process research and development in the period in which they are incurred, provided that the new drug compound did not also include processes or activities that would constitute a "business" as defined under GAAP, the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, has no established alternative future use. Milestone payments made to third parties subsequent to regulatory approval are capitalized as intangible assets and amortized over the estimated remaining useful life of the related product. Royalties owed on sales of the products licensed pursuant to the agreements are expensed in the period the related revenues are recognized.

Except for the changes to the Company's significant accounting policies related to the adoption of the Revenue ASUs and ASU 2016-16, and the accounting for the acquisition of in-process research and development expense, there have been no other material changes to the Company's significant accounting policies as of and for the three and nine months ended September 30, 2018, as compared to the significant accounting policies described in the Annual Report.

2. Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value. Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in market with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

The Company considers an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and considers an inactive market to be one in which

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there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers.

The following tables present the Company's financial assets and liabilities measured and recorded at fair value on a recurring basis using the above input categories as of September 30, 2018 and December 31, 2017:

As of September 30, 2018	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	$	$	$
Short-term investments (Note 5):			
U.S. treasury securities	1,372,627	—	—
U.S. agency securities	17,649	—	—
Cash equivalents			
U.S. treasury securities	159,737	—	—
Money market funds	111,726	—	—
Total	1,661,739	—	—

As of December 31, 2017	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	$	$	$
Short-term investments (Note 5):			
U.S. treasury securities	561,327	—	—
U.S. agency securities	17,663	—	—
Time deposits	18,924	—	—
Cash equivalents			
Money market funds	44,730	—	—
Total	642,644	—	—

The Company had no liabilities measured and recorded at fair value on a recurring basis as of September 30, 2018 or December 31, 2017.

3. Research and Development Collaborative Arrangements

Celgene and Celgene Switzerland

On July 5, 2017, the Company entered into a license agreement with Celgene Switzerland pursuant to which the Company granted to the Celgene parties an exclusive right to develop and commercialize the Company's investigational PD-1 inhibitor, tislelizumab (BGB-A317), in all fields of treatment, other than hematology, in the United States, Europe, Japan and the rest of world other than Asia (the "PD-1 License Agreement"). In connection with the closing of the transactions on August 31, 2017, the Company, Celgene and Celgene Switzerland amended and restated the PD-1 License Agreement (the "A&R PD-1 License Agreement") to, among other things, clarify the parties' responsibilities relating to the conducting and funding of certain global registration clinical trials and clarify the scope of the regulatory materials transferred by BeiGene to Celgene.

Under the terms of the A&R PD-1 License Agreement, Celgene agreed to pay the Company $263,000 in upfront non-refundable fees, of which $92,050 was paid in the third quarter of 2017 and the remaining $170,950 was paid in

December 2017. In addition, subsequent to the completion of the research and development phase of the collaboration, the Company may be eligible to receive product development milestone payments based on the successful achievement of development and

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regulatory goals, commercial milestone payments based on the successful achievement of commercialization goals, and royalty payments based on a predetermined percentage of Celgene and Celgene Switzerland's aggregate annual net sales of all products in their territory for a period not to exceed the latest of the expiration of the last valid patent claim, the expiration of regulatory exclusivity or 12 years from the date of the first commercial sale on a product-by-product and country-by-country basis. The Company allocated $13,000 of upfront fees to the fair value of assets related to the Company's acquisition of Celgene Shanghai, a wholly-owned subsidiary of Celgene Holdings East Corporation established under the laws of China, which was completed contemporaneously with the A&R PD-1 License Agreement.

In addition to the exclusive right to develop and commercialize tislelizumab, the terms of the A&R PD-1 License Agreement provide Celgene with the right to collaborate with the Company on the development of tislelizumab for specified indications, including required participation on a joint development committee and a joint steering committee as well as a joint commercialization committee upon achievement of commercialization. The joint development and joint steering committees are formed by an equal number of representatives from the Company and Celgene and are responsible for reviewing and approving the development plan and budget for the development of tislelizumab for clinical studies associated with specified indications. Celgene will reimburse the Company for certain research and development costs based on external cost, plus agreed upon markup for the development of tislelizumab related to the clinical trials that Celgene opts into, as outlined in the development plan.

The following table summarizes total collaboration revenue recognized for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	$	$	$	$
License revenue	—	211,391	—	211,391
Reimbursement of research and development costs	13,521	—	39,251	—
Research and development service revenue	2,234	—	7,176	—
Total	15,755	211,391	46,427	211,391

For the three and nine months ended September 30, 2018, the Company recognized collaboration revenue of $15,755 and $46,427, respectively. The Company recognized $13,521 and $39,251 of research and development reimbursement revenue for the three and nine months ended September 30, 2018 for the trials that Celgene has opted into. In addition, $16,307 of reimbursement that was billed to Celgene was included as an adjustment to beginning accumulated deficit. The research and development services revenue for the three and nine months ended September 30, 2018, primarily reflects the recognition of upfront consideration that was allocated to R&D services at the time of the collaboration and is recognized from deferred revenue over the term of the respective clinical studies for the specified indications.

In May 2018, the Company achieved the milestone related to its collaboration agreement with Merck KGaA for dosing patients in the first Phase 3 clinical trial of pamiparib in the PRC Territory, and the related $1,500 milestone payment was recognized as research and development services revenue for the nine months ended September 30, 2018.

For the three and nine months ended September 30, 2017, the Company recognized $211,391 as license revenue within collaboration revenue.

4. Business Combinations and Asset Acquisitions

Celgene Shanghai

On August 31, 2017, BeiGene HK acquired 100% of the equity interests of Celgene Shanghai, a wholly-owned subsidiary of Celgene Holdings East Corporation established under the laws of the People's Republic of China ("PRC"), for total consideration of $28,138. BeiGene HK made an initial cash payment of $4,532, and issued non-cash consideration of $23,606, related to the discount on ordinary shares issued to Celgene, pursuant to the Share

Subscription Agreement dated July 5, 2017 by and between the Company and Celgene Switzerland (the "Share Subscription Agreement"). See Note 20 for further description of the Share Subscription Agreement.

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The acquisition has been accounted for as a business combination using the acquisition method of accounting. Assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The excess of the purchase price over the assets acquired and liabilities assumed was recorded as goodwill. The fair values of goodwill, intangible assets and other net assets were $109, $7,500 and $20,529, respectively.

BeiGene Pharmaceuticals (Guangzhou) Co., Ltd.

On September 21, 2018, BeiGene (Guangzhou) Co., Ltd. ("BeiGene Guangzhou") acquired 100% of the equity interests of Baiji Shenzhou (Guangzhou) Pharmaceuticals Co., Ltd. (formerly known as Huajian Pharmaceuticals Co., Ltd.), which subsequently changed its name to BeiGene Pharmaceuticals (Guangzhou) Co., Ltd., a pharmaceutical distribution company, for total cash consideration of $612. The acquisition was concentrated in a single identifiable asset, a drug distribution license, and thus, for accounting purposes, the Company has concluded that the acquisition does not meet the accounting definition of a business combination. The entire purchase price was allocated to the drug distribution license, resulting in a $612 intangible asset for the license.

5. Restricted Cash and Short-term Investments

The Company’s restricted cash balance of $67,311 as of September 30, 2018 consisted of BeiGene Guangzhou Biologics Manufacturing Co., Ltd.'s ("BeiGene Guangzhou Factory's") secured deposits held in designated bank accounts for issuance of letter of credit and import duty tax, funds held in escrow for the purchase of Beijing Innerway Bio-tech Co., Ltd. (Note 24), and restricted cash deposits as security for the long-term bank loan (Note 13).

Short-term investments as of September 30, 2018 consisted of the following available-for-sale debt securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
	$	$	$	$
U.S. treasury securities	1,371,619	1,338	330	1,372,627
U.S. agency securities	17,612	37	—	17,649
Total	1,389,231	1,375	330	1,390,276

Short-term investments as of December 31, 2017 consisted of the following available-for-sale debt securities and time deposits:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Net Carrying Amount)
	$	$	$	$
U.S. treasury securities	561,733	—	406	561,327
U.S. agency securities	17,651	12	—	17,663
Time deposits	18,924	—	—	18,924
Total	598,308	12	406	597,914

Contractual maturities of all debt securities as of September 30, 2018 were within one year. The Company does not consider the investment in U.S. treasury securities or U.S. agency securities to be other-than-temporarily impaired at September 30, 2018.

6. Inventories

The Company’s inventory balance of $19,699 and $10,930 as of September 30, 2018 and December 31, 2017, consisted entirely of finished goods product purchased from Celgene for distribution in the PRC.

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7. Property and Equipment

Property and equipment consisted of the following:

	As of September 30, 2018	December 31, 2017
	$	$
Laboratory equipment	18,124	15,596
Leasehold improvements	17,084	15,298
Manufacturing equipment	15,428	15,737
Office equipment	2,054	1,597
Electronic equipment	1,274	1,244
Computer software	1,313	598
Construction in progress	74,777	26,125
Property and equipment, at cost	130,054	76,195
Less accumulated depreciation	(18,792)	(13,627)
Property and equipment, net	111,262	62,568

As of September 30, 2018 and December 31, 2017, construction in progress of $74,777 and $26,125 primarily related to the buildout of the Guangzhou manufacturing facility. Depreciation expense for the three and nine months ended September 30, 2018 was $2,207 and $6,290, respectively. Depreciation expense for the three and nine months ended September 30, 2017 was $1,237 and $2,641, respectively.

8. Manufacturing Facility in Guangzhou

On March 7, 2017, BeiGene (Hong Kong) Co., Ltd. ("BeiGene HK") and Guangzhou GET Technology Development Co., Ltd. (“GET”), entered into a definitive agreement to establish a commercial scale biologics manufacturing facility in Guangzhou, Guangdong Province, PRC. BeiGene HK and GET entered into an Equity Joint Venture Contract (the “JV Agreement”). Under the terms of the JV Agreement, BeiGene HK agreed to make an initial cash capital contribution of RMB200,000 and a subsequent contribution of certain rights to one or more biologics assets in exchange for a 95% equity interest in BeiGene Biologics. GET agreed to provide a cash capital contribution of RMB100,000 to BeiGene Biologics, representing a 5% equity interest in BeiGene Biologics. In addition, BeiGene Biologics entered into a contract with GET, under which GET agreed to provide a RMB900,000 loan (the “Shareholder Loan”) to BeiGene Biologics (see Note 14). BeiGene Biologics is working to establish a biologics manufacturing facility in Guangzhou, through a wholly-owned subsidiary, the BeiGene Guangzhou Factory, to manufacture biologics for the Company and its subsidiaries.

On April 11, 2017, BeiGene HK, GET and BeiGene Biologics amended the JV agreement and the capital contribution agreement, among other things, to adjust the capital contribution schedules and adjust the initial term of the governing bodies and a certain management position. On April 13, 2017 and May 4, 2017, BeiGene HK made cash capital contributions of RMB137,830 and RMB2,415, respectively, into BeiGene Biologics. The remainder of the cash capital contribution from BeiGene HK to BeiGene Biologics will be paid by April 10, 2020. On April 14, 2017, GET made cash capital contributions of RMB100,000 into BeiGene Biologics. On April 14, 2017, BeiGene Biologics drew down the Shareholder Loan of RMB900,000 from GET (as further described in Note 14).

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

On April 4, 2018, BeiGene Guangzhou Factory entered into a nine-year loan agreement with China Construction Bank to borrow a RMB denominated loan of $84,450 (RMB580,000) at a floating interest rate benchmarking RMB loans interest rate of financial institutions in PRC. As of September 30, 2018, the Company has drawn down the loan of $40,770, as further described in Note 13.

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As of September 30, 2018, the Company and GET held 95% and 5% equity interests in BeiGene Biologics, respectively. As of September 30, 2018, the Company's cash, cash equivalents and restricted cash included $143,159 held by BeiGene Biologics to be used to build the commercial scale biologics facility and to fund research and development of the Company's biologics drug candidates in China.

9. Land Use Right

The land use right represents the land acquired for the purpose of constructing and operating the biologics manufacturing facility in Guangzhou. In 2017, the Company acquired the land use right from the local Bureau of Land and Resources in Guangzhou. The land use right is amortized over the total term of the right, which is 50 years. The land use right asset as of September 30, 2018 and December 31, 2017 is summarized as follows:

As of September 30, 2018	December 31,