GLAXOSMITHKLINE

2017 FULL YEAR RESULTS
PRESENTATION TO ANALYSTS

Wednesday, 7 February 2018 @ 14.00

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Sarah Elton-Farr (Head of Global Investor Relations): Good morning and good afternoon everyone. Thank you for joining us to discuss our full year 2017 results which were issued earlier today. You should have received our Press Release and can view the presentation on GSK's website. For those not able to view the webcast, slides that accompany today's call are located on the Investor section of the GSK website.

Cautionary statement regarding forward-looking statements

Before we begin, please refer to slide 2 of our presentation for our cautionary statements.

Our speakers today are our Chief Executive Officer, Emma Walmsley, Luke Miels, President of Global Pharmaceuticals, and Simon Dingemans, Chief Financial Officer. Following our presentation, we shall open up the call to questions and answers. We request that you ask only a maximum of two questions so that everyone has a chance to participate.

Joining us for Q&A are David Redfern, our Chief Strategy Officer and Chairman of ViiV, Brian McNamara, CEO of our Consumer Healthcare business, Luc Debruyne, President of Global Vaccines, and Patrick Vallance, our outgoing President of R&D. Our incoming Chief Scientific Officer, Dr Hal Barron, will be joining us on our Q1 call in April. With that, I shall hand the call over to Emma.

Emma Walmsley (CEO): Thank you, Sarah, and good afternoon to everyone. Before I begin, as this is the last quarter that Patrick will be representing GSK, I would like to take the opportunity to reiterate my thanks and appreciation to him for all he has done for GSK and, very importantly, for the patients whom we serve.

Balanced business to deliver growth and returns to shareholders

A strategic strength for GSK is our balanced business profile beyond Pharma, for sustainable growth, returns and cashflows. I am pleased to say that we delivered growth across all three businesses in 2017 with sales reaching over £30 billion for the first time, as well as Group operating margin accretion and improved earnings and cashflows.

Sales growth in all three businesses; improved Group margin & cashflow generation

With growth in all three of our businesses this year, we delivered Group sales growth of 3% in CER terms. In Pharma, our new Respiratory portfolio grew strongly at 75% and more than offset the decline in *Seretide/Advair*. We continue to have high expectations for growth of this new business and Luke will talk you through some of the detail on that in just a moment.

In HIV we continued to deliver strong double digit growth, driven by increases in market share for both *Tivicay* and *Triumeq*. We also saw the approval of *Juluca*, the first of our new two-drug regimens in HIV, allowing us to establish a new paradigm in the treatment of this increasingly chronic disease.

Within Vaccines, we also continued to deliver good growth, with sales up 6% at CER, the key drivers being meningitis and influenza vaccines. Their strong performance was partly offset by competition and pricing on some of our established vaccines.

In Consumer Healthcare, we saw improving sales momentum throughout the year with strong performances in Wellness and Oral Health offsetting the impact of a weak US season and competitive pressures in allergy, as well as divestments and the implementation of GST in India. Our Power Brands continue to deliver strong growth above market levels, and this has helped to drive margin improvements that Simon will talk you through shortly.

At the Group level, we delivered margin improvement of 40 basis points in CER terms as we improved cost and cash discipline, while still investing behind our priority launches and R&D programmes, including the investment in a priority review voucher to accelerate the introduction of *Juluca*. This has driven adjusted EPS growth of 4% and free cashflow of £3.4 billion, an improvement on 2016 of £400 million.

Good progress in our three long-term strategic priorities

In July last year, I laid out my long-term priorities for the whole company: Innovation, Performance and Trust. There are changes and new focus that we need to reach our goals and to position us for stronger growth post-2020, especially within Pharma and most specifically, of course, within R&D, where we are focused on making the right choices and changes as data reads out.

Innovation comes first and we have made real progress here. Last year, we achieved three major new approvals in the US: *Shingrix*, a new standard of prevention in shingles, and Luke will talk about that in just a moment; *Trelegy*, the first once-daily single inhaler triple therapy for COPD, and *Juluca*, the first of our new two-drug regimens in the

treatment of HIV. We are ambitious for each of these launches, which are now getting under way.

We are also advancing our pipeline and presented very encouraging data on our first-in-class BCMA asset at ASH in December, as well as exercising our opt-in rights to NY-ESO from Adaptimmune in cell and gene therapy, and we are putting new discipline into pipeline governance under new leadership.

We have also made progress on our Performance and Trust priorities. We have re-prioritised resources to those areas best able to deliver growth – whether product or geographies. We are fuelling this through ongoing cost, cash and capital discipline and good progress on implementation of the restructuring of supply chain, and our Commercial Pharma business. We have made some changes to our Medical Engagement policies, to strengthen interactions with key external experts. We are also maintaining our leadership within global health, be it in anti-microbial resistance or malaria, where we have filed an NDA for tafenoquine, which, if approved, will be the first new medicine for the prevention of relapsing malaria in over 60 years. And we have seen meaningful improvements in employee engagement scores, which, as you know, are an important driver of performance.

Building a winning team

Of course, to deliver these priorities and lead our culture change which underpins them, what matters most is the calibre of our team.

In our top roles we are bringing proven track records, new capability, fresh perspectives, diversity and leadership strength. We have three new Executive Team members and are making significant changes within the next layer of management also. We are focused on having the very best talent possible in the top 370 critical roles for the company and are aggressively building a winning team to drive change at scale and pace, and I expect that to continue.

Many of you will already know Hal and Luke from their previous roles and they have already made a great start making changes to the Pharma business, but Karenann, previously CIO at Walmart, also plays a critical new role, with oversight for how GSK uses digital and technology to improve performance across the Group.

I would now like to hand you over to Luke, who is going to give some detail on the commercial priorities and growth opportunities in his area. Luke joined us just in September and is responsible for Pharma commercial activities, excluding HIV, which I will come back to personally later, and is also responsible for our global Vaccines commercial operations.

Luke, over to you.

Commercial priorities: Respiratory and Vaccines

Luke Miels (President, Global Pharmaceuticals)

Thanks, Emma, and good morning and good afternoon everyone.

This is my first earnings call since joining GSK in September last year and it is a pleasure to update you on our progress today. If we go to the next slide, thanks.

Priorities and focus drive success

Over the last couple of months, I have had the chance to look at the Commercial Team and the pipeline in some depth and to assess how we can achieve our IPT goals. On visiting the markets and meeting the project teams a few things became clear. When we were focused and actively competing the results were strong, as evidenced by the new product sales reaching nearly £6 billion at constant rates on the slide, almost three years ahead of the original 2020 target. There was, however, less focus and more management layers than optimal, and these are now starting to be addressed by simplifying our approach and more focus, and in a very much back-to-basics way we will use the IPT to make our products the central focus for Commercial. Linked to that, we have prioritised the geographies where we can create the maximum revenue and ensured that they are resourced for success. Finally, the structure and the people we have put in place has undergone material change to bring a more competitive and faster moving mindset.

These changes, when fully executed, are designed to maximise shareholder value by taking *Trelegy* and *Nucala* to blockbuster status, and driving the strong uptake of *Shingrix*, and, importantly, enabling Commercial to work closely with R&D to select and accelerate the most attractive projects in the pipeline, and I am certainly looking forward to working with Hal.

Shingrix: a new standard of prevention in Shingles

Moving to our new vaccine, *Shingrix*, on slide 11, as the title says *Shingrix* represents a new standard of prevention, with more than 90% efficacy in the prevention of shingles. We are very pleased to have a preferential recommendation from ACIP, giving a target universe of over 100 million patients in the US alone. Our focus is now getting all of the ducks in a row, so that when a patient walks into the pharmacy and asks for the vaccine, it is in stock, it is reimbursed and the healthcare provider knows how to give it. I am pleased to say, we are advanced in this process of negotiating access with Commercial and Part D plans, and, in parallel, we are beginning to stock pharmacies and educate healthcare providers.

We see a three-phase launch – firstly, counter detailing Merck, because these guys are still out there, then targeting Zostavax patients for revaccination and then, in the third phase, driving market expansion.

The main thing and the rate limiting step, once we have access, will be the velocity at which patients come in for vaccination.

Nucala: leading respiratory biologic with significant growth opportunity

Looking now at our Respiratory portfolio, I want to highlight the growth and opportunity we see for *Nucala.* The key factor for *Nucala* in my mind is the strong and consistent efficacy outlined in the chart on the left-hand side.

This efficacy, I think it is fair to say, is the best within the IL-5 class, when you look at the level and consistency of exacerbation reduction. This efficacy is visible and compelling, even at a relatively low eos level of 150, which you can see here delivers a reduction of 56%. At 300 eos *Nucala* is able to show a reduction of around 60% or more than 60%. These effects were found to be very consistent across the studies.

We believe we will see significant growth ahead with this exciting product, as there are still thousands of patients with severe asthma that might benefit from an IL-5.

In addition, we will be launching *Nucala* for EGPA later in Q1 and, pending FDA approval, COPD before year-end, with *Nucala* expected to become one of the largest contributors to our Respiratory portfolio by 2020.

Next slide, please

Trelegy: driving continued leadership

The other growth opportunity I would like to talk to you about is *Trelegy,* the first once-daily, closed triple treatment for COPD, which is on our excellent *Ellipta* platform. The introduction of *Trelegy* into this market sets a new standard for the treatment of COPD, with the data from the IMPACT study consolidating the role of triple therapy.

With FULFIL and now the IMPACT study, the data shows superiority of triple therapy over duals, with significant reductions in exacerbations against *Breo*, *Anoro* and *Symbicort.* I am pleased to add that we have also submitted an sNDA to add the IMPACT data to our label and we have also submitted this landmark study for publication in a leading journal.

We have started to roll out our launch plans and promotion to 8,500 pulmonologists in the US began in mid-November. Naturally, the longer-term success is driven by the expansion of promotion to primary care doctors, while accelerating the strong start with pulmonologists.

We have also made good progress on access and, since early January 2018, Commercial and Medicare Part D coverage has been secured at several of the top national players. Proactive promotion of the IMPACT study will begin if the sNDA is approved by the FDA later this year. I would add that market research that we have so far indicates that customers will find this additional data highly motivating. Before that, however, we expect the sales build to be steady but, after an approval, more rapid uptake, and we are highly confident of a longer term potential for *Trelegy.*

With that, I will now hand over to Simon, who will talk you through our financial results and 2018 guidance.

2017 results and 2018 guidance

Simon Dingemans, CFO

Thank you, Luke.

2017 results and 2018 guidance

The results we have reported today are in line with our guidance for the year and reflect our continued focus on execution. This includes driving growth from new products and our recent launches; second, making sure we are controlling costs tightly to create the flexibility to help build better operating leverage across the group, while also making sure that we are investing behind our key future growth drivers. And third, improving our cash generation to give us more capacity to support those investments as well as the dividends we pay to shareholders.

Our earnings release provides an extensive amount of information and so I will focus on major points, our expectations for 2018 and important comparators to take note of for your modelling. As usual, my comments will be on adjusted results and on a constant exchange rate basis, except where I specify otherwise.

Headline result

Starting with the headline results, sales were up 3%, above £30 billion for the first time. Adjusted operating profit grew ahead of sales, up 5%, with profit growth in all three businesses – reflecting improved operating margins in Vaccines and Consumer, and despite some margin pressure in Pharma as we invest behind new products, including utilising the PRV, and continue to transition the respiratory business.

Adjusted EPS was up 4%, in line with the guidance we provided in July. Free cash flow grew 14% on a sterling basis, reflecting operating profit growth, a greater focus on cash and the benefit of a currency tailwind.

Results reconciliation

Turning to total results, compared to 2016, there are three main differences in the items not included in the adjusted results. First, intangible impairments were higher in 2017, reflecting the decisions announced in July last year to focus the portfolio and make a number of divestments and discontinuations, including *Tanzeum* and sirukumab.

Second, transaction-related adjustments were significantly lower than in 2016, primarily because, compared to last year, we have not seen the same level of currency swings or business-driven adjustments to the valuations of the contingent consideration and puts.

The other big difference versus last year is the impact of the US tax reforms passed in December. The reform is a net positive for us and boosts the estimated after-tax valuations for our US businesses. As a result, we have recorded related charges of £666 million as part of re-measuring the liabilities for contingent consideration and the Consumer and ViiV puts. We have also recorded tax charges to reflect the impact on our US deferred tax assets and the repatriation tax. In aggregate, these charges were worth £1.6 billion of earnings, or 33.3 pence per share.

I will come back to the subject of US tax later, since we also expect a benefit to our effective tax rate, going forward.

Sales growth

Turning to sales, Pharma sales were up 3%, despite a 1% drag from divestments, with strong growth from HIV, our *Ellipta* portfolio and *Nucala,* partly offset by declines in *Seretide/Advair* and established products.

In 2018, the HIV business, including some sales from *Juluca*, is expected to continue to deliver good growth, albeit at a lower rate than in 2017 after taking into account the larger base of the business. We have factored in a reduced drag from generic Kivexa/Epzicom.

We also expect further progress from our new respiratory products, including the first contributions from *Trelegy*, even as *Seretide/Advair* continues to decline. I will come back to our expectations for *Advair* and our guidance in the event a generic *Advair* launches in a moment but, if we do not see a generic in 2018, we expect the momentum in HIV and New Respiratory to deliver low single-digit top line growth for Pharma overall, offsetting declines in older products, including established pharmaceuticals.

Improvements in supply helped the 2017 performance for this group, with sales for established pharmaceuticals down 5% after a 3% drag from divestments. We will continue to rationalise these products where we see opportunities to deliver value. Growth in 2018 will continue to be impacted by some of the divestments made in 2017, as well as some expected in 2018, and we anticipate sales from this portfolio to decline this year at a mid-to-high single-digit percentage, with the exact rate depending on the timing of when the current year divestments are completed.

In Vaccines, we generated significant growth from the meningitis and flu portfolios, finishing the year overall up 6%. Remember, this was against last year's strong comp, which was up 12%.

We continue to expect this business to be a mid-to-high single digit grower over the period to 2020, despite increasing competition for our paediatric and flu vaccines. Growth from the launch of *Shingrix* will add to the contributions from meningitis and other established vaccines.

In terms of phasing, vaccine sales will continue to be lumpy due to tenders and CDC stockpile movements. The pace of the *Shingrix* roll-out may also vary quarter-to-quarter as we build demand and get coverage in place.

Consumer delivered low single-digit growth, despite the headwinds that Emma mentioned. Q4 saw a bit better consumptions than we had expected in some of our key markets, including a decent start to the cough cold season. The International region also benefitted from comparison to a weak fourth quarter last year, which was impacted by demonetisation in India.

In 2018 we continue to expect low single-digit growth from Consumer, after factoring in the impact of tail brand divestments, the TDS generic, and the impact of GST in India which, in aggregate, are expected to reduce growth by about one and a half percentage points on a reported basis.

We remain confident in the long term profile of the Consumer business and in the outlook for low-to-mid single-digit top-line CAGR to 2020.

Adjusted Operating Margin

Moving to the operating margin, we delivered a 40-basis point improvement in the group margin at constant exchange rates. COGS, as a percentage of sales, improved 50 basis points with benefits from product mix and cost savings helping to offset price pressure in the inhaled respiratory market, as well as investments in our supply chains.

SG&A as a percentage of sales also improved 50 basis points, including benefits from sales leverage and cost discipline. We are continuing to build more flexibility into our cost structure, allowing us to reallocate expenses more easily and quickly, limiting growth in SG&A behind sales, and focussing it on support for the new launches and other higher returning investments.

R&D was up 8%, reflecting investments to strengthen the Pharma pipeline, and to accelerate and expand support for the high priority assets. This included investment in the PRV we used in 2017 to accelerate *Juluca*, which drove about 3% of the 8% increase.

We continue to prioritise developing the Pharma pipeline, and we are likely to continue to rebuild our R&D spend over the next couple of years, subject to how the data comes in.

Our royalties on *Cialis* came to an end in Q4, which is reflected within the overall decline we saw in 2017. We expect the total royalty number to decline further to around £200 million in 2018.

You can see many of these factors play out by business: the Pharma margin was down 600 basis points in constant exchange rates, in large part reflecting investments in the pipeline. The 2018 margin will clearly be very dependent on how *Advair* performs, and particularly whether and when we see a generic. *Advair* is still amongst our highest margin products.

The Vaccine margin was up 1.3% in constant exchange rates, with the benefit of product mix and some one-off inventory adjustments, offsetting significant investments to expand capacity and prepare for the *Shingrix* launch.

In 2018 we expect to reinvest a decent proportion of the expected leverage from sales growth into the ongoing launch of *Shingrix* and expanding capacity for our meningitis and other vaccines.

The Consumer margin was also up 1.3% in constant exchange rates, and continues to make good progress towards our 2020 target, through a combination of power brand growth, and strong cost control.

All three businesses remain on track to deliver the margin outlooks we have provided for 2020, remembering that these are at 2015 rates.

Cost discipline to fuel investment for growth

Looking at the factors that will impact our overall operating margin in 2018, with *Advair* generics more likely, we will continue to carefully balance the need to invest in the

businesses, with benefits from cost savings and expected leverage from sales of our new products.

We have ratcheted up cost discipline across the Group. On COGS, this includes supply chain efficiencies from a mixture of site closures; consolidating our manufacturing supplier base, and simplifying our global distribution and logistics network.

We are also stepping up our focus on procurement through a new global organisation, and very much using the lessons from the consumer integration to target a much more consistent level of annual savings across our global spend. This will contribute to COGS, but also SG&A efficiency, even as we invest behind our growth drivers. This will also be helped by the benefits of our restructuring programme and the multi-year upgrading of our systems and functional organisations that is now coming to an end. We are particularly targeting non-customer facing spend, to keep G&A costs flat to down, even after absorbing inflationary pressures globally.

Operating profit to net income

Turning to the bottom half of the P&L, we continue to deliver financial efficiency, including successfully refinancing maturing debt during 2017, and holding net financing costs relatively flat. For 2018, we expect net interest will again come in broadly similar to 2017.

On tax we estimate US reform will benefit our effective rate by two to three percentage points and will also help stabilise the rate which we previously expected to rise over time.

For 2018 and going forward over the next few years, we expect an effective tax rate of 19% to 20%. After accounting for minority interests we expect about two-thirds of the benefit to drop to our net earnings. The lower tax rate will increase our flexibility to support our capital allocation priorities, particularly Pharma R&D.

Minorities meanwhile are expected to reflect the growing after tax profits in our HIV and Consumer businesses.

Improved cash generation

Stronger operating performance, lower restructuring and Capex

Moving on to cash generation and net debt, we remain focussed on driving greater cash discipline across the Group. Beginning in 2018, we have instituted a new company-wide incentive plan directly linked to improving cash flow that pushes targets directly down into the individual businesses for the first time.

We have increased free cash flow by over £400 million in 2017 to £3.4 billion after investing £106 million for the PRV and around £450 million into inventory, primarily to support the new launches.

As those launches progress in 2018, we expect to continue to drive down the number of inventory days as well as begin to reduce the absolute value at constant exchange rates.

As expected, reductions in cash restructuring spend also helped to deliver the 2017 cash flow improvement. As we indicated in July, we expect similar levels of cash spend this year as we accelerate the final stages of our restructuring programme to deliver the benefits more quickly.

Capex has been a significant commitment as we invested behind the launches, the expansion of our vaccines capacity and the upgrading of our operational systems, but we are now moving past the peak for tangible spend. We have instituted a new cross company capital allocation review process to ensure we are prioritising investment more sharply, backing the priority assets and highest returning opportunities for growth while also making sure we keep our infrastructure fully up-to-date with expected standards. These reviews were also a key driver of some of the disposal decisions taken last year.

In 2018 we expect total capex, tangible and intangible, to be around £2 billion with most of the reduction in tangible spend. We continue to look for further opportunities to improve the efficiency of our capital allocation processes.

More broadly, we expect our 2018 cash flows to be again weighted to the second half of the year, as they were in 2017. This is due to some seasonality, a higher contribution from the new launches in the second half, but also the impact on free cash flow in the first half of the milestone of $450 million going out to Novartis due to the growth in *Bexsero*. This has been paid at the end of January and should be factored into your models for reported free cash flow for 2018.

Net debt was down £1 billion from Q3 to £13.2 billion reflecting the strong free cash flow generation in Q4.

2018 guidance and 2020 outlook expectations

Looking at 2018, the outlook clearly depends on whether *Advair* encounters substitutable generic competition in the US. If there is no generic in the US this year, then we would expect core EPS growth of 4% to 7% on a constant exchange rate basis. This is based on an expected decline of around 20% to 25% in *Advair*'s US sales in 2018 which reflects somewhat higher expected discounts and rebates and further transitioning to the new *Ellipta* products.

However, it seems more likely now that a substitutable generic to *Advair* is launched in the US during 2018, given the filings that have been made. Clearly the timelines, the pricing strategy and supply capacity of any generic are all uncertain so as last year, to help you with your models, we have estimated the impact of a mid-year generic. In this event, we would expect US *Advair* sales to decline to around £750 million at constant exchange rates, (i.e. $1.30 to the pound) and for adjusted EPS to be flat to down 3% at constant exchange rates.

We will update you as and when we have more clarity, but realistically it is likely to take some time for the potential impact to be clearer, most likely not before the middle of the year, even if a generic comes earlier.

Currency will also impact actual sales and earnings growth on top of the CER performance. Given the recent strength of sterling, if exchange rates remain at the average January rates for the rest of the year, we would expect a headwind of around 4% to sales and around 6% to EPS.

Under either *Advair* scenario, we are increasingly confident in delivering on our financial outlook for the Group of mid-to-high single digit EPS growth over the five-year period to 2020 given the progress we are making with our new products and the benefits from the US tax reform.

The new products we identified back in 2015 have now almost reached the £6 billion target three years early and with clear momentum and as a result we will not report on this particular target after this set of results.

Finally, we have delivered on the dividend expectations we laid out at Q2 last year with 80 pence declared for 2017 and 80 pence expected for 2018.

And with that, I will hand you back to Emma.

2018 priorities and outlook

Emma Walmsley, CEO

Thank you, Simon. So, good progress on our priorities in 2017 and let's conclude with priorities for this year ahead and our outlook.

2018 priorities

Our long-term priorities are Innovation, Performance and Trust. In 2018, we are particularly focussed on three things to make progress on these, all underpinned by a necessary shift in culture. First, excellence in commercial execution. Luke has already

covered our plans for *Shingrix* and Respiratory. HIV is, of course, our other leading therapy area in Pharma and I shall take just a moment to update you on our progress here.

We have built a winning portfolio with our leading integrase inhibitor dolutegravir. Although we do anticipate the imminent introduction of a competing agent to the market, we believe we have the best core agent with the strongest set of data with five studies in which superiority is demonstrated.

The two comparative studies of the competing agent versus dolutegravir that have been published to date have shown non-inferiority, but in both cases with the trend favouring dolutegravir and, in our view, the data do not give any medical reason why patients taking either *Triumeq* or *Tivicay* should switch.

We also offer the greatest degree of flexibility for patients. In addition to *Tivicay* and *Triumeq*, we are now launching *Juluca*, the first of our oral two-drug regimens for well-controlled switch patients looking to reduce the burden of medication.

We continue to lead the way in innovation in HIV therapy. In mid-2018 we expect to receive the 48-week Phase III data from the GEMINI study of dolutegravir plus lamivudine, which will form the basis of a submission for our second oral two-drug regimen. By the end of the year, we expect to have Phase III data from the ATLAS and FLAIR studies on our long-acting injectable two-drug regimen cabotegravir plus rilpivirine.

With this growing portfolio of assets, we believe we are well-positioned to meet the changing and different needs of HIV patients as lifespans and durations of therapy increase.

The second very important priority this year is strengthening our R&D performance. We have new leadership in place with Dr Hal Barron having joined us just last month and before he joined, we had already taken some steps to prioritise our pipeline and improve development discipline with better commercial input. However, there is further work to do and, as data read out, we should expect some assets to fall back and others to be accelerated. Hal will give you a first update on the direction and priorities for R&D at Q2.

Finally, a third major focus for us in 2018 is cost, cash and capital discipline. We shall be allocating resources to those areas where we see the best returns. We are proceeding with the divestments and a review of the supply chain that we outlined last year and we are in the process of restructuring our commercial operations. To ensure that the entire organisation is focused on this starting from 2018, cost and cash discipline will be included in incentives for all employees.

Capital allocation framework

Let me reiterate our capital allocation framework and our dividend policy as laid out at Q2 last year. Our main priority is to invest in the business with Pharma and its pipeline No.1 so we can ready the company for its next wave of growth.

Then we have investment in the Consumer Business put option should it come, which would strengthen our position in Consumer Healthcare and we expect would be accretive to EPS and free cash flow, and further investment to expand capacity in our growing Vaccines business and support the exciting new launch.

Nothing will compromise our investment in the business to drive long-term growth and returns.

Our second priority will be to deliver cash returns to our shareholders through payment of dividends and, similarly, there is no change to our policy. Dividend payments will be determined primarily with reference to free cash flow generated after funding the investment necessary to support growth, and we are aiming to rebuild our dividend cover.

Given all of this, we have indicated that we do not expect an increase in the dividend in the near term and we expect to pay 80 pence in 2018.

Lastly, we would use cash for business development purposes with scale M&A obviously dependent on the right kind of return profile.

Increased confidence in 2020 outlook

In conclusion, clearly in 2018 we face the potential challenge of generic *Advair* and the shape of our earnings trajectory over the medium term will be impacted by the timing of that, but we have planned for it and we are ready for it, and we are confident of delivery of our 2018 guidance.

The launches and opportunities we have, combined with the performance improvements we are making and the benefit of US tax reform, provide us with increased confidence in our ability to drive growth over the next two to three years and deliver our 2020 outlooks.

As a reminder, beyond the *Advair* genericisation, we do not expect significant generics until beyond the mid-2020s.

In addition to good momentum in our recent launches with *Bexsero*, *Menveo* and our *Ellipta* portfolio, we have the landmark preferential ACIP recommendation with *Shingrix*, which has accelerated our expectations for this launch. We have compelling data from the

IMPACT study for *Trelegy*, which underscore the place of inhaled corticosteroids in the treatment of COPD.

We have the leading biologic therapy for the treatment of asthma with *Nucala*, with more consistent data than competing agents on the market or in development, and we have an exciting and robust data package and a comprehensive range of treatment options with dolutegravir and potentially cabotegravir in HIV.

In conclusion, we are confident in delivering our 2020 outlooks of mid to high single digit EPS CAGR.

Now all the team are ready for your questions, so, operator, if you would please open the call for Q&A.

Question & Answer Session

James Gordon (JP Morgan): Hello, thanks for taking the questions – a couple of follow-up questions on HIV, please. I know consensus has got low double-digit HIV growth this year, but there is also some concern around whether that will be achievable in light of the Gilead competition, so I have two questions. The first one is just about patient stickiness, as in how quickly do HIV patients switch between therapies, how often do they get the opportunity to. I am particularly mindful of patients who might already be on *Tivicay* and Descovy, who might be able to switch to a single product from Gilead? Then, the second question would be HIV growth drivers, I think some of them were mentioned earlier in the presentation, but what is the biggest growth driver of the biggest offset to the competitive pressures? Is it, probably, GEMINI rather than *Juluca* or is it other factors? What is going to provide the bit, the most defence?

Emma Walmsley: Thanks very much, James, and I will ask David, the Chairman of our HIV business to pick up both of those.

David Redfern (Chief Strategy Officer and Chairman of ViiV): Yes, thanks very much, James.

I think on your first question, I would expect it to be pretty sticky. I think HIV is an increasingly chronic disease, patients who are well-tolerated, well-controlled typically now visit their physicians probably only once every six months or so, so it is relatively conservative, I think that is the first point.

Secondly, as Emma said in her remarks, I think when you look at the clinical data, we don't see any good medical reason why patients, well-controlled and well-treated on dolutegravir today, should switch to something else. Just to go into that in a little bit more detail, we have now seen some of the pivotal studies on bictegravir and, in particular, the two head-to-head studies that were presented at IAS in Paris last summer. The first of those – and probably most pertinent to your question – was a comparison of BIC/FTC/TAF with Descovy/*Tivicay*, so this is a straight comparison really of bictegravir and dolutegravir, given that the nucleosides are the same. It was non-inferior on its primary endpoint of 'Are HIV RNA levels less than 50 copies?', but it clearly trended in favour of dolutegravir, I think 93% versus 89%, and actually if you drill down into it, into some of the patient subsections, the sicker patients with higher viral loads, it was 94% versus 86%, and patients over 50 years of age 95% in dolutegravir favour versus 88%.

Then, the second pivotal study was a comparison of BIC/FTC/TAF versus *Triumeq* and, again, was non-inferior, but slightly in *Triumeq's* favour and really no significant differences that we see in the side effect profile. I think that really reinforces those patients doing well on dolutegravir, I think they and their physicians will be keen to keep them there.

Thirdly, I would just say, of course, we expect the competitive intensity of this to go up, but we have invested significantly in our US Medical and Commercial organisation, we have very deep relationships and credibility, I think, to make all these arguments.

In terms of future growth, very much from the dual regimes and long-acting, if the GEMINI studies are positive I think that we would expect that over time to become the bigger opportunity, because it is in naïve patients as well as the potential for switch, so we see that is where most of the growth coming from and then, as we introduce long-acting in a couple of years or so, we are increasingly confident around dual therapies.

Emma Walmsley: Thanks very much. Can we have the next question, please?

Graham Parry (Bank of America Merrill Lynch): Thanks for taking my questions. The first one is on the tax rate, you talked about 19-20% for 2018 and beyond, but it sounded like you were saying that some of that would be reinvested in R&D and the business, so did I understand that correctly, that we shouldn't expect all of the tax benefit to drop to the bottom line? What tax rate should we assume for the Consumer and ViiV businesses when we are calculating the impact or the offsetting impact of tax reform on your minority pay aways?

Then, secondly, on the Pfizer Consumer business, I think your comments at the conference in January seemed to be somewhat dismissive, saying you would take a look at this, but it is not a priority and it is not something you would do if it compromised your ability to rejuvenate Pharma R&D. Yet, newswires are now reporting there are two bidders left, of which GSK is one, obviously highly speculative, but I just wonder if you could help us square that circle, perhaps give us an update on your comments from January? Thank you.

Emma Walmsley: Thanks very much, Graham. I will hand over to Simon first to answer the tax questions, although, obviously, overall this is good news, in terms of the increased flexibility it gives us, and then I will come back to your second question afterwards.

Simon?

Simon Dingemans: I think, Graham, as I said in my remarks, you get about two-thirds of the benefit dropping to the earnings line, because, obviously, there is more benefit in the two US legs of the JV businesses. I think the other important point is that we think the tax rate is going to be stable now, going forward over the next several years, whereas previously we had expected it to be rising, so that creates a bit more oxygen, if you like, in the system, that we can use to drop to the bottom line, or we can use to invest in the business where we see decent returns, particularly given the focus on R&D. That is why I called that one out as a place where we might want to put a bit more spend over the next several years: this gives us more capacity to do that and still meet our 2020 outlook of mid- to high-single digit bottom line growth. That is really the context for that comment.

As to the individual tax rates for the businesses, I don't think I am going to go there. Needless to say, there is a complex mix of how the supply chains work. We will give you some more colour on that when we have seen more detailed regulations. Thank you.

Emma Walmsley: Coming to the second question, as you would expect, I will not comment specifically on the process that you refer to, and certainly not on the media commentary either. However, I will reiterate what I have said previously.

First of all, you would expect us to take a serious look at any major assets that come up in the market. This is an attractive business and we are a world leader in consumer healthcare and we have a good track record of integrating businesses effectively. However, our first priority remains Pharma, both investing in the launches and the execution that we have underway but also, most specifically, prioritising the pipeline within Pharma. We will not do anything which cuts across that prioritisation.

Likewise, we will be extremely disciplined around shareholder returns and, perhaps most importantly, we are very happy with our Consumer business as it is, and the progress and momentum that it is making. This is not something that we need to do. Perhaps on that, it is worth me calling on Brian to make a couple of comments, updating on our Consumer business progress.

Brian McNamara: Thanks, Emma. Yes, as you mentioned, we had a stronger Q4, with growth of 4.3% and continued margin progression of 130 basis points. The results were driven by a number of factors, including strong performance of our Power brands, which were growing at high single digits in the quarter, and also all seven brands have grown share on a global basis if you look at the latest three-month period.

That is really anchored by some strong innovation, like *Sensodyne Rapid Relief* launching in 40 markets in the back half of 2017, and *Voltaren No Mess* launching in Germany, our largest *Voltaren* market.

We have some market dynamics. In the US, as Simon mentioned, we got an early and more severe cold and flu season in the US but, importantly, our *Theraflu* brand is growing well ahead of the market. We are also seeing share growth back on *Flonase* in the US, the anniversary of the private label entry. You will see that we were flat in the US on the quarter and that is because of the TDS generic impacted the US results.

In India, we benefited from demonetisation in the base, but we are also seeing strengthening consumption on *Horlicks*, which also impacted share growth.

Overall, I feel very good about the health and momentum in the business. As we look to next year, as Simon said, there will be low single-digit growth, with the negative 1.5 impact drag from GST, TDS and divestments. We also expect to see continued margin progression, to continue on the path of 20-plus by 2020.

Emma Walmsley: Thanks very much, Brian. Next question, please.

Steve Scala (Cowen): Thank you. *Advair* was about 10% of total revenue in 2017. GSK has previously said that two-thirds of the *Advair* price pressure has already been experienced. Presumably, if you lower the price by a further third you could sell all you wanted to sell. This would imply that about 3% of total Group sales or turnover is at risk. Given this, it is hard to envision why the bottom line will be impacted by a negative 4 to negative 10 in 2018. Can you walk us through the maths that are involved with that, please?

Secondly, versus initial expectations several years ago, the UK's patent box benefit didn't seem to be fully realised, given GSK's rising tax rate over time. I realise that this is a

result, in part, of geographic mix, but what is the risk that US tax reform leads to a similar dynamic and that the benefit we envision is not fully realised? Thank you.

Emma Walmsley: Thanks very much, Steve. Simon, would you like to pick up both of those questions, please.

Simon Dingemans: Steve, as we have talked about before, the complexity of the *Advair* modelling, if you like, is because we have now a relatively steady decline in the existing product, and then you have to layer on top about when and how a generic arrives. We are anticipating that this year we will see *Advair* decline 20% to 25%, which is a slightly higher number than we had last year, when I think we guided to 15% to 20%. If you look through the different RAR true-ups during the course of 2017, we were pretty much – from an underlying perspective – within that range, to perhaps the slightly higher end of it. Then, off a smaller base, we will continue to decline and hence the bigger number.

Overall, however, I think the pattern hasn't changed. Equally, when a generic arrives, we are going to go from roughly £1.6 billion of US *Advair* sales in 2017, to £750 million, that is very high margin business, and when that drops through the P&L it is going to have an impact on the operating margin for the Pharma business, and it is also going to have an impact on the operating margin for the group and therefore the earnings position that we have described in the past, and that is factored into the guidance.

That obviously falls at a point when we are also trying to invest, and have decided positively to invest in the pipeline, but also in *Nucala*, in *Trelegy*, in *Shingrix*, and the continuing growth of *Breo*, *Anoro*, etc. We think that is the right thing to do for the long term value for the company, but it does create a particular jaws during the course of 2018, so that is the answer to your question.

On the patent box, the dynamic we have here is *Advair* is in the patent box, or *Advair/Seretide* is in the patent box, so as *Advair* goes we lose quite a lot of the benefit that we have been seeing to date, and then clearly the benefit for the newer products is taking some time to build up the other side of that transition. That is why we were seeing some more upwards pressure on the rate previously. Obviously, again, it depends on exactly how *Advair* falls, but we are expecting to see more benefit from the patent box going forward as the new products kick in, bigger revenues, and we see increased benefits from those going forward. All that transition is factored into the now 19 to 20% flat guidance that we have given you.

Emma Walmsley: Thanks, Simon. Steve, I will just add that '18 will bring some challenges if the *Advair* generic comes, but to repeat, we are very much prepared for it and we are ready for it, and what we are extremely focussed on is the growth of our new

products. As a reminder, the new Respiratory products were up 75% in 2017 – *Breo* has crossed the £1 billion sales mark; *Nucala* is a very competitive medicine in our move into biologics, and we are extremely excited about the medium and long term possibilities of *Trelegy*, particularly once the IMPACT data gets shared more broadly. We are ready for the challenges of this year, but our confidence in Respiratory and the broader overall company performance is growing in terms of outlooks for 2020.

Thank you; next question, please?

Andrew Baum (Citi): Good morning; a couple of questions: first, the administration is talking about lifetime cap for Medicaid. Given the heavy representation of HIV patients under Medicaid, and given the rate of pricing through them you might enjoy with your 3TC dual, would such developments be viewed as a positive for you in your ability to take market share or, alternatively, negatively in terms of potentially deflating the overall market? That is the first question.

The second question, for Luke and Emma – I noted that you had changed the head of your immuno-inflammation, a senior position inside GSK. Given Hal's geographic background, can you tell us a bit of the background of the new candidate, including where he will be based?

Emma Walmsley: David, would you like to pick up the question, first of all, on HIV?

David Redfern: Yes, thanks, Andrew. You are right, in HIV Medicaid in the US is a relatively important segment; it is about 20% of the volume that we sell in the US, recognising there is also the ADA segment, so we watch what happens in Medicaid pretty carefully. On things like lifetime caps, far too early to say how that will play through, and there are obviously potential other dynamics in Medicaid that we are watching, whether it is block grants out to the States, individual States, or changes in eligibility for Medicaid – all of that still to play through and will probably take a bit of time to play through. Too early to say whether it is a threat or an opportunity; I hope that whatever happens, HIV patients remain eligible for treatment. We will obviously do everything that we can to play our part in that, working with individual States.

I am not going to comment on price. What I would say is we have a very flexible portfolio, because although we have STRs and fixed dose combinations, we also sell the single agents as well, whether it is *Tivicay*, and so forth, so we have quite an offering we can

offer in individual States, and we will do everything to ensure the right product and the right medicines to the right patient.

Emma Walmsley: Andrew, just to conclude on your second question, around personnel within R&D. Obviously, Hal is spending a lot of time looking deeply at the assets that we have in the portfolio and spending a lot of time with the people, and being thoughtful about his own team and how he wants to take that forward. I am not going to comment on any specific individuals, but as we have said, he will be with us on our Q1 results and then, most importantly, bringing is first update in terms of priorities and, undoubtedly teams, to Q2.

Next question, please?

Keyur Parekh: Two questions, please; Emma, one for you and one for Luke. Given the guidance you have given today, if one assumes the scenario that you do get generic *Advair* in 2018, then it's likely that 2019 could also be impacted given the full year impact from that, the full year bictegravir competition and potentially the higher R&D spend that presumably Hal will want to do.

So how should we think about the growth profile for '19 versus '20 to get to your high single digit 2015 to 2020 outlook? Right now it looks like you will need to do somewhere between 8% and 10% CAGR to get there between '18 and '20, so that's question number one.

And question number two for Luke. Luke, a new competitor in the inhaled respiratory space has been making some very bullish commentary about their product and their ability to differentiate their product versus *Nucala* relative to dosing, and relative to the label that they have. Just give us your perspective on how you see *Nucala* being positioned for growth in that market. Thank you.

Emma Walmsley: Thanks very much, Keyur. And so you are right, if we assume a mid-year launch for the generic *Advair* you would then get some drag in '19, but don't forget we are also talking about building momentum behind launches that are going on now, particularly *Shingrix*, *Trelegy* as coverage builds as well and also over time our expansion of our two drug regimens within HIV.

So just to reiterate, our confidence in the 2020 outlook continues to build. We have factored in an *Advair* genericisation at some point, we are ready for it and the shape of the curve will depend on exactly when that lands, so Luke, do you want to give a particular comment on Respiratory?

Luke Miels: Thanks, Keyur, for your question. I would answer it in two parts. I think firstly if we look at biologic usage in severe asthma, it's relatively low. I mean, we have around 20,000 patients on *Nucala*, the US market, depending on which data you look at, is around 250,000-300,000 patients with that profile so the first point is there's plenty of room to grow.

Now if a physician wants to engage us in a conversation about the relative merits of *Nucala* versus benralizumab, then we are very happy to have that conversation. I think the key thing with products in this area of course is efficacy. All of these studies, in the pivotal studies, the primary was exacerbation reduction. I think you saw that in a slide that I used. It's very consistent and I would argue very powerful with *Nucala* from 150, 500, right up, you can see to the high ranges of eos there, so very, very powerful. Our aim is really to steer the conversation on to what's clinically relevant and what a physician can observe in their patients in terms of benefit.

There are quite a few samples out there right now, so I think we need to look at this over the next few weeks and just see the picture but in the end our aim is very much to focus this on efficacy. In my experience when it comes down to a discussion, all else being equal between efficacy and convenience, in my experience physicians will go for efficacy every time and that's really our focus. Our aim is to compete there and make the point on efficacy for *Nucala*.

Emma Walmsley: Thanks and thanks, Keyur. The next question, please.

Kerry Holford (Exane BNP Paribas): Thank you, two questions please on Respiratory. Following on from Keyur's question on *Nucala*, does that drug only get to be a blockbuster which you were alluding to, Luke, if you succeed in bringing that to market in COPD and the other inflammatory indications you are looking at? How do you think about the opportunity across those different therapeutic categories?

And then secondly on Respiratory from a long-term guidance perspective, you have reiterated that group 2015 to 2020 guidance, but I wonder if you would revisit the Respiratory guidance where previously you have said 2020 sales to be at least or above the 2015 sales figure?

Since that was set we've had regulatory approval for *Nucala*, *Trelegy*, so some changes since that guidance was stuck and I wonder if you are willing to be any more specific on that growth of sales now.

Emma Walmsley: I'll let Luke come back to you on the *Nucala* specific question, but I don't think we'll be revisiting our Respiratory guidance until after we navigate through some of this year, but again we are feeling very confident behind these new launches. Luke.

Luke Miels: Sure. I think we could get there. You never know until you get the final decision from the FDA, but I think it's largely academic. I think we feel very confident about our filing.

In terms of hierarchy, clearly severe asthma is more valuable just because of the large number of patients, but there is interesting data in terms of high eosinophil levels in COPD patients, a lot of academic interest there and certainly we have had a lot of interest in our programme. And EGPA of course is a smaller group. We use three times the dose there, so it is quite an attractive segment but it's limited by the number of patients of course who suffer that condition.

Emma Walmsley: Thanks very much, Luke. I think we have time for just one last question, please.

Emmanuel Papadakis (Barclays): Thanks, a follow-up on HIV. You talked eloquently about the lack of a medical incentive to necessarily switch patients that presumably still persists with potential adherence and/or cost, for example co-pay reason why patients may choose to switch. Could you talk about any offsetting levers you could pull as regards those considerations when working out the forthcoming competition? Then perhaps a quick one on *Shingrix*: it looks like an interesting start, could you talk a bit about how the relatively higher price point for that vaccine could drive margins for the Vaccines division in the mid-term, particularly thinking beyond the 2020 target of 30%, and where you think that might enable you to get? Many thanks.

Emma Walmsley: David, do you want to pick up the HIV and then I'll wrap up on Vaccines?

David Redfern: Yes. Emmanuel, it varies by channel but certainly in the commercial channel we offer various different patient saving cards for patients for whom co-pay is a significant issue. I believe that, overall, in that channel it is not really a big deal. The level of co-pays in Medicaid and so forth are relatively small and I would say in a specialty area like HIV what matters more than anything else are the medical data and whether it is the right medicine for that patient, and that really overrides everything else. It is not totally irrelevant but I really don't believe it is a major factor.

Emma Walmsley: Thanks, David. Just to conclude on *Shingrix* and Vaccines margins, you are right that this shows that with a vaccine that has this kind of efficacy at over 90%, a premium can be charged and demonstrate meaningful value, which is why we also ended up with a preferential ACIP recommendation at that price. That said, while we are very ambitious and good signals to date, as Luke said, we still need to read through how the progress of *Shingrix* will be delivered through this year but we are very confident in our outlook for Vaccines. We won't give any targets beyond 2020 and we certainly believe that the opportunity for *Shingrix* runs very well beyond that. As a reminder, the Vaccines margin was 30% plus, so let us see how we go.

With that, thank you very much to everybody who has joined the call and we look forward to conversations in coming days and in the near future.

- Ends -