

To whom it may concern,

This letter sets forth public information previously provided by AstraZeneca and others which may prove helpful in estimating the financial performance of AstraZeneca following the announcement of YTD and Q3 2019 results on 24 October 2019.

Sell-side analysts who wish to contribute to company-collected consensus estimates are requested to submit updated numbers by **Friday 6 December 2019**. Details are provided in the appendix. As usual, those analysts who contribute will automatically receive the consensus data in return.

AstraZeneca would like to highlight the following significant prior disclosures (all guidance and indications are at constant exchange rates (CER)):

1. FY 2019 guidance (updated at YTD and Q3 2019 results)

- Reflecting the performance over the year to date, guidance for Product Sales in FY 2019 was upgraded. Product Sales are now expected to increase by a low to mid-teens percentage; the prior guidance was for a low double-digit percentage increase.
- AstraZeneca reiterated its Core EPS guidance of \$3.50 to \$3.70 over the full year. This guidance includes the anticipation of a significantly lower sum of Collaboration Revenue and Core Other operating Income and Expense versus the prior year. It also reflects the opportunities being taken to reinvest in the business, particularly in China and in the Company's new medicines, in order to strengthen AstraZeneca's long-term growth profile.

2. FY 2019 additional commentary

Outside of guidance, AstraZeneca also provided the following commentary at YTD and Q3 2019 results:

- **Operating leverage;** The Company expects to deliver significant operating leverage over the long term; encouraging progress was made in the year to date. The Reported Operating Profit Margin declined in the year to date by one percentage point (two at CER) to 13%; the Core Operating Profit margin, however, increased by five percentage points to 28%. Core Operating Profit in FY 2019 is anticipated to increase ahead of Product Sales.
- **Cash generation;** in FY 2019, the cash performance is expected to include a number of payments relating to prior business development transactions; the majority of the value of these payments in the year was settled in the first half. AstraZeneca generated a Net Cash Inflow from Operating Activities of \$1,594m in the year to date, compared to an inflow of \$394m in YTD 2018.
- **Other indications;** the Company also provides other indications for FY 2019: Capital Expenditure is expected to be broadly stable and restructuring expenses are targeted to reduce versus the prior year. The Core Tax rate range has been narrowed to 20-22% for FY 2019 from the previously anticipated range of 18-22% (FY 2018: 11%). Variations in the Core Tax Rate between quarters can be expected to continue.

3. Product sales

As per the YTD and Q3 2019 results [presentation](#), a 15% price cut on *Tagrisso* is expected in Japan in November 2019.

Analysts are again reminded that *Faslodex* faced [loss of exclusivity](#) in the US by the end of Q1 2019. In May 2019, Sandoz [announced](#) that its generic fulvestrant injection had been approved in the US and was available immediately. Since then, several companies have announced approvals of generic fulvestrant injections.

In the pre-Q3 2019 consensus collection some analysts had Q3 2019 and FY 2019 forecasts for *Lumoxiti*. We again remind analysts that Innate Pharma [licensed](#) the commercial rights for *Lumoxiti* in Europe and the US (AstraZeneca will hence not record any sales in these territories).

As previously communicated, US regulatory submission for roxadustat is expected in the fourth quarter of this year. The medicine is currently approved in both the dialysis and non-dialysis settings in China but is yet to launch. AstraZeneca will book US sales and pay Fibrogen a transfer price based on a percentage of net sales in the low- to mid-single digit range and a tiered royalty on net sales in the low 20% range. In China the collaboration is a 50/50 profit share.

4. Collaboration revenue

In a recent [10-Q](#) filing, Merck announced that prior to 2019, it had accrued sales-based milestone payments aggregating \$700 million related to *Lynparza*. Of this amount, \$250 million had been paid to AstraZeneca before Q3 2019, and \$200m was received in Q3 2019. AstraZeneca expects a final \$100m (of total \$750m) option license payment in the fourth quarter of 2019.

5. Operating expenses

On the YTD and Q3 2019 results conference call the following comments were made by the Company's CFO with regards to Core Operating Expenses:

"at the end of September, we are at a growth of 6.5% (CER), so slightly higher than what we have indicated for. We do expect that this growth will slow down in the fourth quarter and should come back somewhere around mid-single digit. And I believe for next year, this is probably a good indication.

However, I want to point out that the important metric for us is operating leverage. And in a very rudimentary manner, we look at operating leverage as product sales minus growth of operating expenses, and this is an important metric that we have looked at in 2019 and we will continue to look at it in 2020 and 2021".

6. Other operating income

On 30 October 2019, AstraZeneca announced the divestment of the rights to *Seroquel* and *Seroquel XR* in Europe and Russia. Cheplapharm will make an upfront payment of \$178m to AstraZeneca and may also make future sales-contingent payments of up to \$61m. In 2018, *Seroquel* generated annual product sales of \$47m in the markets covered by this agreement, while *Seroquel XR* generated \$61m. The transaction is expected to complete in the fourth quarter of 2019, subject to customary closing conditions and regulatory clearances.

7. Net finance expense and costs relating to joint ventures and associates

Core net finance expenses in Q3 2019 were \$192m. In addition to borrowing costs, other expenses (e.g. pension interest, discount unwind, interest costs relating to leases following adoption of IFRS 16 etc.) are also recorded in this line. Costs relating to joint ventures and associates amounted to \$32m in Q3 2019.

8. Outstanding number of shares

The outstanding number of shares is 1,312m, effective from 2 April 2019.

9. Cash flow

During the Q1 2019 results conference call on 26 April 2019, the Company provided the information that if one were to exclude the impact of the Daiichi Sankyo transaction (i.e. upfront and potential development & approval milestone payments), the Company would target dividend coverage in 2020. As mentioned in the Q1 2019 results announcement, half of the \$1.35bn upfront payment was settled in Q2 2019 with the other half anticipated during 2020.

In October 2019, Almirall [announced](#) the launch of *Duaklir* in the US, upon which the company will receive a \$100m milestone from AstraZeneca during the fourth quarter of 2019.

As per the *Seroquel* [agreement](#) with Luye Pharma Group Ltd, announced in June 2018, AstraZeneca expects to receive a milestone payment of \$240m in December 2019. The present value of this milestone was booked in the P&L in Q2 2018 (only affects cash flow - no P&L impact in Q4 2019).

As announced in the YTD and Q3 2019 results [announcement](#) in October 2019, an amendment to the share purchase and option agreement (SPOA) with the sellers of Acerta Pharma (originally entered into in December 2015) came into effect, changing certain terms of the SPOA on both the timing and also reducing the maximum consideration that would be required to be made to acquire the remaining outstanding shares of Acerta Pharma if the options are exercised. The payments would be made in similar annual instalments commencing at the earliest from 2022 through to 2024, subject to the options being exercised. The changes to the terms have been reflected in the assumptions used to calculate the amortised cost of the option liability as at 30 September 2019 of \$2,072m (30 June 2019: \$2,057m, 31 December 2018: \$1,838m).

10. Currency impact

AstraZeneca's foreign-exchange rate sensitivity analysis is contained within the operating and financial review section of the [YTD and Q3 2019 results announcement](#) and, if foreign-exchange rates were to remain at the average of rates seen in the period January to September 2019, it was anticipated that there would be a low single-digit percentage adverse impact on product sales and core EPS in FY2019.

11. Future changes to consensus presentation

Going forward the consensus output file will show medicines in the same order as our external reporting (i.e. Oncology, CVRM, Respiratory and Other).

If there are any questions, please feel free to contact us.

Sincere regards,

The AZN IR Team

Thomas Kudsk Larsen		+44 203 749 5712
Henry Wheeler	Oncology	+44 203 749 5797
Christer Gruvris	BioPharmaceuticals (CV, Metabolism)	+44 203 749 5711
Nick Stone	BioPharmaceuticals (Renal), ESG	+44 203 749 5716
Josie Afolabi	BioPharmaceuticals (Respiratory), other medicines	+44 203 749 5631
Craig Marks	Finance, fixed income	+44 7881 615 764
Jennifer Kretzmann	Corporate access, retail investors	+44 203 749 5824
US toll-free		+1 866 381 72 77

- || -

Appendix for contributing sell-side analysts (references are made to an Excel spreadsheet distributed separately)

Guidelines for completing the template

Please enter your data into the orange shaded cells. All other cells will fill in automatically. Please do not alter the format of the template (for example by adding or deleting rows) and wherever possible please submit your information to us in this newly issued template rather than in an historic version.

Tab 1 (Income Statement - AZ Group) should be completed on an as reported basis. We continue to capture the expected currency effects on total revenue and earnings, and the currency assumption of major currencies against USD.

We are again seeking to supplement this with additional data (see details for schedules requested under tabs 2-5). **Tab 2** (Income Statement - Core) should be completed on a Core basis.

The costs associated with the AZ restructuring programme should be outlined separately on **Tab 3** (Restructuring). Detailed commentary is always welcome to provide clarity and to reduce the scope for misinterpretation.

Tab 4 (Summary Cash Flow & Balance Sheet) consists of an abbreviated Cash Flow Statement and Consolidated Statement of Financial Position.

Product sales data by both region and medicine should be entered into **Tab 5** (Group product sales). Total product sales is linked from the Income Statement tab in row 9 and is then broken down by region in the reconciliation in rows 11-29. If Rest of World product sales are not currently forecast to the level of detail in the template, please enter a total ROW forecast in row 17.

We continue to collect medicine forecasts by geographic region for a number of medicines. Please complete the rows shaded in orange where regional breakdown of forecasts is available (ROW is a sub-total of Europe, Est. ROW & Emerging Markets).

For some of the medicines in collaboration (trastuzumab deruxtecan and tezepelumab), we are also collecting WW forecasts (rows 423-424, memo lines only). We anticipate this will allow analysts to reflect the appropriate financial treatment of these collaborations as it relates to sales, collaboration revenue and costs of goods sold.

Please note we continue to request information on pipeline risk adjustments and we hope you share our view that this is a valuable addition to the collection: If you use a risk adjusted approach to forecasting pipeline product sales, please enter your product sales forecasts after risk adjustments, as before, but also provide the probability of success % where asked for in the template (i.e. if you include 75% of product sales in your Income Statement, the probability of success is 75%).

If you use a binary approach, please enter 100% next to the included medicines and 0% where you have actively decided to exclude product sales. Please leave blank where you have simply not considered a certain potential medicine (e.g. because of its stage of development).

Peak sales estimates are collected on **Tab 6** (Pipeline peak sales). Please provide the probability of success (POS) if using a risk adjusted approach – if not risk adjusted, please enter 100%.

Please return to christer.gruvris@astrazeneca.com by **Friday 6 December 2019**.

Should you have any queries on how to complete this template, please do not hesitate to contact Christer Gruvris. In return, we will provide a consensus core and reported P&L for AstraZeneca Group, which will give you a good view on the range of market assumptions. We will also provide consensus detail for the Restructuring Programme cost, Summary Cash Flow & Statement of Financial Position, and product sales split by Region providing sufficient analysts complete these templates.