

**GSK**

***Third Quarter 2016 Results  
Presentation to Analysts***

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**Sir Andrew Witty (Chief Executive Officer):** Good afternoon and welcome to the call. Q3 has been another strong quarter for GSK with continued sales growth, cost control and pipeline progression. Core EPS was 32 pence, up 12% on a CER basis, and group sales grew 8% to £7.5 billion also at constant exchange rate. Sales growth came from all three businesses across the Group but primarily from the momentum of new Pharmaceutical and Vaccine products, which had sales of £1.2 billion, up 79% on the same period last year.

Pharmaceutical sales grew 6% to £4.1 billion, HIV sales were up 32% to £940 million with continuing very strong demand for *Tivicay* and *Triumeq*. In Respiratory, sales grew 8% to £1.6 billion, including 14% growth in the US. At the start of the year, we said that we would be looking for return to growth of this business, and year-to-date total Respiratory sales are indeed up 2%. New Respiratory products are driving this performance with third quarter sales of £269 million. These new products - *Breo*, *Anoro*, *Incruse* and *Nucala* - position the Group well to manage the impact of potential genericisation to *Seretide/Advair*, and to ensure GSK remains the world's leading Respiratory company. I am also excited by the progress we are seeing in our Respiratory pipeline. In the near term, we are on track to file our closed triple product for COPD in Q4, and in earlier stage development our next generation products include danirixin, our CXCR2 antagonist, and our PI3K inhibitor. I am pleased to say it met its primary endpoint in a Phase II proof of concept study during the quarter.

Vaccines also had a very strong quarter with sales up 20% to £1.6 billion. This is not a function of phasing, but much more related to an improved execution of commercial performance, allowing for earlier delivery of vaccines given it is a high market share at higher prices. You see a significant growth over 2015 and previous year performance. In addition, demand for *Bexsero*, our meningitis vaccine, continues to be strong with sales more than doubling to £133 million in the quarter and we are investing to increase our manufacturing capacity extensively in this vaccine. Prospects for our Vaccine business remain very strong and we were pleased to announce on Monday that our latest innovation - *Shingrix* - our candidate vaccine for shingles prevention, has now been filed in the US.

In Consumer Healthcare, sales were £1.9 billion, up 5%: a competitive performance relative to others in this space and ahead of our estimated market growth of around 3.5%.

Power brands including *Sensodyne* and *Voltaren* all grew double digits and 12% of Q3 sales were the result of new product introductions in Consumer.

Looking at pipeline innovation more broadly, our most recent review of capital allocation for research and development reinforced our confidence in both our near-term portfolio and the potential of the assets we have in earlier stages of development. We expect visibility of our pipeline to increase substantially in the next two years, with clinical data being generated on around 20 to 30 potential assets by the end of 2018 in core therapy areas such as Oncology and Immunoinflammation. Assets with data readouts will include our OX40, the ICOS and BET inhibitors for various cancers and our anti-GM-CSF for RA.

The Group's operating margin for the quarter was 30.7%, 2.7% higher than in Q3 2015, and 1.3% higher than in CER terms. This improved operating leverage reflects sales growth and continued delivery of cost savings from restructuring and the integration following our three-part deal with Novartis. We have now delivered £2.5 billion of annual benefits faster than expected and on track to deliver our target of £3 billion.

These improvements in operating profits, together with benefits from currency, led to a significant improvement in our cash position with net cash inflow from operations of £1.8 billion this quarter compared to £0.5 billion in Q3 2015. At the earnings level, we are very pleased with the trends we are seeing in the business and very confident in achieving our 2016 earnings guidance for core EPS growth of 11% to 12% which, we have already upgraded earlier in the year from our original expectations.

Total EPS was 16.6p, down 1% CER, primarily reflecting charges arising from the increase in the valuation of the Consumer Healthcare and HIV businesses which, in part, relate to the put options held by our respective partners.

Finally, the Board have declared a dividend of 19 pence for the quarter and continues to expect to pay an 80p dividend for the full year.

With that, I will hand over to Simon, to give you a little more detail on the quarter.

**Simon Dingemans (Chief Financial Officer):** Thanks, Andrew. The results we have reported today mark another quarter of progress and delivery against both the strategy and the goals we set out in the financial architecture. These were to drive growth and earnings-per-share ahead of sales by improving our operating leverage and being more financially efficient, and convert more of those earnings to cash that we can return to shareholders or reinvest back into the business when and where we can see attractive returns.

Sales growth has been driven by all three businesses in the quarter but particularly by continued momentum from the new Pharma products and the stand-out performance by our Vaccines business, which continued to build the new meningitis portfolio while also delivering very strong growth in flu vaccine – especially in the US.

We are generating greater operating leverage through continued execution of our integration and restructuring programmes. These have not only delivered around £2.5 billion of annual cost saves since they started but are also creating significantly greater flexibility in our cost base. This is allowing us to maintain tight control of our ongoing costs while also allowing us to reallocate resources behind targeted reinvestments including supply chain improvements and new product support, as well as advancing the R&D pipeline. Together with the continued efficiencies we are delivering through our funding structure, this improved operating leverage allowed us to deliver earnings-per-share growth ahead of sales growth, as well as a significant improvement in free cash flow, which was more than double Q3 last year, after adjusting for the restructuring and other transaction costs being funded from the balance sheet through divestment proceeds.

As you will recall, we have already adjusted our earnings guidance upwards a couple of times during the year and delivery this quarter leaves us confident in meeting the guidance we have set out for growth in core earnings-per-share for the full year of 11% to 12% in constant currencies. We also said when we issued that guidance, that we expected earnings growth for the two halves to be similar - this reflects the greater seasonal weight to Q3 of the post-Novartis business, as well as the need to continue to invest consistently behind our new products and the R&D pipeline.

The press release provides extensive detail about the performance and so, as usual, my comments from here will focus on the major points: expectations for the rest of the year and any comparator points that might help you in your modelling.

On currency, this is the first full quarter since the Brexit vote. The resulting Sterling depreciation delivered a tailwind of 15% to sales and 27% to core EPS, with the larger impact on EPS due to a higher proportion of our costs being in Sterling compared to revenues. The impact of a weaker Sterling on the reported operating margin varies in the quarter by business, with Pharma positively affected given its relatively higher proportion of Sterling costs, while it is more of a drag for Vaccines and Consumer. Vaccines has a large manufacturing and R&D presence in euros in Belgium and Italy in particular, while Consumer also has a relatively large proportion of its cost base in euros, but also in Swiss Francs. If exchange rates held at the September month-end rates for the remainder of the year, and we have the same level of exchange losses as last year, we would expect a

positive full-year impact on turnover of about 10%. We estimate the positive benefit to core EPS will be approximately 21%.

Total results were 16.6 pence, with the difference from core results primarily relating to charges from adjustments to the estimated liabilities for contingent consideration of the consumer options. In addition to £243 million for the normal unwinding of the discount on these future liabilities, in line with the quarterly run rate we expect, the remaining adjustments were as a result of changes to the forecasts for the relevant businesses for performance and currency, which increased their estimated Sterling values and therefore the associated liabilities.

To help you model the impact of future exchange rate movements on these estimated liabilities, we have added some extra detail into the press release on page 50. This includes some sensitivity analysis and explanation of what exchanges we used. Details of the payments to Shionogi to settle the contingent consideration are also set out: these are included in the cash flow section of the press release each quarter. The payments, remember, are made directly by ViiV and, in Q3, totalled £121 million pre-tax.

The rest of my comments will be focused on CER growth and core results. In constant currency terms, as Andrew has highlighted, group sales are up 8% and core EPS up 12%, reflecting the operating leverage that we have already discussed. Pharma sales, including HIV, were up 6%, more than double the growth rate from last quarter, as increased sales from new products continued to more than offset the decline on *Seretide/Advair*.

In Respiratory, we continued to transition the portfolio from its previous reliance on *Advair/Seretide* to a much broader one. Total Respiratory sales were up 8% globally, with double digit growth in the US and International, more than offsetting a 9% decline in Europe. This is primarily the result of growth in the new *Ellipta* products and *Nucala*, up £179 million in Sterling terms, which more than offset the 7% decline in *Advair/Seretide*, which slowed its rate of decline in the quarter. This primarily reflected a mix in the period of better RAR in the US and an improved performance in the emerging markets, offset by continued competitive pressures in Europe.

In the US we are continuing to see greater volatility in our RAR rates quarter to quarter than might have been the case in the past and that trend seems likely to continue given the dynamic conditions in the respiratory market in the US. However, looking through that volatility for *Advair* specifically we are expecting an overall rate of decline in CER terms for the year as a whole towards the mid-teens, more in line with what we saw in the first half.

Moving on to HIV, our second largest therapeutic area, sales were up 32% as *Tivicay* and *Triumeq* continue to generate substantial growth. Both are now amongst the largest

individual products in the group and while we continue to see very strong momentum in the dolutegravir franchise, we are starting to annualise the significant acceleration we saw for both products last year and in the quarter we also started to see a more meaningful impact on generics for *Epzicom* and *Kivexa*. We expect the generic impact to accelerate in Q4 and into 2017.

Elsewhere in Pharma established products had a stronger quarter than trend, declining by just 3% which reflects some better supply but also some tender orders and other similar one-offs. Looking forward, remember also that we announced a series of deals with Aspen in September. That when completed will simplify our Established Product Portfolio but will also remove around £100 million of revenues on a full year basis. We expect those transactions to close around the end of the year.

Moving on to Vaccines, up 20%, strong execution across the business. In 'flu we shipped much higher volumes with earlier deliveries this year than in 2015 as well as an improved product mix, driving sales growth of 55% in the quarter. Part of this success was delivering early in the season so we are not expecting as many deliveries in the fourth quarter compared to last year, as our campaign has been very deliberately more concentrated to deliver that progress.

Vaccines also continued to build the meningitis franchise with particular success in growing share and the overall market for *Bexsero*. Supply remains tight, although given that we have seen such a significant acceleration of demand for this product we are continuing to invest in expanding capacity, but this will be a multi-year project.

Given the underlying trends we are seeing in the Vaccines business we now expect that this year as a whole we will see Vaccines sales growth at the top end of the guidance range we have previously given you for the business of mid to high single digits of rates of sales growth.

Consumer Healthcare remains on track continuing to grow in line with our mid-single digit expectations of 5%, even though the business was lapping a strong comparator quarter last year. We delivered especially strong results from the power brands including *Sensodyne* and *Voltaren*, which more than offsets some tougher market dynamics for *Horlicks* in India. *Flonase* OTC also continuing to grow in the US with line extensions offsetting the increasing impact of private label competition.

This quarter, *Veramyst* OTC received FDA approval and we expect to launch in the first quarter of 2017. This will be the business's second switch in three years. Worth noting also that at the end of September we successfully divested the Nigerian drinks business, the

last of our drinks businesses with annual sales of just over £50 million as we continue to focus and invest behind the core and power brands.

Turning to operating profit, excluding currency operating margin was up 130 basis points. Our continued delivery of integration and restructuring benefits and the leverage provided by better sales growth have enabled us to deliver an improved margin, while also absorbing pricing pressures and the declines of some of our older products and continuing to invest consistently behind our new products. This is alongside supply chain improvements and R&D pipeline investments. These investments and the recycling of a proportion of the restructuring benefits are key to sustaining the improved topline delivery and operating leverage we are now seeing across the business.

On restructuring specifically, we have delivered £2.5 billion of cumulative annual savings compared to £1.6 billion at the end of 2015, so we are ahead of schedule. Although the incremental amounts each quarter are now coming up against tougher comparators we remain confident in delivery of the targeted total savings of £3 billion.

In the bottom half of the P&L core finance costs were up £12 million to £160 million and I continue to expect interest costs to be slightly higher in the full year at constant exchange rates. The core effective tax rate was 20.8% in the quarter versus 20% last year bringing our year to date rate to 21%. As in previous quarters this increase is due in part to the higher levels of profits being made in the US and for the full year I continue to expect a tax rate of between 20% and 21%, although the mix of trading and currency that we have seen this year is likely to land us at the upper end of that range.

On cash flow for the first nine months of the year, excluding legal settlements of £166 million and adjusting for tax payments on the Novartis transaction, restructuring costs and the BMS acquisition, all of which we are funding from retained disposal proceeds, the underlying free cash flow more than doubled to £2.6 billion. This reflects both the improvement in operating performance but also the benefit of the move in Sterling which contributed about half of the overall increase.

As well as generating stronger free cash flow, we have also realised attractive values on the disposal of various non-core assets including a second milestone payment on ofatumumab of £150 million and almost £500 million from the sale of our residual Aspen stake. We will receive the proceeds for the Aspen disposal in early October, so they are not yet reflected in the quarterly cash flows or net debt position.

Net debt at the end of September was £14.7 billion compared to £10.7 billion at the year end, but this includes a currency translation drag of £1.4 billion since December. Year-to-date, in addition to using disposal proceeds to fund £800 million of restructuring and

integration costs, purchasing the HIV assets from BMS and paying £1 billion special dividend, we have also returned £2.9 billion of ordinary dividends to our shareholders. I continue to expect this year to be a heavy investment year with net debt reflecting that, but as we move towards the end of the integration and restructuring programme next year, we should see the demands on the balance sheet reduce. Excluding the impact of currency, net debt continues to be in line with expectations.

In summary, another strong quarter of execution across the business, reflected in delivery of sales growth, integration and restructuring benefits, improved cash flow and earnings and, as a result, we are confident in delivering the full year guidance.

With that I will hand you back to Andrew.

**Sir Andrew Witty:** Thanks very much, Simon and let's open up the call for Q&A. Operator, perhaps you could take people through the protocol and we will start the Q&A.

### Question and Answer Session

**Graham Parry (Bank of America Merrill Lynch):** Thanks for taking my questions; I have three. Firstly, on *Advair*, could you quantify the rebate benefit that we saw in the quarter on the US; how much of that is a historic adjustment versus just a change in rebates, and any channel that that mix surprise came from. I think you said that this was a trend that you expected to continue; if you could just clarify that comment?

Secondly, could you run through for us the contracting position of *Breo*, *Anoro* and *Incruse* for 2017? I assume you are pretty much done on these contracts now, just in terms of covered lives in tier two across Part D and Commercial and any exclusives that you have there? Is there any risk that that positioning shifts if generic *Advair* is approved, so are there opt-outs in those contracts?

Thirdly, on *Bexsero*, you are annualising over £0.5 billion in sales now, and capacity constrained, what is your ultimate capacity needed to meet what you perceive to be demands now, and can you help us understand just how far penetrated you are you think into the ultimate potential of that vaccine, thank you?

**Sir Andrew Witty:** Thanks very much, Graham. On the *Advair* piece, I think there are a couple of things: about £50 million in terms of the RAR adjustment; it is historic, so as you all know we don't know at the time that we ship the product which channel the

product is going to be sold through; there is an estimate, we don't have to correct one way or the other. This is a catch-up or a correction on historic provisioning. It is really important for you all to understand, we also didn't particularly call it out in the press release by detail, but we did make the general point, at the Respiratory level it is a neutral impact because we had RAR provision changes going in the other direction for some other products, notably *Ventolin*. The net-net of all of this is irrelevant in terms of the overall group, but product-by-product it has a slight impact, which is why we called it out for *Advair*, because obviously I know a lot of you are tracking the *Advair* decline curve.

The underlying performance of *Advair* is basically pretty much on track with what we have seen historically but there is no big deal around this particular point within the Respiratory business, and therefore at the Group level, because it all essentially washes out between the various puts and takes.

In terms of contracting I think we are in the best position we have ever been for next year, so for *Advair* we are running very high favourable positions in the Commercial book of business, as we are for all the new products. The same in the Part D book. You never quite know what is going to happen if a generic comes; the key question really, Graham, obviously is if it comes what is it, what does it look like and when exactly does it come? There is all of that uncertainty.

We have seen, and you have probably seen from some other companies, this increase in appetite for managed care clients to continue to think about how to keep the brand available, even after a generic arrival. I think going into next year, for the new products we feel really good; for *Advair* we feel really good at this point and we will have to wait and see if and when a generic shows up and in what kind of shape it is by the time we get there. In the vast, vast majority of cases, all of our products are preferred brands and that is exactly where we want to be.

As far as *Bexsero* is concerned we are expanding capacity as we go. I would remind if you if we go back two or three years I think *Bexsero* volume is something like two and a half million doses; I think we are heading up towards 10 million doses this year, more or less – maybe a little less than that; we will see. Certainly, over the timeframe of the next three/four years, we can certainly see a pathway to take us up into multiples of that 10 million type of level. We have been investing in various aspects of the supply chain for *Bexsero* since we acquired the product; we will continue to do that. While we don't have unlimited capacity today, we have certainly got a growing capacity, I wouldn't conclude that we are not going to be able to grow this product, we will, but the sooner we can bring on the new capacity the better.

In terms of penetration, I think we are very, very early days of this marketplace. I hazard a guess – but you are probably in the 10% territory, maybe not even that, of the overall opportunity of this particular vaccine. There is an awful lot of opportunity to go on a global basis, we have seen very strong performances in the US, of course, we have seen very significant business in the UK, Spain has been important, Italy is important, but it is still a relatively small number of countries against the overall potential opportunity. Big opportunity to go, expansion of manufacturing, ongoing, active. I have personally been to the facility we acquired, I think now, three times, gone through that. Every time I go we are able to produce more doses, we have made progress, I think there is a really strong energy and commitment in the organisation to do that. I think we are on the right track with it and overall, of course as you rightly say, we are now running at something like £130 million a quarter for *Bexsero*, very, very strong growth and we want to continue to see that delivery.

Next question?

**James Gordon (JP Morgan):** Hello, thanks for taking my questions.

One was on the new Respiratory launches, which is when I look at *Breo*, *Anoro*, *Incruse* and *Nucala* they are all a little bit below where consensus expectation was, so did we just do our sums wrong on this quarter or is there something that we missed, something like a step-up in rebating or something else. Any reason we need to be a bit more cautious in subsequent quarters for these products?

The second question was just about where we are in terms of cost savings and looking forward a year, so I think there is about £500 million of further cost savings to come through, can you just remind us where they might fall, in terms of the cost lines or by division? Is a chunk of them still to come in Vaccines, because I know the target is to eventually get to a 30%-plus margin, but it looks like you could almost get there this year actually, could you actually get there next year?

Then, just a final question more generally, with Emma announced as Andrew's successor, coming from a Consumer background it could be read as accelerating a move to having a bit less of a Pharma focus and more of a Consumer focus. When you are looking at in-licensing assets, is Consumer increasingly a focus and Pharma less so?

**Sir Andrew Witty:** Thanks very much, James, for the questions. I am going to ask Simon in a minute to comment on what the kind of likely distribution of the next £500 million of cost savings are.

I think on *Breo* and *Anoro* it is a rounding error in terms of the difference between the expectations and the delivery, first off, and I don't know why that is there, but within the scheme of things I think it is a very close set of numbers. Actually, if you look at the performance of the products, it's continued to be extraordinary growth actually, so if you look at the US, for example, 100,000 patients a week are now being prescribed *Ellipta* based inhaled products, 1 July *Ellipta* represented the equivalent of 36% of total *Advair* volumes by prescription, by 30 September it was up to 42%, so very rapid evolution there. If you look in the US share position during the year, over a 12 month period, *Advair* has lost 7 share points, *Breo* has gained 7 share points, *Anoro* and *Incruse* together in the bronchodilator market have acquired a brand new 12.7% share and in cases the NBRx, so the leading indicator of new, completely new to brand, are tracking significantly ahead of the actual delivery. If you look at *Breo* current TRx share it is in the kind of 11% type of territory, but NBRx is now up at 18.5%. That gives you a very strong impression of where that product is going and overall, when you combine it with the HIV business, you can see the new products at £1.2 billion, annualising at £4.8 billion, growing at 79% year-over-year, a very, very strong new product portfolio. To put that into context, for the Pharmaceutical business one in every £4 we generate in sales comes from products launched in the last three or four years, so it basically comes from the HIV products or the Respiratory products we have just been talking about.

*Nucala* is tracking very well, we have 5,600 patients on the drug now in the US, we have a 10% TRx share, but interestingly enough we have a 25% NBRx, which shows you the ramp-up that is coming in there and I think right now, as of today, we have got something like 12,000 patients registered for interest to go on the drug, as you know it takes a few weeks for patients to cycle through onto the product.

I think I actually think from just a stand-back, cold look at the performance of the new products, particularly in Respiratory and also in HIV, very, very strong performance, very sustained, growing share, accelerating as we came through the summer, very strong coverage for next year, I think continues to be very substantial potential for us going forward.

Simon, do you want to talk to where the next £500 million could potentially, you know, where it would distribute, in terms of where the cost savings are going to come from?

Just before you do that, I know you asked a couple of questions, James, which kind of tried to get us to redefine some of the targets or the guidance we gave back at the May Capital Markets Day. In terms of 2020 long-term guidance, I just want to reiterate our position on that, as a general point, which is it is not our intention to update each of those guidance points quarter-by-quarter, or even year-by-year actually. We gave you all of that

as a long-term shape evolution of the company, it is very clear that we are on or ahead of the expectations that we set for ourselves in some of the key goals there, for example new products, and we have made clear that those would come forward, that £6 billion goal would come forward to at least 2018 who knows when we hit that number, it may be sooner than that. We are not really going to get into a lot more precise adjustment of those numbers. I want you to take it as a shape and I would encourage you to look at the delivery and, if you want to adjust your expectations for the 2020, you are obviously welcome to do that. Against that general comment, perhaps, Simon, you could talk about the savings and then I'll come back to talk about the question you had relevant to Emma's appointment.

**Simon Dingemans:** Sure. James, as we have said before, as far as the sequence, we always expected that the SG&A and R&D savings would come before the SG&A and cost of goods savings, if you like, so that is the general trend and it is true of the last £500 million, that we expect to see a heavier weight within cost of goods than the other two lines. As far as the business mix, probably Consumer and Pharma are where you would see the greatest contribution, with some still to come in Vaccines although, as you point out, we have been ahead of that in terms of delivery and the margin performance makes that pretty clear. That is the overall shape but more cost of goods benefit than the other two.

**Sir Andrew Witty:** In terms of your question about Emma, clearly, next year Emma will lay out for you how she sees the strategy to take forward the company. She is doing all the work now to take the time to do deep dives on various aspects of the business, particularly those parts of the business that she has not personally run up to this point. You will have to wait to see what her view will be.

By analogy, I just want to make the point around why you shouldn't necessarily make any assumption until Emma stands up and tells you what she wants to do. The last project I did for the company before I was appointed CEO was to do an analysis of whether or not we should keep the Consumer business and my ingoing prejudice, if I could put it that way, was that perhaps we shouldn't keep the Consumer business. By the time I had finished that project, I convinced myself and the company that we ought to and, in fact, we massively kept it and invested. We turned that business into a phenomenal organisation for the company: 16% margin, sales up this quarter 5%, very substantial global scale and a terrific innovator, whether you look at the power brands like *Sensodyne* or the new switches like *Flonase*, and obviously, the approval we had this quarter for *Veramyst*. These are all great stories around momentum.

Just by analogy, you might have looked at me six months before I took over as CEO and predicted one thing and I did completely the opposite. I would simply use that as a

reminder that, when somebody is appointed to be the CEO, they have a chance to really think about what they do with that organisation that they are taking ownership for. They have the chance to set their strategy, so you should not necessarily expect that what people have done in the past will be a precursor for what they do in the future in any particular way. Next question.

**Andrew Baum (Citigroup):** I have three questions please. First, could you outline GSK's commitment to Oncology: given the history of the asset swap, given the sheer competitive intensity of the segment, should we believe that epigenetics, IO, are here to stay for good inside GSK? Secondly, could you give us some additional colour, Simon, on the tendering components around Vaccines and how you anticipate it will play out over the next couple of quarters? Finally, for China, Andrew, are you confident that we have now troughed here on the new base as far as underlying outlook?

**Sir Andrew Witty:** Thanks, Andrew. On China the answer to that is, yes. We had a little bit of benefit in this quarter of a systems cut-over but, fundamentally, we are back into growth, we are seeing improvements across the refocused business and, importantly, with the launch of new products in hepatitis B, the *Viread* launch, but also, critically, the *Cervarix* approval in the quarter, we can see significant opportunities to put more energy behind that business in the next year or two. I think the answer to that question is, yes.

We are committed to Oncology, Andrew, and what does that mean? It means that we are absolutely focused on bringing through breakthrough medicines, as you have written several times, whether it be in epigenetics or in IO - we have some significant opportunities for first-in-class meds. It is a little early to say exactly what these medicines could be or can't be but, in the next 12 to 18 months, we shall know, those data will come in thick and fast during 2017 and through to the middle of 2018. At that point, Emma will be in the position of making the choices about how we then go forward. You are quite right, of course, that this is a very competitive space, there is the potential for combination strategies. You know we are already partnered with Merck in one or two of the combination exploratory trials. We are very pleased to be working with Keytruda to explore the potential of our possible meds alongside Keytruda.

However, exactly how we then go forward is really dependent on what happens to which products over the next 18 months. The number 1 driver will be how we maximise shareholder return from those assets. Now we took a decision about how we could maximise shareholder return on the older generation of assets: that deal, I think, did

maximise shareholder return very substantially, and Emma will be in a position to make choices going forward. I would say that all options are on the table but the default option must be to develop this business ourselves. If I went back to 2006/7, we had no Oncology business. Within four or five years, we had built a £1 billion business and launched seven products, which we then sold to Novartis, but the fact is that we built that presence up very rapidly. There is no reason why we could not do that again, if that were the right thing to do with the portfolio of medicines that come alone. However, we will not know what that portfolio really is for probably another year or so.

Simon, would you like to comment on the tendering question?

**Simon Dingemans:** Yes, as we have talked about before, tenders create a rather lumpy profile inside the vaccines business, mainly affecting the international piece of it, which is why I called it out. It is not material to the overall position we reported for the whole Vaccines business, but it is probably £30-£40 million within the international region, which is why we marked it. It is on that scale.

**Sir Andrew Witty:** Just on the back of that, if what you are digging at, Andrew, is how real is the Q3 Vaccine number, versus it being somehow phasing or tendering, the reality is that it is a very real number. It does not mean that we will see the same sales number in every quarter, because there is some fundamental seasonality in the Vaccine business, whether that be around the flu business, particularly in the United States – there are some vaccines which are associated with back-to-school periods and that sort of thing. There is definitely lumpiness from a seasonality point of view, and there is definitely tendering, which can affect that. There are also things like CDC stockpiles, which can be a positive or a negative, actually, in this quarter, that was a negative, and the number would have been even higher if we had not had that situation.

There are things which drive lumpiness of the quarter. In this particular year, in Quarter 3, the reason why we have such a strong performance is really twofold: absolutely fantastic *Bexsero* meningitis sales in particular. There is also the absolute execution of the goal we had, which was to ship more flu vaccine earlier, so that we could have a higher share and achieve that at a better average price point than you achieve when you come late into the market. That is a very deliberate effort to shift that flu business into Q3 and obviously, going forward, the challenge will be to do that in every Q3. That is why we have generated that: it is not just that the sales have come into a different quarter compared to historic patterns but they have come in in higher volumes and they have come in at higher average prices. That is very substantially permanent, if I can put it that way, rather than simply a timing phenomenon. It is quite important to understand that. As I say, it does not

mean that we will not see lumpiness, but that is not really the feature of why you have seen this very strong Vaccine performance in the quarter.

Next question.

**Kerry Holford (Exane BNP Paribas):** I just have two questions, please, firstly on the pipeline. I notice that you have terminated the maturation inhibitor from Bristol-Myers, and there is a mention of a back-up with a better profile. Can you just give us some more detail on this. What phase is that back-up in? Can you provide us with more detail as to why 795 was terminated, and why you think the back-up will be superior? Do you still think you can be first to market with an oral maturation inhibitor? Just to confirm, does that back-up also originate from Bristol-Myers?

Just following on from your comments on *Nucala*, Andrew, you referenced the time taken to get patients onto drug following a physician writing a script. Are you seeing that decrease now? Is that moving in the right direction? How long does it typically take to get patients onto drug now? Are there any comments you would like to make about competitor products in that space currently and into next year. Thank you.

**Sir Andrew Witty:** Thanks very much, Kerry. As far as the maturation inhibitor is concerned, you are quite right – we terminated 795: there was really a tolerability issue and we did not feel it was good enough from that point of view. In fact, we have at least two more back-ups and they come from both Bristol-Myers and GSK labs. I don't think we will lose a great deal of time: we obviously lose a little time here, but not a great deal. We feel as though the overall programme is still very much substantive and has a number of opportunities in it. Even at the time when we did the transaction with Bristol-Myers, while we did not know the tolerability profile of this lead asset, we were particularly intrigued by a couple of the back-ups. Even at the time of the transaction, we have been increasing our focus on the back-ups. As it turned out, the lead from BMS wasn't what we had hoped it would be but the reality is that the programme remains very much intact. I do not think the time liability will be very material and the back-ups come from both BMS and GSK, which is good because it gives some diversity of chemistry and it gives us a bigger solution set, to be able to come up with the right kind of product.

As far as *Nucala* is concerned, we are seeing that timeline shortened. The reality is that, for anybody who is on these kinds of biologics, the timings to get through the reimbursement cycle and authorisation are challenging – much longer than you would want them to be. Actually, personally, I think it is one of the areas which is really deserving of a focus for all the stakeholders to work together, to streamline in the US.

We continue to focus on how to take a day out, here and there. We are doing that and we are seeing that cycle time coming down. We are seeing fantastic feedback from physicians and patients who are on the drug and as I said earlier, our NBRx share is now up to 25% against our TRx position of 10%, so that shows you the kind of climbing curve that we're doing. You can see that in the marketplace certainly as far as the products which are on the market today and *Nucala* is really the story in town, clearly there is potential competition coming in a year or 18 months' time, we will have to wait and see. But we haven't seen anything published there which makes us feel particularly anxious in terms of the profile for *Nucala*. There are a few truisms in this particular target set; the higher the eosinophilic count at baseline, the higher the proportional drop. So if you do your trials in patients with high eos counts you are going to get typically higher percentage drops. What we have seen with *Nucala* is a very strong performance even as you go into lower eosinophilic counts and as you know we have done trials at 150, others have done trials at 300 and what we have also seen with *Nucala* is great consistency of performance.

You have seen some new interesting data published during the quarter and you will see more very interesting data on *Nucala* published in the not too distant future. So this product is very much in a very active launch phase, it is going extremely well in terms of share acquisition, tracking very much, a little bit ahead actually of our expectations and we feel good for going into 2017, good coverage and the focus point is to try and make the patient experience a bit smoother in terms of accessing the product.

Next question.

**Jo Walton (Credit Suisse):** Thank you. It is with trepidation that I ask this question, but it's about US pricing going forward and specifically you made a comment that plans were looking to keep the brand as much as possible post-generic. I am not sure that those of us that follow French companies are seeing that that is a widespread factor so I just wonder if you could tell us a little bit more about how you think that could play out in the respiratory market.

And just generally, do you think investors are too worried about all the rhetoric that we are hearing on the US political scene? Do you think that could turn into action and if so, what would be your best bet as to what may happen on US pricing next year?

**Sir Andrew Witty:** Thanks very much, Jo. I didn't actually say that plans were trying to keep the brand as much as possible; I said plans were more open-minded to looking at strategies to keep the brand and we are seeing that. I think a lot of this depends on, it's no secret to anybody, certainly not you, Jo or anybody else on this call, that the net

average *Advair* price has dropped significantly in the last three years and essentially we have absorbed 50% of the economic effect of genericisation already, notwithstanding the reduction in any volume market share.

Now what that means is our net prices are in the range of being able to have a sensible conversation around potential generic entrants. Now all this obviously all depends on what kind of generic marketplace evolves and when it evolves and how substitutable, how big the supply is, all those good questions which have been the subject of my earnings calls for nearly ten years, those things still exist and the reality is I think against that backdrop there are some significant merits for customers to think about some certainty and there are some significant merits to think about the overall portfolio that GSK has to offer versus the single debate of *Advair* versus a generic.

To contrast that to some other companies who have been very challenged in this space, you've got to step back and say 'Okay, we are doing just over 200,000 prescriptions a week in America of *Advair*, we are already doing 100,000-plus a week of the *Ellipta*-based products'. The dynamic of that whole conversation has really moved on to how do we work together on the new products? That's why we are seeing such terrific access being established across the board of the Respiratory portfolio and remember the triple therapy file is going in before Christmas and, given that that may well have a shorter review cycle than 12 months, it puts us in a very interesting position to juice up the competitive dynamic in the US.

You know, we'll see but I think it is all to play for, Jo, is the way I would characterise it for us and I think the fact that we have absorbed so much pain on pricing over the last three years actually puts us in a more interesting zone going into the generic cycle. Of course it would have an impact on us, of course generics would lead to a reduction in sales and profitability from *Advair* but the question really is to what degree and that's very much determined by just exactly when, what the profile of the generic entry is and that's not within my control to predict, I'm afraid.

As far as your more general question is concerned, it is important to be conscious of the dynamics around US pricing and it's not just political dynamics although of course that's what drives a lot of headlines. There are tremendous market forces at work in terms of the way in which the US market is changing, who is making the decisions, who is controlling the lives. That's changed dramatically. We have been talking about this on these calls for many, many years and it is what has driven a lot of our strategic thinking at GSK in terms of making sure that our innovation can be differentiated and then importantly priced at a sensible level to maximise returns and I think we are showing that in the new products. I

don't know how many other companies that you cover can say that 25% of their sales come from products which have been launched in the last three or four years and I think that is proof point of the returns argument that you can launch at a reasonable price *vis-à-vis* other products and generate significant economic return, so it has driven that agenda. It has, of course, driven our agenda of looking for high returning growth opportunities beyond simply the traditional US pharmaceutical high priced marketplace, if I can characterise it that way, which is why we have invested where it makes sense in the Consumer business, the Vaccine business and elsewhere in the organisation.

When we look at the returns that these three businesses offer over a 10-year period, they basically deliver very similar return rates. That has been the strategy of the company, to make sure that yes, we continue to drive forward pharma innovation; we have 20 to 30 new drugs to read out in the next two years, and we will look to sensibly price those markets into the US to get a decent return, but we will take some of the pressure off that dynamic in the expectation that it gets a tougher world not an easier world by investing sensibly for a similar return in the Consumer and Vaccine business.

In terms of what to anticipate next year, I don't know. Nobody knows what is going to happen next year. I think next year you will simply see a further ratchet-up of the behaviour of the marketplace through the commercial payers and negotiators. I think that the idea that certain therapeutic areas are immune will be dismissed over the next two or three years and I think that any kind of governmental interventions are probably more like a 2018/19 scenario and, at the very least, what we should anticipate is more Part B type demonstration projects. I think the intervention to limit Part B reimbursement is very telling of a potential pathway for how the US might evolve. The good news of that is that they tend to me more kind of sniper type shots at the marketplace rather than big, tidal changes, but the bad news is that they happen reasonably quickly. I would anticipate more of that type of thing.

Might there be a much broader political agenda? Maybe, but I am less sure of that, frankly, Jo, and I think there are plenty of reasons why you might conclude that isn't the most likely outcome. I certainly think commercial marketplace dynamics are now moving into a much more broad-based scale and I think the possibility of governments, CMS and others choosing to implement other demonstration type projects as a way to try and change the market must be rising, not failing. Next question?

**Tim Anderson (Sanford Bernstein):** Thank you. A couple of pipeline questions. Going back to Respiratory and the closed-triple, just thinking about market access in the US, when you launched *Breo* you felt you had more pricing powers than you ended up

having, that obviously hurt the product launch and I am wondering what lessons from that experience might port over to the closed-triple specifically? Are there some similarities there or do you think this is a totally different product, different set of circumstances? It is always away the way, but I am just wondering whether investors should be bracing for another slow launch, no matter what you do?

Then the second question is on *Shingrix*; great efficacy, but on safety and tolerability there are some things that stand out. In the *New England Journal* article, for example, about 10% of patients had grade 3 injection site reactions, which is pretty high, and higher reactogenicity. For a preventive product, where patients aren't really coming to the office or active symptomatic disease, I am wondering if that creates a commercial impediment, or if there could be compliance issues with the second dose?

**Sir Andrew Witty:** Great, thanks very much, Tim. As far as the triple is concerned, I don't think *Breo* is a good analogy – I look at what we have done since *Breo*. You have to remember, *Breo* and *Advair* was a simultaneous event and it was a very unusual dynamic. If you then look at our ability to get *Anoro*, *Incruse*, *Nucala* even, all of these products covered very quickly, and in fact our ability to reverse the setbacks we had on *Advair* and *Breo* I think you can see a very different success rate in terms of our managed market position. I am pretty confident, but I don't want to hand Emma a gift too much at this point, but in terms of one of those gifts where you have to constantly explain it, my guess is that triple ought to be reasonably straightforward, provided we go in with a pragmatic price proposition, and that is what we have been doing since *Breo*. The consequence of that is we have seen excellent coverage, rapidly achieved and then very rapid market share acquisition.

I think it should be fine, but it all revolves around walking the talk, Tim, you know. I have just talked for five minutes about how I see US pricing and we have to be consistent with that and have pragmatic pricing positions for new products like triple, but I think that will work.

As far as *Shingrix* is concerned, fabulous efficacy, as you rightly say; the injection site in the trial – remember that the placebo was literally placebo so you are comparing something which is non-active against an active, so the comparison with the trial isn't really relevant.<sup>1</sup> Honestly, Tim, if you sat down and you sit with somebody and say there is a response, an immunogenic response, as long as people know it is coming, there is an immunogenic response but the benefit of that high immunogenic response is a much higher, in fact potentially a doubling of your protection level. That is a bit like when I go for my flu

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<sup>1</sup> Reference to competitor product redacted. Please call GSK Investor Relations if you have any questions

shot they say 'It is going to hurt a little bit,' I still have it and I would have it because I am prepared to tolerate that for the benefit it gives me.

What we need to be very good with is making sure physicians understand what the experience is going to be like, I think that the overwhelming positive news about this drug, phenomenal efficacy, phenomenal impact on potential future cases of post-herpetic neuralgia and all of what comes with the efficacy side, I think that the issue of injection site reaction a) in the trial looks more overstated than it should be, because it was a true placebo, but b) I think is entirely explainable and not unprecedented in vaccinology.

Next question?

**Keyur Parekh (Goldman Sachs):** Good afternoon, I have got three please.

The first one, Andrew, there has been recent press about some UK Government reaction to a white paper that apparently Glaxo and AstraZeneca and the ABPI had worked on towards Brexit, it would be great to hear your thoughts on how you think that plays out kind of for the industry?

Secondly, last quarter there was some question around intellectual property, around dolutegravir, cabotegravir and whether the Gilead compound could potentially infringe that, I would love to hear your updated thoughts on that, if you have any?

And lastly, and I realise you will have another quarter to do this, but just what do you think your biggest legacy to Glaxo will be? How will we think about your time at Glaxo in five years' time? Thank you.

**Sir Andrew Witty:** Thanks, Keyur. I think I am going to short-circuit the three. Nothing new to add on IP or potential competition issues there, way too early to think about legacy, I am still thinking about making sure we deliver a great year-end for the company, and in terms of the UK Government position, you know I think, first of all, there is a very good dialogue going on between the industry and Government, of course the overall strategic framework of the UK's exit from Europe is not clear or defined, so inevitably there is an absence of black and white decisions and clarity, if I can put it that way, but I would say that the number one, most important thing that has definitively been confirmed, since 23 June, is that life sciences is one of the top three industrial sectors that Britain wants to swing behind. That is incredibly important, it is definitely creating the backdrop for a constructive engagement between industry and Government, not just on the short run, but on long-term competitiveness.

That is clearly very important for GSK. We are very actively involved in those conversations, but I think it is also fair to say and also reasonable for us to sit back and say 'You know, this is a big, complex, big story around Brexit and therefore it is inevitable that things don't necessarily get nailed sector-by-sector as quickly as some people might like.' Nothing to worry about, I think from my perspective, I think we are in an early phase of a complex process, we are in a good position,. Because we have been called out as a priority industry, I think the benefits that that could bring, in terms of continued commitment in science base in Britain, continuation of things like the Patent Box, ensuring that this is an agenda where the UK Government looks for ways in which it can legitimately help, encourage innovation to take place in the UK, are all very positive.

So, it is early days, but nothing to worry about and I certainly wouldn't be concerned about any, you know, observations in the media on this sort of thing.

Next question?

**Steve Scala (Cowen):** Thank you, I have several questions.

Andrew, apologies for asking a question you said you wouldn't answer, but regarding the expectation that new Pharmaceuticals and Vaccines are expected to reach £6 billion in 2018, GSK is on track to exceed that in 2017, so given the fact that it is nearly upon us, what are your reservations in revising that number now?

The second question is on zoster vaccines. Merck's strategy is to vaccinate as many people as possible before *Shingrix* is approved. GSK has said that only 7-8% of patients have been penetrated, but if Prevnar is a good parallel, only about a third of patients will seek vaccination, so is GSK's ongoing study of *Shingrix* in people already vaccinated with Zostavax recognition that the new patient pool is indeed fairly limited?

Then, lastly, what impact on *Nucala* would GSK expect if Astra's benralizumab is approved on a Q 8-week basis?

Thank you.

**Sir Andrew Witty:** Thanks very much, Steve. So in terms of the new product piece, we are clearly tracking very well, in terms of the performance, and if you can draw your own lines, you take the 79% growth rate over a 4.8 billion base and then you figure out what the decay rate of that growth projectile is and you can come to your own conclusion. It is more a general point that, right now, I don't think it is necessary for us to update for you, I think the kind of 'what is in the tin' is more important than what is on the label of the tin in this situation, there is absolutely clear, fantastic momentum here. I think it

is also important that, frankly, as we look at forward-facing statements into 2017/18/19 I think that is largely for Emma to be very much the owner of as she takes over the business going forward and so I think that as we go through this transition there will be some things which we may all agree on, Steve, but it is right for Emma to be the person to say, yes, I am ready to make that commitment on behalf of the company going forward.

No question, though, that I am super pleased with this performance and I shall reiterate that having a quarter of your Pharma business coming from new products, most of which have intellectual property running until the late 2020s, feels pretty good.

As far as Zoster, there are a couple of things really. Remember that Merck are only in a handful of countries, because as they have a live virus manufacturing process, they have always been significantly constrained through manufacturing volume. They have clearly prioritised some of their biggest markets like the US but they are only in a handful of countries. We see *Shingrix* as being a global launch. As you know, it is not a live virus, we are not inhibited by the same manufacturing constraints that live viral manufacture creates for you.

First of all, this is going to be global, which massively increases the marketplace compared to the Merck position. Secondly, of course, we are looking to prove that we can revaccinate someone who has already been vaccinated. We owe it to them because, if that vaccine only works 50% of the time, they have a one in two chance of not being protected. That is something that we really need to demonstrate and, from a public health point of view, if we are successful in that trial, that will have a very material impact upon what public health authorities potentially choose to do. I am now 52 and, if somebody said to me I can have a vaccine, or I had even had a vaccine which was 50/50 but now there is one which is approved for revaccination if we got to that stage, I don't think I would have too many doubts about going back to get it.

We are looking at the whole marketplace, frankly, Steve. We are looking at the geography opportunity, we are looking at the patients who have not come through the door yet who we would love to come through and be protected, and we are exploring whether or not there is a legitimate basis on which to develop the claim for revaccination. This will be a very significant product and I know that Emma is super excited about it. I know this is an area where it is obvious that there is a real blend of the best of Pharmaceuticals, Vaccine and Consumer Healthcare skills, and I think it will be a fantastic opportunity for GSK and for Emma as she takes over and drives it over the next few years.

Next question.

**Richard Parkes (Deutsche Bank):** Thanks for taking my questions, I just have three questions if that is okay. First, just a simple one: I wonder whether you can quantify the impact from the stocking in China and phasing of tenders in the established products line? Secondly, given the consensus forecast in the third quarter and the fact that you haven't raised guidance, looking at R&D you have increased spend in the third quarter, it looks from your comments like you are really taking the opportunity to reinvest some of that better underlying performance. I wonder if that is the right interpretation, i.e. are you ahead of where you expected to be and how should we think about R&D spend versus margin development longer term? Thirdly, we have seen Sandoz recently file a citizens' petition questioning the use of lower dose of *Advair* in bioequivalence trials. I wonder how likely you think that is to delay generics? I believe that both current filers used the lower dose in their Phase III trials.

**Sir Andrew Witty:** Thanks very much, Richard. The stocking in China was a £20 million effect and, Simon, on the tenders?

**Simon Dingemans:** It is £30-40 million overall.

**Sir Andrew Witty:** So immaterial in the scheme of things. To be honest with you, as you know in our quarters, you are just as likely to have one or two more of those - you can get them in a quarter, you don't get them in a quarter - but I would say that those are small. We really only called out the China one in particular because - back to Andrew Baum's first question - we are very positive about the beginnings of recovery growth in China but we didn't necessarily want to give the impression that it is going even more quickly than it is because of that distortion. Frankly, if it weren't for that we wouldn't call it out, because it is such an immaterial number.

In terms of where we are, we are ahead of where we expected which is why we lifted guidance a couple of times during the year. We continue to trade very well and we are confident that we can come in within the range that we have set for the rest of the year. Let us see what Q4 brings us. There are always degrees of volatility in the quarter. I am feeling very, very confident about where we stand today.

It is also true that we are incorporating into our short-run and medium-run expectations a gradual beginning of rising investment in the R&D business driven by the opportunities of the R&D portfolio. As we look forward, we start to see some of the big inhaled respiratory programmes which have consumed a lot of resources, some of the big *Tanzeum* programmes which have consumed a lot of resources historically, coming to an end. We start to see the gradual ramp-up of new product investment coming forward, we are investing in that and you can see in this quarter that the one part of the P&L where we

weren't delivering leverage was in R&D. We delivered leverage in COGS, we delivered it in SG&A, we delivered it everywhere except in R&D, and that is reflective of the fact that the savings we are taking through normal restructuring are being immediately redeployed, plus a bit more, and you should to continue to expect to see us invest intelligently in R&D. Now there is no target number, there is no target percent of sales but I think very much driven by the opportunity the pipeline gives us and as we look over the next two years, we've got between 20 and 30 potential opportunities to get behind.

One of the things the company will focus on and we do it all the time anyway, but it becomes even more intense in the next two years, is exactly how much weight do we put behind each product as it surfaces if we get multiple opportunities surfacing.

You are right to reflect that. Obviously we are going to continue to try and deliver the best number we can for the year without short-changing the future in any way whatsoever, so the R&D investment is all about making sure we have long-term foundations for sustained growth and sales delivery, but we are going to continue to look for every opportunity we can between now and the end of the year to deliver the best number we can.

As of today, we are very confident around the guidance we've given you. Let's see how the next two and a half months plays out to where we actually land.

I can't really comment on the Sandoz citizens' petition. Obviously it's nothing to do with us in the sense of we didn't originate it, I have no idea what, if any, dialogue has gone on between that company and the FDA already.

I would remind you that GSK filed its own citizens' petition several years ago which is still a pending citizens' petition, so I can't predict to you how this might affect approval times but I would remind you this isn't the only citizens' petition that is sat now at the FDA.

The only conclusion I take from it is something I've been saying to you for nine years; it's complex and the FDA will have to make a choice in a complex generic space. Something like only 11% of contemporary generic applications get approved on first cycle review in the US. That includes the simplest generics imaginable all the way through to things like Advair. Advair is a very complex generic. Let's wait and see whether or not people can thread the needle early in that process or not, but what's clear from the Sandoz piece is that there are at least other generic companies out there who want the FDA to address some aspects of this complexity more than they have already been done.

Who knows what that means? I think it simply reiterates the point we have said repeatedly; there are lots of moving parts to this. A focus at GSK is on the things we can control which is all about the new products, so we are focussed on driving that £4.8 billion

annualised new product number up, we will live with whatever comes on generic *Advair* whenever it comes. To restate the point we've made many, many times before; we don't know, nobody knows and we will deal with it when it comes along.

Next question.

**Nicolas Guyan-Gellin (Morgan Stanley):** Thank you very much for taking my question. I have two, actually. The first one is on 2017 margin. This year currencies will help a lot combined with the Novartis integration and material synergies in OTC and Vaccines while I suspect ViiV also played a major role in Pharma margin improvement.

How shall we think about margins for next year, so 2017 directionally with further FX and synergy tailwinds but potentially *Advair* generics in H1.

I mean is there a scenario where you can improve margins as anticipated by the consensus, despite *Advair* being genericised?

And the second Respiratory question; what do you expect from the soon to be published head-to-head trial that Novartis is running with Ultibro versus *Anoro*? Do you see any particular upside or downside there? Thank you.

**Sir Andrew Witty:** Thanks very much. Nicolas, a super-elegant question, but I am going to not give you guidance for 2017 while we are still in 2016. The only thing I would say is if and when there is a generic to *Advair* obviously *Advair* is a very profitable product, we don't have very much commercial resource attached to *Advair*, we are focussed on the future, not on *Advair*, so if and when there is a generic to *Advair* then the loss of *Advair* volume, it is a high profitability product so you have to be aware for that.

I think in terms of the only other piece I would say, and I think you alluded to this in your question, it is important to remember that all else equal, it is highly likely we will retain a significant currency tailwind into and through much of next year if everything stays as it is today. Now there is no guarantee of that of course, but it's hard to remember almost that the pound was at 1.50 as recently as June 22<sup>nd</sup> and so for the first half of next year you are likely to see a very significant currency tailwind.

But beyond that I am not going to make any comment on margin. Again, I think all of those kinds of comments are very much appropriate in 2017, not in 2016. They are driven enormously by the timing, so if a generic came early it's one thing, if it came late it's another, if it came never at all, then it's another and those are all things which Emma and Simon will be no doubt chatting to you about at different times during next year.

No, no particular comment on the Novartis trial. It's for us to talk about our trials when they are published, not other people's when they haven't been published. Let's wait and see. The only good news I will share with you on that front which is fantastic news is that GSK is now number one in the double bronchodilator global marketplace and given that we started second and we are now number one, it feels like that race is playing out well and we are continuing to see some very good progress and I think we will see in some global guidelines some evolution over the next few months which will also potentially open up opportunities for us there.

**Jeff Holford (Jefferies):** Thank you very much for taking my questions. I am trying to look a little differently on *Advair* for 2017. Perhaps this is for Simon: do you have any general thoughts about when you will give guidance on 2017? Can we just assume that you will be ignoring the potential of *Advair* generics in 2017, and we will just see where we come? Or will you just try to bake that somehow into guidance for 2017? I am interested in your general thoughts about how you will deal with that.

Secondly, perhaps this is just more comment on the companies appetite for M&A right now, and the focus and size, if there is any interest.

Lastly, Andrew, from some of the comments you have made today, I am thinking that you are playing down the potential risk of things like changes to LIS and dual eligible patients rebating over the next year or two. I wondered if you could tell me if I am correct about that, and why you have that view. Thank you very much.

**Sir Andrew Witty:** Thank you very much, Jeff. On things like dual eligible, the point I am trying to get across is that the chances of that in the next year or two are low but, as you get into the end of 2018 and 2019, it rises. There is a timing dynamic around that. There are some other things that could happen more quickly and so I do not think it is a zero risk at all, Jeff. I don't think it is a 2017 risk but it is more a case of the pace and speed at which some of these various things might evolve.

As you know, GSK has a low fraction of its business exposed in the Medicaid/Medicare space compared to many, and what we do have there is dominated by *Advair*. Slightly ironically, if there were to be a generic *Advair*, our risk to dual eligible drops dramatically, which is an interesting upside to something that you would not necessarily want to happen.

In terms of guidance for next year, Emma and I will sit down over the next few weeks or so, to start to think about how we plot this but, rest assured, between the three of us –

between Emma, Simon and myself, we will do everything we can to make sure that we give you as much help as is appropriate, so that you can understand what the true, underlying growth of the company is and what the potential impact of generics might be. We will definitely be discussing that with you, but it is super-critical that that is owned, and something that Emma feels good about. One of the reasons we will not rush anything out is because it would only be sensible to have that conversation once Emma has had her chance to get to grips with the process she is going through now, in terms of familiarity with parts of the business that she hasn't necessarily run directly.

You will just have to bear with us a little. We would not normally give you guidance until we were into the year, and that is a very safe assumption in this situation. The three of us will work together on it and, at the right time, I am sure we will be describing to you both what the effect would be if there were no generic, but also give you some indication of what the impact of a generic would be.

Next question.

**Seamus Fernandez (Leerink):** Andrew, I guess, given your views on the industry and near-term prospects, particularly on pricing and access, I am just wondering also as we enter a more biosimilar-heavy environment, as that accelerates, what are your thoughts on the prospects for mega-cap M&A, as we saw, heading into the big 2007 to 2012 cliff that the industry had to weigh into? You guys took a very different strategy than mega-cap M&A, but others may have a different view. I was just wondering how you feel GSK ultimately is positioned in the context of that environment.

Then I have a separate but similar question about this interest in further consolidating OTC Consumer, and just perhaps giving us a better understanding of Novartis's ability to block a deal that GSK may want to do, that could be a little costly in the near term but could be significantly value-added long-term. We are seeing some challenges at some of your partners in that regard.

**Sir Andrew Witty:** From the mega-cap M&A dimension, the economic rationale for that type of thing must be rising if you believe the environment becomes more pressurised from a price perspective. When I started in this industry, there were 65 global drug companies and we are now down to a reasonably small number. These are very big companies, typically, and they are complex. We have seen a variety of potential or putative transactions launched and then cancelled in the last two or three years, always for slightly different reasons but, nonetheless, they have been tricky to get done. That is an issue, with

the complexity of the transaction, when these businesses are so big and have many overlapping pieces potentially.

There is then the issue about whether you really want to run a drug company with 250,000 employees in it. That is a very interesting question. These companies are very, very big and there are relatively few companies in the world with a quarter of a million employees. That is not a completely trivial challenge to think about if what you want to drive is topline growth.

Where do I come out? Obviously when Emma takes over she will develop her own views of this, but my personal view is, from a GSK perspective, I think we are sat pretty well to deal with the challenges which are coming. Over the years we haven't always been flavour of the month for this, but we are sat well to anticipate a challenging price environment, we have invested in businesses which have differential risk exposures – Consumer, Vaccine, Pharma, we have invested in different geographies and we are delivering now a £27/30 billion company, this quarter growing 8%, growing healthily at the top and driving leverage – it doesn't make me super hungry to go rushing around and put all of that at risk, frankly, from a personal point of view. I think we are well-positioned and we can navigate this well.

If we get a decent yield from the next generation of R&D that has come in and if we can take the current £4.8 billion of new products to where they could be in 2020 or 2022, that portfolio feels like a tremendous prize. Remember, after *Advair* there is almost no intellectual property risk to the portfolio, we have no biosimilar risk to that dynamic, we have no high-priced oncology risk baked into our current number; all of those risks sit somewhere else. 0.1% of our business is in Medicare Part B in the US, so we have no exposure to that type of thing. As I have said, post-*Advair* our exposure to dual-eligibles drops dramatically.

When I look at the risks that could be coming towards the industry, a lot of them, we have either engineered out of the company or, by chance, by luck, our portfolio doesn't expose ourselves to those areas. That gives us the basis to feel pretty confident and robust around the future, which is why we gave you the 2020 shape of the company which, in itself, predicted significant growth in sales and earnings, even absorbing a full genericization of *Advair* and, as we have made clear on a number of occasions, we are tracking very well against that set of expectations that we laid out.

Where I come out is for us personally, but I certainly don't want to restrict Emma's freedom to manoeuvre at all, but for me personally that would be my analysis.

As far as Consumer is concerned, clearly there are opportunities to consolidate in this space. Clearly, in the current JV structure it would need to be something that the co-

owners would have to agree, but the relationship with Novartis in that Consumer JV is extremely positive, extremely constructive and if there were value creating opportunities for both firms, I know that both organisations would behave very rationally to ensure that both companies achieved the value they wanted.

Yes, we are thoughtful about those sorts of things, Seamus, we do see the opportunities there, but again, having just done the Novartis transaction we are just now at the point where we are delivering the value from it. That is going to be for another day and it is going to be for Emma to really give her thought to as she takes over. Thanks Seamus.

With that I am going to bring the call to a close. We appreciate all of your questions today. The IR team at GSK is obviously at your disposal if you have more, follow-up questions; for those of you who have limited your questions to only three, you can always come in and ask the other five; very much appreciated and I look forward to seeing you all at different times in the future. Thanks very much.

[Ends]