

Consumer Healthcare business overview

Emma Walmsley

Thank you very much, Abbas.

Good afternoon, my name is Emma Walmsley and as we move now into the third and final divisional presentation I would like to move us all on from a world of patients to a world of consumers.

The consumer healthcare opportunity

Consumer Healthcare is a very attractive market; it is growing worldwide at around 4%, with traditionally higher gross margins than many other FMCG categories. As Abbas and Moncef and Andrew have all underpinned we absolutely have consumer demographics on our side, whether it be the accelerating cohorts in the emerging consumer or the ageing consumer.

In our new digital age the consumer has never been more interested or more informed with information on healthcare available anytime, anyplace. In fact, one in 20 of Google searches nowadays are healthcare related and retailers are investing in the category, whether it be online or in their stores. In fact, everybody is interested in Consumer Healthcare, food companies, beauty companies, household companies and even tech companies are introducing new brands with health related benefits or adding value, adding health benefits, to their existing brands.

I think you will see today that GSK is particularly well placed, unlike many of these companies we are 100% dedicated to healthcare. We have a portfolio of loved and trusted brands that are underpinned by serious science and that compete in both OTC medicines but also FMCG categories, where health related benefits and serious science matter and inform consumers' choice.

There should be no doubt that to win in Consumer Healthcare today you need Pharma capabilities, like Regulatory, Medical, knowing how to access healthcare professionals appropriately, the doctors, the dentists, the pharmacists, whose advice we all seek. But you also need world class, first division FMCG capabilities, the ability to tap into an emotional consumer insight as well as functional benefits, the ability to build world class brands and the ability to partner with retailers to drive profitable category growth.

Now I call this combo of Pharma and FMCG capabilities 'Fast Moving Consumer Healthcare', or FMCH, and we are uniquely placed to deliver on that with our global Consumer brands and as part of GSK.

FMCH is certainly the opportunity that, personally, I saw when I decided to join GSK a few years ago, after many years working for L'Oréal, leading global brands and businesses in London and Paris and New York and Shanghai. It is also why I am using the tremendous opportunity of this transaction to pull together a top team of leading talent from both Pharma and FMCG backgrounds, so people who have run successful businesses for P&G, Unilever, RB, Gillette and, of course, the very best of Novartis, including my counterpart, the ex-Global President of Novartis Consumer Healthcare.

Our new portfolio strengthens category leadership positions

Let me start by sharing with you the new scale of our world leading portfolio.

We will grow with a portfolio of leading positions in high opportunity categories. We are a business of scale, over £6 billion pro forma, split pretty much equally between OTC or Wellness, as we like to call it, and FMCG, and this balance actually really reinforces our FMCH culture and capabilities.

We are the number one player worldwide in Pain Relief. Half of physicians' visits around the world are about pain and we have two out of the four top global brands, one in systemic and one in topical pain relief. This is absolutely a priority category for us.

Just as in Pharma we are also world leaders in Respiratory, with obvious synergies there.

In Cold and Flu we cover the market with a strong selection of regional and local brands, because it is a regional and local market, but this can be fed from global platforms and innovation.

We are the world leader in Nasal Decongestants.

We are a top two player in Smoking Cessation, of course smoking related illnesses being a major cause of death, somebody dies every eight seconds, and, of course, that is also a big contributor to respiratory disease.

Our newest addition to Respiratory is in the Allergy category, I will talk more about that later, but there are 500 million allergy sufferers around the world. This is another priority category for us.

We are also a top two player in GI, Gastrointestinal. This is, in fact, more of an access play and emerging market play. To give you an example, our brand *Eno*, the antacid that gets to work in six seconds flat, last year sold 800 million sachets in India and 150 million in Brazil.

As well as leading positions in OTC we also have leading positions in our selected FMCG categories.

To start with Oral Health, a competitive category, we are, in fact in the total category, the number three player worldwide. But we are the leader, the number one, in Specialist Oral Health and this matters because it is higher growth, it is a bit more premium and this is where the dentist recommendation really matters, and we are number one in Sensitivity, something that one in three adults actually suffers from, and we are the global leader in Denture Care.

Nutrition is not a global play for us, but we do have a number one position in India, a country of significant opportunity with obviously more than a billion people, and where *Horlicks* is served as a nutritional supplement, 190 serves a second.

Lastly, Skin Health, in Medicated Skin Health we are a top three player, treating conditions that people really care about, if they suffer from them, like cold sore where we are world leader, but where we also have opportunity in our 'dermatologist recommended' brands that are distributed in pharmacies, such as *Physiogel*.

We really do have scale and leadership positions in high opportunity categories.

Competitive geographic footprint, sharper market focus

We will also grow from a very competitive geographic footprint that has been materially strengthened through the transaction. Our brands are sold in over 160 countries around the world and we have 42% of our sales in the high opportunity emerging markets. We are, as Andrew said, the number one OTC company now, in a still fragmented market, but, critically, the deal took us from being number one in 13 countries to number one in 36, and a top three player in nearly 60, covering off 54% of the world's GDP. We are also number one in Specialist Oral Health, not only worldwide but across 50 specific markets.

This spread, this strength, gives us tremendous optionality, which is critical with the geopolitical and economic volatility that we all know. Actually one of the key things that will drive our growth is much sharper choices to sharpen that growth and we have identified a dozen or so markets where we will prioritise investment in A&P and capex, where we will prioritise the acceleration of our capability and place all of our top talent. These dozen or so markets, some of which you can see up on the slide, will contribute to two thirds, roughly, of our growth. The remaining third will still come from agile, lean, entrepreneurial local markets that will pull/draw down on more central structures.

7 Power Brands & 12 Core Brands will drive 90% of growth

As well as sharpening up our geographic choices we are really sharpening up our choices around brands and we have segmented this newly strengthened portfolio into seven Power Brands and 12 Core Brands, as well as the remainder, but it is the Power Brands and 12 Core Brands that will drive 90% of our growth.

What is a Power Brand or what makes it so? You can see the seven of them up there, they are all leaders in their categories, they are present in between 70 and 140 countries, they have decades of track record, they have a higher gross margin than our average and we expect them to deliver double market growth rate.

The 12 Core Brands have many similarities, but they are regional or local brands and they are less margin accretive, so they are not prioritised for geographic expansion.

The growth that will come from Power and Core Brands is driven by these common opportunities.

First of all, penetration, we do have opportunities for geographic expansion, but we have real opportunities for growth in penetration. A couple of examples: one in five adults in the world wears some sort of denture, now in India that is at about 3%, in Poland it is more like 35%, but only 15% of these adults actually use some kind of denture care product, and yet when they do use them, and often the first partial denture is fitted in your forties, when they do use them they usually stay, it is a tremendous annuity for loyal users. In our latest study, 88% of adults around the world suffer pain every week, but only half of us actually treat it, so we have tremendous penetration opportunities.

We also know that the healthcare professional's recommendation truly matters, the doctors, dentists, pharmacists and dermatologists, and at GSK Consumer we reach nearly 100,000 of them in the right way around the world every month.

We will prioritise our investment in R&D and innovation for these brands and we have real opportunity to see growth in the higher growth emerging markets. For example, *Sensodyne*, still slightly underweight in emerging markets, it was only launched in India and China in the last five years and *Voltaren*, one of our fantastic new brands, has not had strength of distribution in many of the Asian markets where Topicals are such a big opportunity historically and now we will be able to access that through GSK's distribution in markets like Japan, China and India.

Of course, as you would expect, we will absolutely prioritise our investment from an A&P point of view here, underpinned by much more systematic market mix modelling analytics to drive ROI which, like many world leading FMCG companies, has seen us all

invest more in digital, which is now in the very high teens for our overall advertising spend and on some of these brands materially more than that.

Track record of growth and innovation

Let me show you why I am so confident we can do this with three examples, two Power Brands and a Core Brand, of where we have delivered double-digit growth as a CAGR for over a decade.

First of all *Sensodyne*, our first billion dollar brand, the number one 'as recommended by dentists' worldwide for sensitivity, a brand that has grown on the back of the serious science and innovation that dentists trust to treat this sensitivity, three quick examples.

In the US Market, not uncompetitive, we launched *Repair & Protect*, one of our biggest global franchises, that actually repairs the sensitivity of teeth and we now have over 14% market share, not just of Specialist but of the entire Toothpaste market in the USA.

In Japan, likewise, an incredibly challenging market, particularly for MNCs to penetrate, we launched the new *Complete* franchise; this addresses not just sensitive teeth, but really addresses the incredibly demanding Japanese consumer's expectations about many other quality aspects around a formula, how it foams, how it tastes, the quality of the packaging, the dispensing. *Complete* in March has taken *Sensodyne* into being the number one toothpaste in Japan, for the entire category, ahead of two local Japanese players.

My last example would be *True White*, this has been the launch for this year and the first market to launch was Turkey. This is a very low abrasion toothpaste which allows people to whiten teeth but not increase sensitivity and here, and admittedly this is our world record for market share, we have now taken over 34% market share of the Turkish toothpaste market.

The second example I want to come to is *Voltaren*, this is a gem of a brand. It is the fastest growing top 10 OTC brand, all categories combined, and the world leader in Topicals. This is a brand with a purpose – in fact all of our brands have a purpose, tapping into the emotional insight beyond just the functional benefits – and the purpose of *Voltaren* is to free people from the debilitating pain that can hold them back and to free them for the simple joys of movement. The insight with this one is not that complicated, people want to be free from that pain for longer, and when *Voltaren* rolled out the new product with a 12 hour benefit claim, and considering it is targeting the over 55 or osteoarthritis sufferers, with the very simple benefit of an easy to grip, easy to remove cap, everywhere that this was launched, across those 35 markets, we gained share. Most recently, again to give you some hot news,

in Germany last month this launch took us to 20% market share of the whole of the Pain Relief category.

My last example is a really important Core Brand, *Horlicks*. 80% of our *Horlicks* business is in India – this is not the *Horlicks* you might know if you grew up in the UK – this is a *Horlicks* that has been around for over 100 years, it is the fifth most trusted brand in India, all categories combined. It is consumed mainly by children and in a country where one in five children is malnourished *Horlicks* is actually a nutritional supplement; it is given by mothers on the insight that if they start their child with a product in the morning that is underpinned by nutritional benefits and independent scientific claims, they start their day well. This is a volume business that sells hundreds of millions of sachets across India, at 6 rupees, and it is distributed in nearly a million outlets. Perhaps the most exciting thing about this Core Brand's success story is the route to market it will provide for the rest of our portfolio.

Investing for long term innovation strength

As you have seen today across all of the divisions, GSK is a science based business and that is tremendous to drive the innovation that supports our growth and the growth of the category for retailers. We have a good track record, from a pipeline point of view, but we can do better and we are investing in R&D for long-term innovation strength, as an FMCH company combining both the consumer insight with a science led pipeline. We are doing this by pulling together our Marketers, our R&D teams, our Regulatory, our Technical Excellence and our Medical teams in co-located hubs, in London, New Jersey, Switzerland, India, China and Singapore. In fact, a third of our R&D organisation will be based in emerging markets.

We are also embedding new sensory and packaging lab capabilities, because sometimes the best insight is that a format or a flavour or an applicator or some kind of packaging will really tap into a growth opportunity. For example, the development that we have underway right now of a *Horlicks* that you can mix in cold water or the *Fenbid* chewable Pain Relief product, that has been launched in China this quarter, that does not need water to be consumed, or perhaps even the *Theraflu* throat warming syrups that are part of that relaunch later in the year in the US.

We will also be making sure we capitalise on our Shopper Science Lab. This is a really state-of-the-art facility that allows us to research these innovation products in both simulated digital and real retail environments with our retail partners, to test packaging, claims and our shopper materials, just as we have done with the launch of *Sensodyne* mouthwash through the first quarter.

Overall we expect our innovation sales to be more than 10% per annum, innovation sales being products that were launched on a rolling basis in the last three years. But sometimes that number will spike, as it has done in the first quarter this year, especially if you are able to switch a product from prescription to over the counter. This is a proven capability for GSK, it is one that we are investing in and we expect and plan to target a switch every five years.

A wonderful example of this and the incrementality it can bring for us and our retailers is *Flonase*. *Flonase* was a bestselling prescription drug in North America, a clinically proven superior product that treats not just one allergic response but six. We could not have switched this product without our Pharma colleagues, because we were tapping into 40 clinical studies and submitted 600,000 pages of data to the FDA. We launched it with a military FMCG style approach, 23 miles of shelf space and nearly a million assets at point of sale, and I am really pleased to say that we were able to achieve, just in a couple of months, over 11% market share. We are the top one and two SKUs in Health and Beauty across the US at the moment. We are 0.3% off being the number one 'recommended by doctor' allergy product and, most excitingly for us and the retailers, 70% of our source of volume is from people who are new to the OTC category.

Well placed to deliver sales growth

I am confident about growth; when I add all of this up I am confident about growth. The strength of our categories and brands, the strength of our geographic footprint, but our ability to focus much more sharply on both of those, our investment in building this unique combination of this FMCH talent and capability, and over the medium term our ability to continue to deliver a strong pipeline that really is underpinned by both consumer insight and serious science. Together this will combine not only to deliver a strong year in 2015, but we expect a mid-single digit CAGR over the horizon until 2020.

Clear drivers for margin improvement

I have talked a lot about the top line. I am equally confident in our ability to transform the profitability of this division. You will have seen earlier today we are starting from a pro forma of 11% OP, by 2020 my target – and I fully expect to deliver it – is to be at more than or at least 20% operating margin, and when I compare that against appropriate FMCG and OTC players that would put us currently at top quartile.

How are we going to do it? First of all, an ambitious integration plan with very clear details planned out, we are confident of delivering our £400 million synergies by the end of 2017 and its acceleration. This will be about just above 20% of the existing Novartis cost base, it will be the equivalent of globally 75% of the incoming Commercial headcount. We

expect to reduce our Commercial locations by half. I am going to use the opportunity not just to save costs but to really improve agility, by removing management layers and reducing interfaces, traditionally in complex, matrixed organisations, between regions, areas and local markets.

Most of our synergies are going to come from headcount, but there are real opportunities in procurement too. Just a few examples are obvious, in Media, working and non-working, and in other areas of Marketing, like Market Research. In Media we have this incredibly complementary geographic combination now with relatively different strengths and therefore relatively different buying rates in many markets, our new found scale will release fairly quick benefits there. In non-working Media simply by adopting best practices around origination and global asset management I think we will get between 15% and 30% savings on production. In Market Research, simply taking out the duplication in similar categories, modernising and digitising and focusing everything behind those Power Priority Brands will also release savings.

I also expect, through the transaction and a very rigorous approach to standardising some of our processes, we will really be able to enable those savings, not least by the global rollout of SAP, where we will get to 80% coverage of our business by the end of next year.

Building on top of that we will see margin accretion through our focus on Power Brands and their superior gross margin, and, of course, our starting point, in terms of operating profit, has been artificially low due to legacy supply chain issues in both companies, so we will get some tailwinds from the recovery from that in the short term, as well as ongoing SKU simplification programmes. Over time, whilst our priority in the immediate term has been to stabilise the supply chain, there are obvious network consolidation opportunities, whether that be within our own sites or within the very large number of third party manufacturers we are still using.

A global consumer healthcare leader for long term

In conclusion, GSK Consumer Healthcare is very well positioned to be a global leader in this exciting and high opportunity category for the long term. We have a competitive brand portfolio and geographic footprint. We are going to improve our prioritisation and resource allocation. We are investing in innovation for the long term. We are building FMCH talent and capabilities and we have a very clear plan to take cost out of our business and step change profitability, this is our strategy.

The integration is, as for Vaccines, a tremendous opportunity, a catalyst to accelerate its execution and I am focusing all of our employees round the world this year on a swift integration, successful performance in 2015 and building very strong foundations for ongoing

performance in the future. We have strong prospects for revenue and profit growth, we have strong prospects as a performing business that helps hundreds of millions of people do more, feel better and live longer every single day.

Thank you very much and over to Simon.