

## **GSK Consumer Healthcare investor event**

**Wednesday, 29 November 2017**

*[Discussion on microphone and slides]*

**Brian McNamara (CEO, GSK Consumer Healthcare)**

### **Cautionary statement regarding forward-looking statements (refer to slide 2)**

Again, welcome.

### **Agenda**

The makeup of the day is [there is] a lot of interest today, so we have two groups, a Group A has already done a tour of the Shopper Science Lab and Consumer Sensory Lab and Group B will do that after the presentation. For the next 80 minutes I will present and I am joined here by Richard Slater, my Head of R&D, and then we will spend 40 minutes answering your questions. I am also joined by Tobias Hestler, our CFO, who will take part in the Q&A also.

I know some of you, not all of you, so I thought I would start with a little bit of introduction of myself. I started my career at P&G, I actually started in Supply Chain and Manufacturing Management, I spent seven years doing that, moved over to Marketing, where I worked my way up through Marketing, at one point I was Tide Brand Manager, I did some New Business Development and my last role at P&G, after 16 years, was a Sales Leadership role. I joined Novartis in 2004, I was the Head of the North American business, moved to Europe, was President of Europe for three years, moved back to the US as Head of Americas and, for the three years prior to creating the joint venture with GSK, I was the Division CEO of the OTC business at Novartis. I joined GSK in March 2015, at the time the deal closed, as the Head of Europe and Americas, working for Emma, and a year ago, when Emma was promoted to CEO Designate, I took over as CEO of the Consumer Healthcare business.

Maybe, I will ask Richard and Tobias to do a brief introduction.

**Richard Slater (SVP R&D, GSK Consumer Healthcare):** Hi everyone, it is great to be with you today. I am Richard Slater, I actually lead R&D for Consumer Healthcare, as Brian said. I have been in GSK about three years now and two years in the Head of R&D role, I really came in at the time of the integration and the new organisation to put the new R&D and innovation capability in place, and I am going to talk about that in a few minutes. Prior to GSK, I was at Reckitt Benckiser, I led Consumer Healthcare R&D for

them for the last few years, I was there eight or nine years, and prior [to that] Boots Healthcare International, so mainly, actually, in the Consumer Healthcare industry; many, many different R&D roles along the way and actually led a lot of the integration work for Reckitt Benckiser on some of the acquisitions there, which obviously stood me in good stead, I think, for coming into this big deal that we have been putting in place in the last few years. Thank you.

**Brian McNamara:** Thank you. Tobias?

**Tobias Hestler (CFO, GSK Consumer Healthcare):** Hello everyone, I am Tobias Hestler. I am the CFO of the Consumer business. I joined GSK seven weeks ago now, 1 October. Some of you might know me from what I did for the prior 20 years, more than 20 years, where I was at Novartis, so my last role there was the CFO of the generics business, Sandoz. Prior to that, I was the CFO of the OTC business, so that is when Brian and I worked together, and I was also leading the integration planning effort prior to the creation of the joint venture here, so I worked quite a bit with GSK at that time, when we were preparing for the closing of the JV. Prior to the Consumer role in Novartis, I had spent time in Sandoz in a Controller role and also in a role as CFO of their German businesses. Prior to that, I was in the Animal Health business for several years, most of that time also in Finance roles. I am glad to be back here, back in the Consumer business, and I look forward to the discussion with you today.

**Brian McNamara:** Good, thanks, Tobias.

### **Strong team with broad sector experience**

I actually want to start there with just a bit of an overview of the Consumer Healthcare Team, I actually think we have a best-in-class team running this business. You can see that six new players have come into their roles in 2017, I will talk to that, but when we formed the joint venture, back in March 2015, I think we did a great job of balancing GSK and Novartis leadership on the team and then, obviously, brought in Richard externally to run R&D, from Reckitt Benckiser. As I have changed a number of roles, we have brought some external talent in and some internal talent, and I think we are getting some great Consumer Healthcare and, just frankly, FMCG talent, so a couple of examples.

Mark Speichert, our CDO, comes from Google, five years prior to his experience at Google came from L'Oréal. Tamara Rogers will join on 1 January as our Head of Europe, Middle East, Africa, she comes from Unilever, a phenomenal talent. When I look across my team, we have great Consumer Healthcare experience, great FMCG experience and I think that is the kind of capabilities we are building here.

## **Global leader in Consumer Healthcare**

If you take a step back and just take a big overview of the business, we are over £7 billion of sales, roughly 25% of the GSK Group turnover. This is a business with attractive returns and strong cash flows and we will talk about what the path forward looks like. We have a really strong portfolio, half of our business is in traditional, over-the-counter medicines and half of our business is in, what I would call, FMCG healthcare focused brands. We have a great, competitive, geographic footprint, over a third of our sales are in emerging markets and I think we have done a phenomenal job actually of integrating these two businesses, and now I am going to go deeper into all this, as we move through the presentation.

## **Competing in a £135B global market**

If we think about where we compete, we compete in a £135 billion global market. Half of the portfolio, I said, is in OTC, so these are traditional, over-the-counter medicines, we have very strong positions in certain categories, so we are the number one player globally in the Pain Relief market, we are the number one player in the Cough/Cold/Allergy, what we call, the Respiratory market, number three in Digestive Health, with the number one position in antacids, with the Brand portfolio I will talk about in a bit. Then, half of our portfolio is, again what I call, healthcare focused FMCG, so Oral Health is where we are a leader in Therapeutic Oral Health, we are the number three player overall, but actually Therapeutic Oral Health is a really key distinction for us and I will get deeper into that. We have some good regional positions in Skin Health, where we have strength in Korea and South East Asia, and in Nutrition, where we have a very strong position in India with our Nutrition brand.

One of the reasons why I think it is actually a very healthy portfolio and the fact that we compete in OTC and we compete in FMCG is important because we don't only compete against traditional OTC companies, we compete against the Unilevers and the P&Gs and the Colgates in Oral Health and the L'Oréals in Skin Health and Nestlé's in Nutrition, which is why we are really focused on our Consumer capabilities and, for those that have seen the tour, for those that will see the tour, you will see some of that in our Consumer Science Lab and our Shopper Science Lab, as the day goes on.

## **GSK Consumer Healthcare: leader in OTC and therapeutic oral health**

Again, a bit of a perspective on the market, I said it is £135 billion market, £99 billion of that is actually OTC, so you can see OTC is a very fragmented market, top five players make up about 21% of that total business. Oral Care, on the other hand, is a much more concentrated market, where the top five players make up roughly 67% of the business. OTC

is £99 billion, Oral Care markets globally is £22 billion, the remainder of the markets we compete in are Regional, Nutrition and Skin Health, that is how you get to the £135 billion.

### **Industry dynamics**

I want to talk a bit about industry dynamics and, first of all, we have talked about this and everyone is aware that we have seen a bit of a market slowdown and for the markets we compete in, categories and the geographic footprint we have, in 2015 and 2016 we saw roughly 4% growth in the markets we compete, the categories, this year it is closer to 2% and I will talk about the outlook, we think that will bounce back a little bit next year and be between 2.5/3% from a market growth perspective.

But, if you take a step back, I still think the trends are extremely in our favour, from a Consumer Healthcare perspective, absolutely consumers are taking more control of their own health, we know that 77% of consumers really want to make more of those decisions, obviously the digital age is enabling that, but we are seeing people taking more control of their health and wanting to do that. The emerging middle class, where we have a tremendous emerging market footprint, an additional 2.4 billion consumers will join the middle class by the year 2030 versus 2015. The aging population – and we are all aware of this trend – but another half a billion people will be over age 60 by the year 2030 and I think for our industry, and Richard will go deeper into this and how we are addressing it, but there still continues to be unmet consumer needs and opportunities to drive innovation and drive growth in the categories we compete in.

### **Industry dynamics**

That said, there are also some other industry dynamics which are having an impact, some of those are more short-term issues and some are longer-term emerging trends. On the short-term issues, in the business we compete in, no question that seasonality is something that can affect our business short term, being the number one player in Cough/Cold globally and having a very strong Allergy business means that if there is high incidence we can see higher growth from a category and for us, and if there is lower incidence we see lower growth, that has certainly had an impact on our business this year, as the US allergy season was a bit shorter and a bit less severe than in the past, as it affected our competitors.

Switches are a huge part of growth in the OTC business, but then they are often followed by private label entry, just the cycle that happens, and this certainly had an impact on us this year where we launched *Flonase*. *Flonase* is an allergy product we switched in the US, it was a \$5 million Pharma product that was off patent, within 12 months it was a £200 million business for us, phenomenal business, private label launched in Q4 of last year

and, obviously, that had an impact on our business. Typically, what we see is you lose roughly 30% of the business tends to go to private label and you can start building off of the new base, and we have great hopes for that business going forward.

Then, we see emerging market variability, either it is economic trends, we see, for us, Brazil or in Saudi Arabia, big business for us, where we have seen just some overall economic trends that have impacted the business. Then, obviously, things like government and regulatory changes, so in India demonetisation and GST has an impact; both of those, by the way, we will work through and we have a very good business in India, but that is, obviously, having a drag on our reported growth as we see it today.

Now, on emerging trends. The digital opportunity I think is huge for us, we are investing heavily in the capability and I will talk more about that. E-commerce, I think it is both a challenge or a threat and an opportunity, we view it as an opportunity for our business right now, if you look at the US less than 2% of our sales go through e-commerce; a bit of a dynamic, especially in OTC. If you wake up in the morning and you are sick, you probably won't order from Amazon, you will probably jump in your car and go to a Walgreens, CVS or Boots and go buy the product, that certainly will change when we get to one-hour delivery and things like that, so we are investing heavily in the capability and we will be prepared for that change, as it comes.

Then, the emergence of local brands, we see much more sophisticated competition in places like China and India, and, again, as we get into Richard's presentation he will talk on how we are addressing that and how we are dealing with local insights on our brands.

### **Our Consumer Healthcare priorities**

If you look at our overall priorities and the strategy, our purpose is the same as the company's, to help people do more, feel better, live longer. Our strategy is certainly meeting the everyday healthcare needs of consumers and doing that by building brands and we want brands that are expert recommended, as a key part of our strategy, and then, obviously, driving innovation and consumer insight driven, but really science-backed innovation.

The three priorities of innovation, Performance, Trust – today we are going to focus on innovation and performance, Richard will go deeper into innovation.

On performance, what I would say is my focus is very clear, we want to deliver a sustained, above market growth and strong operating margin progression, that is the focus and that is what we are doing, I believe we can deliver on that and I want to take you through what our strategy is and how we are approaching it.

## **A winning strategy for growth**

From a performance perspective, really four pillars of our strategy, building consumer preferred and expert recommended brands, winning with our customers, our shoppers and our experts, seizing the digital opportunity and then driving gross margin improvement, operational efficiencies and cash discipline, to make sure that we deliver on that part of our focus.

### **Building consumer preferred and expert recommended brands**

From a brand portfolio perspective, we do have seven Power Brands on a global basis. These are brands that we believe we have a right to win on, they have global scale, they are in somewhere between 70 and 140 markets and they are higher gross margin. Part of our driving disproportionately growth on these brands also drives the operating margin of the business. What I can say is we have executed this extremely well and in 2015 we grew 6% overall or in 2015 we grew 6%, in 2016 we grew 5%, this year – and I will talk about that – a bit lower growth, at 2%, but in each case the global Power Brands have grown at least high single digits and in one case double digits over that period of time, so this has worked and continues to work for us and we continue to drive really healthy share growth across these brands.

Then, we have 12 Core Brands, these are brands that are more locally relevant, where we need to really make sure that we are tapping into the local insights and we are driving it. *Eno* is a great example, that is a very important antacid brand in India and Brazil. *Horlicks* would be another example, an extremely important business for us in India, where we fight malnutrition with that business and have seen tremendous growth and tremendous opportunities. Then, brands like *Contac* and *Bactroban* in China, where these are actually viewed as local brands, not multinational brands. What I would say is we have done a good job here of growing these brands, but, frankly, this is an area where we are tightening it up a bit, because we haven't seen quite the success we have seen on the global brands, but the outlook is strong, we have some really good things happening and Richard will take you through a bit of that, as we go forward.

I want to take you through two examples of how we deliver against that first strategy and build our brands.

### **Building consumer preferred and expert recommended brands**

This is *Sensodyne*, an amazing business, it is over a billion in net sales now, it is actually the third largest brand within the GSK portfolio, and, as you can see, has grown over a 10-year period an average CAGR of 11% in a category that has grown 4%, so we have

more than doubled the category over that period and what has really driven that is a few things.

The first is expert recommendation, no question, is core to our strategy in driving brands, so in 80% of the markets globally this is the number one recommended toothpaste for sensitivity, we know that 70% of the trial for us comes from expert recommendation, so we invest heavily in the science, we invest heavily in the clinicals and we invest heavily in our ability to reach the dentist, communicate our benefits to the dentists and hygienists, so they can pass that on to the consumer.

The second is innovation and what I can say is this is only a sampling of the innovation we have done, we have actually had quite a bit of innovation on *Sensodyne* and Oral Health in general, and the innovation is really driving incremental benefits, we have a brand architecture where we have base *Sensodyne*, call that 100 in pricing, so it is the base, and in there we have things like flavours, deep clean and whitening, and then we have a better tier, which is 30% higher priced, and these are things like *Sensodyne Complete*, *Sensodyne Repair & Protect*, *Sensodyne Rapid*, so incremental benefits for the consumers that we can charge a premium, and we have the best, here, where we have brands like *True White*, which is a 50% premium and really, again, captures an insight for a certain consumer base and we are able to charge that premium.

From a competition perspective here, we are competing with the P&Gs and the Colgates and the Unilevers everywhere in the world and we have really been able to consistently win with those two pillars and, third, I would say really fantastic marketing capabilities on a global basis, we create the assets for this brand and for this brand a very unique way we go about marketing and copy is we actually shoot local copy in every market, based on a template, it is testimonials from dentists and hygienists, where we can, and consumers, where regulation-wise we are not allowed to use the dentists; extremely efficient model and it has continued to drive this growth and we are seeing this kind of growth this year also.

The last thing I would say is there are still big opportunities on this brand, a third of consumers globally suffer from sensitivity and a third of consumers treat with a sensitive toothpaste, driving, continuing to drive, that penetration and expert is part of our strategy.

### **Building consumer preferred and expert recommended brands**

Another phenomenal example is *Voltaren*, the CAGR of the 11% and 4%, I checked five times because it seemed too convenient that they were the same, but they are absolutely the same, 11% CAGR in a market that grew 4% over this timeframe. Very different from an innovation perspective, what happens with *Voltaren* is we first switched it in

Germany, we have now switched it in over 100 countries around the world and this is the topical version of *Voltaren*, which is, obviously, a topical NSAID, over the next 10 years we switched it in another 100 markets around the world and continue to drive growth.

Innovation is a bit harder to come by, we have launched *Systemic*, we have launched *Patch* and we have rolled those out globally. A big innovation for us was *12 Hour* launch, which we launched first in 2011 in Portugal; it would seem pretty simple, this is a 2% diclofenac, which is the active ingredient formulation, versus 1%, but the big technical challenge isn't how much active you have in the product, it is how much active can penetrate the skin to get to the point of pain, we were able to do this. We didn't call it 'extra strength', we called it *12-Hour*, because we knew that from a consumer insight perspective actually 12-hour relief and only needing to apply a topical twice a day was much more important than being extra strength as the base product needs to be applied every four hours. This is now over a £250 million business for us, within the franchise, and it is has helped drive that growth.

We have a recent launch, called the *No Mess* launch, which actually Richard is going to take you through the consumer insight and what happens.

Like *Sensodyne*, we have a global model here, it is extremely efficient, we do, in this case, all the assets at the centre and we deploy them out to the markets in toolkits, they use those. Obviously, we are agile enough, we have different insights, depending on where the market is at, what the competitive set looks like, so we have a toolkit of things we do, we deploy that out and execute, and we have been able to do really well in driving this business.

### **Winning with shoppers, customers and experts**

The next piece of the strategy, winning with shoppers, customers and experts, and I have talked a little bit about this, but if you take a step back and look at our OTC business, 70% of our brands are sold locally in pharmacies and in drug stores, so we have 4,000 people, feet on the street, going into pharmacies in Europe and in Asia and in Latin America, we call on 400,000 pharmacies globally and we have a very strong CRM platform that we deploy to folks and I will talk a bit about more of that when I talk integration, because we have really invested in capability and upscaled that, as we move forward.

Then, the dental recommendation, 70% trial of *Sensodyne* is driven by the dentists, we call on 400,000 dentists in over 90 markets, we do a lot of scientific and conference abstracts. We are No. 1 recommended in a number of markets. This is also where we have invested in a CRM platform and I have to say that it is advantage of being part of GSK, because this is a place where GSK has excellent capability. They spent the time and effort to develop a veeva (CRM) platform for experts' detailing. We have taken that from Pharma

and launched it in 80 markets this year, which is something we would never have been able to do as a stand-alone Consumer business.

And then partners with retailers: I think the Shopper Science Lab will give you a good flavour for that. We have put ourselves in the position of strategically being partners to help drive the mutual business. With products like *Sensodyne*, which are category-driving products, the more people who move up the ladder and buy sensitivity toothpaste, the more it drives not only our business but the category growth and the retailer growth.

### **Seizing the digital opportunity**

The digital opportunity – I think everyone is aware of this. The world is shifting rapidly and over half the media now, globally, is digital media, and almost half of offline purchases are impacted by online information. We know that when people go to e-commerce, they have more choices. Again, I think I shared that for us, it is about 2%, or just below 2%, of the sales in the categories in which we compete.

### **Investing in digital capability to win in OTC**

What are we doing about it? I mentioned earlier that we have hired a new Chief Digital Officer, Mark Speichert, who comes from Google. He spent five years at L'Oréal prior to three years at Google. He is really well known in the industry and he is a phenomenal talent: he will hire 'A'-players, and they'll hire 'A' players and he is building a tremendous team. We basically have restructured our business around the consumer journey and put it under our CDO, so that everything from data analytics to insight, to content, to media, to e-commerce and to marketing capabilities sits there, and we are managing that as an organisation.

We also formed a Digital Advisory Board earlier in the year. This is seven external people to GSK, who are experts in their fields of e-commerce and digital marketing. We have a woman who runs a technology venture fund on there. We have had two meetings and we meet three times a year. They are basically there to challenge our strategy and thinking, and to make sure that we are pushing it hard enough, so that we can keep that external perspective. We have trained over 800 marketers this year, upskilling their capability.

On data, we are the second company that has done a direct tech-stacked deal with Google, and the first within Consumer Health. This basically means that we now have direct access to our data with Google, so that we are now the owners of our data and it is no longer owned by the media agencies. We are now building the analytics capability, and this is huge – from our ability to understand consumer behaviour, to get the insight and become

a great deal more efficient in how we are deploying our dollars and our media. That is helping to drive data-driven precision marketing.

On e-commerce, we are also investing heavily in the capabilities, because winning in the digital shelf is different from the physical shelf. We know what that is. We also have capabilities about how we are going to have channelled strategies around the offerings we make online versus offline. This is an area, once again, where we are growing twice the market in online. It is still very small, but we know that it is a big opportunity, going forward.

Last, I would say on optimising digital spend that we know that our digital spend is more efficient. We know that it can be 50%-75% higher than traditional media when we do it right. We are building those capabilities and we expect to be able to drive that, and to drive more efficiencies in how we reach and connect with our consumers.

### **Strong execution of integration leading to over delivery of £400m synergy target**

I want to spend a minute talking about the integration. We just did the last big cut-over in the integration, and that was the legacy Novartis site in Lyon, so this was a major system cut-over that happened in early October, and it went well. At the end of the year, we will be pretty much done with the integration. Frankly, I think this was executed extremely well and we have over-delivered the synergies of the £400 million target that we have communicated. What is important is that we not only took the two companies and put them together and found synergies in that, but we really improved the operating model as we did it.

Let me give you a few examples. As we put the organisations together, we removed an entire layer out of the organisation, which obviously streamlined the way we operate, but also increased the spans of control by 40% to 60% for our managers, so we reduced the layer of increased spend. Richard will talk about this more. We looked at our R&D footprint and we have significantly shifted it to emerging markets in India and China, where we have great capability and also are very efficient in the way we operate.

From a sales force perspective, we invested heavily in that CRM capability and, frankly, removed the majority of the smaller sales force in every country where we integrated the two businesses. We have a leverage scale to drive procurement savings, and we have significant savings on media buying, and significant savings in changing our creative agency operating model, and lining it from global down to local and streamlining.

We also had other procurement savings in things like an active ingredient in *Voltaren* which is actually shared with some of our toothpaste brands and had more scale with suppliers and we were able to negotiate better rates.

On manufacturing and distribution, we have done a number of things. We have gone from 250 third party manufacturers when we put the deal together and now we are just over 190 and we have a path to get to 150. That has actually streamlined our supply chain. We have gone from 11,500 SKUs across the portfolio to 8,500 as of today, and we will continue to streamlining our SKU line-up. We had 33 plants when we came together and we have announced the closure of five of those plants and the sale of one of them, so obviously that is all in progress and will pay dividends as we move into the future.

The last thing I would say is about the full back-office integration. Obviously, this is providing many benefits to the organisation.

As you can see, our return on sales, our operating margin in 2015, was extremely low. Obviously, we would improve from there. We have improved significantly in 16 year-to-date, and we are at 18.3%, and that is about a 140 basis point improvement from a constant exchange rate, and there is a further 110 basis points currency in the back. We have talked about 20%-plus by 2020 and that wouldn't include any currency help in that.

While we were doing this, we had phenomenal growth in 2015/16, and obviously a little lower growth today through some of the issues we have talked about in 2017. The other piece I would mention is that in September 2015 we did an engagement survey for the organisation: 64% engagement. We are very much through an integration, where not so many people were confident about their future. In September 2016, that went up to 74%, and we have just had a new survey come out in September this year at 81%. We are therefore seeing engagement and culture change moving ahead as we have brought the company together.

### **Drive gross margin improvement, operational efficiencies and cash discipline**

The last thing I want to talk about before passing this to Richard is just on the operating margins and our roadmap. We said that we would be 20-plus by 2020 but how will we deliver that? Certainly, with the power brand and mix, as I said, we are disproportionately growing power brands with a higher gross margin. There are supply chain efficiencies: we don't only want to drive gross margin by mix, but we also want to drive it by COGs reduction and efficiencies. We are doing that in our CMO rationalisation and our plant closures, and also in driving procurement saving.

A&P efficiencies – the shift to digital will drive that, but we have also invested heavily in the capability over the last few years and we now have marketing mix analysis for about 80% of our A&P spend on a global basis. We are very clear on where we are getting very, very strong returns, and where we are not getting strong returns. We can be agile and adjust and be very focused on cost discipline and structure. We want to make sure that we

are investing in the consumer and the customer, and knocking out any non-value-added costs.

With that, I will pass this to Richard, and then we will close it out.

**Richard Slater:** Thanks, Brian.

### **Consumer led, science based innovation**

Okay, so Consumer led, science based innovation: I hope that, by the end of this, you will all really understand what that means. I realise that this might seem like words on a slide right now, but I will try to bring that to life.

### **Building a competitive advantage through consumer-led, science-based innovation**

Actually, I will talk a little about what has been my mission, in coming here to GSK, along with the rest of the lead team, to build innovation into a true competitive advantage for GSK, rather than just something we do.

Innovation, and winning in innovation for us, means having a strong and differentiated pipeline, which is half the battle. But then executing that brilliantly, partnered with Commercial and Supply, which is the other half of the battle, clearly, to get that return on investment for everything we invest in R&D.

There are five key focus areas that I have been going through with the team, to lead that transformation. I will bring them to life with an example under each, and a recent example actually. These were all launches in the last year, and it is great to be able to share this with you today. Obviously, we can't talk so much about the future pipeline.

The first is the integrated category and R&D hubs. Actually, if you step back, it is probably more of a point about our talent, capability and organisation, as Brian mentioned. We all sit at the chance to really simplify and streamline our R&D. We obviously went through some site closures and we took a big bet on the emerging markets, as Brian mentioned. We have actually been able to put more proportional and absolute money into our innovation, so that we can fund the right clinicals, the right programmes and have people really focused on the output of R&D. That was a key piece.

The other key piece was talent, because obviously it all starts with the team. Brian started with the team earlier. We took the chance at the integration to take one-third of the new R&D organisation from the outside, around one-third from Novartis and around one-third from GSK. That external perspective was really important for us, to get the best practice and really reinvigorate the function.

Secondly, scientific and technical excellence. You might expect to hear that from GSK but I think it is really important in Consumer Healthcare as well as in Pharma that we underpin everything we do. Whether that is sustaining the portfolio, our reg medical capabilities, the scientific excellence that goes into our innovation, so that our products are sustained and we remain compliant with high quality, and that everything we do has a real benefit, and we support that benefit.

Thirdly, and this is probably a little newer for the legacy organisations going back two or three years, it is really about bringing Consumer-led to life. In Consumer Healthcare, as in any other consumer industry, when you really get into things with consumers, or you think about using these products in your own lives, the whole experience in many cases is as important as the active or the specific efficacy benefit that we may be used to in medicines. It is therefore really important that we look at sensorials, packaging and the way we communicate our products, and bring that to life for people. That has been an opportunity area for GSK and something we have been going really hard at.

Fourthly, there are two new, massive, emerging trends, which Brian mentioned. We are putting extra focus, as an R&D organisation and from an innovation point of view, on emerging markets and digital innovation as well.

Finally, fuelling all of that, both organisations, it is fair to say, were quite internally focused. They had great internal capabilities but I don't need to tell everybody here about the enormous potential of the outside world and partnerships, both in new areas like digital but also in more traditional areas of innovation. You have millions and millions of scientists and entrepreneurs out there, that we weren't tapping into, but we are now.

### **Integrated innovation hubs: co-located commercial and R&D facilities in 6 key locations**

Firstly, structurally, I talked about the talent and the shift we have made here. Probably the key things to call out which might be a little different for some of our competitor organisations is that we have integrated category innovation hubs for all of our five categories. You can see London for our healthcare FMCG brands; you can see Switzerland for our OTC brands, and Singapore for nutrition and digestive health. You may say, well, so what? What is the point of that? Actually, you have consumer insights, marketing, R&D and supply, along with other partner functions, all co-located and working to get the innovation pipeline going and deliver at pace. We can resolve issues quickly, ideate and spark ideas. This really gives us an advantage when we think about our innovation funnel and getting projects delivered quickly.

The second shift we made was to China and India, where we have specific R&D. We have talked about that, so I will not mention that again.

We also have some centres of excellence, particularly in the US, where we have a fantastic Rx to OTC switch capability, which supports the switch pipeline clearly. There is regulatory medical leadership and we also have an emerging science team there, looking at what the future breakthroughs would be. There is perhaps a little more of a traditional pharma-style innovation going on there as well, to make sure that we do not miss the big breakthrough innovation as well as the consumer-led innovation.

### **Scientific and technical excellence**

Going on to a product and a real innovation that we have just launched recently, Brian referred to *Sensodyne Rapid*. This is the most recent launch on *Sensodyne*. *Sensodyne* deals with dentine hypersensitivity. I promised the guys I wouldn't try to blitz you all with science – but you probably know a great deal about science through the industry in which you operate. If we actually said, 'how many people in the room feel like this [*on slide*] on occasion, with a hot drink or a cold drink?', around one-third of you would probably say yes – and that includes myself. Brian mentioned that only one-third of people are treating, even though there are products which really, genuinely work. We therefore need to innovate to help on the penetration journey and there is so much opportunity there, with two-thirds of people not treating. For those who are treating even, they are looking for extra benefits.

In our Consumer research, therefore, we have picked up clearly that people want the product to work over time, but why wouldn't you want it to work rapidly? We have tested some quite testing claims around how quickly people would believe that the product would work and we came up with this stretch of, could we get the product to work within one minute? Sixty seconds?

This is a demonstration of what I would say is the R&D capability in GSK. The formulation development was really smart here. It has taken the gold standard active called stannous fluoride, which works to fill the holes in the teeth that are exposing the nerves, and it works with a polymer system to adhere immediately when you are brushing, and then you get that active to work straight away. We have been able to show in *in vitro* testing and clinically that this product adheres immediately, starts to fill those holes within the first few seconds, and then builds a protective layer.

It is really important that the product works, clearly, doing what we say we do, and people will want to buy the product again, but it is also for the experts that Brian mentioned. You have a knowledgeable, cynical group of dentists and experts here, to whom we have to

take real scientific data and convince them. We have done that with a great clinical package here on *Rapid*.

So what, again? We have got the claim supported and we have launched it this year. That integrated category hub actually went from idea to launch in less than two years here and we are now launching in 40 to 50 markets this year. Everywhere we have launched, it is doing ahead of plan and doing well right now: we are up two to three points of share for the total market, after just a few weeks of this. We have high hopes for this innovation.

[Slide - *Voltaren*]

The second area I talked about is this novel packaging, sensorials and claims. I think half of you will have heard some of this and some of you will see some of this later come to life in the lab and facilities across the road. This is our latest *Voltaren* innovation, *No Mess. Voltaren*, as Brian mentioned, is a topical painkiller which contains diclofenac. The real advantage for many people using this product is that you apply it locally and it penetrates the skin. It is actually specially formulated to penetrate really effectively and then it gets to work locally, without having to go through the whole system – through the stomach and working systemically.

However, that brings a problem for a number of people. More than 70% of the brand of *Voltaren* is in topicals but actually topicals is only 20% of the pain market globally. We have found one of the key barriers: it is fairly logical, but we have backed it up with consumer research, and this is the mess and perceived hassle factor in using the product. The 12-hour product helped on that, but we wanted to take that a step further.

So we've developed this new cap. You might say, 'Well, so what, it's the cap'. The point I wanted to make is that, in our industry, a packaging innovation, or a sensory innovation claim, can really make a big difference to people. This product went through multiple iterations and a great deal of prototyping. It has to be stable and it has to be safe, and still has to dose correctly. Importantly, it has to work for consumers as well, and so we used our sensory testing facility to make sure this really worked.

When we got to this final design and tested it with the concept, we had a 50% purchase increase score for non-*Voltaren* users versus the current product. We have just launched it in our No. 1 *Voltaren* market, Germany: it is very early days, but we have seen a three point share gain on the entire brand just in the first few weeks of this launch. We have high hopes for this: as I say, it is early, but we are really excited about rolling this product out through the new year. It brings a genuine consumer benefit, rather than being something that we are doing because we just want to innovate for the sake of it.

[Slide – *Eno*]

Thirdly, I mentioned our emerging market consumers. Clearly, there is some overlap here, because we talked about sensorial on the previous one. *Eno Cooling*: you may have seen some cooling products across our industry, but what is the insight here? *Eno* is an indigestion brand, No. 1 in India and No. 1 in Brazil. *Eno* is actually 163 years old but what is really interesting in our industry, and what I am passionate about, is that there is still so much opportunity to innovate on a product that is 160 old, let alone the products which are still newer and just switched, like *Flonase*.

Indian consumers suffer from more indigestion, typically, than those in many other countries. This is partly driven by their diet. When they suffer from this, they talk more about heat, in a negative sense – a feeling of heat, fire, flames, and you hear all of these words in consumer research – more so than in other markets. We therefore went very deliberately after a cooling variant for India, for *Eno*. I think Sally, in the sensory lab, talked to some of you, and will be talking to you, about some of the technology that goes into this. Again, this is really smart tech, working with third party flavour houses, to develop an intense, long-lasting and quick-acting cooling sensation. When we tested it with consumers in India, we saw a 94% purchase intent for the product, so it really, really is delivering, and it is delivering on a real insight and benefit.

Secondly, what we found from doing deep dives in India is that nearly half of all treatments for indigestion are natural remedies. Most of those are actually Ajwain-based: this is a local, plant-based ingredient, used in Ayurveda for stomach upsets. It is probably not rocket to say it, but it takes the insight to do it and then it takes the smart technical capability to work quickly to get an *Eno* line extension with Ajwain in it. That is actually doing extremely well, and both of those products are doing really well from a share point of view, post launch, over the last year or so. *Cooling* has just launched there in the last few months.

That is obviously a local brand but we clearly want to apply that thinking to our global brands as well. For *Sensodyne*, Brian talked about the global model and it really works. Actually, however, we still need to look where we might need to adapt. I hope you can see this at the back: this is the *Sensodyne* 25 rupee the India pack and the insight here was not just that Indian consumers want a lower cost product but actually it needs to be a second purchase in most homes. It needs to be of a small enough size, and affordable enough pack, so that people will purchase it on top of the regular family toothpaste.

By getting the cost right, and we have modified the taste profile, there is the same great efficacy and we have four times the distribution of the previous product. This is really

helping to drive great performance in India. The local insight work applies to the local brands but we are also applying it to our global brands as well.

Finally, the final focus area – the fifth one – is about fuelling the pipeline with the outside world. Both companies, as I said earlier, were not heavily investing in this space prior, and we have put a new organisation in place. We have embedded those people in the innovation hubs, so that they get the strategy and they are part of the team.

### **Accelerating our external innovation and partnerships**

What difference has that driven so far? Over the last two years, we have gone from looking at just a handful of opportunities each month to more than 100 external opportunities every month. We have looked at 1,500 opportunities in 2017 and we have signed 60 partnerships and deals since we put the new team in place. The pipeline has gone from less than 5% externally sourced to, over the next two years, 20% to 25%, so we have seen a five-fold increase in our external pipeline. We are seeing that coming into projects like *Eno Cooling*, the Ajwain Flavour work, *TUMS Chewy Delights*, which is a big launch in the US and was externally sourced, and much more coming in the pipeline as well.

### **The focus is driving a pipeline transformation**

Let me sum that all up into some results. One other thing I haven't mentioned that we have gone at hard is our portfolio discipline and our rigour around ROI in R&D. We focus our resources and our spend on our Power and Core brands, just as the commercial strategy. We have managed to halve the number of projects we work on but increased the pipeline value, so our average size has gone up quite dramatically over the last year or two.

We have seen our Top 10 projects double in size, so we are getting the breakthrough innovations coming through as well, and I talked about the external pipeline helping to fuel that.

If you pull all of that together, we have had a strong set of launches in 2017. As I mentioned, all the products we talked about and a number that are on here now were all launched over the last year, so it is great to be able to talk about real examples because, clearly, we cannot talk so much about the future stuff.

I am really pleased about what we have done so far, I am proud of the work so far in our team but we have a long way to go and we know we are going to keep going hard at this to make innovation a true competitive advantage for GSK. I shall hand back to Brian.

**Brian McNamara:** Thanks, Richard. I just want to do a quick closing and then get to Q&A.

## **GSK Consumer Healthcare meeting everyday healthcare needs & delivering shareholder value**

### **A winning strategy for growth and strong operating margin progression**

As I said, the focus for me for the business is to deliver consistent above market growth, top line and deliver strong operating margin progression. We have given guidance externally that says the five-year sales CAGR, that is 15-20, would be low to mid-single digits. At one point, it was mid-single digits in 2015, so we grew 6% in 2015, 5% in 2016 and year to date we are at 2% growth. Some of that is market dynamics and some of that is GSK-specific issues like *Flonase*, like *Transderm Scop*, a generic we have in our portfolio which was a legacy Novartis product, and some divestments that are in there. Next year we have said low single digit growth again as GST will continue to feel the impact until half way through the year. More divestments specifically in the UK and the TDS generic which, again, will work its way through next year. We have continued our guidance on adjusted operating margin at 20%+, which is at constant currency so any currency help would be above and beyond that.

I feel like we are in a good place to deliver that. I don't like the lower reported net sales growth, to be honest with you: it is what it is, the only thing that matters is reported growth, and we are just dealing with some headwinds that are specific to us. However, I believe that, going forward, we have the right plans in place, the right capabilities and we can win in this marketplace.

With that, I shall open it up for Q&A and facilitate with Tobias.

### **Question & Answer Session**

**Question:** I have a question on pricing. What has been the price trend for the last few years: has it got tougher and do you think that it will stay tougher?

**Brian McNamara:** Yes.

**Question:** Also in terms of pricing, how it compares on line, are you having to make bigger discounts if there is less screen space, and is that going to be a challenge as online becomes a much bigger part of the business?

**Brian McNamara:** First of all, on pricing in general, if you look at our growth we have seen a balance between pricing and volume, obviously lower growth, so lower pricing and volume growth but we have seen somewhat of a discount. It is getting a little tougher, specifically in the US market, as I think US retailers are trying to compete for traffic in the e-commerce world and get people in. We see that competition specifically on private label, *Fonase*, for instance, where we are seeing really aggressive pricing as retailers compete with each other for that consumer going forward.

From an e-commerce perspective specifically, right now we don't see any difference in the profitability of our e-commerce business and our online business. Obviously, it requires different things to win in e-commerce, winning in the digital shelf requires different capabilities, a different way to manage it. We are building those capabilities and it is about visibility, it is as specific as having the right descriptions of your product so that when the search happens, it comes to the top. It is having the right graphics online, all of those things we are working. As I said, it is still small for us but we are growing ahead of the market and we are putting plans in place to make sure we have the right channel strategies going forward.

**Alex Evans (Deutsche Bank):** In terms of e-commerce across the industry, how much distribution goes down through e-commerce at the moment do you think? Clearly, that is increasing but to what extent does that increase to over -

**Brian McNamara:** I just want to understand, when you say "distribution" going down to e-commerce?

**Alex Evans:** In terms of sales of products through shops etc., bricks and mortar -

**Brian McNamara:** How much is cannibalised by e-commerce?

**Alex Evans:** And what percentage of those sales goes through those different distribution channels - where do you think that is going? How important is that distribution channel going to be in future years? In terms of the slowdown that you have seen, you and other companies seem to suggest that it is more of a US phenomenon at the moment as you were just describing. What is the danger that spreads to other developed markets like Europe?

**Brian McNamara:** A couple of things. First of all, in e-commerce, if you look at FMCG broadly, it is about 4.5% of sales and depending on what categories you are in in FMCG: diapers I would imagine are much higher, people subscribe and get their 10 packs of

diapers a week, that kind of thing. For us in the categories in which we compete, from what we see it is less than 2% but it is growing at a rapid rate. The dynamic that we see is that, if you wake up in the morning and you're sick, you feel like you have a cold or flu, you will probably jump in the car and drive a mile to your CVS, Boots, Walgreens, depending on where you are and you will buy your product.

When we get to one hour delivery, I think that dynamic will change. How much will e-commerce become part of the business? I am not clear but I believe that it will grow and continue to grow aggressively. There are a few things competing with e-commerce. As I said, it is about getting the digital shelf right. It is also about channel strategy and making sure we have the right SKU line-up for our e-commerce channel, versus our mass channel, versus our drug channel to make sure we don't get into those direct price comparisons. We are not going to be able to avoid that completely but we have a very clear strategy on how we want to approach it. We have the global head of our Amazon business and joint business plans with them as we try to do it.

The other piece, the advantage that Amazon has is, as you can imagine, tremendous data on consumers, which is why we are making other moves like our direct techstack deal with Google so we also can have sufficient first party data so that we can understand the consumer behaviour as well as they do, potentially even better given we have a broad view of our consumer through the entire journey.

The last question was -?

**Alex Evans:** Just in terms of the slowdown in the US, what is the danger that spreads to other markets?

**Brian McNamara:** We do see a couple of things. We see the slowdown in the US and we see a bit of the emerging market dynamic, and I talked about GST, demonetisation and things in India. In the US the market has definitely slowed down, I definitely think we are seeing the growth in the US market coming on - e-commerce players and traditional bricks and mortar players are not growing as well, which has driven this kind of price competition and we have seen it on private label - *Flonase*. I don't know how sustainable that is and, by the way, all these retailers are doing omni-channel also, so Walmart is now a big e-commerce player in the US and it will become more of an omni-channel play. As e-commerce players buy bricks and mortar, bricks and mortar go more - it's going to be kind of a one retail landscape. As e-commerce continues to grow on a global basis, that will all balance out again and there will be some winners and some losers but, in the end, retailers don't want to be driving profitability down either for themselves.

**Anne Marieke Ezendam, Amundi:** My question is around how you are going to allocate your R&D budget, because you said it is going mostly to Power brands but I can imagine you have certain things in the portfolio that in the long run could be Power brands, so how are you going to deal with that?

**Brian McNamara:** I shall pass it to Richard in a second but, to be clear, we invest the majority of it on Power brands and Core brands, so the Core brands also get investment, and there are a couple of commercial brands which are pretty significant in the portfolio: *Aquafresh* is significant and our Smoking franchise is significant. Richard, perhaps you want to address this?

**Richard Slater:** Power and Core brands are the focus, not just the Power brands, but there are examples like *ENO* and *Flonase* that require innovation as well. As Brian said, we become more pragmatic beyond that, we are not going to change that strategy and suddenly go chasing after every opportunity on a tail. However, where we have big franchises like *Aquafresh*, *Smokers' Health* and they need innovation either to sustain or there is a great opportunity, we pragmatically put a bit of resource on those, trying to innovate in a smart way, perhaps doing a bit more of the commercial consumer style innovation: claims, packaging, line extensions. On our Power and Core brands, we are looking to bring genuine breakthroughs into the categories as well as all of that more consumer-led stuff, which is why the investment comes in clinicals and big partnerships. That is probably the difference and there is a point whereby we say, no, we are not going to innovate on those, because we need to allocate to where we get the best return.

**Mark Booty, Pictet Asset Management:** Could you talk more to the data analytics? I am intrigued by the deal you have done with Google but data for data's sake means nothing. Can you talk about your internal capabilities on data interrogation and whom, if anyone, you are using as an outside consultant, and what your intentions are? From my perspective, you need to deepen the customer relationship and own that relationship but do you then run into the problem of competing with your end customer, your bricks and mortar? How do you go about the mix between the end customer and the personal relationship, and do you have a view of going direct: will you start doing monthly toothpaste deliveries type set-ups?

**Brian McNamara:** First on data and analytics, I totally agree with you, by the way: data is irrelevant: it is actually knowledge and information that we want. By doing the direct deal with Google, we now have access to those data. We are working with an external consultant, I would rather not say who they are, it is free advertising for them, but

we are working with external experts. We also have an internal analytics team which has been focused on MMM models and things like that. We are shifting capability, hiring new people and getting really good at the data analytics, so we are putting in technology platforms to be able to do that. It is early days but we can clearly see on a consumer connection basis that to be a sensitive toothpaste user, we are seeing an ad 10 times on frequency but he doesn't need to; he needs to see it three times.

We can make those adjustments now and we can understand through the analytics capability how we are reaching people, on what frequency, what ads are working for which people, so we are becoming very sophisticated in testing different messages for different consumer segments. Therefore, the data capability is huge. It is massive data, it is a capability that we are building. I don't want data for data's sake as it is of no use but we are building that capability, and I believe it can be a competitive advantage for us. Everyone is going through the same process, we are very focused on data-driven marketing and using those data, so we are building up our first party data platform which we combine with second and third party data and we drive that.

**Mark Booty, Pictet Asset Management:** [*off microphone*] ... Can you see the direct client relationship between GSK and ...

**Brian McNamara:** In OTC we have been competing with our retailers for ever, because retailers sell private label brands, we sell brands, we compete against private label. My experience in the US is that we have taken a couple of our retailers to court over private label because they have infringed on our packaging, graphics and our IP, so it is the nature of the business that we are in. We have a relationship with our retailers and for those people who have seen, and those who will see, the Shopper Science Lab, we invest in that partnership. We are in a very good position because we compete - if I look at oral care - in the premium side of the business, which means we drive more top line and category growth for our retailers too. Every time someone buys *Sensodyne*, we are in a better place. But in the end, we'll compete on private label with them and that will continue to be the case.

Direct is something we have not got into yet, there are certain things that we are potentially looking at. We may have certain brands like smoking cessation brands where that may be a really good and a smart fit, so it is about the brand, the consumer journey and what is happening. However, right now we are really focused on winning in bricks and mortar and winning in e-commerce.

**Kerry Holford (Exane BNP):** I have a couple of questions please. Going back to the question about R&D investment, can you detail who makes the decisions, how that is decided within the Group as to allocating the budget to the Power brands versus Core brands, how frequently is that assessed and how is that process driven? Secondly, a broader question, thinking about your edge, what can you do better than the average consumer staples company: is it R&D, is it manufacturing, is it marketing? How can you succeed and how can you do better than the competition?

**Brian McNamara:** Taken the second question second, why don't I ask Tobias first and then Richard can jump in on the whole resource allocation question.

**Tobias Hestler:** Regarding the resource allocation overall, that is a joint discussion. You have a base spend and, as Richard showed you, we have the sites, we have the structure and organisation, so there is a certain part of the budget that is allocated to a structure that you review periodically but you are not going to change that.

Then there is what you can call the discretionary spend on top where you have a chance to reallocate quite quickly. The first ones that are funded are the longer-term projects. Doing another innovation on *Voltaren 12-hour*, that is a multi-year programme and once you venture that, you review it to see if it still makes sense but then you continue. Then we add the additional things to it and that is a team discussion where the category sits at the table, where Richard sits at the table, where the regions sits at the table and Brian and I join in to debate that and to allocate resources.

There is also a pot of money that is allocated to future breakthroughs, so it is not just the existing Core and Power brands. There is money on the side that gets invested into future technologies in future areas. Then it is a regular resource allocation discussion, similar to when we discuss how much A&P we allocate to certain brands, to certain regions, to certain countries. Richard has shown you a number of examples of how the portfolio has changed in quite a short period of time, and this is something that we review on a regular basis.

The other thing that is nice in this industry is that we mostly have relatively fast development cycles, so the portfolio refreshes quite quickly.

**Richard Slater:** You have covered a lot of it really well, Tobias. I just want to emphasise the point that the discretionary spend, the resource and the projects drive where we put that. They are done on a case-by-case financial basis. We have brought in NPV tools as well as the traditional sizing tools to look across the portfolio. One of the things that we have done well is that portfolio discipline, otherwise you leave each category to kind of make its own case. We have had to drive some quite tough calls from the centre around

cutting enormous parts of what was a big innovation tail that allows us to put some money behind the more breakthrough stuff that Tobias has talked about. Then once we've allocated that, we really let our categories run in the portfolio-run projects but we keep a very close cross-portfolio line and look at it formally every quarter at least as a senior team.

**Brian McNamara:** And your second question around what I think the competitive edge is; I do think, by the way, our technical and science excellence is an absolute competitive edge if I look in an area like oral care.

We've competed against some behemoths in the consumer space, in P&G, Unilever and Colgate. You have seen it on *Sensodyne*, if you look at our entire oral health portfolio we have been winning for a decade year over year. Part of that differentiator is we do invest in the science, the clinicals, the expert and we bring real benefits that allow us to meet consumer needs and frankly charge a premium for those benefits because they are worth it.

I also think there is an execution element to this. On the OTC side, I think our innovation capabilities are excellent and I think they are getting better. I think they are probably not as strong as they've been historically in oral health. I think in OTC we are getting better. As Richard said, we are doing much more external partnerships, we have done a number of deals so I think innovation will be a part of it but I also think pharmacy execution is also a place where we tend to excel versus our competitors in the OTC space. We have invested heavily in capability and CRM tools because that expert recommendation at the pharmacy level and obviously the ability to really drive that at a local level is really key.

**Question:** Two questions, please. The first one is on return on investment. How do you think about return on investment and how do you measure it and can you give us some sort of guidelines, whether in terms of numbers or trends, how that is going, whether you are talking about e-commerce or R&D or A&P spend?

The second question is on consolidation of the market; we have seen continued consolidation with Pfizer now putting their business. How do you think about increased consolidation impacting competitive dynamics and what is your appetite as GSK Consumer Health to be a participant in that consolidation process?

**Brian McNamara:** So first on our ROI, I will ask Tobias to step in and comment, but I can tell you that we are a bit ROI obsessed, whether it's A&P ROI or investment in the innovation pipeline. That's something that we have built over the last few years and we have invested in that capability, but why don't I let Tobias address this?

**Tobias Hestler:** If I do it along the time horizon, it's the very short-term ROI which is marketing mix modelling where you look at 'Where do I really invest my dollars or pounds that I have available most effectively, where do I get the most return on the investment?', I think that's what Brian just mentioned.

But we measure pretty much everything; we measure the ROI of every activity, or at least we try to. There is a lot of data you can get to make sure the marketing mix is right and with that we want to get the efficiencies from going into digital and making sure you don't over-invest, you don't under-invest and shifting the resources accordingly. That's the machine and that's really running very effectively in the short-term.

And then in the longer term in terms of ROI when you look at our margin, our returns, we are clearly not yet where the best in class in the industry should be, so it's clearly important to us that we keep building the margin as Brian has laid out before.

So the question is in the mid or longer term resource allocation, where do we shift resources to? Power brands for example that have higher margins: can we grow them more strongly than the others? Or geographic expansion; do we enter a new market with a brand and build up but that we know in our industry takes about three years, so you are going to lose money for around the first three years until you have built the new brand in a new market so that's in the longer time, that's to play and we have done that very successfully with the example of *Voltaren*. We built it into a global brand over the last 17 years.

So these are decisions that you have to stick to because you are going to see the return only a few years from now, and in the end it should create incremental returns for the company both on profit but also on the cash flow side, so we run this down to a cash flow metric to the company.

**Brian McNamara:** Great. On the consolidation question, we have said that we as a leader in consumer health we would look at Pfizer, we would look at assets that come on the market. You know what I would say is I love the portfolio we have, with the brands we have, love our geographic footprint and I think we are positioned to win going forward independent of any deal; we don't need to do one.

The only reason you would do one is if it creates significant incremental value and if it made sense for overall GSK to do that, so for me that's the perspective. I do think the industry will continue to consolidate. It is a very fragmented industry so that you would expect that you will see more and more consolidation as we go forward.

**Michael Leuchten (UBS):** Can I ask you about market access and the scaling of the brands? So if we think about *Voltaren* no mess, so *Voltaren* OTC into the US or toothpaste into China, do you think about it as having a local or regional brand in place before you then take a power brand into that market? So do you need a beachhead before you can enter those markets or can you build a power brand in those markets if that doesn't exist, so to put it in other words, if you don't have a strong pain franchise somewhere do you need to have a beachhead before you go in with a power brand?

**Brian McNamara:** I'll use a couple of examples. We launched *Sensodyne* in China a number of years back as a new brand. It is actually doing really well, it is growing at a 30% clip in China. We have also launched it in India. What you need is you need capability in the market, you need an organisational structure, you need the ability to get market access and in India in particular of course we have *Horlicks* which is a tremendous brand in India and we have reach of almost two million outlets. Our ability to leverage that infrastructure to drive brand and distribution has been really strong.

So I think it depends. It depends on the market dynamic and what's happening in the market. There are certainly some markets we would never launch certain brands because there may be a market leader in place that we don't think we are differentiated enough to win against, so we have kind of a method by which we do that.

We just launched *Parodontax* in the US. *Parodontax* is our gum health brand. It is another brand that has done incredibly well over time. This helps stop bleeding gums, a couple of hundred million pound brand globally. Launching toothpaste in the US is not for the faint of heart but it's a long-term play for us because it's about the dental recommendation. We have a great brand with great clinicals and frankly after year one, we are not quite a year in, we are very pleased with the progression.

We launched *Pronamel* which was an enamel toothpaste in the US eight years ago, that's an over £100 million brand now and it is consistently growing double digits.

So it's not a one answer fits all. I think you can do it, but the market dynamics need to be right.

**Question:** I have a couple of questions on margins, please. Firstly, your margin target of 20% plus the FX benefit to come or better than that, that's a bit lower is my understanding than many of the peers in the industry; some are considerably higher than that, I understand.

Is there a structural reason why you might be lower in the long-term because of maybe the scale of your individual products or geographic spread, your level of scientific investment which maybe higher than others or is there no structural reason and can you see that margin going significantly higher over time?

And the second question is just could you give us the split between the OTC margin and the FMCG margin because they are both about half the business?

**Brian McNamara:** Firstly the margin and the structural question. As we said externally, we would be 20%-plus by 2020 and we have stayed consistent with that. Obviously you can see with currency help if that maintains then it would be better than that.

It's hard to comment on competitive margins in this space because there isn't much transparency in the reporting. What I can tell you is that we are a fully loaded business and a fully loaded P&L because we have a JV partner who has a 36.5% stake, so it's critical that we manage the P&L from beginning to end.

Other margins reported aren't as clear. I think the margins in the industry are in the 20-25% range. No structural issues for us as we continue to drive growth. Once we get to 20% we want to go beyond that. There is no reason we couldn't be on the higher end of that range in the mid to long-term. 20%-plus by 2020, we need to get there first and then we need to obviously build going forward but that's not the end game for me.

**Question:** And the split between the two?

**Brian McNamara:** We don't talk specific growth margins on the businesses and stuff but what I can tell you is it depends. Oral health is a very healthy business for us from growth margin as is OTC and some of the other categories are a bit lower.

**Jo Walton (Credit Suisse):** Two questions, please. You have talked about switches being important in the OTC market, so as you look to 2020, how much of a contribution to the overall market do you see switches being and is that higher or lower for GSK? A good example might be we have just seen Viagra go OTC in the UK, I believe you have the rights to Levitra. Is that an area, maybe not in the UK, but is that an area that you would be looking at?

And second, if you could talk a bit more about private label; I think we are all incredibly aware of the power of private label in the US. Perrigo investment presentation slides, we can all see that; how is private label developing in other markets? Is it something of increasing importance and competitive pressure here in Europe as well?

**Brian McNamara:** First of all on switches, we have said that we do at least one switch every five years. We switched *Flonase* in 2015. We also switched *Flonase Sensimist* which was *Veramyst*, our Rx -brand, earlier this year.

We have a switch pipeline and a capability. We don't talk about that pipeline externally, but we have active projects and I am going to ask Richard to maybe just comment on how we are structured and the capability and where that focus is.

**Richard Slater:** Around 80% of the global value of switch is in the US and that's where a lot of the capability is. We have put an expert team, taken from the best of the the outside, of Novartis, and of GSK in place. They are there to create that pipeline, and then deliver the projects with the categories in, so we do have a number of active projects.

Clearly nothing is easy and risk-free in this space and I think switches have slowed in recent years as an industry as those things get a little bit more challenging and maybe more lower hanging fruit comes, but we are really confident in our capability. We have the industry-beating track record in switch, certainly in consumer healthcare. So yes, we continue to push and we are committed to that target of at least one every five years.

**Brian McNamara:** Things like *Flonase*, we switched in the US – with a big bang. We have also switched now in Spain where we have gotten a 35 share in year one, we are switching in Russia, so there are a lot of other switches that are happening, it's just the US tends to be the visible one.

On *Levitra*, I think at one point GSK may have marketed *Levitra*, but it's not our brand, it's a Lilly brand so that's not something we have access to.

From a private label perspective, the dynamic is interesting, it's really two-fold. If you think about the OTC business where it's an active ingredient-based business so *Flonase* for instance has an active ingredient, Perrigo can go and make that and deliver that to the market. It tends to take about 30% of the business. Everything we compete in the US has private label. We are still growing those brands. We get the one-year effect.

Interestingly enough, in places like toothpaste, in the US and globally it's less than 2% of sales and that's because, depending on what category you are in, it's not so easy to just do the technology because it's about flavour, it's about scent, it's about feel, it's about the clinicals, it's about the business and it's about the benefit that we deliver and it's about the innovation pipeline. So on toothpaste we have not seen private label be a big impact.

Outside of the US private label isn't such a big impact in many of our brands in OTC. Take *Voltaren* for instance, there are generics in pharmacies, but because they are sold in pharmacies and pharmacies tend to be locally owned and there is regulation which means

one pharmacist can only own four pharmacies in many countries like Germany and Spain, it's very difficult for private label to get traction because there's not a major retailer that does it, so private label impact on our OTC businesses outside of the US is actually relatively small. It's more generic stuff and it doesn't tend to get as much traction.

Catherine Farrant, M&G Investments: Some of us spent the morning across the street and saw obviously the investments you are making in your Consumer Shopping Labs and it still seems to be very bricks and mortar retail focussed which is obviously the majority of your sales today, but I have heard you talk about certain product categories that are probably a better fit for e-commerce like weight loss or smoking cessation.

How much at this point, if any, are you actually investing in product development specifically for e-commerce and how much are you doing not just on data analytics but more on that consumer shopping for online versus bricks and mortar?

**Brian McNamara:** Yes, that's right – great question. I have said in the past, and it's true, just a comment on that. In the e-commerce space, while it's opportunity because maybe barriers of entry are lower, for us, it's also a key opportunity for a player like us. For instance in our US business we have what I would call non-strategic brands like *Benefiber* which is something that we don't drive from a global basis which is a fibre supplement that actually has a point of difference versus Metamucil is doing incredibly well in e-commerce, as is *Alli* which is something that we haven't really invested in, we are seeing that is doing well and we also see that our smoking franchise is really doing well on e-commerce, so we need to be agile enough to drive things on capability.

As we build new Shopper Science Labs, one in New Jersey and a year ago or so we have actually put in digital labs, so we are also investing in that capability. Obviously bricks and mortar capability is still where 98% of our business is. It's not the growing area so we are also investing in those capabilities as we go forward, absolutely.

**Tobias Hestler:** Can I just add two small points. One is I think you asked about certain categories which could be interesting. One example would be when you think about denture care, so Poligrip and what's really important is that if you have dentures, you don't feel comfortable going into a store and asking what you should do. That's a typical category where we really work on the digital space to first in search, but then follow the search up with sites and with apps and with tools where we educate about what is available and educate the customer. Then the next step is how do we link these to opportunities to buy these things and that is something that is really important that we build scientific

information for the users and in this case you have users that tend to be a little bit older that use this.

The other piece is we have created some product bundles that can be sold online because one issue you have is how do you ensure there is no direct competition with your bricks and mortar. One way to do this is creating bundle packs and then we are working through that on how we build the capabilities so that we can support that. Now sometimes it's easier because you shrink wrap something into a pack of five, but that's also important in that channel.

**Brian McNamara:** And then the last point that I didn't address is the question on R&D and how we are thinking about that in R&D and what products specifically are for e-commerce and it's not only pack size and packaging and other things that we would adjust to make sure it's right.

Obviously all of this is about a balance of driving scale and being nimble enough and agile enough to react to the consumer needs, whether it's e-commerce or it's local competition in India and China.

Peter Verdult (**Citi**): Thanks. Just a few questions. Brian, just on China could you just put some numbers and just walk us through where we are with GSK Consumer in China and what your expectation or strategy there is?

Number two for Richard, just given your experience in the industry over the years, is it fair to say that delivering innovation now is much tougher than it was five or ten years ago especially when you think about the brands you are working with now or is that unfair?

And then lastly Brian, if you wanted to be a bit cynical you might conclude that Pfizer and Merck KGaA have decided to exit consumer now when they can see lots of willing buyers and maybe a return to profile that's less attractive than before given all the issues we've talked about today; private label, Amazon, innovation. Is that fair or how strongly would you push back to that view?

**Brian McNamara:** Let me answer those first two and then pass it to Richard for the first and the third.

China, it's a couple of hundred million pound business for us. We have a good business in China in the sense that we have *Contac* and *Bactroban* that are considered local China brands. We have launched *Sensodyne* there and it's doing very well. Unlike India which is a business of scale for us, we have more opportunities in China and we are thinking about that quite a bit as you can imagine on how we can accelerate growth. E-commerce in

China is exponential. We are doing very well in e-commerce in China. We have a deal with Alibaba where we are helping drive our business, but to be clear, it's not where we want to be and it's a place where we are focussing.

On the question of Pfizer and Merck and the cynical view of they are exiting it because maybe the values will go down, whether it's headwinds on the markets. I think there are two things; if you look at our business it's £7.5 billion or roughly \$10 billion of business. We have a business of scale and we saw what scale can buy us. We saw it in the synergies of eliminating almost all of the smaller sales force in countries throughout Europe, Latin America and Asia or what it has done for our ability to drive procurement savings on media and agency, so we have seen that. These businesses that are being divested are a bit sub scale, , so the decisions they need to make is "do we invest to build scale or do we get out of the business". That would be my view.

We said the categories, and at least from the vantage point where we sit in the categories and market footprint we had roughly 4% market growth the last couple of years, this year it's more like 2%, next year it will be more like 2.5% to 3%. This is not an imploding industry or category, I think there's still some healthy growth and I think we can deliver above market growth. It's a strategic decision, I guess, of what business you want to be in or not.

**Richard Slater:** Not everyone may agree with me on this, but I would say absolutely not, it's not harder; it's just changing investment. We need to be flexible and adapt to that, and see the opportunities.

I talked about the 160-year-old brand that still has opportunities. Most of our categories have great penetration opportunities, unmet needs so I think there's a lot to go at. You can always cite certain regulations getting tougher and low hanging fruit may have gone in certain situations, but actually if you think about the depth of consumer insights we're getting now, the level of data that we are able to get, the whole digital opportunities and the opportunities in connected innovation, what we are being challenged on by the local competition in emerging markets. I see all of that as opportunity, and Consumer Healthcare is ripe for innovation, because it's not necessarily as easy to do in FMCG but a lot of the consumer benefits aren't yet delivered because maybe it's been a bit more tough.

I'm really challenging myself; I think there's still a lot we can do and a lot we can innovate on and I don't think we should let ourselves off the hook by saying it's tougher or it's getting more difficult; it's just changing.

**Brian McNamara:** I got the 'One' sign, so one more question.

**Question:** Yes, just a quick one for Richard, I suppose. You've come from Reckitt, so I wondered if you would just outline what you think the differences are in terms of the approach to consumer R&D at Reckitt versus here. And if you think I suppose a sense that's out there is that it's probably no coincidence GSK has done really well with *Sensodyne* for example, which is an expert-driven product rather than a kind of pure play consumer brand which is more the common cold and 'flu space. Do you think that's related to the approach that GSK Consumer has historically had to R&D in terms of focussing on science and real differentiation as opposed to kind of more consumer-focussed bells and whistles-type differentiation?

**Richard Slater:** It's getting on for four years out of Reckitt now so it's a dangerous place for me to comment on in terms of what's going on there right now or their approach now but it's true for any company, the sweet spot in the industry is to have the right science differentiation and real product benefits with really strong marketing, consumer go to market capability, so that's what everybody is aiming for. It's just how strong you actually are on that and how you are able to deliver.

I really see advantages for GSK in terms of the scientific and technical excellence combined with all that capability that's been strengthening over the last couple of years. I think even brands in other organisations. Take Gaviscon in RB, a very strong expert and science-driven model, I think it goes across *Sensodyne*, *Voltaren*, I think a lot of the really successful brands in Consumer Healthcare are built on the fundamentals of great science, expert endorsed, combined with great commercial and consumer marketing. That's the model I think that works and I think we are set up great to do that.

**Brian McNamara:** Okay, thank you very much. I really appreciate the time to present to you our business and answer all your questions. I guess we have a group going to the Shopper Science and Consumer Sensory Lab and a group that will be going home. Okay, great, thank you very much.

[Ends]