

Simon Lowth HY 09 Results Script

Thank you David, and good afternoon everyone.

David summarised the First Half financials, so I will focus on six topics:

First, the headline numbers for the Second Quarter.

Then, I'll cover the key brand sales highlights for the quarter.

Third, I'll take you through the second quarter Earnings performance...with an emphasis on the key drivers of operating profit and margin.

Fourth...I'll provide a brief update on our productivity and synergy programmes.

I'll briefly touch on cash performance and our steadily improving net debt position.

And finally, I will explain the upward revisions to our targets for the full year.

Headline Results: Second Quarter

Turning first to the headline numbers for the second quarter, we achieved sales of just under \$8 billion dollars, a 9 percent increase in constant currency terms. You will have also seen that the adverse impact of currency movements on the top line reduced the reported sales growth rate to zero.

Core operating profit for the quarter was up 37 percent at CER to \$3.6 billion, chiefly as a result of the increased sales, the continued efficiencies in all our operating cost lines, and the increase in other operating income—which for the quarter was the Nordic OTC disposal gain.

You will also note that the 5 percent negative impact from currency on the Core operating profit line was somewhat lower than the 9 percent hit on the top-line, as the currency effects on our cost lines helps mitigate the revenue impact.

Core Earnings per share in the quarter were \$1.64 compared with \$1.25 last year. This is a 37 percent increase at constant currency.

Making the bridge from Core EPS to Reported EPS in the quarter, we have the usual adjusting items—restructuring and MedImmune and Merck related amortisation. An additional driver this quarter of the difference between the Core and Reported basis is the 30 cents per share legal provisions. Provisions totalling \$430 million have been taken in the second quarter with respect to various federal and state investigations and civil litigation matters relating to drug marketing and pricing practices where we can now make a reasonable estimate of the losses expected

Net of these adjusting factors, Reported EPS increased by 10 percent at CER to \$1.18.

I'll now call out some of the key brand highlights for the quarter, beginning with Nexium. And in all instances the growth rates will be in constant currency terms.

Key Brand Highlights

Nexium

Nexium sales in the second quarter were up 1 percent to just over \$1.2 billion.

Sales in the US were down 4 percent to \$724 million. Dispensed retail tablet volume increased by around ½ percent. That is lower than the 3 percent growth we reported in Q1, but is a result of the adjustment that IMS has put through with their June prescription data. We are still the only major PPI brand to grow volume in the quarter. Average realised prices were down 3 percent—but this includes some unfavourable adjustments to managed care rebate accruals in the prior period. The underlying price variance is probably closer to 7 percent. We continue to expect price declines in the high single digits for the full year.

There are two market events that may influence volume performance in the latter part of 2009 and into 2010—generic entrants for Prevacid, as well as OTC lansoprazole.

In the Rest of World markets, Nexium sales were up 8 percent to \$522 million. Sales in Western Europe were up 6 percent despite the drag from German reference pricing. There was double-digit growth in Canada and Australia. Sales in Emerging Markets were up 8 percent, including a 31 percent increase in China.

Seroquel

Turning to Seroquel, second quarter sales were up 18 percent to \$1.2 billion.

In the US, Seroquel sales were up 22 percent to \$893 million. Total prescriptions for the Seroquel franchise increased by 3.5 percent in the quarter, with all of the growth attributable to the Seroquel XR formulation. The launch of XR has driven our dynamic share in Bipolar disorder—which is the focus of all of our promotional efforts now—by nearly 4 share points since the beginning of the year.

As we have completely transitioned our commercial efforts to be 100 percent behind XR and the bipolar indications rather than Seroquel IR, we have seen the IR formulation lose some ground whilst Seroquel XR accelerates and grows faster than the market. The overall franchise is growing, but not quite at the market rate for antipsychotics. Total franchise share is off around 30 basis points in the quarter.

As Seroquel XR continues to grow in acceptance, we will look to return the franchise to market growth rates and ultimately to grow total franchise share again over time. Our ability to deliver this return to total franchise growth would, of course, be strengthened by the addition of an approval in Major Depressive Disorders. Our response to the CRL following

the FDA advisory committee has now been submitted, and we look for an FDA action around the end of this year.

Seroquel sales in the Rest of World were \$356 million, up 11 percent despite the 70 percent decline in Canada due to generic competition. The bipolar indications and the Seroquel XR formulation are driving this growth. Sales in Western Europe were up 22 percent, and sales in Emerging Markets were up 28 percent.

Crestor

Crestor sales were up 33 percent in the quarter, exceeding \$1 billion in quarterly sales for the first time.

Sales in the US were up 32 percent to \$547 million. Crestor total prescriptions increased by 25 percent, nearly 4 times the statin market growth rate of 6.5 percent, and keeping pace with the 26 percent growth for generic simvastatin. Crestor share of total prescriptions in the US continued to increase—reaching 10.8 percent in June. Crestor's dynamic share—that is new and switch patients—is now over 15 percent, ahead of Lipitor and now second only to simvastatin.

Crestor sales in the Rest of World were up 35 percent to \$582 million. As in the US, we are growing share at a pace that is 3 to 4 times the statin market in both Established and Emerging Markets.

There was good growth in Western Europe, Canada, Australia and Japan.

Looking forward...Regulatory filings for a label change to reflect the JUPITER data are now under review in the US and in Europe.

The last product I want to cover is Symbicort.

Symbicort

Symbicort sales in the second quarter were up 24 percent to \$551 million.

Sales in the US nearly doubled, to \$111 million. Symbicort accounted for most of the 7 percent growth in prescriptions for fixed combination products in the quarter, paced by continued penetration of the asthma market as well as the launch of the COPD indication.

Symbicort share of new prescriptions for fixed combination products increased to 13.9 percent in June—up more than a full percentage point in the quarter. Market share of patients new to fixed combination therapy is now 22.9 percent.

In the Rest of World, Symbicort sales increased by 15 percent to \$440 million. Sales growth is being fuelled by Symbicort SMART, which has now been approved in 96 markets. Sales in Western Europe were up 15 percent; sales in Emerging Markets were up 19 percent.

Operating Profit and Margins

I will now turn to the second quarter P&L, and the drivers of the growth in Core operating profit. I will focus here on Core margins and profit. The press release does, of course, contain the statutory numbers and a detailed reconciliation to the Core measures. As with sales, when I refer to growth rates, they will all be on a constant currency basis.

Core gross margin, at 82.7 percent of sales, was a 70 basis point improvement over 2008 in constant currency terms. Principal contributors were: lower Merck payments as a percent of sales, ..efficiency gains...and favourable product mix - partially offset by higher royalty payments.

Core R&D expenditures were 3 percent lower in the quarter. We continue to drive productivity and efficiencies in R&D, which allows us to absorb increased activity related to progressing the pipeline and our investments in biologics. There were also lower costs associated with the large Crestor JUPITER and Brilinta PLATO trials this year compared to last. And as we previously flagged, we took a \$44 million intangible impairment for the MAP unit dose budesonide in the quarter.

Core SG&A expense was 8 percent lower than the second quarter last year. We continue to invest to grow our Emerging Markets business, but this was more than offset by delivery of efficiencies in our underlying SG&A costs and a reduction in certain legal expenses compared to last year.

I still expect the combination of R&D and SG&A to come in broadly flat in CER terms for the full year.

Core other income for the first quarter was \$349 million, \$141 million higher than 2008, chiefly as a result of the Nordic OTC disposal, where we booked a \$220 million gain.

You will recall that we have guided for Core other income of around \$900 million for the full year, and that still looks to be about right. But when modelling our second half results, keep in mind that we have already realised more than 2/3 of that. This is one of several reasons why you can't simply double our first half results and expect us to do that for the full year.

Core operating margin for the quarter was 45.3 percent of sales compared to 34.4 percent in the second quarter 2008. 200 basis points of the improvement were related to currency. Operating margins therefore improved by 890 basis points on a CER basis. This comprised a 150 basis point increase from other operating income, with the balance of 740 basis points coming from operating leverage against the strong 9 percent increase in sales. As I said earlier, we are looking at R&D and SG&A combined at flat in CER, so this second quarter operating margin is unlikely to be sustainable for the full year.

Productivity/Restructuring

Turning to our Productivity programme, we have taken restructuring charges of \$190 million in the second quarter, bringing the year to date total to \$262 million.

The programme is on track for both costs incurred and benefits being realised.

Based on our latest view of the phasing, we are likely to incur another \$450 million or so in restructuring charges in the second half of this year.

Cash/Capital Structure

Let me now turn to cash flow

Cash generated from operations increased by \$1.0 billion in the first half of 2009, driven by strong underlying operational performance and improved working capital management, partially offset by higher tax payments.

Of the \$5.3 billion of operating free cashflow, we have invested about half a billion dollars in capital and intangible assets to drive future business growth and productivity, and we distributed \$2.1 billion to shareholders through payment of the final 2008 dividend.

The residual cashflow has reduced our net debt to \$4.2 billion. This has decreased by more than \$6 billion compared to June 2008, and by \$3 billion since the beginning of 2009.

And as you know there were no share repurchases in the first half, and none are planned for the rest of 2009, in keeping with the Board's policy for the year. .

Future Prospects/Guidance

Finally, I will explain the drivers of the increase in our full year guidance.

As David mentioned in his opening remarks, our planning assumptions, made in the context of some pretty dire economic conditions at the end of last year, led us to a cautious revenue outlook for 2009. Whilst market conditions are difficult, the impact has been less than we thought.

We have also delivered strong operational performance in the market versus our competitors, both in regional and key brand sales performance and in continuing to drive productivity and efficiencies across the entire company.

And, we have benefited from some "one-off" items that have lifted our first half performance, chiefly the Toprol-XL benefit and some delays to anticipated generic entries, including Casodex in the US.

Our increased full year EPS guidance reflects this strong first half performance. It also allows for some continued outperformance versus our original expectations in the second half, including our best view on Toprol for the second half.

We also have to take a view on another “one-off” factor...the potential revenue from the H1N1 pandemic vaccine.

We already have US government orders for \$151 million...most of this revenue should be recognized under the contract in the second half of this year. Our guidance range is also based on the potential for new government vaccine orders up to our near term finish and fill capacity of around 40 million doses.

When doing your own modeling, bear in mind that normal seasonal FluMist is a below average margin product for us. Pandemic vaccine, as it is at government contract pricing, is lower still.

Our guidance range does not account for any potential upside beyond the 40 million doses of finish and fill capacity. As David mentioned, we do have theoretical bulk capacity of some 200 million doses should additional nasal sprayers be obtained or an alternative delivery strategy be agreed.

So, for our revised guidance for the full year, we now estimate sales growth will be around mid-single digits at CER...and I would estimate about half of that is due to what we have described as the “one-off” effects.

The other elements of our guidance are broadly the same, so it is largely the revenue upside that leads us to our new target range for Core EPS, which is now between \$5.70 and \$6.00.

Just to be perfectly clear, there is no currency component to this upgrade. Actual currencies for the first half have been broadly neutral compared to our currency assumption for guidance, namely January 2009 average rates.

Of course, we are taking no view of the future movements for currency, so going forward, this guidance takes no account of the likelihood that average exchange rates for the remainder of the year may differ materially from the January 2009 average. As usual, I would point you to our currency sensitivity chart to help you flex your own estimates on the currency impact to sales and earnings.

I think I will wrap up my formal remarks here, and turn things over to Anders Ekblom, who will provide a pipeline update. Anders...