

## Financial Outlook and Guidance

Presented by

**Simon Dingemans, CFO**

Thank you, Emma. I'm going to wrap up today with a few minutes to really just try and draw together some of the strands of the different presentations that you've heard this afternoon to give you a sense of how we see the prospects for the newly-shaped GSK and for the Group overall looking forward out to the period to 2020.

That's going to include some comments around the short-term in relation to 2015 when clearly we are seeing some significant disruption as we bring on board the Novartis assets, but perhaps more significantly today what we've given you is some clear trends across all three businesses of how we see the medium term.

In those presentations, what you can see is a blend and a robustness and a balance in the top-line drivers of growth in the business that we haven't had before, that accelerates the strategy that we've been targeting over the last several years and will allow us to more easily absorb some of the pressures and headwinds that we've been dealing with over the last couple of years and some that may arise in the future, for instance a generic *Advair* in the US.

That's going to inevitably mean that around those trends year to year there will be variation, but I think if you stand back from it, what you can see is a Group that has a more robust shape able to deliver sustained growth over the medium term and more consistent returns to shareholders.

### **Novartis transaction accelerates our strategy and delivers against our financial objectives**

Those objectives have been at the centre of our strategy all the way through and I think what you can see in the Novartis transaction is an acceleration and a material contribution to delivery of those objectives.

We put in place some years ago a financial architecture to really make sure that we were driving the returns out of that strategy in the most effective way by allocating our capital more precisely, by building more flexibility into our cost base to deliver a leverage into the P&L, by being more efficient financially in terms of how we funded ourselves and how we manage the balance sheet and ultimately to deliver stronger cash flows that we could either reinvest in the business or return to shareholders.

I think you can see against each and every one of those objectives that Novartis is a significant step forward. It delivers more growth drivers to the top line. The synergies that Moncef and Emma have talked about give us acceleration in terms of our opportunities for leverage.

We have now reviewed the financial plans and the capital allocation strategy of the new shape and as I will come on to in a few minutes, we think we have significantly more flexibility to protect the financial efficiencies we built into the P&L over the last several years and over time, the balance of cash flows, given the now broader range of sources of those cash flows delivers higher quality earnings to the bottom line to support dividends and other reinvestment requirements.

If you take that as an overall picture, you can also see how the architecture is really delivering against the objectives we set out for it at the beginning which, to remind you, are to deliver bottom line performance, that's earnings per share growth, ahead of top line, convert more of those earnings to cash that we can either return to shareholders or reinvest in the company.

We are going to work the P&L between the top and the bottom lines to deliver more sustainable, better earnings per share growth over time and so while you've heard individual guidance from the businesses as to how they see their individual margins moving forward, we will move those around year to year depending on where we see the best opportunity for the longer term and where we see the best opportunity to drive bottom line performance.

So you need to take each three of those and look at the overall blended position as you think about the Group as a whole.

### **Better balanced and broader range of growth drivers**

That balance starts at the top line and as Andrew highlighted, you can now see better balance between the businesses, you can see better balance in our geographies and perhaps most importantly you can see better balance in the pipeline of innovation, both in terms of products that have been launched, that are in the market now and those that are coming in the very short-term as well as several waves in the pipeline beyond that.

That's what gives us confidence in the guidance and outlook that we've given you today for low to mid single digit top line growth at the top line across the whole company and you can really see the range of contributions that are delivering that.

When you look at the individual businesses, Moncef, Abbas and Emma have all talked you through how they see their individual businesses, you can put that together and you can see the robustness of the position going forward that will allow us to deal better with

some of the headwinds we are experiencing, so for instance in our US Respiratory business or in some of the slowdowns in Emerging Markets that we saw last year, but also now with significantly more tailwinds as we go into that period 2016 to 2020.

### **Delivering medium term sales growth**

To just recap across the three businesses, in Vaccines we're expecting mid-to-high single digits across the period 2016 to 2020 and that to be clear is off the 2015 base. I will come back to 2015 specifically but that is the baseline on which we are then comparing 2020 and the five-year period forward, so the CAGR is the maths between the two.

As I've said before, we will see variation year to year around those averages but what we are trying to do today is give you a sense of the trend through that, how it's made up between the different businesses and what are the key drivers of that. That all adds up to our overall perspective for the Group.

### **Enhanced operating leverage opportunities 2016-2020**

In terms of the leverage in the P&L, again each of the three businesses have given you their own perspectives on that but there are gives and takes and you heard from some of the presentations how the shapes of those margin development curves may change over time, and particularly if you look at Vaccines in the short-term we're bumping up against some capacity constraints.

We need to put investment to improve the reliability and create some space to meet the demand that you can see and that Moncef described for you. That's going to constrain some demand and revenue performance in the very short-term, so particularly over 2015 and 2016 but we are well advanced in those plans. It's one of the reasons why we are accelerating some of the capital investment so that we can meet that demand going forward over the period beyond 2020.

If you look at the Consumer business, as Emma highlighted we have some significant tailwinds coming out of the supply disruptions that both the Novartis businesses and our businesses experienced last year which will contribute to short-term progress and margin progression in 2015 and 2016, but we need to invest behind the re-launch of some of the brands that were out of the market, we need to invest behind the new brands we are bringing to the market and driving those top line synergies. So we are going to be very measured about the progress in margin that we allow to flow into that business to make sure that we're not short-changing the future and we are really driving the most sustainable position going forward.

Emma has highlighted the benchmarks we're looking for. As we've said before, we always measure our businesses within the Group against the relevant external comparisons and for Emma's business that is other FMCG companies and we expect it to perform in line with the top quartile comparators that are out there.

On the Pharma side we clearly have more significant factors flowing for and against us. In the short-term we have material pricing pressures flowing through from some of the contracting changes that we initiated during the course of 2014 which will play out during 2015. We are seeing the transition of our Respiratory business from its concentration around *Advair/Seretide* to the new portfolio and that is now playing out in Europe as well as in the US and will move globally. That in turn is also putting some pressure on the margin in the short-term and you can see that in the Q1 results and some of the comments that you will see that we've added to the Press Release this morning.

But against that we have new launches coming, we have significant restructuring benefits that will contribute particularly in 2016 and 2017 which give us a view that over the period out to 2020 we expect the Pharma business overall, including ViiV, now that we have decided to retain it, that would be a neutral margin on that which we will report in 2015. So again, the same pattern, 2015 is the base year; compare 2020 to 2015.

### **Restructuring and structural savings**

#### **Total expected benefits from all three programmes ~£3bn**

That's all underpinned by an acceleration of our restructuring benefits. What we're very pleased about having got into the Novartis businesses is that we have identified a number of additional opportunities where we can bring forward the synergy delivery. We will need to spend a little faster to get at them. We are not intending to spend more than we originally allocated, but we will need to accelerate it but we think that's the right thing to do to bring forward the overall synergy delivery from a five-year plan to a three-year plan.

That also aligns it with the Pharma restructuring plan and the completion of the original 2012 restructuring programme, the major change programme, so that by the end of 2017 we will have delivered basically £3 billion of savings into the P&L which will give us the flexibility to move the margin but also to make sure that we are managing the investments we need across all three businesses to deliver the trends that we've identified in top line and bottom line performance out to 2020.

To repeat, we are going to manage the margin across the whole P&L to make sure we do that. We will take some of the optionality in the three plans that have been described to you this afternoon to make sure that we are not short-changing the future and it's one of

the reasons why we are seeing a bit more pressure in 2015 and a rebound in 2016 to make sure we have the most solid underpinnings for those prospects going forward.

### **Financial efficiency**

In the bottom half of the P&L, as I said earlier, we have now had a look at the Novartis businesses, we have had a look at the trading flows, their capital requirements and I am pleased to confirm that from a balance sheet point of view we see no reason to change our funding approach and in terms of overall funding costs we expect to be able to maintain similar levels to where we are today, so that's about 4-5% in average interest costs.

We will no longer have an associate line that's material to the Group since we sold our Aspen shares and importantly on the tax rate again having looked at the structure of the assets that we're bringing in, we think we can maintain and sustain the improvements to the overall Group tax rate that we've delivered over the last several years and for 2015 we continue to expect the effective tax rate to be around 20%.

Now clearly that's subject to the external environment, any changes in corporate tax rates or what the OECD may bring in in terms of their current transfer pricing and BEPS projects but that's probably something to think about for the medium term and our assumptions are made on the basis that there is no material change in that environment.

The big call out in the bottom half of the P&L as you think about the model of the company going forward will be the minority interest. This has been growing over the last couple of years as ViiV has performed but we are now bringing in the Novartis joint venture, and so expect a significant step up that you need to factor in in the minority interest and the shareholdings are all laid out for you to be able to model that.

The last piece of bottom end guidance that I'll give you is around capex and as we have touched on before, to deliver these benefits we are now planning to accelerate some of the spending we previously had spread over several years and so while I previously guided you for 2015 and 2016 to expect capex of around £1.5 billion, that's probably more likely to head towards £2 billion as you think about how to model our cash flows.

### **Capital allocation and shareholder returns**

That's been factored into a complete refresh of our capital allocation strategy that we also have done on the back of the re-plan of the businesses post closing the transactions with Novartis.

We've taken a step back and looked at the demands and opportunities in the business plans that you've seen laid out this afternoon and we think the right thing to do is to create some more space for us to make sure that we can (a) protect the cash flows to

support the ordinary dividend and (b) support the investments and the acceleration behind those plans and deliver the returns more quickly and more sustainably to shareholders.

As a result, we've taken the decision that we will reduce the previously planned capital return to shareholders to £1 billion. That will be paid as a special dividend alongside the fourth quarter dividend for 2015 which will therefore be paid in the beginning of Q2 2016 and we will also prioritise cash flows to support the ordinary dividend.

We are affirming today that we expect to pay an ordinary dividend for each of the next three years, '15, '16 and '17 of 80 pence per share, so flat in line with current year but we are maintaining that commitment and we have factored that into our plans.

It's very important that we maintain our credit rating and that's been a central part of this plan. We currently target at A1/P1 short-term rating which we think give us optimal access to the capital markets. That's equivalent to an A+ single A rating at the long end and we think that's the appropriate balance between equity and returns and financial flexibility given the range and breadth of business opportunities that we now see in front of us.

### **2015 guidance**

Let's just deal with 2015. 2015 has a lot going on in it and we've talked about this before, but in thinking about the overall shape of what we report for 2015 you are going to see a significant step up in revenues as we bring in the Novartis businesses, we are going to see the exit of Oncology but overall from a pro-forma point of view you should see broadly flat revenues underneath that which really reflects the mix of the businesses that you are seeing in transition and as has been described this afternoon.

I think the biggest issue you need to factor in is the margin shift. Now, in the past when we've talked about the impact of the transaction I've guided you that you should expect 200 to 300 basis points from the impact of the transaction and the change in the balance between Pharma, Vaccines and Consumer.

Now we only saw about a 120 basis point impact in Q1, we only had a month of the transaction so as you play that out for a full year, that is still the right range to be thinking about and as we've highlighted in the Release today, we did pick up in the Novartis businesses, particularly in the Vaccines business a higher level of starting costs than we had originally planned and so probably the upper end of that range is the right place to be thinking about.

In terms of the pro-forma business we also have some pressures in our own mix, not least the pressure on the US Respiratory business as we transition and deal with the contracting and pricing pressures that we've highlighted a number of times. You can see in

Q1 that we saw about 290 basis points of margin drag from that mix shift, primarily in the cost of goods and there are a number of factors on that, mainly around the Pharma business but also some of the investments that Moncef highlighted that we are needing to put into the supply chains in Vaccines to make sure that we can meet demand and that we can build the most reliable and stable supply chain going forward.

That's likely to continue during the course of 2015 and so you probably should expect something in a similar region of 200 to 300 basis points from the underlying business mix performance.

Overall, if you were to take something of around a five percentage point decline for 2015, you would probably be in about the right territory on the basis of our expectations today.

I've talked about the bottom half of the P&L and the assumptions you should make there but the other element that you need to factor in is that in the change in the capital distribution that we've made, as I talked about on the previous slide, there will no longer be any benefit of any share buybacks and we have no plans to make share buybacks in the foreseeable future.

As a result, you need to take out of any assumptions you might previously have made for 2015 any benefit from those share buybacks.

That leaves us with specific guidance for 2015 expecting core EPS on a constant currency basis to be down high teens percentages.

### **NVS transaction impacts**

In that number there are a number of specifics around the transaction and in particular we closed the transaction on 2 March, we had originally made plans and talked about the transaction a year ago when we announced it on the assumption of a first full year's benefit.

That phasing has meant that the heaviest months of contribution if you like from the synergy delivery in that first 12 months have now slipped into 2016, so we have had a delay in the impact specifically in 2015 and we have inherited a higher cost base. Those two are probably about £200-250 million of impact in terms of swing between '15 and '16 and they will rebound into '16 and are a significant part of the contribution to the rebound we expect next year.

To get the transaction closed and approved by the regulators we had to agree to sell a number of businesses which had total sales of around £100 million and as I've touched on before, we have revised the capital return so there's no share buyback element included in

that and in 2015 that probably has a 2.5% to 3% contribution to the total transactional impacts of the year of around 6-8%.

Flow those through into 2016, clearly the buyback is an ongoing factor for '16 and beyond if you've factored it in. It's about 5% in a full year. The synergy phasing and inherited cost base will return in 2016 and that's why we expect if you add those to the trend lines that we've described for earnings per share going forward to 2020, you get to the double digit territory that we are indicating for 2016 and then for '17 and beyond you revert to trend, although as Andrew highlighted right at the beginning of the presentation, clearly year to year there may be some variation around that.

### **GSK reshaped: Delivering on our strategy and financial architecture**

Overall, to summarise, we now see the combined shape of a very different GSK with better balance, better breadth and higher quality in its top line mix, significant opportunities to drive leverage through the system that increase our flexibility to invest for the long-term while delivering an improved margin performance and most importantly, more sustained earnings per share growth that we anticipate over the period 2016 to 2020 to be at mid-to-high single digits on average.

That allows us to expect to pay an ordinary dividend of 80 pence per share 2015, '16 and '17 and add £1 billion of special dividend to the fourth quarter this year out of the proceeds of the transaction while still protecting our credit rating and maximising our investment flexibility to drive these benefits going forward.

With that, I'll conclude here. Thank you for your time this afternoon. I know we've given you a lot. We are now going to take a break for about ten minutes and then we'll come back for Q&A. Thanks very much.

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