



MEMORANDUM

Abbot 3Q13 QuickTake - Worldwide revenue up 1%, with 9% international growth offset by 9% US decline; comments on pipeline - October 16, 2013

Executive Highlights

- Worldwide Diabetes Care revenue reached \$319 million in 3Q13, up 0.4% as reported and 1% operationally. In the US, Diabetes Care revenue totaled \$122 million, down 9% YOY, compared to 8% reported growth internationally (9% operationally).
- New pipeline products are "clearly meant to address those who were Navigator users, and, frankly, others on top of that."

Abbott just announced 3Q13 financial results in a call led by CEO Miles White. Worldwide Diabetes Care revenue reached \$319 million in 3Q13, up 0.4% as reported and 1% operationally, year-over-year (YOY). It was refreshing to see overall positive growth, since worldwide YOY sales had declined in four of the past five quarters, and pricing pressures have only intensified in recent months. In the US, Diabetes Care revenue totaled \$122 million, down 9% YOY, compared to 8% reported growth internationally (9% operationally). Management highlighted that international sales accounted for 60% of total Diabetes Care sales, which helped offset the US decline. Sequentially, Worldwide Diabetes Care declined 2% as reported, with a 3% sequential gain internationally offset by a 9% sequential decline in the US.

Management attributed the challenging US performance largely to CMS' competitive bidding program for diabetes testing supplies. During Q&A, management remarked that although competitive bidding has affected its business (it went into effect on July 1), the measure has been less impactful on Abbott compared to others in the field (they have a lower share of Medicare testers). We aren't sure which company has the biggest percentage of the Medicare testers; that is one contributor to US sales only (although CMS actions have influenced other payers). Abbott results in the US were better than J&J's for the second straight quarter; J&J was down over 20% in the US as they reported yesterday. Management remarked that Abbott's strategy is different compared to competitors', which has allowed it to "[hold] share and revenues very well." We will hear how the other Big Four blood glucose monitoring companies, Roche and Bayer, who report 3Q13 financial results tomorrow and October 31, respectively, reference competitive bidding.

Management briefly mentioned that the company expects to launch new tests in the diabetes business; this was quite a strategic mention that undoubtedly referred to the company's new Abbott Flash glucose monitoring system in development. We were encouraged to hear mention of the Diabetes Care pipeline in Q&A, where the longer-term strategy is to develop a "very innovative family of products" for which management has "great expectations and aspirations" for. We assume this includes the new Abbott Flash system, which was introduced at EASD this year (see our report at <http://www.closeconcerns.com/knowledgebase/r/f517afa8>). Notably, management noted that this set of products is "clearly meant to address those who were Navigator users, and, frankly, others on top of that." It was interesting to hear this; we have the impression that the Flash system is being positioned as an alternative both to BGM and CGM. We assume this comment reflects the general type of patient the Flash will be targeted at - patients who are intensively managed and want more glucose data to optimize therapy.

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