

## AstraZeneca PLC

### AstraZeneca chief confident risks will pay off

But questions remain about drugmaker's longer term prospects



Pascal Soriot, chief executive of AstraZeneca, says the US marketplace has undergone tremendous price pressures in the past 12 to 18 months © Bloomberg

YESTERDAY by Sarah Neville, Global Pharmaceuticals Editor

Pascal Soriot is the first to recognise that a pharmaceutical company must take risks if it is to find the next transformative medicine.

“It would be much simpler to sell toothbrushes and toothpastes and shampoo or whatever but that’s not we are about,” said the chief executive of drugmaker [AstraZeneca](#) recently.

But Mr Soriot’s determination to pursue scientific innovation has this year led to a rollercoaster ride for the Anglo-Swedish group. A [huge disappointment](#) over an immunotherapy treatment — when data from the eagerly awaited Mystic trial showed a combination medicine was no better than chemotherapy at keeping late-stage lung cancer at bay — was followed just weeks later by the announcement of two [significant breakthroughs](#) for the same disease.

There have been other promising signs that AstraZeneca’s pipeline contains the money-spinning medicines of the future, not least a successful trial of an injectable biologic treatment for severe asthmatics, devised in conjunction with Amgen. On Monday, meanwhile, its Tagrisso drug was granted “breakthrough therapy designation” status by US regulators for first line treatment on patients with a certain form of advanced lung cancer.

But despite such successes, insistent questions remain about whether the company — and Mr Soriot — have truly turned a corner, or whether AstraZeneca is seeking to generate short-term returns to cover its dividend at the expense of longer term revenue streams. The company has maintained its dividend even as sales have fallen.

In an interview with the Financial Times, Mr Soriot strongly rebuts the suggestion that the company is “mortgaging the future to pay [for] the present. It’s actually not the case at all,” he says.

A note released in August by analysts at Goldman Sachs garnered attention in the City by suggesting that, in his determination to service cash flow requirements, including the dividend, Mr Soriot had changed strategy and was selling key assets, rather than focusing disposals on non-core areas or medicines that had reached the end of their patent life.

They pointed to two recent deals in the core areas of respiratory and oncology. In one, the US rights to a respiratory drug, Duaklir, were sold to biotech [Circassia](#), and in another, a 50 per cent stake in Lynparza, a promising oncology drug, was sold to [Merck](#), the US-based drugmaker, for about \$8.5bn.



Such deals, and other collaborations with companies that develop AstraZeneca assets, are logged in the company’s accounts under the heading of “externalisation”. This contributed \$673m to overall revenues of \$10.45bn in the first half of this year, income that has long been questioned by analysts and investors.

Astra has said that under the terms of the agreement with Merck about \$1bn will be recorded under externalisation revenue in 2017.

Jeffrey Holford at Jefferies has argued that “earnings quality remains poor, driven by externalisation and asset sales, which will be difficult to wean the company off over the mid term without impacting [earnings per share] growth”.

In the past year AstraZeneca’s share price has gone through gyrations, not least after the Mystic results wiped £10bn off its value, but overall has risen only fractionally, now standing at roughly £51.50.

In 2014 Mr Soriot promised to return AstraZeneca to consistent revenue growth, beginning this year and leading to about \$40bn in annual revenues by 2023. Its last set of results in July showed sales down 10 per cent, at constant currencies, in the first half of this year.

Some of the industry’s most influential figures are so far keeping faith with the company as Mr Soriot pursues his turnaround project.

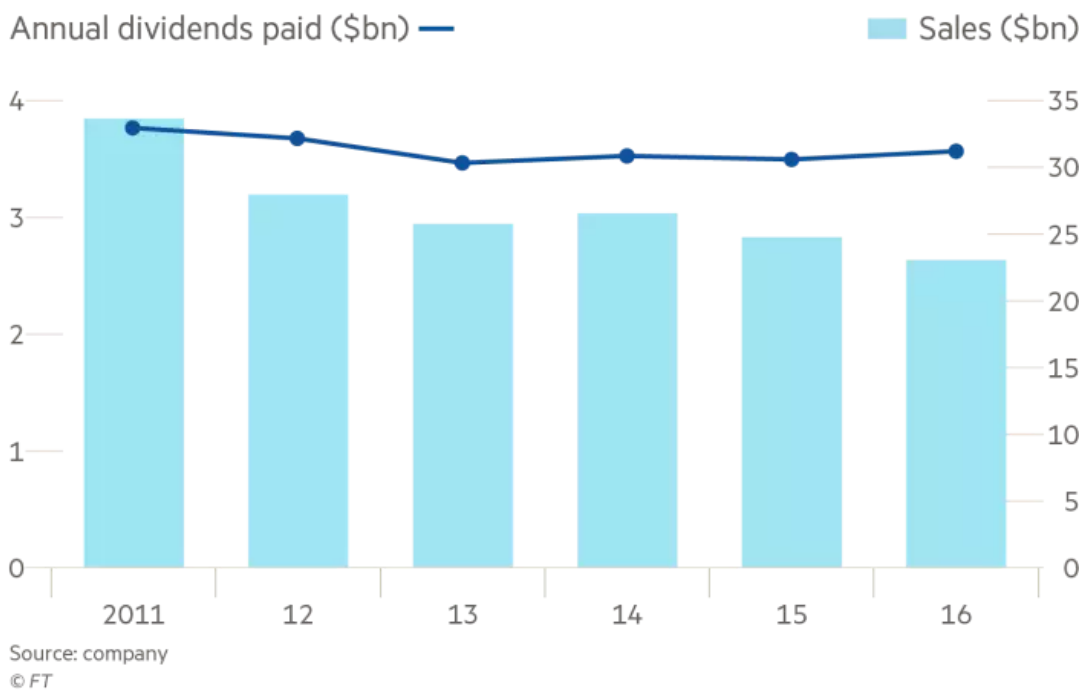
Among them is Neil Woodford, the prominent British investor, who in the wake of the Mystic setback highlighted AstraZeneca’s pipeline of breakthrough therapies, arguing there was “more than enough evidence” to show the chief executive’s strategy was working.

Repeatedly deploying military metaphors to describe his approach, Mr Soriot insists there has been “no shift in strategy. But like everything . . . you have a plan to go to war and then you get into the battlefield and you have to adjust . . . to business circumstances.”

The US marketplace, he says, has undergone “tremendous price pressures in the last 12 [to] 18 months. It was not in our original battle plan. It was in nobody’s battle plan.” Another unexpected issue with which the company has had to contend is the strengthening of the dollar over the past two years, he adds.

Defending the deal with Merck as bringing in much-needed additional resources, the chief executive says: “Oncology is growing faster and bigger than we thought, which is a good thing. So . . . we redeploy our resources, we find ways to fund oncology.”

## AstraZeneca has maintained its dividend despite sales falling



The ability to combine Lynparza with Merck’s own successful drug, Keytruda, will greatly enhance its potential as a combination immunotherapy treatment, even though profits will now be shared 50:50 with the US drugmaker.

“People look at the money we get and they say: ‘You’re selling the product.’ No, we are entering a partnership,” says Mr Soriot.

Meanwhile, he adds, AstraZeneca still has sole entitlement to profits from Duaklir everywhere in the world apart from the US, including the underpinning inhaler technology that “is a core asset that will serve us well in the future”.

“You redeploy the army according to where you’re actually progressing,” he adds. “But you can’t say the strategy has changed. It’s just you adjust to the environment.”

## AstraZeneca admits cancer trial setback

When the disappointing results of the Mystic trial were released, showing it was not superior to chemotherapy in extending “progression free survival”, AstraZeneca sought to emphasise that its hopes for the drug combination at the heart of the study remained alive.

More important data on whether medicines improved overall survival would not be released until next year, stressed Pascal Soriot, chief executive, and other senior colleagues.

However, in his FT interview Mr Soriot strikes a more downbeat note, saying: “We think the probability for [the] combo [treatment] has really dropped quite a bit.”

While some analysts have said they do not regard Mystic success as essential to AstraZeneca's turnaround strategy, unimpressive results on overall survival would be a blow. Berenberg, the investment bank, this year estimated potential annual sales for Imfinzi, should the trial deliver strong results, at \$2.5bn.

While Mr Soriot is confident that Imfinzi will work as a standalone treatment for late-stage lung cancer sufferers, the combination treatment has more side effects and thus "the bar is higher" for regulatory approval, he acknowledges.

Results released at the European Society for Medical Oncology nevertheless held out the prospect that AstraZeneca could lead in an area where immunotherapy has, until now, been slow to penetrate: as a first treatment before a patient has relapsed.

"In early-stage lung cancer we definitely can be first," says Mr Soriot.

Meanwhile, as a "mono" treatment, Imfinzi can still help those whose cancer has reached stage four, he argues.

"So . . . we have a very good offer to make to physicians who treat lung cancer patients."

In addition, he emphasises, the combination treatment may still turn out to work well in other tumour types such as pancreatic and bladder cancer and the liver cancer, hepatocarcinoma.