

**GLAXOSMITHKLINE
INVESTOR EVENT
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**GROUP OVERVIEW & STRATEGIC OUTLOOK
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CHIEF EXECUTIVE OFFICER**

Good afternoon everybody. My name is Andrew Witty, I am the Chief Executive of GlaxoSmithKline, I would like to welcome you all here to the Goldman Sachs auditorium. Thank you very much for taking the time this afternoon to come and listen to our presentation, updating you on the strategic direction of GSK and giving you some sense of the shape of the financial performance of the company over the next several years.

It is a big release this morning, slightly heavier than the normal Q1 release from GSK but you can see that within it, we have covered a very broad range of topics of importance to the company and, we know, to our shareholders. I apologise for the quantity of it but I hope we shall be able to use this opportunity this afternoon to hear more detail and to ask questions where you would like to do so.

Before starting off, I would like to let you all know that the Board of GSK are also here today, so you will see all of the Directors of GSK, including Sir Philip Hampton, who is the incoming new Chairman, Sir Christopher Gent is also here, so the Board is in attendance for this session.

During the afternoon, you will hear not just from me, you will be pleased to know, but also from Simon Dingemans and, most importantly, from the heads of our three global businesses: Emma Walmsley, who runs our Consumer Healthcare business; Moncef Slaoui who runs our Vaccine business globally, and Abbas Hussain who runs our Pharmaceutical business. You will hear from each of them individually. They have been working very hard over the last few months, bringing together the new shape of the company following on from the transaction with Novartis.

I shall make a few introductory comments to try to give an overall context on the way in which we view our environment and the strategic situation to which we think GSK needs to respond.

The transaction with Novartis has given us a stimulus, a catalyst if you will, to bring to a conclusion the direction of travel of thinking from GSK, which really began back in 2007/8 as we started to embark on a different direction back then. We have worked very hard organically, for example, in terms of reforming our R&D organisation, increasing the capability of that function for the business: we have had 20 FDA approvals for new molecular

entities since I took over as CEO, the highest number of approvals from the FDA. The last six major drugs all went through on first cycle, all of these are examples of the progress we have made on R&D.

The second area was around prioritising our Emerging Markets, and the third area was upping the investment in our main businesses, particularly in the Vaccine business, to start to extend our capital base so that we could establish long-term leadership. All of those are organic strands to the strategy.

The transaction with Novartis allowed us to accelerate two major pieces of that, particularly in the Vaccine and the Consumer space. Here we are today, the world's largest Vaccine company, the world's largest OTC healthcare company and remaining a very substantial pharmaceutical business with world leadership positions in Respiratory and HIV, our two most important therapy areas.

As we think forward for the next five years, we want to make sure that this is not simply a transaction point where we look at synergies and at short-term opportunities for the transaction. We also re-thought our positioning over the next five, 10, 15 years, which is where you start to look more fundamentally at the environment in which we operate.

Healthcare environment requires global, diversified & innovative offering

The world and the industry we are in spends a great deal of time talking about price and price pressure. However, the reality when you look outside or beyond that particular point is that the opportunity that exists is volume on a global basis: absolutely gigantic pools of volume in the healthcare marketplace.

If we think about the traditional Pharmaceutical industry, it has been developed, it has grown supported by a population of, let us say, 600 million people: the United States and most of Western Europe. When you think about where the future is, the other 6-6.5 billion people in the world are rapidly becoming significant contributors to the world healthcare marketplace. Therefore, we wanted to develop a strategy that speaks to that bigger population, it does not just fixate on the higher-price, smaller marketplaces of the past. That is a significant evolution of positioning, it is what we have been working towards organically, and it is why we have invested in Emerging Markets, but it has taken forward substantially, particularly through the transformation of the Consumer business, now market leader in 36 countries in the world, and the Vaccine business. Think about the scale of those and some of the dimensions.

Over the next five years, 300 million new people on the planet will start to consume healthcare for the first time, so the size of the United States in terms of people will begin to

consume products that we could supply for the very first time. Another 300 million people will be 50 for the first time. With our shingles vaccine in development, that kind of opportunity among the elderly, the ageing population in the world, becomes very important. There are also over 100 million new babies born every single year, which is why being strong in Vaccines is so important.

It is critical within it that we have a commercial model and a pricing strategy that works. Therefore, we believe that what we now have is an almost unparalleled global footprint, presence in all the key markets, critical mass in all the key markets, and you will hear more about this during the rest of the afternoon. We have a very broad product offering, starting from Vaccines, all the way through Consumer Healthcare into more serious medicines in Pharmaceuticals. If you think about where we start, even before people are ill, we are able to offer protection for their future health status through the Vaccine business.

When they get a sniffle, when they get a rash, when they get allergies, we can do something for them. When, unfortunately and inevitably, they progress into more serious respiratory disease, infectious disease, potentially in the future cardio-metabolic disease, we shall have products for those people.

We have a price strategy across the world that allows us to access these populations regardless of where they live. That has allowed us to demonstrate that assets which, years ago, peaked in their sales turnover in America and Europe, which were written off post-patent expiration, are now resurging. If you look at products like *Augmentin*, we now sell 300% more volume today than we did on the day the patent expired in America and Europe. All of those are examples of the leverage that we can put through the business.

All three of these businesses are supported by a strong commitment to R&D: science-led innovation. There are two things I would leave with you in terms of characterising the business: we want to focus on volume of product generated from a science-led, a science-inspired organisation. Is that true across all three of these global businesses? Absolutely!

Just think about the last four or five weeks. In the last 48 hours, we filed for ADA-SCID gene therapy, a first in the world, a product of our R&D Pharmaceutical business. Last week, we published in *The New England Journal of Medicine* extraordinary data for *Shingrix*, our new candidate shingles vaccine from the Vaccine organisation. Just a few weeks ago, we launched *Flonase* OTC in America, our latest switch Consumer product which has already achieved remarkable market share. All three of those come from R&D. All three of those come from the same core philosophy, the same types of laboratory, driving all three of our businesses.

We believe that, going forward, the anxieties and the pressure on this industry will only increase. The pressure on pricing in Europe and America will continue to be sustained. The ability of companies to achieve super-high prices for product after product in a small number of markets is limited. This is why we have focused a strategy on building a much more balanced portfolio of products, a more balanced portfolio of countries, so that we can deliver a higher degree of confidence around long-term sales and earnings delivery. That is the focus of the strategy we are confirming today and which has been accelerated through the transaction.

Long-term strategic actions mean GSK is well-positioned for new operating environment

If you look at what those balance points look like, you can see what the new GSK looks like. You can see how Pharmaceuticals remains an important part of the business but it is no longer the dominating part of the business. You can see how important Vaccines and Consumer Healthcare become. You can see how the geography is spread and how we have built hedges within the organisation depending on the different growth rates of the world. You can also see how important organic cost savings remain to the company. Over the next several years, you will see £3 billion of costs taken out of this company. Those are not new programmes that we are announcing to you today; that does not require new provisions. These are the ongoing programmes and, as you will have seen in the release, we anticipate, in particular, the cost savings that are associated with the Novartis transaction to be done two years quicker than we originally thought, with the lion's share of those synergies being delivered before the end of 2017.

We believe that, by being able to leverage that focus on cost, we have a good track record of taking organic cost out of this business, and if we continue to deliver that and we continue to invest in these volume/value-for-money propositions in the Vaccine, Consumer and Pharmaceutical businesses on a worldwide basis, that is a very sustainable business model at exactly the moment we would predict that many countries and many payors will simply ramp up their focus on containing price on the traditional Pharmaceutical industry.

Capital allocation strategy to support growth and returns

One of the things we have announced today is a change in what we previously planned to do from a capital allocation perspective. I would like to reiterate why we have made that change. We believe that this is an important change for the company in terms of ensuring that we have the right flexibility to invest in the businesses we have described.

We made a very clear choice, after some public examination of our options, to keep our HIV business ViiV. We also need to recognise that, if we keep that business, it does

raise the possibility that our partners may choose to put their shares to us and, therefore, we want to retain the flexibility to be able to respond to that if it were to come along.

Similarly, we have identified, and shared with you in the release today, opportunities to accelerate substantially the synergies and restructuring opportunities in the company, to bring forward permanent reductions in our cost base, permanent increases in EPS. However, in order to do that, we need to spend more money more quickly.

We have also, for the first time, signalled to you a view about generic *Advair*. If we are going to do that, we need to make sure that we have the resources available so that, if that possibility does come along, we are able to fulfil all of our other obligations. It is those types of considerations which led us to evolve our view to say, rather than returning the full £4 billion through a capital restructuring, which also seems to have attracted some uncertainty from the regulatory perspective in terms of whether these schemes are quite as desirable as they used to be from a tax and regulatory perspective, we reduce that level in this financial year 2015 and pay back a £1 billion special dividend but not the rest. That is the decision we have taken, which we believe is the right decision for the shareholders over the medium and long-term.

I want to touch briefly on the *Advair* situation, because of everything within this release today and the update today, this is probably, or possibly, the thing which was least expected from the company to say something about *Advair*. If I were in your seats, I would be saying: what do they know about *Advair* generic, are they now expecting it on a particular date?

I shall slightly frustrate you by saying that, when we have put that in there, it makes me feel a little like Donald Rumsfeld: there is something around "unknown unknowns" or "known unknowns". There is a possibility of a generic *Advair*; there has always been a possibility of a generic *Advair* since 2010. We completely accept that, with FDA draft guidelines, that possibility might have changed over the last two or three years but we still don't know if there will be a generic *Advair*. We have been telling you that for as long as I have been CEO. At every single analyst meeting I have ever been to, I have said: I don't know if there is a generic *Advair*, I think it is very difficult. I am going to repeat that: I don't know, I do believe it is very difficult and I don't know whether or not any company will be able to make it happen.

However, what we have done within the outlooks we have given you today, the estimates we have given you today, is make the assumption that an *Advair* generic does indeed come along in the US. What you can see from that is that, even when we assume a generic *Advair* comes along, we are still able to deliver those growth rates that I have

described in the release today, and we are still able to say to you that by 2020, we believe that our Respiratory business is capable of being at least as big as it is in 2015.

To spike one of the questions which may come later on, in 2020 within our long-range estimates, our US forecast for *Advair* is less than £300 million. I know that for some of you there will be a question about what do we really anticipate, and that is the answer.

In case people get too excited about my remarkable attack of openness, that is probably the last specific number I shall give you for 2020 but I believe it is an important number. The reason why it is important is that *Advair* is an important product for the company, it has been and will remain an important product for a long time - long after any potential *Advair* generic in America. It will be a very important product for us internationally.

However, I want you to start to think about this company without thinking about *Advair* America first. That is why we have made that commitment. Who knows what will happen. I have no idea as to whether there will or will not be one. I hope I am giving you a sense of reassurance in the event that there is.

GSK targeting improvements to financial performance 2016-20

Moving back to the business, this describes how we see the shape of the company coming forward as far as growth rates. You can see that we have divided the business into those three global businesses, and you will hear a lot more detail underpinning each of these. However, I want to give you that overall shape before you hear from each of the individual heads of business.

What you will see is a Vaccine business which we believe is capable of growing mid to high single digit growth. The Pharmaceutical business inclusive of ViiV, so this is all of our Pharmaceutical business *including* ViiV, we expect to grow low single digits and the Consumer Healthcare business mid single digits.

You can see on the left the distribution of that business for the Group, and you can see on the right how all of that plays through as far as our expectations on short-term guidance that we have shared with you in the release. You will hear more about that specifically and, of course, you will hear a summary of it all from Simon towards the end.

Key success factors

Let me pick out the key focus points for us in these three businesses and what the overall company is and has been focused on at GSK. First of all, the Vaccine business: a very critical opportunity exists for us, and you will hear about how the Novartis deal accelerates this opportunity, to expand our position in the US. We are very strong ex-US, we are strong in the US, we now have a great opportunity to strengthen our US position.

Our Emerging Markets footprint is already big, and the deal gives us the chance to go even broader, particularly with some of the vaccines we have brought through, and you will see that there is a dramatic opportunity for us to expand margins in this business, not least because the Novartis business was in fact loss-making when we took it over.

In the Pharmaceutical business, it is all about making sure that the current launches make it, and you will see updates on how we are doing with those products, and then the next wave, and then the next wave from R&D, and, of course, making the current established portfolio perform, and you will hear more about that as well.

The Consumer business is a super-exciting portfolio of new power brands for the organisation. The leadership footprint is strengthened for the organisation, and you will see from that a great chance not just for us to deliver sustainable sales growth, but a real confidence that we can expand margins, that we can move this business into an upper quartile performer, and we can compete with the best of them in the Consumer Healthcare space.

Today is not about R&D in Pharmaceuticals or Vaccines, although you will hear a little bit about some of the most advanced programmes. That day is coming on 3 November when we shall have a full R&D update for you on the Vaccine and Pharmaceutical businesses. However, make no mistake, R&D is the lifeblood of the business. I have just given you those three simple, most recent, month-old examples, and we expect that, over the next five years, the products we have just launched plus mepolizumab, plus *Shingrix* by 2020 to be capable of delivering at least £6 billion of sales revenue. We believe that is a very achievable number, it is made up of those nine or 10 products. Dividing the two numbers, you get to a reasonably conservative view, and we believe that is a very achievable set of goals for the business.

Behind those six, you see 40 advanced late stage programmes coming from the 30 DPUs in R&D. We continue to challenge our R&D model for its economic efficiency. We are in the process of closing our North Carolina research facility and moving to two global research facilities in Pharmaceuticals. This is a very good example of taking out bricks and mortar cost, improving the economic returns of the R&D organisation.

Our manufacturing business continues to focus on improving quality and supply, with significant progress after a challenging year last year. We feel very good about that largely because we have been investing substantially in our capital base, especially in the Vaccine business, and you will hear a little more about that. This remains a highly capital-intensive industry, there is no doubt that is a barrier to entry, which is why there are only four global Vaccine companies. That is an area on which we shall continue to focus.

The last area, the one which is most difficult to put your hands around but which is probably one of the most important ones going forward, is around the changes we are making in our commercialisation model. This is an area where there is much speculation. There are plenty of people in the world who would like us to fail on this, most of them are our competitors, who don't want to change. What we are doing as a company is backing up our strategic choices of which business to be in, which products to focus on, which countries to be in, with a core strategic choice of how we are going to compete.

The changes we have made in our healthcare practitioner payment model, where we are the first company to walk away from paying doctors to speak on our behalf, where we have already stopped paying any representative anywhere in the world bonuses associated with short-term sales, are all designed to establish a commercialisation model which is in step with the external stakeholders of this industry: the payors, the governments, the regulators. Make no mistake, the business model which has historically been prosecuted by this industry, the commercialisation model, is not in step with regulator, government or payor expectations. We made the call two years ago to start that journey, and we reiterate today that we see this not just as something we have to; it is something we want to do. It is something that we know is difficult, we know is challenging, but we believe that it is potentially an extraordinary defining competitive advantage if we are able to succeed. The early progress we are making is very reassuring and convinces us that we are on the right track.

Broader diversified portfolio offers sustained revenue protection

I just wanted to pull out another measure, and this goes back to something that I said in 2008 when I took over as CEO. We talked about the fact that one of the challenges of the business was the vulnerability of the business to intellectual property expiration, and remember in those days the proportion of sales and earnings which were dependent on *Advair* and *Avandia*.

Look at how things have changed today. When you look at that vulnerable business which is in what I used to call the traditional "white tablet" rich marketplace, that has really shrunk as a proportion of the business. That is just another measure of thinking about how this business can deliver sustainability, but it can only deliver sustainability as a business if it speaks to all of its stakeholders all around the world, which is what the strategic plan of this company is to do.

The GSK proposition

This slide just summarises what we are able to offer as far as the healthcare proposition around the world: the focus on volume at a fair price; the commitment we have to

an efficient R&D organisation but to an R&D organisation which is elite and will by 2020 be able to claim 80% of its advance pipeline being in first-in-class programmes. We believe that those are all key building blocks.

This allows us to have three global leadership positions: Consumer, Vaccines, Pharmaceuticals in the therapy areas in which we choose to compete. This gives us confidence as we move through into 2016 and beyond that, whether or not there is an *Advair* generic in America, we can deliver sales and earnings growth over the next several years.

With that, I would like very much to introduce Moncef Slaoui, who is our Head of Vaccine business, to give you a little more detail on vaccines.