Closer Look

MEMORANDUM

Diabetes global revenue down 10.3% as reported and down 6.2% operationally; FreeStyle Navigator II launches in Europe - October 17, 2012

Executive Highlights

- Global Diabetes Care revenue reached $317 million, down 10% as reported and down 6% operationally from $354 million in 3Q11; sequentially, Diabetes Care revenue declined 4%.
- In mid-September, the FreeStyle Navigator II launched in Europe. Clarke Error Grid analysis shows that 83% of Navigator II readings fall in the A-Zone.
- Management announced that the phase 3 outcomes trial (BEACON) for bardoxolone methyl, Reata/Abbott's compound for CKD, has fully enrolled.

This morning, Abbott CEO Miles White led the company's 3Q12 financial results update. Global Diabetes Care revenue totaled $317 million in 3Q12, down 10.3% as reported and down 6.2% operationally from $354 million in 2Q11. Both reported and operational performance missed the company's 2Q12 forecast, which called for a low-single digit decline on an operational basis and mid-single digit decline on a reported basis. In 3Q12, Abbott's Diabetes Care business recorded its lowest global revenue since 1Q10, similar to Roche, which had its lowest quarter of BGM revenue since 1Q10 as well, and to J&J, which had its lowest quarter of revenue since 1Q09. On a sequential basis, Abbott's Diabetes Care revenue declined 3.9%. Internationally, Diabetes Care revenue reached $182 billion reflecting a 12.5% decrease on a reported basis and a 5.5% decrease operationally; however, the comparison to 3Q11 was quite challenging (3Q11 grew 13% over the previous year) and currency effects were not in Abbott's favor. US revenue totaled $135 million, falling 7.1% from 3Q11 - a predictable result considering a challenging comparison (3Q11 grew 9% over the previous year) and that, in this environment, Abbott's strong growth earlier this year would be hard to sustain (Abbott Diabetes Care grew 7.3% in 1Q12 and 8.6% in 2Q12). During Q&A, management pointed to pricing and reimbursement pressures, echoing the challenges highlighted by Roche and J&J management during yesterday's calls. Abbott, Roche, and J&J have reported thus far, and continuing the trend, combined revenue for the three competitors ($1.5 billion) has not been this low since early 2009. We hope to provide additional discussion on the Big Four's performance when Bayer reports on October 30; we forecast a similar result for Bayer, particularly since it too will be facing especially competitive results for 3Q11.

On a more positive note, we learned at EASD 2012 that Abbott launched its next-generation FreeStyle Navigator II CGM in Europe in mid-September. Notably, this has been a low-key launch: it was not announced on the call or in any press release, and Abbott chose not to have a booth at EASD, as it would have in any other year. The company's pivotal trial showed 97.7% of readings in the Clark Error Grid A- and B-Zones (83% in A-Zone; 14.7% in B-Zone). We've heard it is very slick and wish we could try it. Ultimately, we are glad to see Abbott is still in the CGM, and the newest generation addresses some of the shortcomings in the first-gen device (e.g., long warm up time of ten hours, relatively large transmitter size). On the blood glucose monitoring front, according to ClinicalTrials.gov, a UK ease-of- use study comparing Abbott's FreeStyle InsuLinx with a built-in bolus calculator to other glucose meters was recently completed. We are very excited to see these results; we know that FDA is very risk-averse about any "recommendations" but we increasingly consider this view "anti-patient". We don't know if Abbott will pursue FDA clearance for the bolus calculator feature, which is currently only available ex- US.

Looking to the company's pharmaceutical pipeline, management announced the outcomes-based phase 3 BEACON study of Reata's potentially disease-modifying therapy for chronic kidney disease (CKD), bardoxolone methyl, is fully enrolled at the expanded 2,000 patient enrollment; according to

ClinicalTrials.gov, completion is still expected in June 2013. The status of Abbott's in-house CKD treatment, atrasentan (ABT-627), has progressed, albeit behind its targeted timeline: according to ClinicalTrials.gov updates during the quarter, one phase 2b trial has completed, and two others, which had been slated for 3Q12 completion, are still ongoing. No other updates on the diabetes drug pipeline were provided in the call. Meanwhile, progress continues on the spinoff of Abbott's research-based pharmaceuticals into a new company, AbbVie. Management said the process was on track to complete by January 1, 2013. We hope management will talk more about its diabetes businesses in both the streamlined companies; Diabetes Care will still be an Abbott business while bardoxolone methyl will be part of AbbVie.

FINANCIALS

- **Global Diabetes Care revenue reached $317 million in 3Q12,** down 10.3% as reported and down 6.2% operationally from $354 million in 3Q11. During the call, management expressed optimism regarding its Diabetes Care business, citing improved operating margin, streamlined manufacturing, better sales force execution, and more efficient SG&A spending. Additionally, during Q&A, management commented that Abbott's entire device franchise was in a "transitional phase," and that growth for each division, including Diabetes Care, could be expected going forward. Still, 3Q12 was a weaker than expected quarter for Abbott Diabetes Care, as the business faced both domestic and international revenue woes, most of them probably tied to greater cost pressure but perhaps some also related to things like profitable (i.e., frequent testing) patients starting to use CGM rather than multiple strips (this is a small group at present in our view but it's growing) and patients worrying less about hypoglycemia as they transition from medicines like SFUs to DPP-4 inhibitors or other incretins that do not cause hypoglycemia.

	3Q12 Revenue in Millions	**Reported (Operational) Growth from 3Q11**
Abbott Diabetes Care	$317	-10.3% (-6.2%)
US	$135	-7.1%
International	$182	-12.5% (-5.5%)

- **Abbott recorded its lowest worldwide Diabetes Care revenue since 1Q10, when Diabetes Care totaled $295 million.** Additionally, 3Q12 marks the third straight quarter of negative reported performance, which starkly contrasts with 2009 and 2010, where there was positive growth every quarter. We note this quarter had a challenging comparison since 3Q11 revenue grew 11.3% on a reported basis and 5.0% on an operational basis.

Worldwide Sales						
	2Q11	**3Q11**	**4Q11**	**1Q12**	**2Q12**	**3Q12**
Worldwide Revenue (millions)	$334	$354	$351	$318	$330	$317
Reported Growth (Year-over-Year)	2.7%	11.3%	4.0%	-2.4%	-1.2%	-10.3%
Operational Growth (Year-over-Year)	-2.4%	5.0%	3.5%	-1.4%	3.3%	-6.2%

- **US revenue totaled $135 million, a 7.1% decline from $146 million in 3Q11.** The quarter's decline contrasted with recent US growth rates, which have been positive since 2Q10; however, 3Q12 faced an especially challenging year-over-year comparison with 8.3% growth in 3Q11. Unfortunately, the comparison in 4Q12 won't be much easier with 4Q11 growth of 7.1%.

US Sales						
	2Q11	**3Q11**	**4Q11**	**1Q12**	**2Q12**	**3Q12**
US Revenue (millions)	$133	$146	$136	$139	$144	$135
Reported/Operational Growth (Year-over-Year)	4.3%	8.3%	7.1%	7.3%	8.6%	-7.1%

- **International revenue of $182 million declined 12.5% on a reported basis and 5.5% on an operational basis from $208 million in 3Q11;** 3Q12 faced a difficult year-over-year comparison when 3Q11 recorded 13.5% growth on a reported basis and 2.6% growth on an operational basis. We also note that the strengthening dollar had a significant negative impact (- 7%) on reported international performance.

International Sales						
	2Q11	**3Q11**	**4Q11**	**1Q12**	**2Q12**	**3Q12**
International Revenue (millions)	$201	$208	$215	$179	$186	$182
Reported Growth (Year-over-Year)	1.7%	13.5%	2.2%	-8.7%	-7.7%	-12.5%
Operational Growth (Year-over-Year)	-6.7%	2.6%	1.5%	-7.0%	-0.3%	-5.5%

- **Sequentially, overall revenue was down 3.9%, following 3.8% sequential growth in 2Q12;** the overall decline was reflective of a 6.3% US decline and 2.2% international decline. For comparison, overall revenue increased sequentially by ~6.0% in 3Q11 and declined by ~2.2% in 3Q10.

Sequential Performance						
	2Q11	**3Q11**	**4Q11**	**1Q12**	**2Q12**	**3Q12**
Worldwide Sequential Growth	2.8%	6.0%	-0.8%	-9.4%	3.8%	-3.9%
US Sequential Growth	3.1%	9.8%	-6.8%	2.2%	3.6%	-6.3%
International Sequential Growth	2.6%	3.5%	3.4%	-16.7%	3.9%	-2.2%

- **Joint Diabetes Care revenue from Abbott, J&J, and Roche totaled $1,546 million, the lowest level of total revenue among the companies since 1Q09, when revenue totaled $1,418 million[1].** In US dollars, the quarter marked Abbott's lowest Diabetes Care revenue since 1Q10, J&J's lowest since 3Q10, and Roche's lowest since 1Q09. (In Roche's national currency [CHF],

the company's sales were lower in 1Q12.) Revenue declined by 12% year-over-year on a reported basis, although the comparison was by no means easy with 8.9% growth in 3Q11. While next quarter will face an easier year-over-year comparison, challenging market climates seem almost certain to persist (see below). We look forward to providing a complete picture of the Big Four BGM companies when Bayer reports October 30.

[1] As a reminder, each company's Diabetes Care total includes some fraction of non-BGM revenue: insulin delivery for Roche and J&J and CGM for Abbott.

Worldwide Diabetes Care Joint Sales (Abbott, J&J, and Roche*)						
	2Q11	**3Q11**	**4Q11**	**1Q12**	**2Q12**	**3Q12**
Worldwide Revenue (millions)	$1,795	$1,755	$1,823	$1,599	$1,747	$1,546
Reported Growth (Year-over-Year)	9.0%	8.9%	3.1%	-2.4%	-2.7%	-12%

*Currency conversion for Roche based on average exchange rate during respective quarters on oanda.com.

- **Roche maintained its market lead internationally**. (While Bayer has yet to report, the company typically has worldwide Diabetes Care revenue less than Roche's outside of North America revenue.) An austere European reimbursement environment likely contributed to the revenue declines observed amongst the three BGM competitors. During Roche's 3Q12 update, management attributed poor Diabetes Care performance to reimbursement cuts and pricing pressure, and Abbot management pointed to "price pressure, reimbursement pressure, and so forth, particularly from governments in Europe." A challenging reimbursement climate was also a theme in last quarter's Big Four BGM financial updates, and these pressures seem unlikely to abate in the near future. Our Roche 3Q12 is available at: http://www.closeconcerns.com/knowledgebase/r/cc7c77ee. Our J&J 3Q12 is available at: http://www.closeconcerns.com/knowledgebase/r/885ec5ec.

	3Q12 Revenue in Millions	**Reported/Operational Growth from 3Q11**
Abbott, *International*	$182	-12.5%/-5.5%
J&J, *International*	$301	-7.7%/0.8%
Roche, *Outside North America*	$471*	-2.6%**

*Currency conversion based on average exchange rate from July 1 - September 30 on oanda.com: 1.0394 USD per CHF.

**Roche does not specifically break out operational growth for Diabetes Care outside North America.

- **In line with past quarters, J&J was the market leader in the US; however, all three competitors' revenue decreased as reported, speaking to a challenging US environment as well.** J&J management specifically cited decreased mail order and hospital sales in their 3Q12 call. We wonder if increased access to low cost meters and strips (i.e., Walmart's ReliOn Prime program which offers a 50-ct box of strips for $9) might also be a contributing factor. Going forward, growth may prove even more challenging depending on the impending Centers for Medicare and Medicaid Services' (CMS) decision on whether to adjust the current fee schedule for retail strips; for further discussion, please see our July 25 *Closer Look* at: http://www.closeconcerns.com/knowledgebase/r/a8833356.)

	3Q12 Revenue in Millions	Reported/Operational Growth from 3Q11
Abbott, *US*	$135	-7.1%
J&J, *US*	$328	-3%
Roche, *North America**	$129*	-11.4%**

***Currency conversion based on average exchange rate from April 1 - June 30 on oanda.com: 1.0692 USD per CHF.

**Roche does not specifically break out operational growth for Diabetes Care outside North America.

- **We worry that reimbursement and pricing pressures will lead to a future with less incentive for BGM innovation and inequitable access to glucose monitoring technologies.** If pricing pressures increase and if reimbursement begins to exclude more expensive products (which typically feature greater accuracy and enhanced patient features), companies may: 1) shift focus to less expensive, more commoditized products; 2) reduce R&D spending on next-gen, more expensive technology; or 3) exit the business entirely. A more adverse reimbursement environment would also make out-of-pocket expenses for higher end products more prohibitive, translating into a widening product access gap.
- **The focus of Abbott's financial update was the ongoing separation of Abbott into two healthcare companies: Abbott and AbbVie.** Management called it "the most significant transformational event" in the company's history. The separation will complete January 1 - the Abbott company will be comprised of a Nutritionals, Established Pharmaceuticals, Medical Devices, and Diagnostics division (retaining Diabetes Care); AbbVie will be a "large cap, biopharmaceutical company" (we presume AbbVie will retain bardoxolone methyl and Abbott's CKD pipeline).

DEVICE PIPELINE

- **During EASD 2012, Dr. Roman Hovorka (University of Cambridge, UK) announced that the Abbott FreeStyle Navigator II launched in Europe in mid-September.** Interestingly, Abbott never announced the launch and we wonder why this was the case; we suspect they are just continuing in stealth mode. While management provided no detail on the product or launch during the call, in our follow-up with the company we were able to glean some additional detail on the Navigator II's accuracy and the completed pivotal study. In the trial (which 30 patients completed, each wearing the sensor for three successive five-day wear periods), FreeStyle Navigator II readings were referenced against FreeStyle Lite strip readings. In a Clarke Error Grid analysis, 83% of readings fell in the A-Zone and 14.7% of readings fell in the B-Zone. For comparison, Dexcom's pivotal study for the G4 Platinum reported 80% of values in the A-Zone (we note also, the Dexcom study was slightly more robust, as it included 72 patients[vs. 30] and used YSI reference). At blood glucose values less than 75 mg/dl, 74.1% of Navigator II values fell within 20 mg/dl. Turning to mean absolute difference (MAD) and mean absolute relative difference (MARD), Abbott provided the following break down:

Glucose Range	Performance
20-40 mg/dl	MAD = 22.6 mg/dl
41-80 mg/dl	MAD = 13.2 mg/dl
81-120 mg/dl	MARD = 12.4%
121-240 mg/dl	MARD = 10.9%

>241 mg/dl	MARD = 11.1%

Currently, the product is available in Denmark, France, Germany, The Netherlands, Norway, and Sweden. We hope to hear more at the upcoming Diabetes Technology Meeting November 8-10 or perhaps ATTD 2013 in Paris, and are of course, very interested to find out whether Abbott will pursue approval in the US.

- **Management highlighted the FreeStyle InsuLinx blood glucose meter in a product pipeline discussion, which had launched in both the US and EU as of 2Q12.** The FDA approved the FreeStyle InsuLinx BGM in March 2012. For details on the meter, please see our March 12, 2012 *Closer Look* at http://www.closeconcerns.com/knowledgebase/r/07b9a2d3 and our test drive review in *diaTribe* #41 at http://diatribe.us/issues/41/test-drive. In Europe (launched May 2011) and in Canada (launched October 2011) the meter includes a built-in bolus calculator, in addition to the insulin-dosing software and touchscreen that are highlights of the US version.
    - **We remain curious about the US regulatory timeline for the bolus calculator feature as well as any other plans for future InsuLinx products.** According to ClinicalTrials.gov, a UK ease-of-use study comparing Abbott's FreeStyle InsuLinx with built-in bolus calculator to other glucose meters was recently completed (listing updated September 10, 2012; Identifier: NCT01432275). As a reminder, the 25- day, crossover-design study is set up to compare the FreeStyle InsuLinx (with or without the bolus calculator active) to three other blood glucose meters (Roche's Accu-Chek Aviva Nano, LifeScan's OneTouch Verio Pro, and Bayer's Contour USB) in terms of patient preference.
    - **Positive findings could potentially substantiate the value of the built-in-bolus calculator and help with FDA approval for Abbott whilst setting a precedent by which other BGM companies could benefit.** Roche also touts a BGM with integrated bolus calculator, the Accu-Chek Aviva Expert; however, to our knowledge, the company is undecided whether it will pursue FDA clearance. At EASD 2012, Roche presented first results from the ABACUS study comparing MDI therapy to MDI with bolus advisor supported therapy (which came in the form of the Aviva Expert). At six months, a greater percentage of patients in the BA group achieved the A1c reduction target (>0.5% change from baseline) compared to the standard MDI group ($p < 0.01$). However, the benefits were statistically significant only among patients with perfect baseline competency scores in MDI and carbohydrate counting, underscoring the need for interventions that work for patients with poorer carbohydrate counting and MDI competency. For full study details and our results discussion**,** please see page 60 of our EASD report at http://www.closeconcerns.com/knowledgebase/r/ee283b0b.
    - **We think that built-in bolus calculators certainly stand to add value by encouraging more appropriate bolus dosing; however we sense that the FDA is quite wary of meters with bolus calculators,** not least because bolus calculators depend on patients to have comprehensively logged their insulin injections and to have proper settings entered for insulin, carb, and correction factors.
    - **The usability study for FreeStyle InsuLinx in Germany and the Netherlands is still ongoing**; however as of the most recent October 12 ClinicalTrials.gov update (Identifier: NCT01519466), the study is now slated for completion in October (a slight delay from its original September target).
- **Management did not provide additional updates on the company's pipeline.** Supplemental information reminded that Abbott's ARCHITECT A1c assay received CE mark in July, but did not provide specific launch details. The ARCHITECT assay is a laboratory chemiluminescent immunoassay that provides an automated A1c result in 36 minutes and that operates on the ARCHITECT platform. The product was developed in collaboration with Axis- Shield, a UK-based diagnostics firm that was acquired by Alere last fall.

PHARMACEUTICAL PIPELINE

- **Management announced that the BEACON phase 3 outcomes study for bardoxolone methyl, Reata's compound for chronic kidney disease, has fully enrolled.** As a reminder, this follows the April 27, 2012 increase in target enrollment from 1,600 to 2,000. To our knowledge, the study expansion was the result of an unanticipated rapid over-enrollment, not a lower-than-expected event rate. The study will assess the efficacy of bardoxolone methyl relative to placebo in delaying progression to end-stage renal disease (ESRD) and is slated to complete in June 2013**.** Phase 2b bardoxolone results demonstrated significant gains in estimated glomerular filtration rate (eGFR) after 52 weeks (Pergola et al., NEJM 2011), and indicated that bardoxolone methyl could be the first therapy capable of truly reversing CKD. For additional background on the bardoxolone program**,** please see our November 3, 2011 *Closer Look* at http://www.closeconcerns.com/knowledgebase/r/2a00672f. Given the lack of available options for treating CKD (let alone reversing it!) and the significant cost burden it poses on society, we are highly excited about this drug's potential.
- **Abbott's in-house treatment for chronic kidney disease (CKD) atrasentan (ABT-627) remains in phase 2 with two ongoing safety and efficacy studies,** slated to complete in September and August (ClinicalTrials.gov Identifiers: NCT01399580 and NCT01356849, respectively). However, as of the most recent August 2012 ClinicalTrials.gov update, neither study has been completed. A third phase 2 trial recently completed, according to the September 12 ClinicalTrials.gov status update (Identifier: NCT01424319). As a reminder, Abbott has previously characterized atrasentan as complementary to (rather than competitive with) bardoxolone methyl, and its effects appear less dramatic than those of bardoxolone. Should BEACON turn out positive, bardoxolone will likely make it to market before atrasentan - we wonder how Abbott will prioritize both compounds in that case. Additionally, we wonder about the potential for combination therapy.
- **Abbott's ABT-614 recently completed a phase 1b study in patients with CKD,** according to the most recent August 21 update on ClinicalTrials.gov (Identifier: NCT01464320); The target completion date for the study was originally set for February 2012, so the company's slow movement on this front makes us curious whether Abbott plans to advance the compound into phase 2, or whether the company will focus efforts on its other CKD compounds further along in development. We still do not know ABT-614's mechanism of action, though a prior phase 1 study investigated its binding activity to the dopamine receptor D3 in the brain.
- **While Abbott has perhaps the most advanced diabetic nephropathy pipeline, Concert Pharmaceuticals and Vascular Pharma are also investigating treatments for diabetic nephropathy.** Concert Pharmaceuticals' candidate (CTP-499) is in phase 2; results are expected in mid-2013, putting CTP-499 behind bardoxolone methyl (and atrasentan), although the target patient population is somewhat different - Concert's study includes mild/moderate (stage 2/3) whereas BEACON is enrolling more advanced CKD patients. Vascular Pharma is advancing its preclinical diabetic nephropathy candidate, VPI-2690B, into phase 2 testing with funds secured through the company's Series A round of financing; the company expects to file for investigational new drug (IND) approval in 2H13. Vascular Pharma has also announced a deal that gives Janssen Biotech, a subsidiary of J&J, exclusive rights to acquire the company pending trial results. For a deeper delve into Concert's CKD programs, please see our April 13 *Closer Look* at http://www.closeconcerns.com/knowledgebase/r/cfbe27f2. Additional discussion on VascularPharma is available in our September 27 *Closer Look* athttp://www.closeconcerns.com/knowledgebase/r/e3c2a11e.

Diabetic Nephropathy Pipeline*			
Compound	**Company**	**Mechanism of Action**	**Phase**

Bardoxolone methyl	Reata (US)/ Abbott (OUS, excluding Japan, China, Korea, Taiwan, and SE Asia)	Antioxidant inflammation modulator that activates the Keap1- Nrf2 pathway, involved in maintaining kidney structure and function	3
Atrasentan (ABT-627)	Abbott	Oral, once-daily compound that interferes with endothelin-I, a protein with vasoconstrictive and hypertensive effects	2
ABT-614	Abbott	Unknown	Completed 1b
CTP-499	Concert Pharmaceuticals	Deuterium-stabilized analog of 1-((S)-5-hydroxyhexyl)-3,7- dimethylxanthine (HDX), believed to inhibit phosphodiesterases, enzymes that regulate cell-signaling pathways that increase inflammation and promote CKD	2
VPI-2690B	Vascular Pharma	Insulin-like growth factor-1 (IGF-1) monoclonal antibody	Advancing to phase 2
LY2623091	Eli Lilly	Mineralocorticoid receptor antagonist	2
LY2382770	Eli Lilly	Transforming growth factor-ß monoclonal antibody	2
PF-00489791	Pfizer	Phosphodiesterase inhibitor	2
PF-03882845	Pfizer	Anti-mineralocorticoid	1
SAR407899	Sanofi	Rho kinase inhibitor	1

*This chart is informed by our coverage of the field, and may not be comprehensive.

- **Certainly, the need for CKD treatments is great**; currently available treatments can slow the course of disease, but cannot reverse it. Diabetic nephropathy accounts for 40% of new cases of ESRD, and over 100,000 patients a year progress from CKD to end-stage renal disease (ESRD). Effective therapies for diabetic nephropathy are especially valuable since 20%-30% of type 1 and type 2 diabetes patients show evidence of nephropathy, and the annual cost of treating diabetes patients with ESRD exceeds $15.6 billion (Molitch et al., *Diabetes Care* 2004). We sincerely hope that bardoxolone methyl can replicate the phase 2 results in BEACON - the diabetes world drastically needs a disease-modifying therapy for CKD.
- **In April Abbott initiated a phase 2 study of ABT-639** for diabetic peripheral neuropathy (DPN), according to ClinicalTrials.gov. The parallel, active-controlled, double-blind trial (target n=48) will examine ABT-639's pharmacokinetics by measuring spontaneous activity in peripheral c-nociceptors every 10 minutes over three hours and pain intensity every hour for four hours. This study was slated to complete in September 2012; however as of the most recent September ClinicalTrial.gov update, the study is still recruiting (ClinicalTrials.gov Identifier: NCT01589432).

Questions and Answers:

Q: How do you see the development of the device franchise? Is this a growth asset? Is it a leverage asset?

A: I'd characterize the device franchise in the following way. I think we're in a transition period... And then finally, Diabetes Care, I would characterize in two ways. One, it's clearly a tougher, more competitive market over time. There has been a lot of price pressure, reimbursement pressure, and so forth, particularly from governments in Europe. On the other hand, we've got a particularly innovative pipeline and system of products coming that I think really change diabetes testing for the type 1 and type 2 tester going forward. The first product in that lineup, InsuLinx, is in the market now, and I'd say I've got a pretty exciting product line coming there. So I look for that business to also improve from a growth standpoint going forward. I'm looking for growth out of all three [Vascular, Ophthalmology, and Diabetes Care Business]. All three happen to be in transitional phases right now, but they've got a nice cadre of products coming.

At the same time, we've put a fair amount of emphasis on gross margin improvement in all of them, and we've seen a lot of margin improvement over the last few years out of Vascular. We've seen it out of our Diabetes Care business. I think all the prospects look good there. But in terms of the evolution of the performance of businesses, I'd say Diagnostics, for example, is ahead of others on those tracks...

-- by Kira Maker, Adam Brown, Jessica Dong, and Kelly Close

Editors note: This piece has been expanded and now reflects details on the FreeStyle Navigator II based on our additional learnings on the device's accuracy.

We also note that Reata announced the termination of the phase 3 trial for bardoxolone methyl the day following this call. Our report here reflects the status of the trial at the time of the financial update. For our discussion on the trial's termination, please see our October 18 *Closer Look* at https://closeconcerns.box.com/s/ppfmxnvzxanehq2qptzx.