

Health Operating review



Ben Davies and Catherine Warne Joint Heads of Health

We will continue to expand both our international networks and our exposure to growth in emerging markets. At the same time, we believe that the UK market also holds a number of untapped opportunities for further growth.

With revenue growth of 5 per cent, the performance of our Health division during the last year shows the immense value of innovation to a fast-changing, specialist market.

Market overview

The headline growth in both profits and revenue seems to prove that healthcare marketing is robust in the headwinds of economic downturns. The broader truth is more complex, though no less encouraging.

In this downturn, government budgets have become increasingly vulnerable through growing deficits, and publicly funded health systems such as that of the UK will face inevitable economic pressure to reduce growth in drug costs. Furthermore these challenges come at a time when the pharmaceutical industry prepares for a more fundamental transition: the patent expiry 'cliff' that will see six of the top 10 selling drugs in the US losing protection between 2011 and 2012. The specialist consultancy IMS Health predicts that the resultant shift to generic drugs will reduce total drug spending by about \$80 billion to \$100 billion worldwide.

Patent expiries have a more fundamental impact than cutting into pharmaceutical companies' bottom line. They will trigger an adjustment in focus for the drugs of the future. With most of the blockbuster treatments in areas such as asthma, diabetes and heart disease now developed, pharmaceuticals will focus their attention on niche therapies treating previously unmet needs. As new markets are opened up, clients will require agility and flexibility from their communications and advertising agencies.

The performance of our business and the predictions for the sector prove that a time of change is not necessarily a time of decline. Emerging markets are predicted to grow between 14 per cent and 17 per cent over the next four years. With the emphasis for pharmaceutical companies and health services shifting, new opportunities are being created around marketing solutions that can drive efficiencies and help prescription budgets work harder. The performance of our Health division over the past year shows how a capacity for innovation, and access to broader marketing capabilities, position companies extremely well to deliver growth in this evolving market.

Operating review

The Health division accounts for 11 per cent of Group revenue (2009: 10 per cent) and 16 per cent of Group Headline PBIT (2009: 14 per cent). The division has contributed revenue of £8.8 million (2009: £8.4 million) and Headline PBIT of £2.7 million (2009: £2.7 million). On a Reported basis, PBIT is £2.7 million (2009: £2.7 million). Revenue per head increased by 4 per cent to £119,500 (2009: £115,400), whilst Headline PBIT per head was maintained at £36,600 (2009: £36,700). The Headline PBIT margin remains above industry norms at 31 per cent (2009: 32 per cent).

Financial highlights

Revenue

£8.8m

(2009: £8.4m)

Headline PBIT

£2.7m

(2009: £2.7m)

Reported PBIT

£2.7m

(2009: £2.7m)

Operational highlights

- International business now at 35 per cent of division's revenues
- Newly established ROCK (medical education company) has flourished

Operating businesses



The division grew revenues by 5 per cent year on year. This robust performance came through continued spend from our major existing clients, significant new business success in the shape of Astellas, Abbott, UCB and Eisai, and expanded business from clients such as AstraZeneca and GlaxoSmithKline. Our innovative, integrated approach of a 'family of healthcare communications experts' combines the skills of our leading specialist healthcare agencies: PAN Advertising, specialist PR communications consultancy Red Door Communications, and ROCK medical communications, the medical education agency that we launched last year.

Not long ago, the role of promoting pharmaceutical products to GPs and the healthcare industry was largely filled by sales teams, with healthcare advertising agencies supplying the collateral for these interactions. This situation has changed rapidly with changes to the code of practice that governs pharmaceutical-company-to-doctor relationships. This shift has fuelled demand for a full suite of communications and customer relationship marketing skills, to reach doctors through specialist communications channels – both on- and offline. Our division foresaw the changes and is well positioned to respond. As a result we have been able to grow our business through both new and existing clients.

In its first full year of operation, ROCK medical communications has demonstrated the opportunity that exists in medical education as the output of drug companies shifts to new, niche treatments with a corresponding requirement to educate doctors, nurses and pharmacists about new therapy areas.

International business accounted for 35 per cent of divisional revenues. The 'pharmerging' economies of the BRIC countries (Brazil, Russia, India and China) together with Mexico, Turkey, South Korea and Central and Eastern Europe are delivering double-digit growth as demand for marketing expertise follows drug availability.

The year saw strong activity for PAN Advertising in emerging and international markets, delivering campaigns for clients such as GlaxoSmithKline. We meet demand for international expertise

through a micro-network strategy using PAN's Indigenus network. This year, we grew the Indigenus network through new partnerships in Poland, Turkey and Russia.

The past year also saw Red Door Communications launch a specialist PR network, The Health Collective Network, which is made up of 11 partner companies. We already have broad coverage with like-minded specialist communications agencies in North America, Europe, the Middle East, East Africa, the Far East and the South Pacific.

Future growth prospects

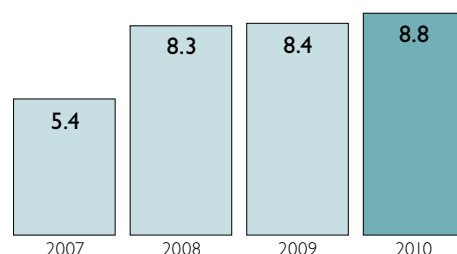
Over the coming year, we will continue to expand both our international networks and our exposure to growth in emerging markets. At the same time, we believe that the UK market also holds a number of untapped opportunities for further growth.

As NHS budgets come under pressure, focus is shifting to areas of inefficiency where value can be added through communications. One example is patient compliance (patients who are prescribed drugs failing to complete their courses), where savings can be found instantly. Using communications and research to tap into this lucrative market is one of the areas into which the Health division is looking to diversify.

Digital media throws up particular regulatory challenges for healthcare marketing, and our agencies are leading the way in raising awareness of issues and arguing for the need to adapt and evolve regulations. During the year we worked with ICM to demonstrate the growing use of social media and Wikipedia in the clinical setting. This study is playing a key role in driving debate to ensure that pharmaceutical companies should be allowed to have a voice in such digital media channels.

The government strategy for self-medication means that over-the-counter drugs and devices present another opportunity for growth in the UK, with the consumer-facing skills and diverse marketing capabilities within the Group ensuring our division a strong competitive advantage.

Health revenue (£m)



Health geographical revenue

- 1 UK 65%
- 2 Rest of Europe 30%
- 3 Rest of the World 5%

