GSK PLC

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James Gordon: Good morning. I'm James Gordon, JPMorgan European Pharmaceutical analyst. Today, I got the pleasure of introducing the GSK presentation. You're going to hear from GSK CEO Emma Walmsley.

We can have a breakout after this in the Borgia Room which is behind you. With that said, thank you very much for joining us today. I'm looking forward to the presentation.

Emma Walmsley: Right. Good morning, everybody. Thank you, James. Thank you all for joining us at the GSK presentation here today.

I'm here to update you on the progress we've made since I announced my priorities as GSK's new CEO last summer. Of course, before I get into all of that, the usual precautionary statements apply for some of what I'm about to say.

A strategic strength for GSK is our balanced business profile beyond pharma for sustainable growth returns and cash flows as well as leading positions in HIV and respiratory in pharma. We've now built 12 leading businesses in vaccines and consumer healthcare, protecting from and preventing illness and keeping people well.

In vaccines, we have leading positions in meningitis and, hopefully, soon, in shingles. In consumer healthcare, we are leaders in respiratory, pain relief, and oral health. All three businesses now benefit from a global footprint capable of accessing growth in established and emerging markets.

I'm pleased to say our reported operating performance for the first nine months of 2017 has been clearly on track with growth in all three businesses and good group operating margin accretion. The overall 2020 outlook remains.

We are confident in delivering the key objectives we've set out, but there are changes we need to make to our company to achieve them and to position us for stronger growth post 2020 especially

within pharma, our biggest, most profitable, highest return business, and most specifically, of course, in R&D.

We are all very focused on maximizing value from recent and new launches and are making the right choices and changes as data reads out over the next few years to strengthen our pipeline for the 2020s and beyond. This is key, but it's worth reiterating that post-ADVAIR, GSK is not facing another major patent cliff until the mid-2020s.

All three businesses, of course, need to perform to improve cash generation for greater flexibility to invest in our future growth. We're bringing more discipline in capital allocation across and within each business, focusing much more geographically, focusing more on key assets both in R&D development and in commercial execution, and focusing our manufacturing footprint investment too.

We are very focused on driving cultural change, remaining a company that is underpinned so fundamentally by values and purpose, by focus on patient but introducing more pace and performance edge. To get this done, it's absolutely critical we have fewer priorities. Across the whole company now, we have just three -- innovation, performance, and trust.

Innovation comes first. I'm going to spend most of my slot today speaking about the progress we're making here. I must say, obviously, as we all know, to deliver on our priorities and lead the culture change, what matters most is the caliber of our team. In our top roles, we are bringing proven track records, new capability, fresh perspectives, diversity, and leadership strength.

I've already made three critical external executive team appointments most recently with Hal Barron. Dr. Hal Barron is our new chief scientific officer who started just last week. Luke Miles is head of our pharma commercial business and Karenann Terrell, who joined us from Walmart as our chief digital and technology officer.

In fact, since my appointment, almost 40 percent of my executive team's direct reports have changed, for the most part, promoting some fantastic internal talent but also recruiting great people from the outside, from within and beyond our changing industry. We're very focused on having the very best talent possible in the top 370 critical roles for the company.

We're aggressively building a winning team to drive change at scale and at pace. I expect that to continue. To innovation, innovation that matters, that's differentiated and of scale impact. I'm going to focus my time on pharma. I've said that's the biggest priority. I can't stand on stage here

today without talking about this exceptionally exciting and important vaccine launching right now.

SHINGRIX, a new standard of care with over 90-percent efficacy in the prevention of shingles. We have a preferential recommendation from ACIP. That gives us a target of over 100 million patients in the US alone. This includes 20 million from revax, over 40 million of a new 50 to 59 age cohort -- now, we have differentiating recommendation here too -- and around 40 million of the unvaccinated 60-plus age group.

SHINGRIX is just a phenomenal opportunity to grow our US vaccines presence and prevent a painful and debilitating condition that will impact one in three of us in this room. It's differentiated. It is of scale, but it is also going to take a bit of time to build reimbursement. It's very important to remember that a shingles vaccination requires a proactive choice on the part of the patient, unlike pediatric vaccination.

This is a consumer launch too in many ways, something fortunately we know how to do. In due course, we'll be starting our direct-to-consumer campaign to build awareness. I have no doubt that SHINGRIX has the potential to be GSK's largest vaccine. It's going to be a long-term growth driver for the company, remembering that vaccines are durable assets without the volatility of patent cliffs.

To innovation in pharma, let me remind you here with this slide of the new focus and sharper early prioritization we set out in July. This focus matters because our resources at GSK have historically been spread too thinly. We need to bet bigger on fewer, truly differentiated medicines with the potential for sizable peak year sales.

We're targeting around 80 percent of spend, firstly, in two existing therapy areas where we already lead -- respiratory and HIV infectious diseases -- then also in two potential therapy areas -- oncology and immuno-inflammation. We're at this stage prioritizing 16 assets in our pipeline.

Hal is going to continue to shake this shortlist with some programs undoubtedly accelerating -- perhaps like BCMA -- others, potentially falling away or indeed being added as data reads out and informs our decisions and also through business development, which is absolutely why the community here at this conference is so essential for us to participate in.

We'd also identified in the summer a need for materially improved development governance and processes. We've already seen a step change in commercial input since Luke joined. Hal is going to accelerate these improvements over the next few years as he leads the rebuild of GSK's

pipeline for the next wave of growth in the 2020s and beyond.

For innovation in respiratory, where we are world leaders, we're in good shape. GSK has the leading respiratory portfolio. This is still growing, $38 billion global market. Starting in COPD, we have the best molecules demonstrating consistent superiority over competing therapies. We have an excellent inhalation device with ELLIPTA.

It is easy to use and means a single patient experience as they move between products. We are also very excited about the launch of TRELEGY, the first closed triple, once-a-day, daily therapy for chronic obstructive pulmonary disease. Our Impact [and Fulfil] data shows superiority of triple therapy over duals with significant reduction and exacerbation effect against BREO, ANORO, and SYMBICORT.

We've submitted an NDA to add this data to our label. We've also submitted for publication in a leading journal with this landmark study. We're also leading the way in respiratory biologics, and in asthma, have seen rapid uptake of NUCALA compared to XOLAIR, for example. We're very confident of NUCALA's continued highly competitive profile.

We have extremely strong consistency. The data across our study is in terms of reductions of exacerbations, unlike competing agents on the market or in development. We have a wealth of data and patient experience as the only biologic severe exacerbating asthma with proven effect for one and a half years. Already, approximately 20,000 patients have started on therapy in the US alone.

We continue to see significant growth opportunities for these markets and these products. We clearly see NUCALA as a medicine with broad potential across other eosinophilic diseases. Recently, we had the US approval in eosinophilic granulomatosis with polyangiitis. We have also filed for use in COPD in the US as well.

Moving to HIV, our second current core therapy area. This is still a high-growth market. We have the number one core agent in dolutegravir although, no doubt, things are about to get more competitive. There are over 500,000 patients worldwide on a dolutegravir-based regime. We have the strongest set of data, clearly unmatched with five superiority studies in a very broad patient population.

Again, GSK still continues to lead the way in innovation in HIV with the introduction of two drug regimens. The approval of JULUCA in November marks a new era for HIV treatment for the many

patients seeking to reduce the number of medicines they're taking over, happily, a long lifetime of living with HIV.

Two drug regimens are gaining acceptance and were already included in treatment guidelines both in the US and in Europe. The important point here is that we also have more two-drug regimens coming through, with 48 week GEMINI data in mid-2018 on our dolutegravir 3TC asset for naive patients and the phase three long-acting cabotegravir and rilpivirine in the second half of 2018.

Now, I just want to update very briefly on one of our potential new therapy areas, oncology, although it's really, really important here to emphasize that we're still at an early stage. Decisions are going to be made on how we may proceed here as new data reads out over the next few years and as Hal and his team review the portfolio in much more detail.

Today, what I can say is that we have an early and innovative pipeline. We're looking at these three areas -- immuno-oncology, cancer epigenetics, and, indeed, cell and gene therapy. We have eight programs in the clinic and several more in preclinical studies. BCMA is the lead today and has presented striking early efficacy data at ASH last month and will be moving into pivotal studies later this year.

With breakthrough and prime designation already granted, we do have the potential to launch this drug in 2020. We are prioritizing its development. We have clearly made some good progress.

Sorry. Can I go back a slide, please? Can I just go back a slide, please? Hello? Well, anyway, thank you.

I just got a sneak preview of our capital allocation, which hasn't changed, but we've clearly made good progress on innovation, our first priority, as I've said. We're ambitious for important new launches that are going on right now. We are putting new discipline into our pipeline governance. Our focus is on strengthening and advancing this pipeline, but it is going to be a multiyear journey. It is long-term work.

I am truly delighted with the team we'll pulling together to make it happen. You'll hear plenty more from them all later this year. We've also made progress on our performance and trust priorities. For better performance, we are aggressively reallocating resources to those areas best able to deliver growth and returns with much more focus on new products and far fewer geographies.

In terms of products, we're focusing our resources on the launch of SHINGRIX, TRELEGY, and dual therapies in HIV, plus we're accelerating investment behind NUCALA and in consumer, prioritizing high-margin, high-growth power brands.

We're also much more disciplined in our approach to priority markets. This has been most needed in our pharma business where the US is now our number one focus among 10 priority countries to which resource and budget will be redirected.

In emerging markets, which remain an important part of our business, we have a restructuring program that's underway also in pharma to improve growth, profitability, and sustainability while continuing to secure and ensure access to our medicines. It's here we're prioritizing key markets though and moving to an export model in many smaller countries.

We're going to fuel and fund our growth through new cost, cash, and capital discipline. We're progressing well on the incremental billion-pound saving program announced in July including the restructuring of our supply chain with 12 site closures now announced since 2016.

A simple portfolio of products is also critical to improve the performance and reliability of this supply chain. We're already existed over 140 brands. We will have a renewed performance focus on procurement with the move now to a single procurement team for the whole company under new leadership recruited externally to drive efficiency and standardization across the function.

We're actually on track to reduce the number of suppliers we use by another 30 percent. In pharma, most specifically, we've put in place a much simplified leadership structure under Luke. We're reshaping our commercial operations to support all of these changes. As I've said, across the whole group, we are very focused in building our world-class teams.

Lastly, in terms of trust progress. This is a very long-term agenda, but three brief comments to make. Firstly, the quality of our interactions with key external experts is critical for the support of our innovation and in science. We've made some changes to our medical engagement policies to keep helping improve that.

We are very, very proud at GSK of the leadership we've shown for the long term in global health. We're also working to focus our efforts here for more impacts. We just recently filed an NDA for tafenoquine in malaria. If approved, tafenoquine would be the first new medicine to treat the prevention of relapsing malaria in over 60 years.

Lastly, on employee trust, this is also improving with strengthening engagement scores. We now run a post check with our employees every six months since we all know that the kind of changes we're talking about can be hard. And engaged and motivated employees are the most important driver of performance.

I'm going to finish on capital allocation. I know this is a big focus for our investors. I want to be clear. There is no change to our capital allocation framework or our dividend policy as I laid out at Q2 last year.

Our main priority is, very clearly, to invest in the business with pharma and its pipeline, our number one priority. Including in that, some business development, to strengthen that pipeline so that we can ready the company for its next wave of growth. Then we have investments potentially in the consumer put option should it come, which would strengthen our position in consumer healthcare.

We would expect it to be accretive to EPS and free cash flow and then further investments to expand capacity in our vaccines business, which we do expect to be a meaningful growth contributor for the group. Nothing is going to compromise our priority to invest in the business to drive long-term growth and returns for shareholders.

Our second priority is to deliver cash returns to shareholders through the payment of dividends. We understand how important regular dividends are for many of our shareholders. Dividend payments will be determined primarily with reference to free cash flow generated after funding the investment necessary to support our growth. We are all very focused on rebuilding our dividend cover.

Given all these, we've indicated we don't expect an increase in the dividend in the near term and expect to pay 80p both for '17 and '18. After which, we will return to declaring dividends quarterly. Lastly, we will use cash for business development purposes, almost scale M&A, that obviously being dependent on the right kind and a very strict returns profile.

To wrap up, we're confident in delivering our 2020 outlooks of mid to high single-digit EPS CAGR after navigating a probably challenging 2018, assuming the genericization of ADVAIR. We're making good progress across all three of our businesses with exciting new launches underway, with SHINGRIX, TRELEGY, and the first of our dual therapies in HIV. A truly world-class team is being put in place.

Our focus across the whole of GSK is, resolutely, on delivering our innovation, performance, and trust priorities to provide a platform again for long-term growth to the benefit of human health globally and sustainable shareholder returns. Thank you very much for your attention. I think we're now going to Q&A. Thank you.

[applause]

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