CLOSECONCERNS

Diabetes Close Up, V2, #14
July 24, 2003

Good morning!

1. **BD Fiscal 3Q03 results** – $3.6 mm lower than expected.
2. **Upcoming earnings reports** with implications for diabetes/obesity markets
3. **Upcoming diabetes/obesity – related conferences**

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1. **BD F3Q03 results:**
    a. **Blood glucose monitoring sales totaled $3.6 million**, sequentially lower than last quarter's $5.0 mm and below expectations.
    b. **Lower than expected sales were attributed to delays in partner launch plans** and **inherently lower predictability** in this business. Strategy has not changed – company still expects to go after high strip users such as pump users and those taking insulin. Focusing on pump users makes sense – this is the most profitable group, the most frequent testers. (Management noted 6-12 strips/day –this sounds like a high average to me although for hyperintensive testers – a small group - I believe the test/day frequency has continued up.)
    c. **New guidance of $15 mm** was reduced from initial $40-$50 mm guidance. This seems much more achievable. Sales will continue to be lumpy in the short term. A major "East coast retailer" is expected to be added in the fourth quarter.
    d. **Started shipping new system**: Management noted that its Paradigm 512 system and Paradigm Link system (BD Paradigm/Logic monitor) has launched nationwide; from what I understand, it started shipping yesterday. Management characterized this as its most important product in the lineup. It did not update investors on plans for the "smart pen" still to come from Lilly. I've only spoken to one person with the system – too early to make any conclusions, but clearly the investment is still a major focus. I see growing patient interest in integrated systems and uptake in my view will depend on how they work and other products in competitive pipelines.
    e. **BD believes this business will be profitable** in 2005-06. Management noted that the costs of the program have been higher than forecast originally and reiterated that it does not have a broad sampling strategy. This quarter, about $7-$8 mm was spent between SG&A ($5-6 mm) and cost of goods ($2 mm). Retail coverage still stands at about 70% - they are playing catch up out West.
    f. **Recall:** There is a recall of three lots of Latitude strips in Canada (about $400,000). Explained as being unrelated to overall weakness stemming from later than expected launch. We will speak to clinicians at the Canadian Diabetes meeting in October to see if there is any impact. No serious injury expected but patients could get inaccurate readings at low blood glucose levels.
    g. **Competitive landscape**:
        a. J&J total blood glucose monitor sales fell 6% in 2Q
        b. Abbott's sales rose 3% in 2Q
        c. Roche's first half results showed a 4% increase worldwide (~1% excluding Disetronic).

d. We understand Bayer saw some weakness in the US (results not disclosed) and we will look for TheraSense results later today to get as full a picture of the industry as possible.

2. Upcoming earnings reports with implications for diabetes/obesity markets:

a. **THER** – Thursday, July 24, 5:00 pm EST www.therasense.com
b. **BMY** – Thursday, July 24, 10:30am EST http://www.bms.com/investors/data/
c. **LLY** – Thursday, July 24, 9:30am EST http://investor.lilly.com/calendar.cfm
d. **PFE** – Friday, July 25, 11:00 EST http://www.pfizer.com/main1.html
e. **AVE** – Tuesday, July 29. Earnings press release on the website (www.aventis.com) as early as 1 am EST (7am Central European Time)
f. **IMDC** – July 30, 4:30 pm EST www.inamed.com
g. **NVO** - Aug 5, 9:00 am EST (15:00 Danish time) - will be webcast on homepage. http://www.novonordisk.com/investors/default.asp
h. **NKTR** – Wednesday, August 6, 5 pm EST www.nektar.com
i. **AMLN** – Thursday, August 14, 12 am EST www.amylin.com
j. **MDT** – Week of August 11 (estimated); annual meeting occurs August 28 www.medtronic.com
k. **Already reported: JNJ, ABT, Roche, BD, GSK.**

3. Upcoming diabetes/obesity – related conferences:

a. **AADE**: August 5-9, Salt Lake, www.aadenet.org.
b. **EASD/IDF**: August 24-29, Paris, www.easd.org.
c. **NAASO Annual Scientific Meeting**: October 11 – 15, Ft Lauderdale, www.naaso.org/meetings/
d. **Canadian Diabetes Association**: October 15-18, Ottawa, Canada. www.diabetes.ca Early bird discount ends August 18.
e. **Diabetes Technology:** November 6-8, San Francisco. www.diabetestechnology.org
f. **American Heart Association**: Diabetes symposium led by the great Dr. Steve Marso: November 8, 11:30 a.m.-4:00 p.m, Orlando – www.scientificsessions.org.

Please let me know if you have any questions!

Diabetes Close Up is an occasional newsletter that highlights notable goings-on related to selected companies with diabetes/obesity businesses. This newsletter is put forward as an unbiased commentary on the industry. If you have any suggestions that you think should be included, please contact info@closeconcerns.com. Many thanks!