# Simon Dingemans, CFO, GSK

# Q2 results interview, 2013

## Q2 performance

**Q: How would you summarise GSK's performance this quarter?**

A: Overall, we're pleased with where we ended up for the quarter. It leaves us also where we expected to be on the half year. And I think most encouragingly you can see the contribution from a much broader range of growth drivers across the business, really delivering against the strategy we laid out some time ago to increase the breadth of growth contributions that are really driving the Group's top line. Up two per cent for the quarter, we're also delivering leverage through the P&L. Earnings per share up four per cent on the bottom line really showing the effect of the financial architecture and taking that growth and converting it into faster earnings per share.

If you step back from those headlines, I think also you can see the efforts that we've been making over the last several years to refocus our commercial teams around our Core Therapy areas. And particularly in the US you can see that making a significant difference to a much more consistent performance across a range of our existing Therapy areas and that's even before we get to see new products coming forward and beginning to make a contribution.

I think you can see the same sort of thing delivering in Europe where the restructuring over the last several months is really making a difference to making sure we're delivering volume, despite continued price pressures in the market and delivering on some of the performance measures that we've built elsewhere in the business. So overall, I think we're very pleased with the progress that we've made.

**Q: And with regard to recent events in China, is this going to have an impact?**

A: Well, it's still very early stages, but these are very serious allegations and we're cooperating fully with the Chinese authorities. And we will take whatever actions are necessary to comply with the results of their enquiries.

As for the business, it's likely that there will be some impact for the China business, but it's very early stages and to quantify that, again too early to tell at this stage.

## R&D progress

**Q: How would you summarise the progress you're making with R&D?**

A: In short, excellent. We identified at the beginning of the year, six important new files that we were putting into regulators and we've now had approvals on three of those. Two significant new cancer medicines and our new respiratory medicine for COPD, Relvar Breo. We've already launched the first two of those and we're preparing for launch for the third. At the same time we're continuing to work on the remaining three files that we have in front of regulators and we'll be looking to make progress on those over the balance of the year. So I think you can see the momentum that we're building on the new product side alongside the commercial performance that we're already reporting on the existing business. And we'll be working hard over the coming months to make sure that we launch those products successfully and build them over time into very significant contributions to the Group overall.

## Financial strategy

**Q: How is the financial strategy progressing?**

A: Well, I think it is already making a significant contribution and you could see in the second quarter, the benefits of the restructuring programmes and some of the financial efficiencies we've identified really contributing to drive that leverage through the P&L and accelerate earnings per share of 4% faster than the sales growth of two per cent.

Remembering Q2 of 2012, we had a particular one-off benefit from some of the adjustments we've been making to our pension funds of around £100 million, but despite that drag we still managed to make significant contributions on a number of our core restructuring programmes so that we left SG&A broadly flat. We're showing a reduction in the quarter on R&D, although some of that is phasing, but it's also the benefits of some of the efficiency programmes we have in R&D. And that's offsetting some of the drag that we've highlighted for people on the cost of goods where both the mix effects and also some of the preparations for launch as we begin to scale up volumes of new products are impacting cost of goods. But we're more than offsetting that with the overall shape of the operating half of the P&L.

**Q: And what about on the financial side?**

A: Well, I think good progress here as well. We're continuing to manage our interest costs, despite a significant step-up in the debt as we've dealt with some of the charges and acquisition activity over the last couple of years and that's really showing the benefits of the refinancing activity we've done. We continue to improve our efficiency on the tax front. So overall that's where the major contribution to earnings per share is falling at the moment. But it's also allowing us that flexibility to make sure that we are putting the resources we need in the top half of the P&L behind the pipeline and the new products to come.

**Q: Are you able to give us an update on some of the measures you're implementing to drive strategic focus and growth outlook?**

A: Well, I think we're making good process overall. We've made a number of disposals over the last couple of years, really designed to make sure that we stay very focused on the ongoing Group and that we're making sure that our resources are applied to the best returning opportunities. And the consumer disposals we made last year are very much in that vein.

Lucozade and Ribena that we announced in the first quarter are very much again about making sure that we're investing behind those businesses where we can make the greatest difference and equally trading that off against opportunities where we see attractive values that can be realised for businesses that maybe are better in the hands of other owners.

The discussions we've announced during the quarter with Aspen are in a similar vein and we'll see how those conclude. But we're making good progress in terms of delivering those. And what those are going to do is release resources that we can either choose to invest or return to shareholders, but they're in the overall mix of allowing us to make sure that we have the resources we need to make sure first and foremost, that our pipeline is as successful as it can be and that we're delivering a commercial organisation that can make sure that we target those opportunities effectively.

## Returns to shareholders and outlook

**Q: Will the proceeds from these divestments be returned to shareholders?**

A: The direct proceeds from these divestments, we'll consider in the overall mix of allocation of our capital to either internal investment opportunities or returns to shareholders depending on what we think offers the best overall return for the Company. But I think you can see from the quarter, where already we've delivered £2.3 billion back to shareholders in the first half both in terms of an increasing dividend and £400 million of share buybacks, that we are maintaining our commitment to delivering consistent returns to shareholders over time and that the resources we release from our divestments will be very much part of that mix.

**Q:** **So with the Q2 results under your belt, what's the outlook for the rest of 2013?**

A: We ended the half year very much where we expected to be at this stage. With Q2 results up two per cent at the top line, four per cent at the bottom line, I think we're showing good momentum across the business and as I highlighted earlier, a good breadth of contribution to that momentum. And so overall, our guidance remains unchanged for the full year of earnings per share growth of three per cent to four per cent and sales growth of around one per cent.

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