



MEMORANDUM

**Roche 3Q13 QuickTake - Worldwide sales flat, EMEA up 6% and US down 10%; "volatile" US marketplace - October 17, 2013**

**Executive Highlights**

- Worldwide Diabetes Care sales totaled 576 million CHF (~\$618 million), down 0.2% from 3Q12.
- Europe, Middle East, and Africa sales were up 6%, counterbalanced by a 5% sales decline in Latin America, Asia-Pacific, and Japan, and a 10% sales decline in the US.

*Roche announced 3Q13 financial results this morning in a call led by CEO Severin Schwan. Worldwide Diabetes Care sales totaled 576 million CHF (~\$618 million), down a reported 0.2% year-over-year (YOY) from 3Q12. The YOY comparison was a fairly easy one, as sales were down 5% YOY in 3Q12 and we were very impressed that management acknowledged this openly as part of its prepared remarks. Sales in North America totaled 112 million CHF (~\$120 million), down 10% YOY as reported; management characterized the US market as particularly "volatile" market in the US. Internationally, Roche grew 2.4%. Specifically, in Roche's largest geographic area (Europe, the Middle East, and Africa - 60% of its business), the company recorded 341 million CHF (~\$366 million) in sales, up 6% YOY as reported. In Roche's second largest market (Latin America, Asia-Pacific, and Japan), revenue reached 123 million CHF (\$132 million), down 5% YOY as reported. Management remarked that there has been good uptake of the Accu-Chek Combo, Accu-Chek Mobile, and Accu-Chek Nano. Sequentially, worldwide sales fell 14% in 3Q13, though the comparison was challenging as 2Q13 sales rose 24% sequentially.*

*Looking forward, management remarked that 4Q13 will continue to be difficult in the US due to reimbursement changes. Roche's 3Q13 sales decline in the US was a trend we also saw with both J&J and Abbott, who already reported this week - Abbott saw a comparable 9% revenue decline in the US (see <http://www.closeconcerns.com/knowledgebase/r/cd650b72>), while J&J was much harder hit with a 28% decline in US sales. As a reminder, Roche reports "North America" revenue and does not specifically break out "US" values, so the results are not directly comparable. The press release noted that "Roche Diabetes Care is continuing its restructuring initiatives to sustain long-term profitability" - we assume this reflects a mix of cost cutting and strategies to respond to CMS' competitive bidding program, which began on July 1.*

*Roche does not separately break out quarterly sales for pumps and BGMs, though the Diabetes Care slide ("Adapting to a challenging market environment") highlighted nine-month year-to-date sales in each division: BGM sales fell 3% vs. 2012, while insulin delivery sales rose 3% vs. 2012. Approximating from the chart, Roche's Diabetes Care business is approximately 92% BGM and 8% pumps.*

*On the pipeline side, the Accu-Chek Insight (new insulin pump and BGM combo product) is expected to launch in the EU in 4Q13. There was no update on Roche's novel CGM in development. A slide on Roche's metabolic development programs had no update on the company's two phase 1 candidates - MAR709, a GLP-1/GIP dual agonist (acquired from Marcadia; ongoing 60-patient ascending dose study) and RG7410, a new compound for metabolic disease. Regarding Lucentis, management highlighted its continued success and noted that it has outperformed the beginning of the year expectations. We'll return with comprehensive coverage of the call, and as a reminder of Roche's 2Q13 financial results, please see <https://closeconcerns.app.box.com/s/duocsrkmjtazp3iehi69>.*

*-- by Hannah Martin, Adam Brown, and Kelly Close*