

GLAXOSMITHKLINE
THIRD QUARTER 2015 RESULTS
PRESENTATION TO ANALYSTS

Wednesday, 28 October 2015

Sir Andrew Witty: Thank you very much. Good afternoon, everybody and thank you for joining this Q3 2015 results call.

We have made further progress during this quarter to deliver the benefits of our recent transaction with Novartis and successfully execute our strategy. Our integration and restructuring programmes are on track and sales are benefitting from recent new product introductions and those products recently acquired. All of this is providing us with confidence in our ability to meet our guidance for 2015 and for a return to significant earnings growth in 2016.

For the quarter, Group sales were up 11% on a reported basis, and 5% on a proforma basis – both at CER. Earnings per share for the quarter was 23 pence at CER and reflected a decline of 13%. The decline reflects the short-term dilution from the transaction, offset by good sales progress, cost control and accelerated delivery of our integration and restructuring programmes.

It is also worth noting that earnings in Q3 reflect a tough comparator with Q3/14, where we recognised a structural SG&A benefit of £219 million.

Proforma sales grew across all three businesses. Vaccines were at £1.2 billion, up 13%, reflecting continued progress of our new meningitis franchise and a strong performance in the US, which also benefitted from sales of flu vaccine. With sales of £1.6 billion, Consumer Healthcare grew 7%, driven by continued strong sales of *Flonase OTC* – a product we switched from Rx status earlier in the year – as well as strong growth in key priority brands such as *Sensodyne*. I am also very pleased to see sales benefitting from the relaunch of newly acquired brands such as *Excedrin* and *Theraflu*.

As we have previously said, we are also very focused on driving improvement in the core operating margin in Consumer Healthcare. I am pleased to report that we are starting to make progress on this, with the margin increasing to 13.3% this quarter, which is 1.9 percentage points higher on a CER/proforma basis than in Q3/14. It is probably worth noting that in the current currency basis, it would have been another point-and-a-half higher still.

Pharmaceutical sales also grew 1% to £3.3 billion, despite the continued decline of *Seretide/Advair* sales and some headwinds in emerging markets, which are partly the

product of macroeconomic factors but also the short-term impact of some disruption following our restructuring of some of our emerging market footprint.

Offsetting this, HIV product sales grew strongly and now represent just under 20% of our overall Pharmaceutical turnover.

Very importantly, total sales of our new Pharma and Vaccines products, which of course include HIV medicines, continued to show very good momentum, with sales of £591 million in the quarter. This is an increase of £411 million compared to Q3/14 and is more than double the sales decline in *Advair/Seretide* of £182 million in the quarter. Clearly, this represents positive progress as we transform our portfolio with the introduction of the new products.

We will profile more of GSK's innovation at our Investor Event in New York next week. This will include several critical late-stage assets, such as our shingles vaccine, *Shingrix*, which we published more data on yesterday; our new treatment for severe asthma, *Nucala*, on which we anticipate action from the FDA in the next few days; the IL-6, sirukumab, for rheumatoid arthritis, and our new long-acting HIV medicine, cabotegravir. We will also highlight promising new development opportunities in oncology, immunoinflammation, respiratory and infectious disease. In total, we plan to profile around 40 potential new medicines and vaccines during the event. Of these, we estimate that around 80% are potentially first-in-class, with novel mechanisms of action.

Finally, we have also declared a dividend of 19 pence for the quarter and reaffirmed our expectation of a full year dividend of 80 pence.

I would now like to hand over to Simon, to give you a little more detail on the quarter.

Simon Dingemans: Thanks, Andrew. As you can see from the announcements we have made today, we are encouraged by the progress we have made during the quarter, in executing on our restructuring and integration plans, and in building momentum across the Group with all three of our businesses contributing to the proforma growth of 5%.

Progress is evident in a number of areas, including our new launches where we are seeing stronger momentum, supported by additional resources that we freed up through the pharmaceutical restructuring programme, in our supply chains, particularly Vaccines and Consumer, where the investments we have made to improve capacity and reliability allowed us to move early on the important seasonal businesses of flu vaccines and cough and cold

in Consumer, creating the opportunity to take share and improve pricing, delivering a significant step up in profitability and growth as a result.

Then, most obviously in our cost base where we are on track or slightly ahead of our plans and have delivered total incremental savings in the first nine months of this year of over £700 million compared to the same period last year, £300 million of that in the third quarter alone.

These savings are most evident in the reductions in R&D and SG&A in the quarter and once we strip out the comparator effective last year's structural savings, more than offsetting the significant investments we are making behind new launch activity and seasonal sales.

These examples highlight the extent of the change that we're making to the Group through the Novartis transaction, and our restructuring of the pharmaceuticals business, but also more importantly they demonstrate the growing momentum in the business and why we remain confident in our 2016 outlook of returning to growth in core EPS at rates that we expect to reach double digits on a CER basis.

In the short term, we have always expected that the transition of the business post-Novartis would create some quarterly volatility in 2015, given some of the uncertainty around the timing of the delivery of transaction benefits, and some of the material quarter-to-quarter drag factors. Q4 will be no exception, with the biggest quarter last year for Oncology sales dropping out, along with *Avodart* going generic in the US at the start of Q4 as well as the usual lumpy comparisons for vaccine sales, depending on the timing of tenders. We also expect continued growth in the minority interest, given the increasing contributions from HIV sales in the Consumer joint venture, and a much higher tax rate than in Q4 last year. We still expect the effective tax rate for 2015 as a whole to be around 20%.

Offsetting these issues, we expect continued improvements in new launch products, further transition in our Respiratory portfolio, and growing contributions from our cost restructuring programmes which underpin our confidence in delivering the guidance for 2015 that we gave back in May and that we have reiterated today for a percentage decline in core EPS in the high teens, again on a constant currency basis.

Our 2015 guidance does not include any contribution from the proposed divestment of our remaining *ofatumumab* rights to Novartis, which we announced back in August. While the timing of closing is still uncertain, and we could slip into 2016, we have also taken the opportunity to review again our policy as to how to treat such transactions given that we may well have others come out of R&D in the future, and that we have not had such a significant one for some time.

We have concluded that where we have an ongoing participation in a programme we will include milestones and other similar payments as part of core turnover. Where we do not, we will treat all proceeds as non-core other income. As a result, the proceeds from the *ofatumumab* transaction, when it closes, will be a non-core result.

Let me turn to a few more specifics for the quarter and describe in a bit more detail a few of the comparator issues you should consider as we move forward into Q4.

As usual, most of my comments will be focused on CER growth and core results, but I should point out that currency continued to be a headwind this quarter. Currency movements were a 2% drag on sales and a 5% headwind on core EPS. If rates remain at the same level as at the end of the quarter and we have no further inter-company settlement gains or losses, we would expect the year as a whole to see also a 5% negative currency impact on core EPS.

Turning to the three divisions, total Pharma sales, including HIV, were down 7% but up 1% proforma as strong growth in sales of our HIV products more than offset lower sales in Respiratory and in the Established Products portfolio. Q3 sales of HIV products grew 65% reflecting continued strong uptake for *Triumeq* and *Tivicay* in all three regions. *Tivicay* has now been launched in 51 markets and *Triumeq* in 26. We expected continued strong growth from both products in Q4 from ongoing launches and improved penetration within the markets where they have already been launched.

US Pharma sales were down 10% proforma, primarily driven by *Advair* which was done 18%. It is down 19% year-to-date as we absorb the price reductions we agreed last year, but also as we transition our portfolio to the new products.

Our new products, *Breo* and *Anoro*, are building some momentum and together had sales of £41 million, more than double Q3 last year. We have completed the vast majority of the contracting with Managed Care for next year, and as a result we expect the formulary coverage in 2016 for all of our respiratory products to be as good as, or better than, in 2015.

Elsewhere in the US, *Benlysta* sales were up 23% to £53 million and *Tanzeum* doubled to £10 million.

The overall decline in the US was also affected by a continuing tough comparator for *Lovaza* which was down 66% post the introduction of generics last year. The business had £44 million of sales in Q4 last year, so this will continue to be a headwind into the fourth quarter.

In Europe, Pharma sales were down 7% pro forma, Respiratory down 13% and *Seretide* down 23%. This reflects a step-up that we have seen in competitive action in the

quarter with a number of new generics being launched and competitive tender activity particularly impacting volume share. Pricing pressures will continue and, as we shift our own Respiratory business to the new products, *Seretide* is likely to decline further. In the year to date, *Seretide* is down 17%.

Offsetting that we are seeing encouraging signs in the roll-out of the new products. For example, in Italy *Relvar* volume share gains have almost completely eroded *Seretide*'s share losses, and both *Relvar* and *Anoro* have now been launched in the vast majority of European markets. In Q3 total sales for *Relvar* and *Anoro* in Europe were £25 million, offsetting around a third of the *Seretide* sales decline.

In International, sales declined 4% pro forma. The region's growth continues to be held back by disruption in the Middle East and our China business, which saw a 27% pro forma decline in the quarter as we continue to reset this business for the future, including disposing of a number of peripheral parts to the portfolio.

In Japan sales were up 4% pro forma, led by a strong performance in Respiratory, up 9%, as growth from the new products more than offset a 17% decline in *Adoair*.

In Emerging Markets, sales were down 8% pro forma, particularly impacted by established products, down 17%, again mainly driven by China, and Respiratory sales down 6%. Within Respiratory, Emerging Market sales of *Seretide* were down 15% with additional generic competition, price reductions in a number of reimbursed markets flowing through in the quarter, and the impact of our own shift in new products in a number of early launch markets such as Brazil. Increased generic activity is likely to create some continuing quarter to quarter volatility going forward for EM's Respiratory.

Turning to Vaccines, overall a strong quarter: 13% growth on a pro forma basis. US Vaccines up 22% pro forma, with flu vaccine sales up 59%, benefiting from earlier supply in the quarter than last year, more doses and the switch to 100% quadrivalent this year. For the quarter, we sold roughly 22 million doses versus last year's 15 million doses. Our new meningitis products, *Menveo* and *Bexsero*, also delivered strong growth with total sales up 34%. In Europe, Vaccine sales grew 14% pro forma mainly driven by our meningitis portfolio led by *Bexsero* sales of £28 million and *Menveo* with £14 million. *Bexsero* has particularly benefited from inclusion in the UK immunisation programme but also from good private market sales in a number of other major countries.

Boostrix is up 30% with strong growth in Germany. Hepatitis sales were down 15% mainly because of the supply constraints that we have previously talked about.

In International, Vaccine sales were up 3% pro forma against a tough comparator. Strong growth for *Synflorix* was up 19%, mostly offset by lower sales of *Boostrix*, down nearly 50% with significant competition arriving in the tender space and a number of capacity constraints, as well as hepatitis sales which were also down, reflecting the same constraints.

We continue to make investments in the supply chain to improve overall reliability and expand capacity for the future, but it will take into 2017 before the programme is fully complete.

Consumer Healthcare is up 7% pro forma, with estimated consumption data for the portfolio in line with this rate and several points ahead of market growth. In the US, the business continued to benefit from *Flonase OTC* sales following its strong launch, which particularly benefited Q1. The International business delivered a more encouraging performance in the quarter, up 6% with strong performances from India and a return to growth in Russia. Destocking has had less of an impact than in Q2 but the higher channel inventories of the acquired businesses in a few markets, particularly China and the Middle East will continue to be a drag on growth through into the first quarter of next year, particularly in Wellness.

Moving to operating profit, excluding currency, the operating margin was down 490 basis points. This is impacted by the one-off structural benefit of £219 million recorded in SG&A last year. Excluding this, the operating margin was down 120 basis points, incorporating the negative impact on the margin of the Novartis transaction which we estimate at around 330 basis points in the quarter.

Looking at the ongoing business, we've made good progress in executing the integration plans and in driving costs out of the business. These savings, together with an improved product mix, particularly from the strong growth in ViiV sales, more than offset the impact of pricing pressures in Respiratory and the investments we are making in the business, and drove a 210 basis point improvement in the proforma margin, again, excluding the impact of the structural benefit in Q3 last year.

Year-to-date, the core margin is down 320 basis points, 270 of this due to the Novartis transaction, and I continue to expect the impact of the transaction for the full year to be in the 200-300 basis point range. Including the year-to-year comparators which we have covered a couple times, we still expect the overall decline in the reported core margin for the full year to be in the order of 500 basis points.

In the bottom half of the P&L, the core effective tax rate is 20% for both Q3 this year and last year, and we continue to expect 20% for the full year. Further down the P&L, the

charge for minority interests was £141 million, up £94 million from Q3 last year, reflecting the growth in ViiV and the Consumer joint venture.

On cash flow, net cash inflow from operations for the quarter was £524 million, excluding £43 million of legal settlements, and adjusting this for the second tax payment on the Novartis transaction of around £268 million, and £365 million of cash restructuring costs incurred in the quarter, both of which we are funding from the proceeds of the Novartis transaction. The cash generated from operations was £1.2 billion. This is down a little over £600 million versus last year which reflects the reduction in profits, some currency impact, but also a material increase in working capital during the quarter, primarily due to the receivables around the seasonal sales of flu and consumer, and we expect this to reverse in Q4.

Dividend payments totalled £920 million.

We are managing the balance sheet to protect our credit ratings and maintain our financial flexibility, and we continue to prioritise ordinary dividend payments in investment to accelerate the delivery of the transaction synergies, and the other investment opportunities we have identified in the Group.

Net debt at the end of the second quarter was £10.6 billion, £3.8 billion lower than the balance at the end of last year and the reduction primarily reflects the benefit of the net proceeds from the Novartis transaction offset by some of the accelerated investments we have already covered.

In summary, Q3 was an encouraging quarter and we are pleased with the progress and momentum in all three businesses. We remain focused on the successful execution of our strategy aimed at delivering more balanced and sustainable growth across the Group. With that, I shall hand the call back to Andrew.

Sir Andrew Witty: Thanks very much, Simon, and we shall open up the call now to Q&A if the operator could just go through the procedure.

Question & Answer Session

Tim Anderson (Bernstein): Thank you. I have a few questions if I can. On *Advair* generics in the US, is it unreasonable to model that those could potentially launch in 2017, or are you confident that is not likely to happen? On your comments on core results

and revisiting how you might book those, can you explain what the driver of that reassessment is and give us some more details? The last question: high level M&A. Pfizer have been signalling a recent heightened interest in mergers and acquisitions potentially with a tax inversion element, it is a very short list of theoretical targets in the drug space that would get them this. But, as you are no doubt aware, Glaxo is on that theoretical list. I would imagine that, despite the financial disappointment over the last few years, with the recent restructuring that you have done, you feel energised and would be very disinterested in any potential tie-up. So, to me at least, a merger between Pfizer and Glaxo seems highly improbable but I would love to hear your comments on this if you can provide any?

Sir Andrew Witty: Tim, thanks for the question. Let me ask Simon to address the core/non-core thought process and then I shall come back to your two other questions.

Simon Dingemans: We have not had any similar divestments of this sort of scale recently, so this was a good opportunity to look at the policy afresh. We just took the distinction that, first, we were going to get some of these sorts of disposals but they weren't going to be that regular, and that seemed to point at non-core even though in the past the policy would have suggested it should go into core, and I know that some other companies do that but this seemed sporadic rather than regular. Secondly, we are not involved anymore and, on that basis, it seemed much more akin to a disposal and should be treated as non-core.

Sir Andrew Witty: The bottom line, Tim, is that what we are trying to show to you and the shareholder from the core is what we really believe are the elements of the business on a regular basis on which you need to be keeping an eye to track how we are doing. Obviously, as you bridge from core to total results, as you see in the release we are very transparent so, if any shareholder wants to add back anything, and we know that lots of shareholders have slightly different add-backs, they can recreate those numbers. However, as Simon rightly says, when you look at this transaction and you say there are no ongoing activities for GSK, it makes sense to treat it as a disposal. It's actually sporadic and so it should go into non-core, and we just wanted to clarify that.

As far as the other two questions, *Advair* generic in America, I was appointed CEO in the Fall of 2007 and I have been asked this question just about every quarter since then! We have not yet seen a generic, but we keep an eye on what some of the generic companies are saying. We are, clearly, moving into a window again. We have been there before where companies are talking about developing their potential generic threat and, of course while in the past it has always failed, I cannot guarantee it will fail in the future. I

have always been pretty clear with people that, sooner or later, you have to anticipate that something could happen; it is just hard to know when.

If you project forward and look at the average review times of the FDA and all of those, particularly given that this is a reasonably complicated product to generate a generic for, to state the obvious, it seems unlikely to me that this would go very quickly. Could it conceivably start sometime in 2017? Conceivably, yes. Could it be later than that? Yes. Could it fail? Yes. So, unfortunately, I am not really the man to help you too much. What we have tried to do to help you is what we said back in May, when we gave you an indication of how we saw the growth rate of the company running all the way through to 2020, essentially to signal to you that in that period when we dialled in, just for the purposes of that assumption, a genericisation in America, it reassured us that, even if we do have a genericisation of America during that period, we can deliver good, solid, sustainable sales growth and earnings growth for the company between May 2015 and 2020.

The other thing I would say to you, and obviously it has been a little bit the driver of the challenge for us over the last 18 months, is that we're well on the way to taking a third or a half of the genericisation effect anyway. We have seen a significant amount of price, last year and this year, and we will see a bit more price next year on *Advair* in advance of any possible timings of generic. Of course, this means that the size of that product is diminishing for the company. The volumes have not gone down anywhere near as much as the headline numbers would reflect, but we have seen a lot of price pressure and we have seen increasing generic competition ex-US in emerging markets and, to a lower degree, in Europe.

As a consequence, the size of the nut which is potentially at risk, eventually, when and if the generic ever arrives, is reducing all the time. What that says I think is that cloud, if you will, that has hung over us for a very long time in terms of what happens if and when *Advair* goes – first of all, the cloud is getting smaller. Second of all, the replacements from the pharmaceutical business and of course from the other businesses have become much larger and their momentum is much greater and, as a general point, we are less concerned about the threat than we were. Of course, it is never nothing, because *Advair* remains a very big product, but the dynamics are changing quite quickly.

As far as the high level M&A, as you put it, is concerned, very simply put, we are very happy with the strategy that we laid out as we went through and executed the transaction with Novartis. We think it is the right strategy for the environment in which we are operating in today and highly likely to operate in in the future. We see very significant opportunity to create value through the expansion of the margin in Consumer and Vaccines, the delivery of

the sales growth of those businesses, and the bringing through of the pharmaceutical pipelines into the three businesses. I think you are seeing nice, steady progress this year on all of those agendas.

The transaction has also given us another opportunity to really go after some of the structural fixed costs of the company in areas like R&D. Again, you are beginning to see some of the benefits of that.

We believe that this is the right strategy to face a world of uncertainty, price pressures, and dynamic change. We think it is the right strategy, we think there is a very significant benefit from being focused on execution of that strategy, and as a consequence, that is very much where our attention is devoted, and not looking at other types of transactions which, in our view, would potentially lead to years of distraction and draw us away from what we can see is a very interesting short-to-medium term cycle of value generation. As you then rotate through the potential generic *Advair* scenario, one way or another, as I have described, and you look at our business the other side of that – wherever you choose to put that window. If you look at the business on the other side of that, you have a business where there is no material intellectual property rights threat to the company's portfolio until 2026/27. You have a business which has in all three of its platforms very significant opportunity to grow at what would be very material margins by that point. That is what is driving our focus to execute it.

Next question?

James Gordon (JP Morgan): Hello, thanks for taking my questions. I have two questions, please. The first one is on the very good cost control this quarter and the sustainability of the cost control. The guidance for high-teens EPS decline this year, on a full-year basis, seems to imply that for Q4 you will have a really sharp decline, like at least 30% EPS decline. I would have thought that there would be further progress made on cost savings. Could you talk about the magnitude of the upward pressures in Q4 this year on opex, and why the guidance could not be a little better now?

My second question is on the salesforce for Respiratory. We saw the negative result from the SUMMIT study and I know that you have split your Respiratory salesforces: there was going to be a separate *Breo* salesforce, separate *Advair*, and separate *Anoro*. I wonder, with the result from *Breo*, does that make you less likely to invest so much in pushing *Breo*? Might that be diverted into the mepolizumab salesforce? and are you going to set up a big mepolizumab stand-alone salesforce?

Sir Andrew Witty: Thank you very much for the questions, James. On the second point, obviously we are disappointed by the SUMMIT results. It is worth doing these studies but they are always risky and there is always the chance that they will fail; this one failed. I would just like to reiterate that SUMMIT was never in any of our forecasts that we shared with the street. So far, for example, when we said that we would deliver at least £6 billion of new product sales by 2020, that did not include SUMMIT – that was always an upside to those numbers.

Since the news of SUMMIT, we have seen no adverse effect on Breo. Actually, in fact, I think people who have read the SUMMIT data, while it is clearly a failed study, I think they read that data and see all sorts of information in there which, for many people, further convinces them of the merits of products like Breo. So, actually, as we stand today, we continue to see very good continued momentum. In the US now, we have access, and in Europe and in Japan, where we have had a fantastic introduction also. We are beginning to see that reflected through the growing momentum in the sales number, and we are going to be very much committed to that.

Actually, James, the world is beginning to settle out into markets which are historically very bronchodilator-heavy, and markets which are much more steroid bronchodilator-orientated, and I think that's likely to be the way in which we start to evolve our strategy and our portfolio as these products begin to be established in the marketplace.

As far as salesforce is concerned, actually we have been increasing, not massively, but we have been increasing the size of our US salesforce for Respiratory for Breo, Advair and Anoro. Most of that has come from internal redeployment but it has also been supplemented by the use of some CRO resource. We are seeing good returns from that investment.

We have already built the *Nucala* salesforce and it's ready to go, so that's already in the run rate if I can put it that way, at least for the quarter that's just gone by.

Now, as you think about SG&A going forward, there is going to be volatility quarter-to-quarter. I will give you a very specific example. Q3 was pretty light for Consumer, but Q4 is going to be pretty heavy for Consumer because of the cough and cold season and the shifts around, and as you know, post the transaction we have a much bigger cough and cold portfolio than we had before the transaction, so you are going to see a few movements like that.

To a general point, we are very pleased with the performance in the quarter. Frankly, we still have quite a few moving parts for Q4 as the new businesses all settle down. Simon listed some of those in his commentary.

Let's see how the fourth quarter plays out. We just felt actually it was a little early to declare victory. This is one step at a time. We are very focussed on delivering the best number we can and let's see what Q4 looks like.

Next question.

Steve Scala (Cowen): Thank you, I have several questions. Both the ZOE-50 and ZOE-70 data have read out and showed very impressive efficacy. Why will it take until the second half of '16 to file *Shingrix* and will you not be pursuing a paediatric indication?

Secondly, the decline in emerging markets was quite striking. When do you expect the emerging market area to return to growth?

And then lastly I would just like to follow up on Tim's M&A question. You said that GSK was not looking at options and/or something along those lines but the question didn't imply that GSK was looking, but that Pfizer was looking at GSK. So Andrew, you did not say that GSK is determined to stay independent and that you feel that greater value can be delivered to shareholders as an independent entity, so is GSK determined to stay independent? Thank you.

Sir Andrew Witty: Thanks Steve. As far as *Shingrix* or the zoster vaccine is concerned, obviously both studies came out very, very positively. I think to see those similarly very high rates of protection in the older population compared to the benchmarks that have been historically set was really striking. This is clearly a highly, highly effective vaccine both in terms of preventing shingles but clearly also in preventing post-hepatic neuralgia which is obviously a very important measure.

In terms of what will we be doing for the next few months, obviously assembling the file. There are some CMC things we have to go through in terms of things like batch validation, so most of the critical path for the next months, Steve, is around the CMC element of the file.

We will be exploring a paediatric opportunity but not in the initial file. We think this is going to be a very, very significant opportunity for the company. As you know, the product in the marketplace at the moment has reasonably limited supply, has a much lower level of efficacy and protection, has a waning level of persistency and we believe that with both our manufacturing technology and scale and the profile of this product, this can be a very, very substantial vaccine for the company.

As far as EM growth is concerned, yes, it was disappointing during the quarter. A few things going on: you have some extra generic pressure in a few countries, you have some macroeconomic pressure, particularly in places like Brazil and Russia which I think is common to many, many people.

As you know, we have been restructuring quite a number of our countries and there is inevitably a bit of disruption caused by that. We are beginning to come through the other side of that. I would expect us to probably be in growth in Q4 for the EMs and I would definitely expect us to be in pretty robust growth, market level growth rates for 2016. So I think this is a reasonably temporary phenomena and I think we will start to see that move around.

I would also mention that Q3 was a fairly punchy comparative for the EMs on the Vaccines business. We still managed to grow the Vaccines business in EMs but it was against a very high benchmark which again was a little bit the story there.

I think as far as your follow-up to Tim's question is concerned, we are always going to want to follow the strategy which delivers the best long-term shareholder value for our shareholders and we think the strategy we have is exactly that. We are not looking around particularly to randomly look for other alternatives. We think this is a good strategy and we are going to be focussed on delivering it and we think it can deliver not just shareholder return in the short to medium run; we think it can build the kind of capability that is going to be necessary to deal with some of the pressures that we think are coming in the macroenvironment for the industry. While we all recognise the industry has been through a nice purple patch for the last two or three years, I think it is quite hard to conclude that that purple patch is going to continue in perpetuity. When you start to think about some of the other pressures which are building up and beginning to become more visible, we think the strategy we have put together makes a lot of coherent sense to face those environments. That is very much what we are focused on.

Next question?

Graham Parry (Bank of America): Thanks for taking my questions. Firstly on respiratory you talked about coverage for respiratory being good into 2016, but can you give a feel for whether a similar level of pricing or rebates had to be sacrificed to achieve that?

Secondly, GSK is back in the press with one of your shareholders very publicly calling for a breakup of the company again. Can you just remind us for the record why you

decided not to spin ViiV, divest Established Products and remind us of some of the challenges of breaking Consumer out of the separate entity? Has a more detailed review of these options by your new Chairman changed your viewpoint on any of those points at all?

Thirdly, last year you experienced a credit rating downgrade on your long-term credit rating to A2 due to the Novartis Consumer put in 2018 being cited as one of the reasons. That approach, as it becomes more a near term event, what options do you have to deal with that put on your balance sheet and potentially avoid a near term or short-term credit rating downgrade? Thank you.

Sir Andrew Witty: Thanks very much, Graham. In terms of coverage, we are pretty settled for going into next year and you may have seen some of the coverage in the US that some of the very big managed care companies, in particular CVS/caremark have prioritised the GSK brands. As you may have seen *Anoro* and *Incruse* have been given priority at the expense of the deletion of the Spiriva and Spiriva related brands. You will see a number of exclusive positions for GSK. You will also see a very wide level of coverage, either at or above the best in the market, more or less across the board in the US next year. We go into next year probably with the best coverage we've ever had for our respiratory portfolio, first thing to say. In terms of price, yes, you will see a continued reduction in *Advair* price in the US in terms of the net price that we are charging, but the rate of decline is decelerating. The give is not as great as it has been for the last couple of years.

As far as the decisions around ViiV and Established Products are concerned, I think it is quite an interesting subject to just reflect on for a second. In all three cases, or in Established Products and in the ViiV case, we took a very conscious decision to, essentially, publicly discuss the pros and cons of whether we should keep the businesses or not. I suppose we could have tried to secretly have this conversation with banks and, I don't know, sound out a few people, but the one group we would never have been able to properly sound out in that conversation would have been the shareholders.

By having a public reflection of course it creates a kind of excitement which then gets consummated, sometimes doesn't get consummated, but it does create the opportunity for shareholders, large and small, to put their points of view forward. In both cases we have pretty strong, and particularly in the case of the ViiV business, very strong feedback from our shareholders that we should retain that business. Now of course in the period we were doing that reflection, the expectations of the HIV new products literally almost grew exponentially as the product began to launch. As you will have seen we have most recently overtaken atripla as the best product launch in the US HIV marketplace and you see in the numbers have continued extraordinary roll-out of the business.

So, we took the decision not to separate it because we believe we were the best owners. We believe that we were in the midst of creation of a quantum of value far in excess of where anybody at the time had believed existed, and I think we have been vindicated since. I would say the overwhelming majority, if not almost every shareholder who expressed an opinion during that process was in support of that decision.

Established Products was a slightly different proposition. If you could convince yourself that there was a way to separate the Established Products and bring forward a valuation far in excess of your retained case, then I think most people would find that a non-controversial concept. The problem is, and I think you have seen other companies run into the same problem, these businesses are very distributed, so you are talking about dozens of products across dozens of countries; actually what you are really talking about is a very fragmented portfolio of value points. They are supported by a legacy network of factories which are in the tens of factories and therefore the complexity of extraction is very, very material.

We took the decision based on that and also based on the not surprising conclusion that the value offered was nowhere near sufficiently in excess of the retain case, so that just wasn't a good economic transaction to do. What we have done since is focused internally on how we can extract more margin from that business and what we have been able to show over the last couple of years is while it inevitably is a decline in business overall, it is able to deliver very substantial margin which can then be redeployed in the growth businesses of the company.

The new Chairman has been on the Board of GSK now since January; he has been involved in all the decisions we have taken since January and has, along with the rest of the Board, been unanimous in the support of the various decisions that we have taken.

With that, the next question?

Seamus Fernandez (Leerink): Thanks very much for the questions. Just a couple more pipeline questions as we are looking forward. In terms of the number, you have a number of Phase II products that are listed in your overall portfolio, I know you have your R&D Day next week, but I was just wondering, can you give us a number, what is the number of programmes that you believe have the potential to move forward into Phase III in the next 12 months? Then, separately if you could, in terms of the Phase III programmes, as I look at them, sirukumab, the anti-IL6, can you give us your thought process around what is a pretty crowded market and how you will differentiate there? Then the last question is on

the prolyl hydroxylase inhibitor, the HIF, in terms of just the market opportunity, how are you guys thinking about the market opportunity there in chronic renal disease? Thanks a lot.

Sir Andrew Witty: Great, thanks, Seamus. Before I get to you, I really apologise to Graham, I did not ask Simon to address the 'put' question, so maybe, Simon, could you do that first?

Simon Dingemans: Yes, Graham, I think, as you pointed out, the agencies have already factored into their view of our balance sheet the liability of taking that 'put' when it comes and remember the window doesn't open up until 2018, exactly how we fund it and how we deal with it we will have to decide when we get there, but it is already factored into the credit metrics for the company, as the agencies and our bondholders see it today. I am not sure there is very much more to add at this point, other than it will obviously depend at the time on the shape of the business and remember bringing in that minority will be significantly credit enhancing of itself, given the profitability and cash generation capability of that company.

Sir Andrew Witty: Okay, thanks very much, Simon.

I am going to be a bit frustrating for you now, I'm sorry, because obviously we have the R&D Day just a week or so away, I think you are going to see the answers to your questions, Seamus, more or less at that R&D Day, maybe not absolutely everything. You are certainly going to see a very substantial amount of information about the anti-IL6 programme, you are certainly going to hear about the PHI programme, overall we are going to be talking to you about - I think, one way or another, you are going to hear about 40 discrete, different medicines and vaccines next week. Obviously, they are in a spectrum of phases of development and they carry a spectrum of attrition risk, but what is very clear is we have a very substantial quantum of innovative product moving forward. Honestly, I think the very best thing to do is just ask you to be a little bit patient until New York next week, and you will have the chance to ask the question, we get the chance to avoid answering it in public, rather than over a telephone call, and hopefully we will be able to answer most of your questions straight out without any hesitation. You will also have the chance, by the way, not just to meet the most senior management, including myself, Simon, Moncef, Patrick, but you will see the leaders of our R&D organisations and so you will have plenty of opportunity to explore some of the nuances.

You are right to focus on some of these drugs, PHI is a very exciting programme. You are going to see next week exactly why we think we have the right molecule, we think we have the right differentiated programme, you will see why we believe in IL6, I think you will hear a little bit about where else we think we can take the anti-IL6, into other indications,

and you will see an awful lot in the six therapy areas that GSK has focused its R&D operations in.

If I can just ask you to be patient, a week from now you should see all of that.

Next question?

Richard Park (Deutsche Bank): Hi gentlemen, thanks for taking my questions. Firstly, I wondered if you could talk about the specific impact on Seretide in Europe, I think you saw a 16% volume decline there, it looks like, from your comments, there is not much there that is one-off effects in the quarter, just other than it transitioning to the new portfolio, I wondered if there is anything else you can do to offset those pressures and defend those sales and whether, maybe, a change in your strategy, in terms of contract and tenders, whether you are considering that?

Then a couple of things on the competitive environment in HIV. I think we have first approval of Gilead's new TAF-formulation of its integrase combination pill and I wondered whether you felt the need to add anything, in terms of additional sales and marketing support to address maybe that increased competitive dynamic in the near-term? Longer-term, hearing from Gilead also yesterday that they are moving an unboosted integrase inhibitor into Phase III which could launch in 2018 and maybe be more competitive with dolutegravir, so I wondered whether that was affecting the urgency in which you feel the need to invest in lifecycle management for that franchise? Thanks.

Sir Andrew Witty: Great, thanks a lot, Richard. You are going to see a lot on HIV next week, so, again, I am not going to get too much into the detail. I just do want to make a couple of comments about it though. Dolutegravir-based regimens have done so well, because a) it is an excellent molecule and b) the team did the most phenomenal job of coming to market not just with one or two pivotal studies showing base competitiveness. It came to the marketplace with a full dataset comparing itself to most of the other regimens and demonstrated extraordinary performance. It is very rare that I have seen a product which essentially hit its mark in pretty much every trial it did in every class it was put up against. That is what has really made this product cut through into what is obviously a competitive market dominated by one company, and it is where we have been able to take very significant market shares very quickly and deliver, as I have said already, the most successful product launch in the category in the US.

I think it's really important not just to conclude that another one in the class, if indeed it does make it and it doesn't hit a glitch on the way through, will somehow, therefore, just be

the same as dolutegravir. I think you all model second and third entry molecules to class. You would all conclude that third entry to class has to be something very, very special to get ahead of Nos. 1 and 2. Given that No.2 in this class is such a strongly profiled molecule, that is quite a reasonable hurdle for people to jump. You will see a lot around the life-cycle management and the science innovation in our HIV both short-acting and long-acting mechanisms of action next week, Richard, and, I won't for the same reason I did not go into it with Seamus, I won't go into it now. It is much better for you to have the full conversation next week.

As far as *Seretide* in Europe is concerned, essentially we're continuing to see generics launch in different countries. The bottom line is that, with a few exceptions, the generics are taking relatively low volume shares, so perhaps 3-5% market shares. Most of the hit - not all as there is clearly a volume hit as well - is price that we are taking and we are taking price to retain share in a number of countries. However, I would fully expect that pressure to continue. As I said in response to an earlier question, we are now seeing this gradual erosion of *Seretide/Advair*. As I have made perfectly clear, I do not believe for a second that that erosion will go to zero, just as we have never seen that happen with any other inhaled respiratory product, so we fully expect there to be a significant surviving quantum of the *Seretide/Advair* business, not least because of MDI/DPI type of differences, but simply based on the pattern we have seen in other countries. I would expect a very substantial amount of that to be in parts of Europe and the Emerging Markets if we fast-forward it five years.

Therefore, yes, we expect to continue to see some pressure there but I would not guide you to believe that we would suddenly have a big turnaround there. The pressure is set there, at least for the next few quarters. It is likely to be mostly about price rather than volume. Next question?

Jo Walton (Crédit Suisse): I have three quick questions please. First, on *Nucala*, I wonder if you could give us some guide as to how quickly we should be thinking about the adoption? Clearly in your most recent Respiratory launches, people have been disappointed at the ramp rate, so perhaps you can tell us about how wide a footprint you think *Nucala* will have, a bit about the message and give us some help as to how fast that could ramp up?

My second question is one on cost savings. It was very nice of you to tell us that you have made £300 million of cost savings in this quarter. I wonder if you could tell us a bit about whether that is a good rate again for the fourth quarter now that you have had the deal

consummated for a bit longer? Can you give us a guide as to whether you can get more cost savings or just cost savings coming through sooner perhaps than expected?

Finally, a quick question on Vaccines. Incredibly strong profitability in the third quarter. How much of that is just because of the timing of the flu business, which is obviously partly better and partly just a timing issue into the 3Q from 4Q: how much of that is real improvement and how much should we see go away again in the fourth quarter? Thank you.

Sir Andrew Witty: Thanks very much, Jo. On the *Nucala* launch, let us wait and see: the FDA PDUFA is 4 November, so I don't want to count any chickens until we have gone through that process. As you know, we have also had the positive opinion in Europe. My expectation is that we should see a relatively more rapid ramp-up in sales opportunity than we have seen in the classic mass marketplace Respiratory products but I would guide you not to expect it to be day one, and you kindly attributed the only slow ramps to GSK respiratory products. I noted this week that it also happens to be happening in the cardiovascular marketplace for some other companies. Slow ramp is a general phenomenon and I am going to hesitate to predict that there isn't going to be some kind of inertia in this particular category, so I think it will be quicker.

Where would I get to? I would like to expect that, by the time we get into Q2 of next year, we would start to see a kind of pattern opening up, but let's wait and see. We certainly feel ready for it, we think we have an extremely competitive profile not just against the current standard of care out there on the marketplace, but also, much more importantly, we think it is pretty future-proofed about anything from anything that is coming down the pipe. Again, Jo, you will see a good deal about *Nucala* next week.

As far as the Vaccines margin is concerned, you are quite right that it was a very good margin during the quarter, helped significantly by the flu. As you saw, we sold far more product in Q3, and that is important because, if you can sell early in America, you can also sell at a higher price, so it's not just the move forward of the volume but it is also that, by moving forward the volume, you capture a higher price than you would if you sold it late. That no doubt helped.

Having said that, we are seeing good underlying progression. I would not expect the Q4 margin to reflect the Q3 margin, but we are definitely seeing good underlying progression and we are definitely seeing the beginnings – although it is running a little behind as planned, but it is running a little bit behind Consumer - the beginnings of the cost extraction from the integration. Maybe Simon could talk about how to think about the overall timing of the deal synergies.

Simon Dingemans: Yes, just to round out on Vaccines, of the three businesses that is probably the one where you should expect the margin to be most lumpy as it moves around, quarter to quarter, similar to the top line.

Overall, as we came out of the third quarter, we were at an annual run rate of around £1.3 billion in total for the various programmes that we have now aggregated. We were targeting £1.4 billion for the end of the year and so there is a good opportunity to do a little better than we had planned for the year as a whole. Let's see how the fourth quarter goes: I think it is a little premature to be changing the total targets that we have for the overall programme of £3 billion by 2017.

Sir Andrew Witty: Rest assured, we are going as fast as we can, to the highest number we can get. That is the bottom line.

Simon Dingemans: You can see that in the performance in the quarter.

Sir Andrew Witty: I think somebody said earlier on, that surely the deal energised the company – and the answer is yes. There is no question that with the pipeline in Pharmaceuticals and Vaccines, with the deal in Vaccines and Consumer, and with the opportunity to reshape R&D, this has put a lot of energy into the organisation. On almost every metric, we are seeing the organisation deliver ahead of what we ask it to do in terms of synergies, as a good example, but also on a whole raft of other things. From that point of view, we feel that this is very much on track.

Let's take the next question, which I think has to be the last one, sorry for that.

Alexandra Hauber (UBS): Thanks for taking my questions – just two quick ones. Given the strength of the dolutegravir franchise, I was wondering whether now would be a good opportunity to revisit your guidance for the ViiV margins? It is hard to see what brings this down back to 70%, which would probably imply a massive ramp in the fixed costs.

Secondly, on the last point you made on the flu vaccines, could you give us some idea on the price differential between quadrivalent and trivalent, and also whether this year you are planning to ship a larger number of doses? Could you give us last year's number, and ideally this year's numbers that you are planning to ship. Thank you.

Sir Andrew Witty: Thanks, Alexandra. In terms of the HIV margin, clearly that business is growing very well. I think you should be thinking about the overall

Pharmaceutical margin. I am sure that it is riveting to get into the detail of the HIV-only margin but, actually, the whole Pharma business is the Pharma business, and it's important to remember that. The HIV business is a great growth business for us and, of course, it is generating a significant contribution to the company. It is a massive beneficiary of the historical R&D spend which was itself paid for by *Advair*. The HIV business has contributed to the massive R&D spend that we commit now for the next generation of products. I don't think you will see that margin move around massively from where it is today but I am also not completely convinced that there is a huge point in dwelling on it any more.

In terms of QIV, there are a couple of points. This year, we only sold QIV in the US - 100% of our shipments of QIV. That has changed over the years as we have ramped up into the new technologies. Last year we did 15 million QIV and TIV in Q3; this year, we did 22 million QIV alone in Q3 and we would expect to sell more as we go through the rest of the quarter. I won't go into the specifics of the price difference because obviously those are all negotiated in the market but QIV is more expensive than TIV.

With that, I am afraid that we are out of time. Thank you very much for your questions today and I am sorry if we didn't get to all of your questions. For those of you who will be attending the New York event next week, we look forward to having the chance to talk to you there. It will be a reasonably long event but it will also be an opportunity for you to talk to a reasonably wide number of senior leadership and scientific leadership of the R&D organisations – both from Vaccines and from Pharmaceuticals. I hope it will give a good opportunity for you to get well and truly tuned into a pretty broad-based number of assets within our six therapies areas on which we will be focused.

With that, thank you for your attention. Of course, if you have follow-up detailed questions, please don't hesitate to contact the GSK Investor Relations Team. Thanks very much.

[Concluded]

