# Chi-Med and Nestlé Health Science
# Conference Call - 28th November 2012

**<u>Speakers</u>**

Sarah (Co-ordinator)
David Dible (Citigate Dewe Rogerson)
Christian Hogg (Chi-Med)
Luis Cantarell (Nestlé Health Science)
Franc Gregori (Edison Investment Research)
Savvas Neophytou (Panmure Gordon)
Stefan Hamill (Peel Hunt)
Guillaume van Renterghem (UBS)

**Sarah**
Welcome to the Chi-Med Conference Call, my name is Sarah, and I'll be your co-ordinator for today's conference. For the duration of the call you will be on listen-only, however, at the end of the call you will have the opportunity to ask questions. If at any time you need assistance please press *0 on your telephone keypad and you'll be connected to an operator. Before we start the call, I will hand over to David Dible to begin.

**David Dible**
Good morning, I'm David Dible a senior director at Citigate Dewe Rogerson. Before handing over to Christian Hogg, the CEO of Chi-Med, who will chair the call, I would like to remind you that during this call we may make forward looking statements based on estimates, assumptions and expectations of the company that, while used in good faith, necessarily involves objective judgment, inherent uncertainties and [inaudible] contingencies, many of which are beyond the company's control or reflect future business decisions, all of which are subject to change.

The contents of this call are to be conferred in good faith but no warranty can be given as to the completeness or accuracy of the information contained in it. Accordingly, you must not rely for any purposes whatsoever on that information or on its completeness, accuracy or fairness and any liability is excluded to the fullest extent permitted by law. That nothing on this call should be construed or relied upon as an offer or invitation, advice or recommendation to sell or purchase shares in the company.

Finally, that the content of this call has not been approved under the Financial Services Markets Act 2000. It is exempt from the general restrictions on communications of invitations or inducements to engage in investment activity because it is being made only to investor professionals and other people to whom it may also be communicated. I'll now hand you over to Christian.

**Christian Hogg**
Thank you, David.  First of all, welcome everybody to today's analyst conference call.  The purpose of the call today is to explain the announcement that we've just made, between Nestlé Health Science and Hutchison China Meditech, pertaining to a joint venture that we are in the process of establishing.  On the call today we have Mr Luis Cantarell, President and CEO of Nestlé Health Science, as well as myself, Christian Hogg, the CEO of Hutchison China Meditech, to discuss the project.

What we'd like to do first is start with a short introduction by Mr Cantarell regarding Nestlé Health Science, its strategy and how this new joint venture fits in with Nestlé Health Science's overall objectives and strategy.  Following Mr Cantarell's introduction, I will spend a few minutes explaining the project from a Hutchison China Meditech standpoint.  After this, we'll hand back to the main operator to instruct you all on how to pose questions which Mr Cantarell and I will endeavour to answer.  We'll spend about 20/25 minutes on the Q&A, time permitting.

Moving on, it gives me great pleasure to introduce Mr Luis Cantarell, President and CEO of Nestlé Health Science.  Luis, if you would like to say a few words.

**Luis Cantarell**
Thank you, Chris, just a few words to say that I'm very delighted to say some words about Nestlé Health Science, before expressing my appreciation to join forces with Chi-Med, this joint venture nutrition science partner.  The creation of Nestlé Health Science as a full fledged company happened at the beginning of 2011 and also along with the creation of this company we create a Nestlé Institute of Health Science as a research unit in order to support and to push innovation in this area.  This is a major strategic move for the Nestlé Group, pursuing the aim to shape what we call a new industry between the traditional nutrition and the pharma world.

Both entities share a mission to develop science-based personalised nutrition to address the increasingly prevalent chronic medical conditions that are placing an unsustainable burden on the world healthcare systems.  Nestlé Health Science, with sales approaching two billion this year, is already active in the area of medical nutrition offering nutritional solutions for use by all the people in intensive care units, as well as for use in paediatrics.  Nestlé Health Science also aim to develop nutritional solutions to address chronic diseases in the area such as metabolic health, brain health and gastrointestinal health which is the subject of our main focus in this joint venture.

Over the last two years, Nestlé Health Science has made a number of investments and acquisitions to build our portfolio, especially in the gastrointestinal area.  For instance, we bought Prometheus, a leading US company specialising in diagnostics in GI.  Vitaflo, a UK-based company providing additional solutions for genetic inherited disorders and, more recently, we have a minority investment in Accera, a company that will progress the development of a medical food for Alzheimer's disease.

The joint venture, Nutrition Science Partners Limited that we announce today with Chi-Med is a great strategic fit with our Nestlé Health Science ambition to develop, as we said, and commercialise truly innovative and scientifically based, validated botanical based nutrition in the area of gastrointestinal health. This is an important milestone for Nestlé Health Science in entering a long term partnership with a leading research company, in developing a new set of nutritional science products coming from traditional Chinese medicines and reinforce our commitment to this area.

We will work, and have already been working closely with all regulatory authorities to make sure that all the pathway and the regulatory will be accomplished through the development of the new products. This is what we believe is a combination of a mutual strength. It gives us access to Chi-Med's outstanding traditional Chinese medicine library and discovery platform, while we will bring in our expertise in nutritional science, diagnostics and commercial capability. The lead compound currently in advanced stage of development for IBD is Promycin and we will further progress through this JV.

I can only express great pleasure to partner with Chi-Med and specifically we have been working for some months with Chris Hogg and the team and will offer all my support and involvement of Nestlé Health Science and the bigger research unit to make this a success JV over the long term.

**Christian Hogg**
Now I'll say a few words from a Chi-Med standpoint. I think many of you on the call today have been following Hutchison China Meditech over the past five or six years since we listed in the UK and our message during that period has been very consistent. We have a long held belief that botanicals represent an exciting source of new drug, new medicine products and, potentially, also now food for medical use and nutrition-type products. These botanicals, in general, have a long history of use and good safety profiles. With the publication of the new FDA guidelines in 2004 to really layout how to register a botanical drug under these new guidelines, the FDA basically published only its third mainstream drug registration pathway in the last 60 years. So botanicals are at the forefront now, in our view, in the search for new medicines.

Hutchison China Meditech has been uniquely positioned in China to really penetrate botanical usage in medicine. In China, as we all know, botanical drugs represent between 30 to 40% of all pharmaceutical sales. It is mainstream, it is daily everyday life, the use of botanicals as prescription and over-the-counter drugs. So what we have done in Hutchison China Meditech is spent the last ten to 12 years cataloguing traditional Chinese medicine. We have brought in over 1,200 herbs used in Chinese medicine. We have broken them down on a molecular level. We now have a library of well over 50,000 substances used in the field of Chinese medicine in China; it's a very powerful library.

In addition to that, we've built a drug R&D platform that we believe is second to none in China. Over 200 fulltime scientists and staff in our Shanghai facility, from the discovery stage, from the chemistry through biology, in vitro, in vivo, pharmacokinetics, pharmacodynamics, all the way through to the clinic and it's a terrific botanical drug R&D platform. During that time we've also taken 004 as our lead candidate for intestinal bowel disease, we identified 004 seven years ago, and have been systematically taking it through and now it's through, successfully based IIB results on ulcerative colitis that are terrific results.

We've invested a great deal of money, time, energy, resource in this deeply held belief of ours. And now we're joined in this endeavour by Nestlé Health Science to bring innovative botanical products to the market in the field of drugs as well as medical foods and nutrition. It's a huge day for us and for the whole programme of bringing botanicals to market in this fashion. We believe that Nestlé Health Science, we obviously have worked very hard with many groups to consider who to partner with on this particular product and on this particular area, but Nestlé Health Science is the perfect partner for Chi-Med in this area.

And I would say that for three mains reasons. The first being the scope of the joint venture. This joint venture is not about one product; it's not about 004 only. This joint venture is about creating an engine of innovation that will generate from our botanical library and from our botanical drugs R&D platform, will generate multiply INDs over the coming years. Both Nestlé Health Science and Chi-Med are fully committed to working on this, investing the right resources against it, to bring more and more new product opportunities to market.

The second area that I think was a big attraction for us in this partnership was speed. 004 is a great opportunity, it must be brought to market as quickly as possible and as broadly as possible. 004 is an inflammatory bowel disease drug that has multiple essential indications in ulcerative colitis and Crohn's disease. In the development plan that we've worked with Nestlé Health Science under this joint venture we will aggressively push 004 through to approval in both ulcerative colitis and Crohn's disease. And in the announcement we gave an indication of the scope and the scale of the Phase III trials, over 2,700 patients, this is a very big Phase III trial.

We feel that this is a great investment in 004 and bringing it to market as quickly as possible to meet the unmet needs that exist in a very large category. Inflammatory bowel disease is a US$5/6 billion market worldwide with significant unmet needs that we feel 004 can start to help address.

Finally, I think the third area that was a big attraction for Chi-Med with regards to this joint venture, is Nestlé Health Science's commercial capabilities. Nestlé as a group, and Nestlé Health Science as a company are very large companies with great commercial capabilities. I think the most notable in the inflammatory bowel disease area is Prometheus, a diagnostics group in the US that was acquired by Nestlé Health Science last year and has a great track record in the commercialisation of both diagnostics as well as prescription pharmaceuticals in the inflammatory bowel disease area.

Those are the main reasons that we are where we are today. We are extremely excited about this joint venture. I think it is the start of many years of close co-operation between our two groups. We are ready to go and look forward over the next two, three, four, five years to come into the market with good news as to our progress. That's how it stands from a Hutchison China Meditech standpoint. I think now I'd like to hand back to the main operator to help co-ordinate the Q&A.

**Sarah**
Ladies and gentlemen, if you would like to ask your question, please press *1 on your telephone keypad. If you change your mind and wish to withdraw your question, please press *1 again. You will be advised when to ask your question. Our first question comes from the line of Guillaume van Renterghem from UBS; please go ahead.

**Guillaume van Renterghem**
Good morning, maybe two questions for Luis and two questions for Christian. The first one, I'm just wondering if you can tell us what kind of synergies you may see between this JV with Chi-Med and your latest acquisition, Prometheus and I'm just wondering whether specifically you can tell us how the IBD diagnostic test you have on the market is doing. If you can tell us how it is doing in the US and in Europe that would be great. The second question for you, Luis is what is your view on how hard or easy it is to plan the right drug, approve with the FDA; do you think the latest development has changed your view?

Two questions for Christian, the first one is what kind of timeline you see for the development of 004 both in ulcerative colitis and Crohn's disease? The second question is how do you see your R&D division outside this JV going forward?

**Luis Cantarell**
Thank you for the question. First of all, when you talk about synergy, I see two kinds of synergies. One is in the development side. I think with our capabilities in nutritional science and looking forward in the future, and I think Chris mentioned that the question is how to maximise and leverage the use of that great discovery platform that Chi-Med has developed. And here, we are known for our knowledge in terms of drug, but even more so in the area of medical foods and food for a special medical purpose.

There is also synergy in development and synergy in, of course, commercialisation; you have already mentioned that one of the driving forces of that is our acquisition for Prometheus. So when we acquired Prometheus we acquired not only a great company in diagnostics and we'll have some comments about, but also a great company in route to market with access to the majority of the GI specialists in US. So this is the area that we are going to go to. Our initial focus will be in the US as our route to market plan is with

Prometheus today in the US, but as you can imagine with the company of the size and the strength of Nestlé Health Science leveraging the Nestlé company, we are also considering ways of expanding our existing investment in GI diagnostics outside of US.

And by taking products coming from this new JV it will be an obvious, let's say, synergistic approach where you will combine diagnostics which we believe the future is not only about discovering botanical drugs, but it's a combination between diagnostic and study patients and what we call personalised nutrition or personalised medicine.  That's for the first question.

Today, Prometheus is doing very well; basically this is a company that we bought 18 months ago.  They are the leading company diagnostics in the GI space.  They have introduced, this year, very innovative tests with far more endpoints than in the past and we are already working with them and giving them all the support with a strong pipeline in the area of diagnostics.  They have launched anti TNF tests which are going very well and we are considering to expand these outside, as we mentioned.

When it comes to the FDA, what we know and what we have been doing, the due diligence, is that this is a very innovative solution, that Chi-Med has already been working closely to define and to prepare the Phase III clinical trials with clear collaboration with the FDA.  This would not be the first case, but one of the first case and we are convinced that with a combination of what is already an outstanding support on this 50,000 extracts that you have today, combined with evidence-based approach like the one that Chi-Med has already been doing in Phase I, Phase II, Phase IIB now, we will have, and collaborating closely with the regulatory bodies both in US and outside US, we will see these, as much as we progress, we can have a very good product in the marketplace, of course, always following that regulatory situation and all the drugs we have today.

**Christian Hogg**
For the timeline on 004, we're not getting into specifics on pinning down dates.  One thing we are saying is that the Phase III programme will start early next year, probably Q1.  It will be quite a complex Phase III programme for ulcerative colitis and Crohn's disease.  It will be structured in a fashion that will have, for both indications, two induction trials and one maintenance trial so there will be six legs to the Phase III programme.  It'll be a programme that is set up in a manner that is very sensible, in that we will obviously start it off with mild to moderate ulcerative colitis, as we get a read on that first induction trial on ulcerative colitis we will be able to finalise the dosage level.  We are going to be testing 1800 milligrams and 2400 milligrams levels.

During that first induction trial we will decide on our ongoing dose and that will trigger the start of all of the other aspects of this Phase III programme, including Crohn's.  I think you can probably look at other companies that have done Phase III IBD trials.  I don't expect we will be any slower and I expect we will be quite aggressive.

On the R&D division outside of this joint venture, obviously, Hutchison MediPharma has had great success on the oncology side in small molecules over the last couple of years. The deal with AstraZeneca on Volitinib last year and the various clinical programmes we have at the moment, those are all ongoing and are fully focused and we expect them to continue unaffected by this joint venture. But I think this joint venture is a terrific focal point for the whole botanical effort that we have been making and I think with Nestlé Health Science and the clarity of strategy that Nestlé Health Science has on this particular area, we will do very well together.

**Guillaume van Renterghem**
Thank you, maybe just a quick follow up question to Luis. I am just wondering how long you have been with Nestlé and how long this new nutritional [?] business with Nestlé started.

**Luis Cantarell**
Just to comment, I've been in Nestlé for more than 36 years and I've had different roles. My previous two roles before taking over the responsibility of leading this new company I was the head of Nestlé in Europe and my last job was the head of Nestlé in the Americas until the board asked me to enter in this. I've been working in nutrition, in the traditional nutrition space for some years. I have a long experience in this company and now, in addition to this job, I am also the CEO of Nestlé Nutrition with basically the infant formula. And I also have some commitments, like integration of our acquisition that is coming through the [unclear].

**Sarah**
The next question comes from the line of Franc Gregori from Edison Investment Research; please go ahead.

**Franc Gregori**
Good morning, gentlemen. Chris, I'm trying to get a feel for the value of this deal and what the business will be going forward. Obviously, you've not given much information and I'd like to clarify that. I presume that you're putting assets into this and Nestlé is funding the business; can you give a feel for how much this would be? Because, from what I can see, if they're funding the study and the ongoing running of this, we're talking of about at least US$120/150 million being injected by Nestlé, or committed to by Nestlé. Is that a fair comment?

**Christian Hogg**
We are not going to be divulging specific numbers on the call. I will say this, though, the announcement is pretty clear on how the joint venture will be funded. The joint venture will be funded through an initial capital contribution and then further payments from Nestlé Health Science based on clinical and commercial success. What we've laid out is a pretty clear picture of what the scope of the Phase III is; this is 2,700 patients. So it's pretty straightforward when you think about benchmarking and clinical trial costs, etc, for you to get a gauge as to what that range of costs will be.

I think that range of costs plus the research and development is, as we say in our last sentence, primarily funded through this initial capital and then future milestones, etc, based on results. It's a big deal, it's a big investment on 004, but I think both parties, Hutchison China Meditech and Nestlé Health Science, believe that this is a very sensible investment. 004 has really proven itself to this point; it really must get into Phase III now and move to market.

**Franc Gregori**
Can I just follow up; you have external minority investors in the R&D business how are they affected by this?

**Christian Hogg**
They will be very happy. Basically, our minority investor in Hutchison MediPharma is Mitsui and this joint venture will be underneath Hutchison MediPharma. So this joint venture is benefiting all investors in Hutchison MediPharma and investors in China.

**Franc Gregori**
So they effectively have 10% of this joint venture?

**Christian Hogg**
I guess, in theory, if you work through all the percentages.

**Franc Gregori**
Thanks, Chris.

**Sarah**
The next question comes from the line of Mike Mitchell from Panmure Gordon; please go ahead.

**Savvas Neophytou**
Hi, gentlemen, it's actually Savvas Neophytou from Panmure Gordon, but let me ask the question whilst we have Luis on the call. I wanted to start off by asking Luis a strategic question; perhaps you can paint a picture how you came across this deal. Obviously, from what you've said already you have an interest in infant formula and can we assume that's how you came across this deal? Secondly, at the time of the acquisition of Prometheus there was a ten year strategic plan that was laid out for this business; can you elaborate on that or give us an indication whether that is still the case for the aspirations of the business that you represent?

Finally, on the strategic point view, obviously you made an investment in Prometheus, an investment now with Chi-Med, I think, if you add it all up it's the best part of a $1 billion, are there any further licensing deals that you would like to execute, particularly from a prescription therapeutic point of view? And is the attraction of 004 at this stage its possible application, at some point, as a functional food; a lifecycle management of the product, assuming that it works? And, as a final question to Christian, I was wondering whether there are any plans at this stage to do a fixed dose combination with Mesalamine in either at some point going forward?

**Luis Cantarell**
Maybe just very quickly, because you have asked a lot of different questions, you mentioned infant formula; this has nothing to do with infant formula. As we said, and maybe just to give you a sense and if you go to our website you can have more details on that, what we did in 2011 is to create a company for the Nestlé Group to work in this new space. This has nothing to do with infant formula which is a very well known business; it was the start-up business of Nestlé 150 years ago and this is managed through a business called Nestlé Nutrition.

It happens that today I am the CEO of this business, but this is more a double hat that is nothing to do with organisational thing. First of all, our interest is coming more from the creation of Nestlé Health Science and are convinced that nutritional solution will play a bigger role in helping people living with chronic medical conditions. And what we have seen in this GB [?] and the space of gastrointestinal health, we believe that nutrition has a lot to do with what's going on in your intestinal tract. And that was one of the primary decisions when we bought Prometheus, which if you think is more a kind of pharma diagnostic company, but we are working already with them in developing nutritional solutions. That's a good example of that.

This is kind of building a puzzle, that you see different pieces and you try to order the pieces in a way that it delivers our vision. Versus when we were in 2011, when we create this, and today I am more and more convinced that our road map is the right one and our quest towards creating a sustainable business, as you mention, in ten years is going the right way. When we said that, we didn't say any numbers; I will not do this today because the question of numbers is more about the willingness for Nestlé to create an important pillar and expanding the boundaries of nutrition, entering a new territory and our collaboration with Chi-Med which is a very serious company who has a track record of developing good innovations.

And our belief that traditional Chinese medicine, following the regulatory pathways that we need to do as Chris said, is a very innovative solution and this is very much in line with our ambition. We bought Prometheus because of that and now as an old TV campaign for Nescafe in UK used to say that one thing leads to another, that's basically what is going here. The acquisition with Prometheus in combination with this gives you a pathway that is more solid than when we started this venture.

When it comes to licensing deals I think the other point, and Chris has aligned that, our collaboration is not just for 004. 004 is very important, of course, in the whole dimension and evaluation of the GB we gave that a big importance to the results of the Phase IIB and the possibility of having a real product in the coming years in IBD. But this is going beyond; it's also the access to this library. It's the access of the 50,000 extracts that they have which we could then work in different ways. We are not always committed to work just as a drug; we can see examples of application in the medical food as we have others.

So that's basically what we we're going to do; a long term commitment to create a sustainable future business. And I think the way that Christian has described the three arguments by which they believe Nestlé Health Science is the right partner, I could do the same thing on the other way and say these also were another three important elements for Nestlé Health Science to partner with Chi-Med creating Nutrition Science Partners.

**Christian Hogg**
Savvas, to answer your last question specifically on any plans for a combination trial with Mesalamine, actually the Phase III trial will be a second line trial, so we will be combining 004 with Mesalamine. This is the data from our Phase IIB that was off the charts with regards to remission and response. So what that does is that brings us to market as a second line treatment for mild to moderate IBD. That will also leave us in the future with the opportunity to expand into first line, but that would require further clinical progress.

**Savvas Neophytou**
Thank you.

**Sarah**
The next question comes from the line of Stefan Hamill from Peel Hunt; please go ahead.

**Stefan Hamill**
Congrats on the deal. I guess both of my questions can be addressed by Christian. Firstly, you haven't disclosed the financial details of the deal but can you give us some comfort that Chi-Med won't have to pump additional cash into this JV over time, ie, will this milestone, etc, self-fund the JV from here? The second question is on the diagnostic angle that you touched on earlier; is there anything in the Phase II data that suggests any sort of subsets that you can bring out and use a diagnostic alongside?

**Christian Hogg**
I think on the funding side, we can't be categorical here and, as I said, we're not putting out numbers. But I think the second last sentence in our press release, the regulatory announcement is pretty much as close as I can come to answering your question. Our joint venture Nutrition Science Partners will be funded primarily through the initial capital and further milestone payments. I won't say 100%, but you can take from that word what you will. Regardless, Hutchison China Meditech, obviously given that the initial capital investment will see us through a significant period of time, and as a result Hutchison China Meditech will not have to put in anything other than its resources, its people, its capabilities in the very early stages of this joint venture.

With regard to diagnostics and any future translational type opportunities, we're just starting this relationship today and I don't doubt that there will be a very close interaction between the joint venture and Nestlé Health Science's other operating units, namely, Prometheus as well as Nestlé Institute of Health Science. And I believe that over time we will no doubt find opportunities to be more competitive by bringing to bear synergy from these various groups. So nothing as of today but I'm sure we will be working on that.

**Stefan Hamill**
Thank you.

**Sarah**
Ladies and gentlemen, as a reminder, if you would like to ask your question please press *1 now. A final reminder, if you would like to ask your question please press *1.

**Stefan Hamill**
It sounds like the questions have finished and it's actually perfect timing because I think we'd targeted to complete this call by around 09:10 London time. Given that, I think that brings our Q&A session to a close. Maybe, Luis if you would like to make a couple of closing remarks and then I will do the same and then we'll call an end to our call.

**Luis Cantarell**
Thank you, Chris, no more than I say that this is a great starting of what we believe will be a good collaboration. I think you have described it very well. I think I have tried to pass the reasons from a strategic and from a pragmatic interest that we have at Nestlé Health Science in collaborating. It is very much part of our vision. It's very much part of our consistent plan and the only thing I can tell you for people listening here is that when we created this we had a lot of ambition and, of course, a lot of uncertainties. Today, we have a clear path towards these areas we have said and we believe that in GI we are really building a strong position, not only diagnostic but also in new products. And it will be the combination of drugs, medical foods that will make our life better.

And I think the best example is that if you look to the name of this JV which combines the word partners, it's the combination of something in the future, it has the name science which, for us, is very important, everything is to be evidence-based and it also combines nutrition. And here, I can just say, that over the time we have met with Chi-Med, with Chris and the team we are more and more convinced that this is very good and long-lasting. Of course, we need to prove that and hopefully in the coming years you will see this as a very innovative and I would believe one of the first initiatives in this territory which will satisfy not only patients but also consumers in general.

**Christian Hogg**
I think from my standpoint, a couple of closing remarks. For us, this is not a soft joint venture; this is a very, very clearly strategic joint venture that has a very clear programme of activity and a very big vision to create a company, a jointly owned company that can become a leader in this field, globally. So, from a Hutchison China Meditech standpoint, we are extremely excited to now begin this journey with Nestlé Health Science and we will work extremely hard as a group to make this a great success.

I think maybe the most important thing for the analyst community that is listening today is that this deal gets 004 into Phase III. That's a huge step. It's a huge step for everybody. It's a huge step for us in China Meditech and I think with regards to the new botanical drug pathway it's a huge step to have a therapy that has great chance of success, really blazing trail and pioneering this new drug registration pathway. We're extremely excited and we look forward to reporting back to everybody on our progress over the coming years.

I think on behalf of us all, I'd like to thank you for your time today. We look forward to talking to you more about this joint venture and our business in the future as it all develops. For now, and for today, thank you very much.

**Sarah**
Ladies and gentlemen, thank you for attending today's conference; you may now replace your handsets.