

## **GSK Consumer Healthcare**

**Friday, 21 September 2018**

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

Welcome back. Hopefully you found that educational and it gave you a sense of how we approach R&D, Consumer shopper insight and partnering with our retailers. Now we are going to get into the presentation part of the agenda.

I am going to take you through an overview of the business, the industry dynamics and trends, our strategy and how we drive performance, and then Marc will take us through the digital approach, and Richard with innovation.

#### **Cautionary statement regarding forward-looking statements**

This is my favourite slide in every presentation I give. I think you have it on page 6 of your deck, so I assume you will have read it!

#### **Global Leader in Consumer Healthcare**

Just as an overview of our business, we are 25% of the GSK Group revenues. This is a business with attractive returns, like cashflows and improving margins. Strong portfolio of brands, and the portfolio is really broken into two areas. One is traditional, over-the-counter medications, OTC products which makes up 50%, the other 50% is what we call healthcare-focused FMCG products. Competitive geographic footprint: even if you exclude the India nutrition business, which is currently under strategic review, 35% of our sales are in emerging markets going forward.

We created this business in March 2015 when we brought together the Novartis OTC business and the GSK Consumer Healthcare business. We integrated that business over the next two and a half years, we over-delivered the £400 million of synergies that we had committed externally. We delivered on our margin improvement, albeit we started in a very low place, from 11% in 2015 to 19.4% at the half year, and we have delivered solid top-line growth over that time.

Then we have strong and increasing capabilities. You had a bit of a sense of that hopefully this morning, and you will get more of a sense as we go through the presentations today.

#### **Leadership positions in key categories and segments**

If we look at our business, we compete in a £135 billion market, and we think about the business really in two ways: where we have global scale and leadership and where we have regional strengths and regional leadership.

On the global leadership, in our OTC business we have the No. 1 position globally in respiratory, No. 1 position globally in pain relief, No. 3 position in digestive health. In Oral Health, we are the No. 3 position globally, but importantly, we are No. 1 in what we call Therapeutic Oral Health. Why that is so important is that Therapeutic Oral Health is really the premium end of the oral health business, and in the toothpaste business where we are addressing real consumer issues and needs, like sensitivity, gum health and denture care.

Then we have a nice skin health business where we have some regional strengths, brands like *Physiogel*, which is a derm brand, and has a really strong position in Korea, in South East Asia, and Nutrition where we are No. 1 in India, and that's the business currently under strategic review.

### **Global leader in OTC and therapeutic oral health**

These are our two largest markets, the OTC market and oral health market, and of the £135 billion, it's most of it. There are two very different dynamics in those categories. In OTC, it's very fragmented, the top five players are under 20% of the overall business, and Oral Health is much more concentrated so the top four or five players are over 65% of the business. And you can see that we are No.1 in the OTC business globally and we are No. 3 in Oral Health, again with that strong No. 1 position in Therapeutic Oral Health.

### **Consumer Healthcare Trends**

I think Consumer Healthcare is in a perfect spot, given the macro changes that are happening with the industry. We know consumers around the world want to take more control of their health. We know that the emerging middle class is growing at an extremely rapid rate, and the ageing population is increasing, half a billion more people will be over 60 by the year 2030. Importantly, we believe there is huge opportunity to still meet unmet consumer needs in the industry.

A great example for us is, three years ago, in 2015, when we switched *Flonase* from Rx to OTC. At the time *Flonase* was a \$5 million business for GSK that had been genericised the year before. Within 12 months, we had created a \$200 million business in a very competitive allergy category. Richard will take you through some more innovations that we think are really nailing it for our consumers.

### **Industry dynamics**

These are some of the industry dynamics we deal with. There are sources of short-term variability. Seasonality can either increase growth rates or lower them in the category depending on if you have a shorter or longer cough/cold season, or more severe or less flu season. The same goes for allergy, we have big businesses in both, so we can be impacted in the short term by those dynamics.

Switches I talked about. When you switch from Rx to OTC it drives tremendous growth in the categories in which we compete. It is usually followed by a private label entry two or three years later, at which point the business takes a hit, and a year later from a new base, it will start growing again.

Then the emerging market dynamics. We have a great emerging market footprint, as I said. Mid-term/long term, we believe this is the place where we need to be, but there are courses of short-term variability. Certainly, the Goods and Services Tax in India and demonetisation in India impacted us, so that's something that happens for a year and we come out and grow again.

Then the emerging trends, Marc is going to talk to us later. We think that digital is a phenomenal opportunity, and one we can take advantage of. eCommerce is a challenge, but also an opportunity. We believe there will be winners and losers in that space, and we think we are positioned to win – and Marc will talk through that a little more. We are definitely seeing an increase in local competition, an increase in quality in local competition, and we are addressing that also. Richard will talk a little bit about that in some of the innovation that we are doing to deliver on those needs.

### **Our Consumer Healthcare priorities**

If you step back and look at where we compete, the portfolio we have, the dynamics, this is our strategy. It's very, very simple. We're about meeting the everyday healthcare needs of consumers by building consumer preferred, expert recommended brands, differentiated by science and insight-driven innovation.

Three very clear priorities, lined up with the company: Innovation, Performance and Trust.

### **A winning strategy for growth**

The ambition for the business, myself and my team, is about delivering sustained above-market, top line growth, while delivering aggressive margin progression, and we think we have the right plans and strategies to do that. I will take you through those.

We are going to focus on the performance priorities and the innovation priorities today. Let me get into that.

From a performance perspective, we have five pillars to our performance priority. I want to take you through how we approach brand building and how we win with shoppers, customers and experts, so I'm going to go a little bit deeper there.

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

From a strategy perspective, we have seven power brands. The seven power brands are all in those global categories, where we have global scale. They are brands that have a global footprint, have higher gross margins and where we have a right to win. Obviously driving these brands helps drive our top line growth, and also helps our mix and our margin improvement, and you can see some of those brands, like *Voltaren* which is the No. 1 topical analgesic in the world, or *Sensodyne*. We've talked about *Theraflu* which has a good position here in the US and No. 1 position in places like Russia.

Then we have 12 core brands, and core brands are more local in nature. We have some businesses that aren't quite as global in scale but are very important to key local markets. These are also good businesses where we have a right to win but we are much more agile and able to compete on a local basis. One example would be *Eno*. *Eno* is a digestive health brand, that has the No. 1 position in India and Brazil, and we have been able to drive tremendous growth there. *Tums* is another example. That is our digestive health brand in the US. You saw a little bit of *Tums* as you went through your tour today. This is another great business where we've been able to drive growth.

The combinations of power and core brands is really where we drive 90% of our growth across the portfolio.

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

I want to take you through two examples of how we drive the growth and where we've been very successful.

The first is *Sensodyne*. *Sensodyne* is now an over £1 billion brand for us. As you can see, we have been able to grow it at 11% CAGR over the last 10 years, more than double the market. It's a business that's 50 years old – think about that! A 50-year old brand, and still able to drive this kind of growth. I think that's something really unique to Consumer Health and the consumer businesses.

We believe we have more to go on *Sensodyne*. To just give you a data point, a third of consumers around the world suffer from sensitivity, but only a third of consumers around the world treat with a sensitivity toothpaste. What we have focused on with *Sensodyne* is how to drive penetration of the sensitivity category.

The way we have driven this growth over that time period is really in three ways. First is innovation, having really insightful consumer innovation that delivers on unmet need. Richard will take you through an example of *Sensodyne Rapid* in a little bit. *Rapid* is a sub-brand that we have launched in 80 markets around the world in the last 12 months, and it has driven growth everywhere.

The second is expert recommendation. We know that 70% of trials on *Sensodyne* comes from the recommendation of the dentists around the world, so we invest heavily on the science and the clinical and the material fields to get our dentists and healthcare professionals to support our brand.

Third, it's about world class communication and connections with consumers. In *Sensodyne* we have a very efficient global model that allows us to create the asset at the center, and we deploy that in markets around the world. We then take them and amplify and execute in the local markets.

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

Another example – and a very different category, and the numbers look amazingly similar but they are all real – is *Voltaren*, another brand we have been able to grow double digit over the last 10 years and more than double the market, over £600 million brand for us. It has been the fastest growing of the top ten OTC brands for the last number of years, and really while it's a very different category, the success model is the same.

It's about innovation, although the pace of innovation tends to be different in OTC businesses. For instance, we launched 12 Hour first in 2011; *Voltaren 12 hour Extra Strength* we are still launching in our last market in 2018 because of the regulatory timings. Very different to *Sensodyne* where we launched in 80 markets in the last 12 months, but still drives the growth. Richard will take you through an innovation we just launched in the 'No mess' cap that we are really excited about coming up.

The second is expert recommendation. In this case, it's not the dentists, it's the pharmacists, and then third is the same model that helps us drive world-class communication and connection by having a very efficient global model where we take the assets at the center and deploy them out to the market.

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

Obviously building brands is key, but the other thing that is extremely key is winning with shoppers, customers and experts at the point and at the moment where those consumers and shoppers make the choice to buy our brands. This is a very, very big focus for us.

I have already mentioned that 70% of trials for *Sensodyne* comes from expert recommendations, 70% of our OTC brands globally are sold in pharmacies and drug stores. So this capability is very key, we call on over 400,000 dentists in over 80 markets around the world. We publish 30 abstracts on our clinical and our science on an annual basis, and obviously we provide our salesforce with the information that they need and the clinical data they need to be able to get dentists to recommend our brand.

We are the No. 1 recommended brand for sensitivity in 80% of the markets we compete in around the world.

Improving salesforce execution, again on the pharmacy salesforce, we have over 4000 sales people around the world globally, and we call on pharmacists. It is an interesting dynamic because this is calling on a pharmacist eight times a day. This is not the key account model, it's very much a 'feet on the street' model. So we have a global CRM platform that we have deployed around the world on our dental salesforce and our pharmacy salesforce, that really helps us drive the execution and the consistency of the performance across pharmacists. And we see very strong recommendation numbers on our top brands from pharmacists around the world.

Business partnering with retailers is key. You've seen a little bit of how we do that with key accounts in the US and our shopper science lab. We're very focused on joint business planning and how we can create a world for our brands to drive overall category growth, so we can win with our retailers. Then distribution management is also really key. In some markets, our go-to-market model is through distributors.

The reason why this is so important is because our go-to-market model really varies everywhere around the world.

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

You can see in the US, a market you are very familiar with, this is a mass market market. In the end our products are sold everywhere, grocery stores, pharmacies, drug stores and mass retailers. Top six customers account for 70% of our sales in the US, so obviously the capability of joint business planning, category management and driving overall growth is critical.

In Pharmacy, greater than 50% of our sales in Germany go through pharmacists. Almost 100% of our OTC business goes through pharmacies, and in Germany, like it is in many places in Europe, a pharmacist needs to own a pharmacy, a pharmacist can't own more than four pharmacies, and OTC products need to be sold in pharmacies, so this is a feet-on-

the street model, and execution in the pharmacy every day is the difference between winning and losing.

Then in India, we cover 800,000 stores directly, but we have a distributor model that we are able to manage, or we have very tight control over, that allows our reach to go to four million outlets throughout rural India not only for oral and nutrition brands, but actually the most distributed brand we have in India is *ENO*, which is our digestive health brand which has the No. 1 position.

I took you through a bit of how do we drive demand, how do we drive our brands and how do we drive the growth in brand building, winning with shoppers, customers and experts. Before I go to Marc, I want to take a step back and say how does that all come together, and how are we confident that we are going to deliver, not only that above market growth, but also drive that margin progression that we are very committed to.

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

On this chart on the lefthand side, obviously we need to invest in our brands, we invest in innovation, invest in the capabilities of our people, technology and infrastructure. If we make those decisions well and we make the right decisions, we will drive that consistent above market growth, we will generate cash, it will allow us to drive margin accretion and invest again.

The key is, we need to generate enough to be able to drive the margin accretion and keep investing in the business. To do that, we have four pillars in our strategy. First, net revenue management. This is all about pricing, gross-to-net management, promotional spending and driving mix.

Second is cost and cash discipline. This is enabled by zero-based budgeting. We are doing zero-based budgeting. As I said earlier, we formed this business in March 2015. The integration actually didn't end until Q4 of last year. We did a great job, we over-delivered synergies, but this was the time to step back and now look at our cost base again and ensure that we have our costs in the right place, so our plan is to drive obviously discipline in our cost base and use that to drive incremental margin but also invest in our business.

Strategic resource allocation: I talked about power brands and core brands, we are also very clear on our country segmentation, we are very focused on making sure from an ROI perspective we are investing in the right areas to get the best returns for the business.

Last is supply chain efficiencies, driving down the cost of goods is an important part of our strategy. When we started this venture in March 2015, we had 32 plants. We have announced the closure of five plants, we have sold another plant. We are continuing to drive

that and drive those efficiencies. We have reduced from 250 third party manufacturers to 150, and our objective is to get to 100, and we have simplified our portfolio by reducing our SKU count by 30%. This is an area we are continuing to drive.

We believe we do this well. We are very confident that we can deliver on our objectives for the business.

### **Delivering sustained above-market growth with strong market progression**

Obviously, the commitment we have made externally, that you have all seen, is a margin of approaching mid-20% by 2022. You can see the progression of margin over the last few years. Obviously, we were in a very low place when this business came together, but we have seen really healthy margin progression, and we are very confident we have the plans in place to deliver the commitment we have made which is approaching the mid-20% by 2022.

Now, I will pass it over to Marc to talk through our digital strategy and approach.

### **Seizing the digital opportunity**

**Marc Speichert**

**SVP Digital, GSK Consumer Healthcare**

Good morning, everyone. My name is Marc Speichert, I am the Chief Digital Officer for GSK Consumer Health and you might wonder, what does a Chief Digital Officer actually do? When I was at Google, GSK was actually one of my clients and I put Team GSK in place while I was there, and what was evident when I was at Google interacting with GSK was that there was a clear push to really seize the digital opportunity.

What was also evident was that similar to a lot of the other packaged goods companies that I was looking after, there were lots of functional silos sitting in the marketing organisation and so the opportunity as I came in was to really break down the silos and assemble lots of disparate functions under one roof. So, we brought in insights and analytics, we brought in content, we brought in eCommerce, digital innovation, media, all under one roof, and our ambition, in partnership with our markets, is very much to reinvent what marketing is all about in the digital world. The intent of the next couple of minutes in my presentation is to show the progress that we've made over the last 18 months and the fact that we feel very confident about really maximising and seizing the digital opportunity.

### **Seizing the digital opportunity**

Digital is really a fundamental catalyst for fundamental marketing reinvention. I think if you look at all the different elements of the marketing mix, they are being turned upside

down. If you think about creative and content, if you think about media, if you think about retail and if you think about innovation, which are all the different facets that a marketer typically touches, they are being turned upside down because of digital.

I will just call out one of the facts on this slide which is around media. In today's world, roughly 50% of all media is digital, and I think this will continue to shift. To use an example like in the US, a lot of consumers are now watching YouTube still on their phone but also on their TV, and so what we are seeing is the blurring of lines between what we historically called offline and online, and so we need to make sure that we reinvent the function like media internally and with our external media partners as well to really maximise that opportunity and be equipped to maximise the opportunity.

What we have done is we have brought in lots of new experts within GSK over the last 18 months. We've brought in experts in areas such as search, such as problematic, social media, very importantly I will come back to it in terms of understanding how we do media on pure players or e-retailers and all of that is enabled by a whole bunch of new people that we hired in what we call digital analytics roles which really enable us to understand what are all these new digital channels and what is the ROI of those and how do we maximise that mix moving forward.

### **Building more meaningful consumer connections to fuel brand growth through data driven marketing**

Our ambition is really to become the best data-driven marketer out there and I think it's critical for two reasons. The first is because data is a fantastic enabler for us to be much more efficient and effective and just become, quite frankly, smarter marketers, so that's the first piece and I will describe that a bit in further detail.

The second piece is if data is used right, we do think that data can do good, right? Very recently after joining GSK I went to the Cannes Advertising Festival in the Health section specifically. The festival recognises outstanding creative work and one of the winning campaigns was the campaign to target parents of children with Down's syndrome and the insight was that a lot of parents are very disarmed because they have lots of questions and they don't have answers. By mining the data this campaign was very powerful actually; it created 127 videos that answered all these questions and so for me it was a great example of a campaign that was leveraging data in a very powerful way, and just showcased that if data is used properly you can do good with data. So great inspiration and again why we think that this is such an important agenda for us above and beyond the efficiency and effectiveness that data can provide.

We are doing lots of benchmarking as we have this ambition to become best in class, and so we are partnering with a company called L2. L2 does an audit and looks at all the different facets of the digital agenda from content to eCommerce to media, and then comes up with a digital IQ score and looks at it across different companies. We are pretty much middle of the pack with our peer set, and actually recently we just got results back and in the US specifically, which is obviously one of our most mature markets, we are now leading the pack, which is quite exciting.

But we are not happy with that just yet. Because things are changing all the time, we are going to be very humble about that and stay on our toes, but we really want to make sure we are benchmarking ourselves with the industries that are pretty much cutting edge in this space that have nothing to do with our business *per se*. We are looking at industries like beauty, for example, which is quite advanced in areas like digital for example.

### **Our priorities**

What do we need to do to become the best data driven marketer out there? We identified over the next 12 months what we call '3+1' priorities, and what I will do over the next couple of slides is unpack each of them.

At the high level it is about really first upgrading the ROI. I touched about that a few seconds ago and I'll not go into too much detail. The second is on boosting eCommerce. The third is about really reinventing how we do content and creative in a digital world. Then we have the +1 which is really making some disruptive bets and doing lots of small test and learn because in the end we want to make sure we are the disrupter versus being disrupted ourselves.

Let me start with media. We have a pretty good understanding through the marketing mix modelling that we are doing across the majority of our markets on what media works and what media doesn't work. When digital is done well and when we have the proper capabilities, what we are seeing is that digital has significant high ROIs versus what we are seeing on traditional media, specifically TV. So we have been shifting again where we have to have our capability quite aggressively in our media mix towards digital.

But the reality is lots of others have done that, right? Lots of other companies are shifting more to digital, so what is our competitive advantage in that space to really be best in class on that media scenario? Our belief is that it is about technology and making the right technology choices to equip ourselves to deploy those digital media dollars in the best possible way.

That technology is actually what we call the Google tech stack and I'll explain what that is in a second, but what the Google tech stack is, it's powerful because we are actually the first consumer health company to have signed a direct deal with Google on their tech stack and we are just on a very short list of other consumer packaged goods companies that have done a similar deal.

Most companies are still working through agencies and so have that intermediary between that tech stack. The challenge with that is it creates a lack of transparency and also it doesn't give you the ownership of that data and given what I just shared with you in terms of the ambition, we thought it was absolutely strategic for us to own that data.

What is the tech stack, you might ask? I'll just try to explain it in simple terms. There are three key components to the tech stack. The first is around how do we make sure we gather all the data that we are generating through interactions with consumers online, right? If someone spends five seconds on the *Voltaren.com* site versus someone that spends five minutes, that has a different value and making sure we are capturing that, so then we can show different messages and obviously deploy media differently based on those data points. The first area is you want a data warehouse that captures all the different data points that we are gathering.

The second, and I will come back to it in the content session in more detail, is about how do we create assets of scale, right? Creating one asset or two assets, it's not good enough in a world where we want to drive personalisation, where we need to create ten, 50, sometimes 100 variations of assets, so at the same time our non-working media budgets are now inflating so we need to be very smart in terms of through technology and the tech stack we are producing assets of scale.

And then the third area is around obviously once we have the data, once we have assets and variations of assets, then how do I use media effectively. What the tech stack offers is algorithms that are very smart through an auction system to buy the best possible media at the best possible cost. The reason why it's called a stack is because you have those three pieces of technology that are coming together, and again, that's where we are feeling we made a smart investment by partnering with Google and enabling that.

### **Voltaren Germany: Dynamic and sequential ads**

Let me give you an example in terms of how that comes to life with *Voltaren* which is one of the brands that we have in the pain category in Germany, probably one of our most sophisticated markets in terms of deploying the tech stack.

There are two different types of ad, so let me explain a bit what that is. First there is the dynamic ad. So again going back to my example in terms of someone searching around hand arthritis on Google.com, I would have that data point that would enable me then to actually serve an ad that links back to that specific condition that the consumer searched for. Again, as you might imagine, the ROI on that particular ad is much greater than if I am just serving up a generic pain ad, so that's step one if you like, and we have been able to scale that quite effectively across our markets that rolled up to the tech stack.

The next step which is a bit more sophisticated is what we call the sequential ad where you are still leveraging that data point around what has the consumer searched for, and therefore how do I imply the condition that might be most relevant for him or her, which is the first piece right here.

And then because I know exactly that I've served that ad because of the media buying a component of the tech stack, I know that the consumer has seen this so let me take him or her to the next step of the consumer experience journey and now let me tell them 'Okay, you have this condition implied by what you searched for, so let me explain to you why *Voltaren* is the best product to address that', so that's the second step of the sequential ad.

Then the third piece once I know I've checked the box on now the consumer understands what is the product proposition, now how do I make sure I close the loop and really entice them to finally buy through an offer or just leading them to a retailer? That's an example of how we enable the tech stack. It sounds relatively simple but it actually requires real infrastructure and that's what we have been building over the last 18 months.

### **Our priorities: boost eCommerce**

The second area is around eCommerce, and I think as Brian mentioned, eCommerce is still a little bit small for us from a penetration perspective. At the category level it's 2% for what we call OTC categories that *Voltaren* falls under, and it's 5.8% estimated at the category level for fast-moving consumer goods, so that's where Oral Health, for example, was falling which again intuitively kind of makes sense.

If I have a cold obviously I want to get something immediately and I would probably want to run to the pharmacy next door to get that product right away, but obviously as you all know, retail is transforming dramatically and turning upside down, and therefore we want to make sure we are tripling down on eComm now so at the inflection point we want to make sure we have the capability and we have the knowhow, and we are able to maximise that opportunity.

## **Boost eCommerce: Building best in class executional capability that drives brand growth**

So again let's just bring it to life in terms of what have we put in place to really be the best in class from an eComm perspective. There are three key pillars that we have been pushing through and scaling across the various markets that we are partnering with, so I will take you through each of them.

The first is what we call Findability. What is interesting is a lot of consumers are actually shifting away from traditional search engines such as Google to retail or pure player sites, specifically in areas such as product search or brand searches, so for someone who searches *Sensodyne* or 'toothpaste' on Amazon or Walmart.com, you want to make sure that you are showing up like you would show historically on a Google.com because that's what the consumer wants to find.

But the reality is that there's lots and lots of SKUs in those retail environments, so how do you make sure that your brand emerges, and how do you build that muscle and understanding around search because search on a pure player retailer works very, very differently than a search on Google, so again I mentioned a bit earlier how do we bring talent in-house that really understands that and how do we surround ourselves with the right agency around us to make sure that we are winning on the Findability front?

In terms of conversion which is the second step, now someone has clicked on *Sensodyne* Rapid Relief, now they get on the product description page and they are ready to buy. What we know is absolutely critical is just around that product description page, that virtual shelf with the proper information that could really make the difference on that final moment of conversion.

That could be something around different product features and bringing them to life, showing a 'how to' video, for example, or just talking to the science that is behind the product. And again, think about it almost like creating a mini site on the retailer and providing that rich content that we know really boosts conversion and eventually encourages the consumer to click. We are able to very precisely monitor whatever the pieces of content and which ones have the high propensity to then drive the conversion.

And then lastly performance. It's interesting, a lot of our retail partners, the Walmarts and the Amazons of the world, are really becoming media platforms because they have lots of eyeballs. Fifty million consumers every day go on Walmart.com so there's real scale on those platforms and obviously the retailers are seeing the opportunities to monetise that, but it's great for us as well because that means that we can very effectively drive media.

We have an example here on Amazon where we would have a *Nicotinell* ad, for example, which is our smokers health business, on the home page of the retailers and obviously drives traffic effectively back to the product description page. What we are seeing again if you have the capability and if you are doing it well, then the ROI coming out of the marketing mix models on what we are spending on retailers or pure players is highest out of all the different digital tactics that we are putting in place.

### **Alli growing share through eCommerce activation**

Here's an example of one brand that has implemented these three principles really well. Interestingly enough it's not one of our power brands, it's a brand that has been struggling for a number of years and that has really turned around by implementing these different principles and so this is a brand that is in the weight management business called *alli*.

It's very adequate for eComm because of its price point and the repeat purchase of the product; 30% of that brand is sold on eCommerce and the brand is actually up 42% year-to-date so there is a real momentum. It's exciting for us because it shows that even on brands that historically we wouldn't have necessarily been able to push, eComm and digital all present great opportunities.

But of course we need to make sure we are pushing our power and our core brands. *Sensodyne*, for example, has been quite successful on Amazon. It's growing three times faster online than it does offline, and actually grows significantly faster than some of our competition, specifically Crest and Colgate. It looks like some of those fundamentals that I've described in terms of Findability, Conversion and Performance are really paying off if you are rigorously implementing them.

### **Our priorities: efficient content**

Content - we are in the business of brands. That's the beauty of a consumer packaged goods business and therefore our mission from a marketing perspective is to build brand strategies. The only way to do that is to be great at content and creativity. As I mentioned a bit earlier, the way you do content and creativity in the digital world is very different than what you needed to do a couple of years ago. Creating one 30-second ad is no longer enough and, as I said, there are two important disrupters I guess in that space.

One is again we need to create 50, 100 variations of assets, so what does that mean for us in terms of the infrastructure that we are building?

And second is the attention span of consumers is getting shorter and shorter. When we meet with Google, we say that the attention of our consumers sometimes is to the same

level as the goldfish, and so again, a very short attention span and so what does that mean from a consumer perspective as we develop creative?

We have borrowed a framework from Google that they call bite, snack, meal, and the analogy is around you can't force someone to have a meal unless you entice them with a bite or a snack at the beginning, right? You can't force people to watch a five-minute video about your brand if you haven't enticed them with a three, five, six-second video to begin with, so that's your entry point in a very crowded space.

Think about it, I am sure many of you have gone on YouTube, many of the YouTube products enable you to skip an ad after a couple of seconds, so if the core of your message comes after ten seconds, the majority of consumers have already clicked out because the platform allows you to do that, so those first couple of seconds are absolutely critical.

I am going to show you an example of *Excedrin* which is our brand which we have in the US that operates in the pain category, which is a very competitive category in the US. Going back to the power insights that Brian mentioned, we have identified an insight which is around the fact that when you have severe headaches or migraines, people around you don't understand the debilitating nature of that condition, so we have created a campaign that we call 'We see your pain' and we capture that in a six-second ad that we put on YouTube and I will show you the ad just now.

[*Excedrin ad shown*]

### **Headache visualisations/GIFS for social platforms: Instagram Stories**

It's very short but does the job quite effectively, but the challenge that we have in the digital world is that six-second ad doesn't work everywhere, right? Every digital platform has its own creative rules and so one of the fastest growing digital platforms right now is not Google, is not Facebook, it's actually Instagram. Instagram is the fastest growing digital platform right now and has its own creative rules.

What we know is that one of the products within Instagram is called Instagram Stories – 100 million users in less than six months – so there's a real attention and what it is, it's consumers using various images and putting them together in what we call a GIF which are multiple images put together, and that's what they are putting out on the platform. Their expectation from brands like us is not to show them a video but actually showing them a GIF as well. We are actually one of the first brands to be an advertiser within Instagram Stories, and you can see that it's exactly the same creative idea in regards to 'I see your pain', but using actually four visuals put together and animated in a GIF format and it's doing very, very well.

## **Digital programmatic video**

Lastly going back to the tech stack in terms of what we are doing from the paid media perspective, just wanting to bring that to life. This is an example here, we know from a data and insights perspective that people who travel tend to very easily get a headache or a migraine because of the hassles that are connected with travel. That's the data point that is in the data portion of the tech stack.

Now I need creative that helps me deliver against that data point, and you can see what that creative looks like and then from a media perspective I need to make sure that I attach the ad to the proper content, so this is user-generated content around people travelling. That seems to be proper context for me to add that piece of advertising and that's exactly what we've done, so again there is the beauty of being editorially or contextually relevant which is exactly what this enables us to do and what the tech stack enables us to do.

## **The special editions: Messaged via social, digital and earned (PR) media**

The beauty of digital is paid, is still very, very important and all these examples were paid media. So we paid money to Google and Instagram to actually put those ads out, but the beauty of digital is that it also turns another area, PR, upside down, and so what we have done is again we used the creative idea and we looked at how can we create a PR initiative out of it, and so we created these limited edition packs.

Some of them are in the back and you can take them home with you, but these are the packs that we have created and we had 11,000 of them selling out within the first day, but what was obviously much more interesting for us is the incredible kind of buzz that it created. The consumers actually started to talk about the smart creative idea and how *Excedrin* is actually understanding them and seeing their pain, and you see some actual pick-up here from celebrities as well that are starting to Tweet about what they were seeing and what *Excedrin* was doing and actually we generated almost 93 million, almost 100 million free impressions that came on top of the push media, the paid media that we have done, so quite effective when you put those two pieces together.

## **Our priorities: spark disruption**

The last bit is about spark disruption which I mentioned at the beginning. We can do one, two and three really, really well which I think will put us at the top of the L2 ranking which is fantastic because obviously we want to make sure we are a sustainable business and that we are ahead of some of the disrupters that we know are around the corner.

What we are ensuring is that we are looking at some of the long tail brands, some of those commercial brands that haven't necessarily been a priority for us in the past, and we

are creating what we call the brand incubator that enables us to take some of those small brands and really push the envelope in terms of what we are doing from a digital perspective. The inspiration for that was what the US Team has done with *alli* in the US, and I showed you that example and the fantastic turnaround story because digital enables you to do that in a very effective way.

### **Bringing the outside in: Digital Advisory Board**

Maybe just to give you additional context and perspective, in order to kind of land that spark disruption agenda and push our thinking into the bold moves moving forward, we have assembled this Digital Advisory Board, and the idea was to make sure that at the enterprise level we had spoken to many different industries outside of Consumer Healthcare to really help us think more boldly about some of the bets that we are doing in the spark disruption space.

I am just going to give you two examples in terms of what is coming out of it. One big discussion we have been having is around the tech stack because as I already told you, we believe that this has been a competitive advantage for us, but what is tech stack 2.0, what does that look like and so we have been partnering with Google on that and really starting to do first-to-market initiatives in that particular space. The Digital Advisory Board has helped us and guided us in the process.

And the second area, and Richard will talk about that in more detail, is how do we redefine how we look at innovation and the Board really helped and pushed us in terms of how we expand that definition and we created what we call the Digital Innovation Hub which Richard will take you through.

I guess just to sum up I think we are incredibly proud about the progress that we've made over the last 18 months to seize the digital opportunity. Success is never final, it's a very fluid world, so the winners today might not necessarily be the winners tomorrow so we are very humble I guess about what we have accomplished. I think we are nurturing that healthy paranoia in terms of what's happening around us, but I think we feel very confident about the foundation that we've built to really deliver on that ambition to truly become the best data driven marketer out there.

Thank you very much and with that I'll hand over to Richard. Thank you.

**Consumer led, science based innovation**

**Richard Slater**

**SVP R&D, GSK Consumer Healthcare**

Okay, thank you Marc. Hello everyone again.

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

I have the fantastic job where I can immerse myself in innovation every day basically, and the way we talk about this is consumer-led and science-based and it's the combination of the two that I think gives us a real competitive advantage here at GSK Consumer Healthcare.

For me, and what gives me the motivation, I think seeing products get out there on to the shelf that really make a difference and are different to what others have done, and seeing the business performance because clearly our innovation needs to work for our sales and our profit. We are always looking to marry the two and I think there is a real sweet spot there.

A bit like performance, we think about innovation as our products, claims, new experiences, that deliver value for consumers and for our business, and we have five key pillars of capability and focus that we believe together allow us to have that advantage. There is no one silver bullet in my opinion on how you win on innovation. It's basically a series of efforts across a number of areas that really come together.

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

I'll bring that to life for you with just a few examples today. The first one, and it's great that you got to go on the tour and see some of this because I think it comes to life much better than on a PowerPoint slide, but actually the facility that you've seen here today is not actually typical, certainly in the consumer healthcare industry. The reason for that is having our Commercial folks, our R&D teams, our Supply teams and our Quality teams together in one facility where you have all of the experiences of the journey you were on earlier together really is quite unique and different, and all of our Innovation Hubs are set up in a similar way.

What that means is day in, day out, people are collaborating, creating, communicating, taking quick decisions and that allows us to innovate at pace.

Here in the US, what you didn't see is we have a fantastic Regulatory and Medical capability and also a Switch Team, and that's our Center of Excellence globally for those functions.

You will see in Europe we have our Oral Health and our OTC Centres of Excellence as well, and what the second piece that is really important here is we took a bet on Emerging Market talent and Emerging Market R&D and innovation when we set up the new business

three years or so ago. We doubled the proportion of our R&D in those markets, and in India and China in particular, we have dedicated serious amounts of capability focussed on innovating for those markets.

### **Scientific and technical excellence**

Now the second key bit, and I would say this is an absolute core differentiator for GSK and also for us as a Consumer business within GSK, which is scientific and technical excellence in all we do, and I really think the brand stories that Brian showed you on *Sensodyne* and on *Voltaren* would not have happened without the depth of capability that we have to innovate, to create differentiated products and to support them really credibly with clinical and claims that experts will believe and recommend as well as consumers.

This has been referenced a few times: *Sensodyne Rapid* launched this year in the US. We start all our innovation with an insight but being really frank probably all of you could come up with the insight here, and I will tell you the smart bit of this innovation in a second, but Brian mentioned around a third of us in this room have sensitive teeth. I am one of them and obviously I am a loyal user, so I am using *Sensodyne Rapid* now. Of course, we would all want relief that really works and works quickly, but the smart piece here really is the science and technology to take a gold standard active - and I will give you a little bit of the science here for a second.

Sensitivity is holes in your dentine which exposes holes in your dentine tubules which means that stimuli actually affect your nerves and creates that pain or that sharp feeling. This product is specially formulated to get to that site very, very quickly, fill those holes and then create a protective layer.

It's also quite a difficult active to formulate from a sensorial point of view. You saw the testing that we do, we have a great tasting product as well, so really smart technology and science against a smart consumer insight on a good brand and we see the results, and Brian talked about how many markets we have launched in. Again that Oral Health Hub that we have in the UK has allowed us to go rapidly to 70 or 80 markets now, and we will be in 100 by the end of the year.

I mentioned about claims as well – proven relief in three days. There were ten clinical studies behind this product and we did all of that in two years, so I was really impressed and proud of the capability of the team now, and I think it's all to do with the technical capability and that collaborative effort out of the UK in this case.

### **Scientific and technical excellence**

Secondly, we have talked about switch quite a bit, so I won't go over things that have already been covered, but I think it's really important to state the capability GSK has is genuinely differentiated here. We are the industry leaders. There is more than 25 years of history of taking products in the US from doctor control to over-the-counter, nine \$100 million+ brands and businesses have been created through that and we talked about *Flonase*. I will just emphasise that stat from Brian because I can't help myself. But taking a \$5 million Rx genericised brand to more than a \$200 million category. And you saw earlier, I hope, that we rapidly changed our labs and our capability here to be able to innovate on that.

Just last year, we launched a follow up to that, *Sensimist*, which is completely unique in the market and we have IP around that. Again, a benefit of being part of the GSK group is we had access to that technology from our wider partners in GSK.

### **Novel packaging, sensorials and claims**

Now I must pause for a second. Our science and technology is great, but it only really comes to life for consumers through the sensorials of our products, claims and packaging, and again I really hope you got a sense of that.

We talked about *Theraflu* Powerpods a few times and I wanted to show the accumulation of that and how it's come together in the latest ad which is just launching right now in the US and hopefully this brings to life the product.

[*Theraflu ad*]

Thank you, Marc and the team for the amazing content there bringing it to life better than I could.

I mentioned about all of our innovation to start with and insight and it's worth just talking about that for a second here. A hot tea or a hot drink, I am sure you would agree, when you have a cold or flu, is the perfect format. It's not always the perfect format from a convenience point of view, particularly when you're sick, so we wanted to reduce that convenience barrier for entry, and we found in the US, in particular, most homes actually don't have a kettle. I couldn't believe that as a Brit - I think you get thrown out of the country if you don't have a kettle!

The second stat that amazed me is if you look at coffee machines around the world you have various types but in the US, 50% have a Keurig machine, so we thought we would combine those insights, and we had a real chance to go for this innovation.

I won't talk about the technical journey because you've heard some of that earlier, but that launch was actually brought forward a full year through some of the iterative approaches that you saw earlier and has allowed us to launch right now. It's too early to say how it's going

with consumers, but the retailer response has been fantastic because it's very new and different for them. And we are really getting great presence I think - Colin on this in the US - and we are very hopeful for how this is going to do with consumers as we go into the winter season.

### **Innovating for our emerging market consumers**

I am just going to shift slightly then. You have heard about a global innovation and two for the US, but we also have a massive opportunity in serving consumer needs in our emerging markets, and with our emerging middle-class consumers in those markets.

We have a good footprint of brands, capability and R&D facilities that allow us to do this, so we just picked the one example here – *Eno*, that Brian mentioned, the number one indigestion treatment in India. It's really a trusted local brand for Indians. It's not some kind of global brand from GSK; it's really known and has heritage in that market and it's actually an Ayurvedic medicine as well.

We have really smart clinical data on this as well which allows the fantastic claim of 'works in six seconds', so for an Indian consumer it's a mixture of heritage, natural solutions but it really works.

Innovation doesn't always have to be an enormous technical breakthrough. Here we have taken a local insight which is still today the most used solution for indigestion in India is Ajwain, which is a home remedy. So we took our natural credentials, our strong claim and added Ajwain to that and it's really making a difference.

Secondly 'Cooling', so it's a nice format and a nice cooling sensation to the product. But in India, heat has a bigger impact and a bigger meaning than simply indigestion; it also in Ayurveda talks about ill-health, similarly it would with traditional Chinese medicine in China, so we are actually hitting a number of touch points with this cooling product. For me it's innovations as well as the capabilities Brian talked about are leading to record growth really with *Eno* in India, so it's driving share growth for the brand.

### **Digital Innovation**

Now that's today's world, okay? We need to continue to innovate really strongly for that but we are also very conscious that all of us are now in a connected world and we are looking for our advice, our solutions, our product treatments and our management of our health and wellbeing in different places than before.

We have created a new capability over this year, a Digital Innovation Hub within GSK Consumer Healthcare. I think what is a little bit different about this is it's a very, very close partnership of Commercial, our Tech Group and R&D absolutely as one team and the second

difference, which is what you might have heard from others, is it's a team that doesn't sit somewhere in a facility completely separately innovating.

The team works with our existing business to drive the culture change that we want to make and the speed, risk-taking, testing and learning approach, and also to innovate and accelerate our existing innovations on our products, on our brands and on our categories, so there are a couple of points of difference there.

What is really exciting about this is it's getting us beyond the product as we think of it today. You can talk about connected devices that help manage, monitor and improve health rather than just treat. If you think about pain relief, to bring it to life, we all probably at some point suffer from pain, virtually everybody in the world does, everybody has their own regime for dealing with that. For people that suffer from pain a lot, it will involve a pill or the *Voltaren* gel, but it also will involve other things. It could be mindfulness, it could be exercise, it could be posture, so there are solutions that people are using beyond the product and we believe we can tap into some of that. That's the platforms and services as well as business models that Marc talked about.

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

Underpinning a lot of that are partnerships and collaborations, and particularly as we go into new spaces like digital, we can't do all of this ourselves. This was a big bet on the capability that Brian and I and others took three years ago to create a much, much stronger external innovation group, and we are really seeing the results of that now. We have increased our pipeline by five times from that external point of view, and just this year we have already signed 30 collaborations or partnerships, so you can see the difference this is starting to make and it's fuelling the pipeline going forward.

### **Delivering strong innovation**

If we sum all of that up, it's creating a really exciting pipeline for the future but I can only talk about the pipeline we are launching now and actually it is already having an impact and we have an industry-leading set of launches this year, so more than 20 first market launches and more than 150 rollouts year-to-date.

We have talked about *Rapid* but we are also innovating our gum health brands and we have actually had three innovations launched in denture care, a category that historically has been quite sleepy from an innovation point of view. We have taken a mature market like Japan, who have launched and executed these innovations really well, and we are driving share growth that we haven't seen recently through innovation in a very mature, competitive market.

These are just examples, of course. It's not all of our innovation. We've talked about *Theraflu Powerpods*, *Otrivin*, *Tums*, you tried the *Chewy Delights*. Did the other group prefer *Chewy Delights*, by the way? [*Half and half*] Half and half? That's interesting – we had 80:20, so it just shows that there are people who have hit the wrong button or there are actually very loyal consumers and people that prefer the original product and love that, and people that want the new, and we need to meet both sets of needs. But our *Tums* innovations around *Chewy Delights* and this year *Gas Relief* are driving again fantastic growth in the US and Colin would agree.

And you heard a bit about *Voltaren No Mess*, so very big innovation in the OTC space, taking an insight that you heard about earlier, not wanting to get the gel on your hands and deal with mess. It was a very challenging project to deliver. I don't know if the guys talked about this but it took a lot of work and iterations, consumer work, technical work and regulatory approvals to get that to market. We are going to be in 20 markets by the end of this year, so that's great, and of course in *Horlicks* and our other brands we are innovating as well.

All-in-all, really proud of what we have created over the last few years and believe we are absolutely world-leading in our industry from an innovation point of view and I hope we have brought that to life for you today.

I am going to pass back to Brian. Thanks.

**Brian McNamara:** Thanks, Richard.

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

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

Listen, I am just going to close it out. Hopefully that gave you a good sense of the business. We have a strong portfolio of brands, very clear strategy, very clear priorities, and I believe that capability and talent should deliver on the commitments we've made both for top-line growth and the aggressive margin progression.

### **Question & Answer Session**

With that, I am going to invite up my team and we will open up for a Q&A.

Alright, let's do it! We have a mic that we will find you. Yes, right there – give your name and where you are from.

**Micky Jagirdar (Ariel Investments):** Thank you. The question I have and maybe if you could incorporate some of the eCommerce component which has been seen in private label a lot more competitive than that kind of competition you referred to previously.

**Brian McNamara:** Yes, great, and I will pass it over to Colin in a second as he runs our US business and this is obviously a big private label business. Essentially what we have seen is not a lot of movement in private label over time, and we have categories in OTC where it can be 30% to 40% of the business and in places like Oral Health where it's very low, 2%.

Maybe Colin can talk a little bit about that and the eCommerce dynamic you're asking; has it had an impact on private label is what I took away.

**Colin Mackenzie:** Yes, as Brian said, private label has been around 40 years in the US in the real world. We have brands such as *Excedrin* that have had private label for 40 years, we are still able to grow that business extremely strongly, so that will continue.

Your second bit on the eCommerce piece, obviously Amazon introduced the private label range very recently, they've just launched that. That is in the marketplace now. We have not seen any interaction of that with our brands from that private label. Having said that, that's an area that is rapidly developing, as Marc said, in all aspects, so we keep an eye on it. We invest in there to make sure that we grow our brands in there as well, but again right now, about 2% of my business is other categories we compete in is in eCommerce.

Again, as I think we heard earlier, for OTCs if you have a headache it's a lot easier to walk down to Walgreens, CVS or a Walmart which are within five miles of most US citizens versus waiting. Eventually the distribution from eCommerce is getting better, and we are investing now to make sure when that happens we are able to take advantage of that going forward.

**Brian McNamara:** Great, thanks Colin.

**Steve Scala (Cowen):** Thank you, I have a few questions. First, from the Novartis side, Consumer under Novartis was a generally underperforming business and it seems to have done much better under GSK, so I am just wondering to what you attribute this. Is it all about scale, is it management mindset, what is it that has made it an underperforming business in Novartis but one that is performing better now?

The second question is when GSK stepped away from the Pfizer Consumer negotiations a few months back, was it all about price or was there something strategic involved, and also if Pfizer does IPO the Consumer business at the end of the year, how would that change your conduct of your business? Thank you.

**Brian McNamara:** Okay, great. Let me talk to the Novartis question. Novartis had a major quality issue at a plant in Nebraska in 2012 or 2011 and I took over that business in 2012, so certainly we had a year that was very, very bad because we didn't have products on the market, and we were able to turn that around and get the business back on track. The business did not perform well, it did not have a good margin when it came over to GSK at that time.

Overall it was a \$3 billion business in a \$60 billion company, and it wasn't a particularly strategic part of the Novartis portfolio and that's why Novartis chose to create the joint venture, and I was very much a part of creating that.

I think at GSK we have a business of scale, we are able to build great capabilities, invest in the business, attract great talent. We have great internal talent that we have promoted through but when we needed to build capabilities like in our digital space, we were able to recruit people like Marc Speichert from Google who seized the opportunities here, so I think it's just a better, more strategic part of the business, and that has enabled us to really do better here.

Quickly on Pfizer Consumer Health, we made the choice from a capital allocation perspective to deliver one of the top priorities that we have for the company which was to buy out the put for \$13 billion and that was the clear choice and that made sense at the time. I have always said when Pfizer was up, 'An interesting business, we are going to look at it' but we have a great business with a great portfolio and we can deliver all our commitments and aspirations with the business that we have, so I am not sure if they are going to IPO or what is going to happen, but they are a competitor today, we compete against them and we will continue as it goes forward.

**Ed Pittman (New Jersey Investment Division):** I have a couple of questions. How far in the future do you think rapid shipping and delivery of goods will be widely available, how do you see that evolving and maybe you don't generally talk about future OTC opportunities, but if there is anything you would highlight there, that would be much appreciated?

**Brian McNamara:** Great. I am actually going to ask Marc to talk about the first question which is what do we think will evolve on the rapid shipping and when that will evolve, and then Richard to talk a bit about our approach to our OTC switch, but you are correct, we won't share any specifics on the pipeline. Marc.

**Marc Speichert:** Yes, I think there are lots of things already happening now, obviously, all the retailers are trying to work on reducing that friction point between the point of a consumer ordering a product and getting it, and that's where we see obviously we are tracking that very carefully because we want to be again at that inflection point that I mentioned earlier.

We are having talks with all of our retailers, obviously with Amazon but also with our traditional retailers to really understand how we expand the conversation from a brick and mortar discussion to an omni-channel discussion, and we have been recognised for that recently. I think Colin and his team in the US have been recognised by Walmart as best in class from an omni-channel perspective but it is really understanding those two pieces coming together that I think will be critical. I hope that answers your question. Thank you.

**Tobias Hestler:** Maybe to add just one small thing to it. It's also a question not about the delivery will probably be possible in an hour; the question is what is the commercial model behind it. Thinking back again that you have a headache or you have flu and you need one pack of *Theraflu* or *Excedrin* delivered which costs you, I don't know, \$10; is somebody really going to deliver and what is the commercial model behind that versus you buying enough volume that it is commercially attractive, so somebody driving to you, and that's the interesting piece we need to see. Is it going to happen? We don't know but we want to be there but don't forget this commercial component in it as well.

**Richard Slater:** Yes and just briefly on the switch question, I mentioned we have a team that's dedicated to this, so what I can say is we have a multifunctional team, Commercial and all of the R&D disciplines. It obviously takes a lot of expertise to make these things happen. They are continually evaluating and scanning and taking forward any opportunities that we think are relevant.

It does remain a high risk/high reward area. I think a lot of switches remaining are challenging. What I think is interesting for the future is technology and the role that might play in enabling future categories, so we are keeping a very close eye there but yes, I can't talk obviously about any specifics.

**Ed Pittman:** A quick follow-up. Do you see a different regulatory environment today versus a couple of years ago with FDA wanting to consider switches?

**Richard Slater:** Certainly in terms of communication and what we hear, yes, I think there are interesting and positive signs so there is progressiveness there. We obviously have teams that work appropriately there and try and set the right regulations for the future and create the right environment for self-care effectively.

We obviously then need to turn that into real projects, real action, so that's the next step.

**Richard Vosser (JP Morgan):** Just following up on the Rx switches, just thinking about your guidance, I presume any Rx switches would be on top of the growth targets, but if you could confirm that, that would be good.

Thinking about the eCommerce and coming back to that, where in your portfolio do you see opportunities and where do you see risks mostly in terms of your portfolio of brands from eCommerce?

And then just the US growth has been a bit lacklustre relative to the rest of the world over the last couple of years, and perhaps you could just talk through how you see the market reinvigorating, what things need to happen to do that. Thanks.

**Brian McNamara:** Okay, great. First to address on the OTC switches, in a year where we would do an Rx to OTC switch you would expect to see higher growth, you would also invest behind that growth and you would hope that would pay dividends for the future. Obviously if an opportunity came we would adjust accordingly on what we thought would happen to the business, so a very fair question.

On eCommerce and on the risks and opportunities and where we see the opportunities, Marc talked a bit earlier about some of these brands that I would say have been non-strategic in the past. We wouldn't be spending a lot of money on *alli* and frankly we are still not but it's a brand that is suited perfectly for eCommerce. We are seeing that in a brand called *Benefiber* we have which is a digestive health brand, *Nicotinell* which is a smoking brand. These are categories where people love to buy online because it's more private and they can get a lot more information. So we are being agile and nimble enough to take advantage of the opportunities as we see them going forward.

I would just say on the risks, it's like anything else and we need to be really clear on our channel strategy and what we are going to do online versus offline so we can avoid price comparisons and things like that, and Colin and his team have done a great job of really delivering that across the portfolio.

That's it. Oh, was there another question that I missed? [*The US question*] The US, I was going to go to Colin for that and you are talking about the US market or US growth? [*Market*] Market, okay. Colin, maybe you can talk a little bit about the market and what you see happening.

**Colin Mackenzie:** Yes, so the US has never been a huge growth market compared to other markets in the world. It's 1-2% per year has been the average typically. Now that does fluctuate. Again, it fluctuates because of seasonality sometimes; big flu seasons, big allergy seasons. It will fluctuate with the introduction of brand new products into the categories, so *Flonase* for us was a great product which helped the category grow and the market grow, but it's usually 1-2% and for us an important piece is that we just significantly outgrow that 1-2% which we have done over the last few years, so it's going to be in that same range going forward and our job is just to make sure we over-deliver versus the category.

**Brian McNamara:** And in our footprint this year, allergy season was actually a bit shorter, less severe, so it looks like it's on the lower end of that 1-2% this year, but as Colin said, it tends to be in that range.

One here – somebody else decide who gets to ask questions. All I can see is the front row and they are getting favoritism so let's go back there!

**David Maris (Wells Fargo):** Thank you. A lot has been said about millennials and how they purchase and that they are less brand loyal, but I would imagine that younger consumers have always been more brand fickle until they get into habits, but can you talk a little bit about whether or not there really is a different brand loyalty among millennials, or is it just where they are shopping is different or maybe just talk about whether that's really a change in the perception of the value of brands?

**Marc Speichert:** The fundamental difference is just the ability to kind of communicate and engage I guess with the younger consumer. That's the critical factor we are trying to crack, so as I was talking through the creative and the content section, I was trying to explain that showing a 30 second ad is no longer valid and we need to entice them into the bite/snack types of content and so that's critical.

I think there is a misconception around that consumers don't want to go into content depth, but again we need to make sure we are enticing them with something and then we get them in. And the millennials are very much functioning that way as well and responding to that, so they look at that *Excedrin* ad, that works for them, they get it, it's immediate and it drives great ROI for us regardless of the age group.

**David Maris:** Just as a follow-up, are you seeing engagement after someone becomes a consumer at that age group? Are they as brand loyal as say ten years ago that a consumer at that same age group would have been?

**Marc Speichert:** I think it's a much more competitive kind of marketplace. So we have now, like in many other consumer packaged goods categories, what we call 'small brands', because the barriers of entry are lower than before. So I would say it's a more competitive environment than before which is why again this spark disruption piece that I mentioned is critical for us to understand how we make sure we are leveraging the portfolio and pushing the envelope as to how we are going to market with some of those brands.

**Brian McNamara:** I have three millennial-aged daughters and they are all extremely loyal to *Sensodyne*, so that's my data point! They will use nothing else, to be honest with you.

Next question – up here. The front row is showing up very strong, by the way!

**Kurt Martinson (Locust Wood Capital):** Just a question about the power brands. Would the criteria you have to go up internally for what distinguishes the power brand, and has that changed over time? Have the seven power brands, have some been promoted and demoted since you originated that label?

**Brian McNamara:** First of all, the criteria is very much what I talked about global scale, right to win, higher gross margin. That's critical. We started three years ago when we created this business with those seven power brands. As we see other brands potentially come into that, we will be very flexible, but at this point these are the seven, and then you can see we have the core brands which allow us to be more nimble and local, because we have to win on a local level too.

But I would also say all power brands are created equal. Our model is flexible. I happened to share with you the two most global of our brands in the sense that *Sensodyne* and *Voltaren* are two brands we can create the asset at the center and deploy it in every market in the world.

Cough/cold, on a brand like *Theraflu*, is actually not quite as global because it's *Theraflu* in Russia, it is *NeoCitran* in Canada, it's *Theraflu* in the US, it's *Beecham's* in the UK, and the regulatory environment is much more specific. It doesn't allow us to have the same product everywhere. We have a global model that is very efficient, but we are also flexible enough to make sure we compete as some of those brands are different.

**Question:** The margin expansion opportunity that you outlined, the percentage point a year, can you just talk through where you see the sources of the expansion over the next number of years? How aggressive in your mind is this target?

Somewhat related, with the tech stack, as you were describing it, it is still relatively early days. If you see an opportunity to spend more to develop it faster, would you forego some of the margin goals that you have? Also on the tech stack, the very component algorithms and using the data and the assets that you developed, is that proprietary or is that stuff that you just purchased from Google?

**Brian McNamara:** Let me to go to Tobias first on the margin question, and then we'll go to Marc. But I would say that independent of this specific investment question on tech stack, if we have opportunities to grow the business and deliver long term value, we are going to figure out how to invest in that, and the margin commitments are obviously through 2022, and we have a roadmap to get there, but we will capitalise.

**Tobias Hestler:** The margins objective and guidance we have given, we absolutely want to deliver, so we are fully committed to that. Now, is that a straight line? It's not, because as Brian mentioned, you might have a year where you have a bigger launch, so it is going to be a bit of a roller-coaster. You might have a year where you get a bump in sales, but you are going to invest in heavily because you launch a new brand somewhere, it's just going to lose money usually for two years, maybe three depending on where you launch it.

I think we will ask for annual guidance, and give you guidance on what are our plans, and how we will see the long term, five-year mission is clearly there.

The second element is – and Brian mentioned our programs of how we free up cash – and we designed these programs in a way that they can free up enough cash and profitability in order to re-invest in the things we want to invest in, and we will only give up the room and the flexibility to make the investment in all the things that Richard described, really keeping investing at the top quartile of the industry in R&D. We have always done it, I think it has been the key driver of growth, and we will continue to do that. Also investing in the digital side and being able to experiment. Experimenting usually costs money, and some things will fail, others will win, and we want to have that flexibility to do that.

**Marc Speichert:** Let me elaborate a little bit on the benefits of the tech stack from the efficiency perspective which I didn't get to in the presentation. I think we identified two US cases this year that we really worked hard against, which were one, viewability, that means in digital at times, a lot of reversion that I know was viewable to the consumer that makes that impression, so the tech stack enables us to make sure that both the usability rate are best in class, and to the levels that we would want them to be.

If you look at CPMs, traditionally, that is the cost per millions of impressions, and we actually moved from CPMs to viewable CPMs because in the end they are backed by a super cheap impression, but it is not viewable, it doesn't really matter, right. Even in some of our biggest markets, we have seen dramatic reductions on the viewers of CPMs that we implement the tech stacks, a lot of efficiencies there.

The other people that are on frequency, we want to make sure that we are bold on frequency in our consumers, and ensuring 20 impressions to the same consumers, the same ad, so the benefit of actually consolidating, we used to have what I would call 10 or 15 different tech stacks before we did the consolidation through the global tech stacks. Because the other folks that do tech stacks, having seen them not go well and having seen lots of them, I think the global tech stack is probably the best, again because of that nature and having those frequencies, and that's where we made the bet. But consolidation of all these, the simplification of just having one tool, enables us to actually do the frequency management much more effectively than if we had multiple, because then you lose sight of where those frequencies are being distributed.

That's is the first part of your question. I think the second part of your question about being proprietary in nature. Everybody can make their deal with Google tomorrow. I think where we build proprietary and competitive intelligence, I think is leaning to one tool. We will know the tech stack better than others, and you feature that in all the time to the tool. That leaning in to one tool, I think we have to make sure that we want to understand it better than anybody else.

Then it is really bringing in some of those expertise and capabilities internally. We have people and specialists that we have handpicked, lots of them carrying single goals, that really understand that tech stack, and then the agency that executes the buy, we can ask the agencies questions on making sure they are truly leveraging all the great benefits that the tech stack has. That is how we are building competitive advantage around it.

**Steve Scala (Cowen & Co.):** I understand why Consumer is important to GSK, but it's less clear to me why GSK is important to Consumer. What advantages do you gain by being part of GSK other than arch to OTC switches which are pretty rare anyway? What advantages are there relative to shared services or penetration of the emerging markets and so forth?

**Brian McNamara:** Let me give you just one example and bring it to life. I talked a bit about the global CRM tool that we have across our salesforce and specifically across our dental salesforce. HCP detailing is obviously a core capability and competence of

our pharma group. They spend a number of years developing a fantastic tool that was really optimised. Last year, we basically took that off the shelf, and rolled it out across 80 markets. It wouldn't be something that Novartis as a standalone company could ever afford and a company of our size. So that kind of capability comes. I would also maybe throw it to Richard because there are some opportunities in the R&D space that we take advantage of as we work with our R&D colleagues.

**Richard Slater:** Yes, I think particularly the one where you said switch is the more obvious one, but now that technology is pervading incredibly strongly into healthcare, I think the scale that GSK has to make partnerships and get on that future wave is fantastic. It gives us collaboration opportunities, whether that's partners or investments they might be making in an earlier tech that could make its way into healthcare. That really kind of innovative edge of what we are doing in R&D, and there are some fantastic opportunities, mainly around the technology. Technology is rolling healthcare.

**Brian McNamara:** And maybe I'll ask Tobias to talk about the other advantages.

**Tobias Hestler:** Yes. I think you mentioned the other thing which is really what I would describe as back office, where I think we are on one global SAP platform that we share across the Group. If Consumer would be self-standing, we would have to roll that out independently. It could be a massive expense. We run Finance completely in Shared Service, Procurement is another area, so I think they are intact with the same story. I don't need to worry about IT infrastructure, that is provided by a central team where we pay for it, we buy it from, but it is clearly more efficient doing that as a global player in the world. I think it is fully integrated I would say on the non-customer-facing, non-research or development-facing side, so I think I see a lot of benefit and it makes my life easier to see it go, just another world where I had to take care of all these things. I think it's more efficient and gives us time to focus on the business and what makes a difference with the consumers in the end.

**Steve Scala, Cowen:** Just a follow-up, in markets where the lines between pharma and OTC are blurry, say in Brazil, you didn't mention that. Is that not an advantage to having those? A drug company doesn't need a consumer business to be successful in those markets?

**Brian McNamara:** Yes. There is the opportunity of collaboration in markets like that. I didn't talk about Brazil specifically, but there are markets around the world where we're on a frontline salesforce perspective where we work with our pharma colleagues. Brazil would be an example where we have a pharmacy salesforce and where our Rx colleagues also have pharmacy as part of the business that they call on. We actually work together and

make sure that we get the synergies out of that. It happens in Italy and other markets around the world, but we really are focused on those, it is not trying to force collaborations where they don't make sense. I lived in a system at one point where it was all about we have to do things together and I think we have stepped back. Luke as Head of the Pharma business and I talk quite often. Where it really makes sense, we want to go and capture some of the synergies because some of them exist there, but I wouldn't say it's core to our success in those markets.

**Steve Carty (AFC Advisers):** Just to follow up on R&D, could you give us a sense as how you look at R&D investment in terms of allocation across the projects that you're looking at. Could you also give us a sense of how that has been trending as a percentage of the Group's divisions or revenues over the last four or five years?

**Richard Slater:** Perhaps Tobias would take the second one. We do track R&D as a percentage of sales, which is relatively public, so we know how we benchmark as Tobias said, and we want to have that healthy level of a lead organisation and the investment we need.

Bringing the two businesses together gave us a great chance for synergies of course, and we now look to maintain it at that healthy, just above 3% of sales level. Then how do you spend that very efficiently? We do look hard at how much of our money is available for innovation. That is one of the primary things we look at internally.

Then you have a portfolio of innovation, right? We have gone very, very hard over recent years, making sure we spend in the right places. More than 90% of our investment is on the power and core brands. Whilst we are agile, whilst we will do things occasionally to really make sure we get growth, we are over-investing now and we are getting those returns with the scale of the innovation, like the *Rapid* example.

Then of course we look at the FTEs and the spend that we have on those areas and we are quite dynamic in the sense that if we are getting an area that is really delivering those, delivering more resources and would deliver more, we'd look to shift that with portfolio reviews. Bringing in tools like MPV as well as our projects to make sure that we are really backing the right portfolio tools. We will do that portfolio screening exercise periodically as well, to just check that we are moving in the right direction.

All those sorts of trends are definitely tracking the right way after the big change we made three years ago with the new company.

**Tobias Hestler:** Maybe as Richard explained before, I think we have started a much more external partnership. In addition to the P&L impact that you are seeing, there is

also quite a bit of cash that we are investing in terms of the P&L partnerships. There are certain things we believe we have to partner and get the skills in, so I think we make these decisions as we see fit and as we see where there is incremental value to be had for the future.

**Luis Cortez (Crosby Advisors):** I have two questions. One is on the margin side and understanding that it may not be a straight line. Can you give us a sense as to how much of the margin expansion is a mix change of core and power brands, that have higher margins versus other operational efficiencies?

The second question is, you talked about the growth in the US that is 1-2% in terms of likely growth. Can you also give us a sense as to what you're up in the emerging markets in terms of market growth?

**Tobias Hestler:** For us, it's a mix across all the P&L lines. I see that in order to get to our margin objectives, we need to get efficiencies really across all the lines, and that comes from the programs that Brian described and mentioned, that it's also a mixed component, both from a product and a country point of view.

Then by the way it changes also year over year, because you have a year where you have a bad cough and cold season in Europe in markets that are extremely high margin, and the mix changes. Unfortunately, given that part of our portfolio is seasonal, things tend to be a little more bumpy, but I think we need all these elements to deliver. So it's mix, it is cost efficiency across the lines, supply chain efficiencies and then across the net side, clearly the net revenue management that we need to deliver.

All these programs that I said before, we designed them in a way that free enough cash that we can invest in the business but also deliver the margin accretion, because for us it's really important that we do both, and we don't forego, for example, innovation or other things, because that goes with the easy things to cut, and that is absolutely not what we want to do. We want to stay fully invested in the business and keep investing, while delivering the margin accretion.

**Brian McNamara:** I will take the global question on the market growth.

We have said what we see on a global basis is we expected this year to be 2-3% market growth and that is what we are pretty much seeing through the first half of the year. What we see in Europe is a very similar growth profile, 1-2%. Then in Emerging Markets, it is hard to classify in Emerging Markets because there are issues in Saudi Arabia with economics, and Brazil does better in some years than in others, and India GST is probably more in the mid-single digits, and that is how we get to the 2-3% range on a global basis.

**Question:** When you think about benchmarking in your business to some of your peers, your margins are a little bit lower than others, particularly with Reckitt. Are there some structural issues on the mix that are the reasons for that margin gap or longer term do you see a path towards that?

**Brian McNamara:** First of all, on where others report externally, what we do see – and I'll put Reckitt aside for a moment – in our consumer health competitors is that in other big companies, the report margins that are not necessarily apples to apples, because they are not fully loaded. Because we were a joint venture with Novartis, every cost that is required to run this business sits in our P&L. We have maintained that post buying out the Novartis JV. It is a fully integrated business, there is no cost at the center supporting the business that isn't being charged to us. Sometimes when we look at other P&Ls in our competitor business, it's hard to compare.

Obviously, Reckitt is a fully integrated company, their margins are slightly higher. They report very high margins on the health care business, it is hard to know how that plays out, and maybe I'll ask Tobias to comment just overall where we are from a margin progression, and do we think there are any structural issues.

**Tobias Hestler:** From my point of view, I don't think there is a structural issue. That is why we went out and made the market commitment we made, because we were absolutely not happy where we were. We were industry leading as you heard this morning in terms of sales growth, in terms of innovation, in terms of our size in the business, we were present everywhere, but we were somewhere in the middle of the pack on profitability, and that was clearly not where our vision is. One key reason why we went out is that we made this commitment to approach the mid-20s margin in the next five years. What I said before is, it's really important for us that we make that commitment, but it is also to invest in the business.

Again, very committed to getting there, and as I said, it is not structurally, it is pulling all the levers that need to be pulled, and I think we will see the improvement coming across the P&L. It is not one big thing that you need to change to make it happen.

**Brian McNamara:** No more questions? Great! I want to thank you all for your time and commitment to do this. It was great for us to have the opportunity to show you a bit of our capabilities, how we think the business, our strategy, our ambition and aspirations, and also give you the chance to meet some of our leadership team.

Thank you for your time, and hope to see you in the future. We have some lunch outside for you, and of course, your goodie bags, so I fully expect that you will all be loyal *Sensodyne* users after you have the experience, if you haven't already!

Thank you very much. We all appreciate it, and the team and I will be out there if you want to have any further chat.

[Ends]