GSK Q1 2012 results transcript

Simon Dingemans, Chief Financial Officer

Q: How do you characterise these results?

A: Overall we are very encouraged by the progress we've made in the quarter with top line growth of 2%, and earnings per share growth of 7%. We are very much delivering against what we said we would. That's reported sales growth, operating leverage, good cash flow, returns to shareholders, and most importantly very encouraging progress and momentum behind the R&D pipeline.

We are particularly encouraged by the 2% top line growth, given the number of the challenges that we've faced in the quarter. Austerity remains a particular issue in Europe. And also remember, we had a very tough comparator and a strong performance from the Group in a number of areas in Q1 of last year, especially in our vaccines business. That phasing led to a very difficult comparator as we went into Q1 2012.

Additionally, we've also seen particular pressure in our emerging markets business with disruption in the Middle East, given the troubles in the region. And remember that that business is a very sizeable business for us with over £250m of sales in the quarter.

But away from those particular pressure points we remain very confident about the outlook for our emerging market business. We continue to target growth ahead of the market and we are also seeing very good growth contributions in many other parts of the region, China up over 25%, Latin American Pharmaceuticals to pick two particular highlights. So overall I don't think you should take the 2% that you saw from that region as indicative of what we expect from EMAP for the rest of the year.

I think beyond EMAP, also, we've seen very good progress in the US, with good pick up in a number of new launches. We've also seen good continued progress in Japan. And a particular highlight for the quarter is the consumer business, up over 7%, when you strip out the effects of the OTC products that we are now nearly close to completing the disposal of.

So overall I think you can see why we feel that this quarter has delivered against our expectations, and against the objectives that we've set. But it is only one quarter and we've still obviously got a lot further to go for the rest of the year.

Q: The new financial architecture that you introduced is to support earnings, support returns. What impact is that having?

A: I think we are seeing the financial architecture really start to make a contribution quarter by quarter as we embed it more deeply into the company. And in Q1 in particular you can see a lot more flexibility within the different cost lines, driving operating margin improvements of 20 basis points in the quarter, very much in line with the targets that we've set ourselves and, in particular, our operational excellence program delivering good benefits to the cost of goods line, which is allowing us to invest behind growth opportunities in the operating expenses line and still produce that margin progression. So I think overall we are very pleased with the way in which that is shaping and driving the performance of the company, and in particular driving the returns from the strategy that we've outlined.

I think the second area where it's really starting to show through is in cash performance where we continued, in the quarter, to generate good cash flow with over £1bn generated from operations, which in turn is allowing us more flexibility in how we think about our investment strategy. And as we've said repeatedly we will do that on a very rigorous CFROI basis, allocating capital on a consistent basis between internal opportunities, M&A bolt-on activity, and external returns to shareholders. Wherever we can see the best returns, we will benchmark those and allocate the capital accordingly. So you can see that the financial architecture is really bringing that together in terms of driving the performance of the company.

Q: You've increased the dividend by 6% and you've nudged up your expectation for share buybacks this year. What is the balance between dividend and share buybacks and how does that fit within your thinking around total shareholder returns?

A: Well, I think we've always made it clear that we regard the shareholder distributions as a package, and that is a combination of dividends and buybacks and we'll have a balance between them. Different shareholders have different requirements. We want to be able to address each of those constituencies and at the same time maintain a balance of flexibility, from our point of view, in terms of taking the priority to the dividend growth and also allowing cash flow to be allocated between buybacks and other alternative uses of capital if better returns are available. And so that's how we think about the two but it will be a balance.

Q: There is a lot of news flow around your late stage drug development pipeline, what is the update there?

A: We are very encouraged by the momentum that we are seeing there. And since the last quarter we've brought in late stage results for phase III in products for HIV, cancer and diabetes. And we are also now in the process of completing files on four products that we have in-house. We expect four more by the end of the year. And already in the quarter we've filed our quadrivalent flu.

So I think you can see the breadth and diversity that we are building into the pipeline, very consistent with our strategy and going to be a key driver of growth going forward.

Q: And as you look at the performance over Q1, and in light of that, what is your expectation for the full year?

A: Well I think at this stage our expectations for the year are very much as they were when we reported our full year results, and so no change overall to the outlook for 2012. We are still confident that we will continue to report sales growth during the year, and that we will gradually improve operating margins over the course of 2012, that our cash generation remains a good focus and that we can continue to use that to improve and enhance overall returns to shareholders.