GLAXOSMITHKLINE

Q3 2017 RESULTS
PRESENTATION TO ANALYSTS

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Emma Walmsley (CEO): Good afternoon everybody and a warm welcome to this call in which we are reporting our third quarter results. Hosting the call with me today is Simon Dingemans, our Chief Financial Officer, who will talk you through the detail of the results in just a few moments.

As I said when I first spoke to you at our Q1 results earlier this year, Simon and I will be joined by different members of our management team on our quarterly results calls, so I hope you will find this helpful for your questions and it will give you a sense of the GSK team as well as different aspects of the company.

With us today are Patrick Vallance, Head of R&D; David Redfern, Chairman of our HIV business and Chief Strategy Officer; Brian McNamara, CEO of our Consumer Health business, and Luc Debruyne, President of GSK Vaccines.

Before I hand over to Simon, let me make just a few comments on our progress this quarter. In terms of performance, in this quarter we have seen continued progress with sales of £7.8 billion, up 2% a constant exchange rates, and up 4% actual rates. Total earnings per share for the quarter were 24.8 pence up 49% at actual rates, up 46% at constant exchange rates. Adjusted EPS was 32.5 pence, flat for the quarter and up 2% year to date, both at constant exchange rates, and we remain on track for our 2017 guidance of Adjusted earnings per share growth of 3-5% constant exchange rates.

We have set a dividend of 19 pence this quarter and continue to expect to deliver 80 pence for the full year.

Sales growth in the quarter reflected continued momentum in our new products across HIV, our meningitis vaccines *Bexsero* and *Menveo*, and in Respiratory from our *Ellipta* portfolio and *Nucala*, our biologic medicine for severe asthma. Adjusted operating margins benefited from targeted cost savings and integration benefits, particularly in our Vaccines and Consumer Health businesses.

In Consumer we delivered an Adjusted operating margin of 20% after exchange benefits of 130 basis points. This demonstrates the growing operating leverage in this business and that we are on target to deliver this percentage on an annual basis by 2020 at constant 2015 exchange rates.

Within Pharma, our largest business, the benefits of cost savings and the more favourable mix have been offset by continued pricing pressure, which we expect to see carried through into 2018, as well as investments behind our upcoming launches and in progressing our pipeline.

We continue to make progress on our improvements to cash flow generation. We have seen an increase in free cash flow of around £370 million to £1.6 billion for the first nine months of the year versus the same period last year.

As I set out at Q2, a key focus for the company is to maximise value from innovation. This starts with several material new launch opportunities, two of which have received approval since July: *Shingrix*, our shingles vaccine, which was very recently approved in the US and Canada, and *Trelegy*, a new three-in-one respiratory medicine for COPD that was approved in the US last month.

We are optimistic about the scientific profiles and long-term commercial opportunity for both of these assets, although they will both take some time to build prescription coverage. *Trelegy* is the only once-daily single inhaler triple therapy to be approved for COPD. Headline results from the landmark IMPACT study show its superior efficacy in reducing exacerbations when compared to two dual therapies, and we shall publish the full data in due course.

In Respiratory more generally, we are building momentum in our existing inhaled portfolio and *Nucala*, our biologic, is also performing well. We plan to file for an additional indication for *Nucala* in the treatment of COPD following some positive Phase III results.

Overall, we are confident we have the products to reinforce our leadership in Respiratory, which is important as pricing pressures continue and we look to offset the probable generic competition to *Advair* that will arrive in the US next year.

With *Shingrix*, we have specifically designed an adjuvant to generate a strong and sustained immune response. It is the only shingles vaccine to achieve efficacy of 90% or more in adults aged 50 and over. We received approval last week and the ACIP vote is happening as we speak.

In HIV, our innovation is focused around two drug regimens. First, dolutegravir plus rilpivirine, second dolutegravir plus lamivudine, which, very importantly, will also be for naïve patients, and third, the long-acting drug cabotegravir plus rilpivirine. You will remember that we filed the first of these in July alongside a priority review voucher, and we expect a regulatory decision on this asset in December and, assuming it is positive, we plan a rapid launch.

Elsewhere in the pipeline, in Oncology, BCMA was granted prime designation by the EMA for multiple myeloma and we expect to present positive new data for the asset at an upcoming scientific conference.

In addition, we have exercised our option from Adaptimmune to develop the T-cell receptor immunotherapy, NY-ESO, in multiple tumours.

Over the next three years, as we said in July, we expect significant data from our pipeline. These results are going to determine our R&D investment decisions and how best to generate value from these assets, which may include potential options for partnerships or collaborations.

This quarter also saw the arrival of Luke Miels and Karenann Terrell, both of whom bring deep expertise and new perspectives to my executive team. They will be leading efforts in two key areas of the Group where we need to make improvements to our performance and our competitiveness: Pharmaceuticals and digital data and analytics capabilities.

I wanted also quickly to mention our performance in the Dow Jones sustainability index, which was reported this quarter. It is a well-recognised and credible assessment of 4,000 companies and I was pleased to see us progressing to a leading position within our sector: improving the Company's track record on sustainability and trust over the long-term will remain a key focus for us.

In conclusion, we are focused on strong execution of our current and upcoming portfolio and we are making changes and some progress on the strategic priorities I set out in July of innovation, performance and trust.

With that, I will stop and hand over to Simon, who is going to talk you through our quarterly performance in greater detail.

Simon Dingemans: Thank you, Emma. As a reminder, our earnings release provides an extensive amount of information, so I will focus on the major points: our expectations for the remainder of the year and some comments on next year, and comparators to take note of for your modelling.

Overall, the Group's results for the quarter were in line with our expectations and we remain on track to deliver our 2017 earnings guidance for Adjusted EPS growth of 3% to 5% at constant exchange rates.

Our results reflect continued strong operational delivery and further investment behind the key future growth drivers in each of our three businesses.

The commercial environment remains challenging, especially in our inhaled respiratory business, where we face a highly competitive market that we expect will result in continued pricing pressures through 2018 and beyond any *Advair* generic. Additionally, our Consumer business has seen a material slowdown in the global growth of its key categories to a rate of around 2% this year, compared to the 3% to 4% or so that we have seen over the last few years. While in the medium term we see some improvement from this year's levels, the outlook for our categories is probably now more on a global trend of 2% to 3%, given the greater pricing pressures, competition from new entrants and tougher emerging markets that we are seeing. This is what we factored into the revised outlook for our Consumer business that we gave you at Q2.

Despite this market backdrop which is affecting particularly our Pharma and Consumer businesses, we believe it is the right thing to do for the long-term, to continue making investments across the Group and to drive share for our new products in this more competitive environment. In addition, we are stepping up investment and preparations behind three important launches that we are planning in Q4. Two have already been approved – *Trelegy*, and *Shingrix*, our new shingles vaccine – and the third, our first dual treatment for HIV, is in the final stages of regulatory review and we expect a decision in December.

Given the more recent dynamics in the sector, it will take some time to build managed care coverage for *Trelegy* and *Shingrix*, but we believe these two new products represent significant innovation that will benefit patients and we remain confident in their long-term significance for the Group. While less material financially, the launch through 2018 of the first dual, also introduces significant new innovation to the HIV market and strengthens our competitive position. Lastly, we also continue to invest in our pipeline, particularly for Pharma, following the progression of a number mid- and late-stage programmes.

Now looking at the quarter in a little more detail, as usual, all my comments will be at constant exchange rates, except when I specifically refer to currency. Starting with the headlines, Group sales up 2%; total earnings were 24.8 pence per share, and Adjusted EPS at 32.5 pence.

On currency, now that we have passed the anniversary of the Brexit vote, the main step change in the value of Sterling and related exchange impact is much lower than in the last few quarters. This quarter, currency resulted in a tailwind of 2% on sales and 3% on Adjusted EPS. If exchange rates remain in line with the rates at the end of Q3, we would

expect the full-year tailwind from currency to be approximately 5% to sales and 7% to Adjusted EPS.

Looking at our total results, the gap between total and Adjusted EPS is quite a bit narrower than in the last several quarters. This is primarily because in Q3 we did not have the large accounting charges for the revaluations of contingent consideration and the put options, which were required in previous quarters to reflect upgrades in the Sterling values of those related businesses. This quarter, the majority of the difference relates to charges for the restructuring we discussed in July, including manufacturing site rationalisation and a charge related to the decision to terminate our rights to sirukumab. The rest of my comments will be on our Adjusted results.

Turning to the top line, this quarter's growth of 2% was driven by new product momentum in Pharmaceuticals and a pick-up in growth in the Consumer business. We are also pleased with the progress in Vaccines, with another strongly executed flu season, but one facing a tough comparison against a very strong quarter last year.

Sales within the Pharma business were up 2%, despite a drag of around one percentage point relating to the Aspen and Romania disposals.

In Respiratory, sales were flat as growth of the new products, the *Ellipta* portfolio and *Nucala*, offset declines in most of the older products, including *Advair*.

In the US, the new *Ellipta* products continue to gain share and grow volume, while at the same time, the run rates for discounts and rebates across our inhaled respiratory products, particularly the older ones, continue to move higher. This reflects the pricing pressures we have previously flagged from the combination of payor consolidation, the threat of an *Advair* generic competitive pressures, and the continued transition of our Respiratory portfolio to the new products.

Additionally, the reported sales in Q3 for *Breo*, *Anoro* and *Ventolin* were impacted by unfavourable true-up adjustments from sales in previous quarters. *Advair* sales reflected a favourable true-up in the same quarter.

As we have highlighted before, you should expect a bit more volatility in RAR rates than historically, given the more competitive dynamic in the marketplace and shifts in the channel mix that we are seeing. However, importantly, in total, the impact of true-ups was broadly neutral to the reported total US Respiratory sales.

We are preparing to launch *Trelegy* in the US during the middle of November. This is a key addition to the *Ellipta* portfolio, and one which we believe will be a significant new

growth drivers for the Respiratory business. Building *Trelegy* to its full potential will take some time, as we get coverage in place, and work to add the impact data to the label.

Seretide/Advair was done 15% globally, and with no substitutable generic entry expected this year in the US, we continue to expect a global decline of 15-20% in 2017 as a whole, with the US more at the 15% end of the range, and Europe more at the 20% end.

Moving to our HIV products, overall our HIV portfolio grew 13%, with growth again driven by the continued strong performances of *Triumeq* and *Tivicay*. *Epzicom/Kivexa* continues to decline as a result of generic competition affecting, particularly, Europe.

Looking forward, we are planning for a more challenging environment for our dolutegravir franchise, as we go into next year, but our dataset is strong, and we will continue to compete hard on the back of it. Realistically, however, you should probably expect more volatility quarter-to-quarter as that challenge unfolds and we start to bring new growth drivers into the HIV business. If all goes well, we expect to launch our first dual treatment for HIV at the end of the year, and next year, we are looking forward to Phase 3 read-outs from two additional two-drug regimens, including the oral combination of lamivudine and dolutegravir, and one with our long-acting integrase, cabotegravir.

Established Pharmaceuticals, which includes the majority of our off-patent products declined 4%, including the impact of divestments and the *Avodart* generic, which declined in both Europe and the US. This group of products has done somewhat better year-to-date than we originally expected, benefitting from some of the supply capacity investments we have been making that are now coming onstream, as well as the phasing benefits from some tenders and other contracts.

We still expect the overall percentage rate of decline for Established Pharmaceuticals for the year as a whole to be in the mid-to-high single digits, but we are likely at the better end of that range, including the impact of disposals.

Pharma operating margin – 34%, down 30bps on both an actual and CER basis. The margin benefitted from cost savings and a favourable mix, however, these were more than offset by the impact of tougher pricing of our inhaled respiratory products, as well as the continued investments we are making to drive share gains for our new products, prepare for the upcoming launches, and to progress the R&D pipeline.

Moving to Vaccines, sales were flat. As we have previously flagged, reported growth this quarter reflected the phasing of shipments that benefitted earlier quarters in the year, particularly for *Synflorix* in International and a tough comparator for flu vaccines. That said, we are very pleased with another strongly executed flu season, particularly in the US, where

the total number of doses we expect to sell this year is a few million more than last year, when we sold just short of 35 million doses, 90% of it in Q3. Most of the extra doses for this year will now fall into Q4, after similar deliveries year-on-year in Q3.

During the quarter, the meningitis portfolio grew 25%, led by strong performances of *Bexsero* in both Europe and the US, where sales grew 32% and 23% respectively.

Established Vaccines, down 5% in Q3, reflecting the phasing of tenders, but also increased competition to our *Infanrix/Pediarix* franchise in both the US, where competition has returned to full supply, and in Europe, where a third competitor is now in the market and competing for tenders.

Overall, given the momentum in the business to date and now with the approval of Shingrix, we remain confident in the mid-to-high single digit outlook for sales growth out to 2020.

The Vaccine margin was 41.3% in Q3, 190 basis point improvement on a constant exchange rate basis over the prior year, primarily as a result of a favourable mix, but also lower inventory adjustments compared to last year.

Q3 is generally in the quarter with the highest margin because of the seasonality of the flu sales, and we remain comfortable with the 2020 margin outlook of 30% plus. Keep in mind that this business will be making investments to support the upcoming US launch, as well as for the eventual global roll-out of *Shingrix*.

Moving to Consumer, sales were up 2% after a 1% drag from the combined impact of the divestment of the Nigerian drinks business at the end of Q3 last year and implementation of GST in India in July of this year.

Strong performances from Power Brands in Wellness and Oral Care, particularly *Sensodyne*, which grew strongly in all regions, helped offset the slowdown in global growth in our key categories and continued competitive pressures for *Flonase OTC* from private label.

Despite the more difficult environment, the business has also continued to execute well in delivering its integration plans.

Looking forward, the next few quarters will be impacted by the recent launch of generic competition to one of our legacy Novartis products, which was contributing sales at an annual rate of around £80 million. We also expect some further tail brand disposals during 2018 that would have a full year impact of around £50 million on sales.

Given all these factors, as we previously discussed, we are not expecting much growth of the top line from the Consumer business this year and unless the market backdrop improves we would not expect more than low-single-digit reported growth next year. However, we continue to expect a top line percentage compound annual growth over the five years to 2020 of low to mid-single digits.

Synergy benefits, as well as greater flexibility in the cost base from the integration, have provided a significant improvement in the operating margin in the quarter of 260 basis points in constant exchange rate terms, whilst still delivering strong growth from our Power Brands and continued investment in future innovation in the Consumer business.

In Q3 we typically see a stronger margin as we sell in seasonal cold and flu products and like last year we expect higher costs in Q4 and a lower margin, as we promote behind those sales to drive consumption.

Overall, we remain confident in delivering our target of getting the business to a full year operating margin of 20%-plus by 2020.

Turning to the Group's operating profit, our Adjusted operating margin of 31.5% was up 1 percentage point, both at actual rates and CER rates. The margin improvement was primarily driven by leverage from sales growth, plus the benefit of a more favourable mix in all three businesses, lower inventory adjustments in Vaccines and continued tight management of our costs, including delivering the benefits targeted in our restructuring and integration programme.

These tailwinds to operating margin were partly offset by the continued investments we made in support of our new products, upcoming launches and the R&D pipeline. In aggregate, these factors impacted the Pharma margin, while benefiting Vaccines and Consumer.

Looking forward, we are now in the latter stages of the integration and restructuring programme and, as a result, you should expect lower incremental benefits each quarter. This will likely mean a bigger headwind to operating margin from the continued need to invest behind new products and launches across the business, particularly next year in the Pharma business, where if the data justifies it we will also likely want to step up R&D expense again. This impact will be exacerbated while we transition through and *Advair* generic, given the profitability of that product, and while the precise timing still remains uncertain, this seems increasingly likely to be a 2018 event. In February, we expect to provide a similar guidance framework for next year to reflect this uncertainty.

Royalties were £107 million, flat on last year. I continue to expect to step down in the fourth quarter given the various royalty streams, but I now expect the total for the year will be a little bit higher than £300 million.

During the quarter, the extended restructuring programme delivered an incremental £0.2 billion of annual savings, including £100 million of that driven by currency benefits.

Turning to the bottom half of the P&L, interest costs were up slightly due to higher net debt, in line with our expectations.

Tax rate was 21%, also up slightly versus Q3 last year. We continue to expect to be in the 21% to 22% range for 2017 as a whole and over the next few years to see upward pressure on the rate given the shift in geographical mix towards the US in particular.

Minorities charge was up £71 million to £228 million, reflecting the growth in the Consumer JV and HIV operating profits.

On cash flow and net debt, free cash flow for the Group during the first nine months of the year was £1.6 billion, up over £370 million compared to last year, even after funding the £106 million investment we made in Q2 in the PRV. This reflects tight working capital control, as the business grows, as well as reduced restructuring spend, higher profits and currency benefits. As I pointed out at Q2, due to the significant seasonality of the Group's business, our cash flows are expected to be more weighted to H2. In the fourth quarter we expect to maintain this trend, with operating profits, phasing of receivables collections and continued unwinding of inventory levels invested earlier in the year turning to sales and benefiting free cash flow. Net debt now stands at £14.2 billion, down £0.6 billion compared with the end of Q2, primarily reflecting £200 million of translation benefits, and free cash flow generation ahead of dividend payments in the quarter.

So, in summary, Q3 represents another quarter of progress and we remain on track to deliver our guidance for the year. Significant work is underway throughout the group to drive our new priorities, which we covered in detail at Q2. In Q4, we plan to launch three important new products, these launches will require investment and time to build, but we believe they each represent significant opportunities that will contribute to the long-term success of the Group. I am also pleased to report that in line with the dividend expectations we laid out at Q2, today the Board approved the third interim dividend for this year of 19 pence.

With that, I shall hand you back to Emma.

Emma Walmsley: Thanks, Simon. We are now going to open up for Q&A and I have the team here ready to take your questions. Operator, first question please?

Question & Answer Session

Graham Parry (Bank of America): First, on *Tivicay* and *Triumeq*, we have seen a trend towards faster growth in *Tivicay* versus *Triumeq* recently in new-to-brand prescriptions. Can you give us any insight into what you think is driving that and the extent to which this is physicians preparing for bictegravir arrival next year by putting patients onto the backbone contained in the Gilead product?

Secondly, could you let us know how you are positioned on payor and hospital formularies with *Tivicay* and *Triumeq* into next year: is there anything you can do to lock out bictegravir by contracting at this stage, particularly with hospitals and providers which can be quite important in this market?

Thirdly, on the Pfizer Consumer business, you previously said you would be interested in looking at this and Pfizer has now announced its review of that business. You have always indicated it would be more likely that you would offer to bring that into a JV type structure rather than outright purchase given balance sheet considerations. To what extent is your JV partner interested in increasing its capital commitment, or being diluted there?

Finally, comments on 2018 regarding increasing R&D in *Advair* generics, a savings decrease seems to point to a lot of margin pressure next year. Is your best guess that margins will be flat, up a bit or down into next year? Thank you.

Emma Walmsley: Thanks very much, Graham. I shall take your question on the Pfizer business and then I shall ask Simon to comment on our outlook for 2018 and I'll come to David on the two sets of questions around the HIV business.

In terms of the Pfizer business, I would, first of all, reiterate that our capital allocation priorities that I laid out in Q2 go completely unchanged. We did say we would be potentially interested in building up our Consumer business, which is a business we like. We are a world leader in Consumer Healthcare and have a demonstrated track record of successful integration, so you would expect us to look at any assets that complement our portfolio from a power brand or geographic footprint point of view. Although we did talk about potentially bulking up Consumer, our first focus in capital allocation was clearly around our biggest business in Pharma and R&D within that. Nonetheless, we would be looking at it but they only announced the process last week, so it is a little premature and it is not even confirmed

for sale, to discuss in any detail if and how. We would, in all cases, be very focused on driving shareholder value. You are absolutely right that is a conversation we would be having with our partners in the joint venture. One option is that we could have a structure deal but there are other options as well, so we shall continue to watch it and there is nothing more to add at this stage. Simon, do you want to comment on the 2018 outlook?

Simon Dingemans: Graham, as we have touched on a few times before, the moment an *Advair* generic arrives, given how profitable it is and you can see the decline we modelled into the guidance we gave you for 2017, that sort of downdraft will be hard to withstand without short-changing the investments that we are making for the long-term growth of the company. It will depend partly on how steep a decline it is, which will depend on how many and what sort of supply they have but, if you assume any normal analogue, I think it would be very surprising if the margin didn't go down in that period while that transition is happening, and then recover out the other side. That is more of a steer at this point rather than precision, so we will have to see precisely how that unfolds.

Emma Walmsley: And it was factored into our 2020 outlook.

Simon Dingemans: Back in 2015 we said somewhere between now and 2020 we shall have an *Advair* generic, and we have this residual assumption of £200 million of US sales. It is playing out with some uncertainty around timing but the inclusion of that was very much built into our previous views.

Emma Walmsley: David, on HIV?

David Redfern: Graham, on *Tivicay* and *Triumeq*, the first point on a global basis is that prescription trends continue to be very solid. In the US we measure what we call core and STR market share, and for dolutegravir overall we are now above 26%, we started the year a little below 23%. NBRx is just over 30%, holding very steady, and dolutegravir remains the leading integrase prescribed in the US and, indeed, throughout the world.

It is true, as you say, that there is a mix effect and there is growing demand and increasing growth rate of *Tivicay* compared to *Triumeq*: we believe about 40-45% of *Tivicay* now is prescribed with Descovy, which is obviously a popular regime.

From the market research we have done, of course the competitive intensity will increase next year as the competitors launch. I am sure that, at the margin, there will be some doctors who may switch. However, the research we get back is that the vast majority are prescribing *Tivicay* because they want to prescribe the best third agent, which they view to be dolutegravir. For patients that are well-tolerated and doing well on *Tivicay*, we think there is every reason why they will not be switched and they can remain on their current

regimes. We have seen now quite a lot of the data on bictegravir and clearly the headline is that it is non-inferior and, if anything, efficacy is just a touch below some of the efficacy rates we have seen in the dolutegravir studies. The answer is that the competitive intensity will go up but we feel that we have a very strong database and very good reasons why *Tivicay* should continue to be prescribed.

In terms of the payors, I will not go into lots of detail around the tactics of that. It is a very different marketplace in a specialty area like HIV to Respiratory: we have very high if not virtually total coverage and I don't see any change in the dynamics with the payors in our HIV business, going through 2018 from this year. The exact tactics and so forth versus Gilead, we will keep confidential.

Richard Park (Deutsche Bank): Thank you very much for taking my questions. Firstly, on the *Ellipta* portfolio, obviously *Anoro* and *Breo* were a little below expectations this quarter. I know that obviously there were some rebate adjustments there but I am just wondering whether you could talk through what continues to surprise there? In addition, *Breo* US sales seem to be trending a little below prescription growth and I wonder how much of the price pressure you are seeing is spilling over into the new portfolio and what we should expect on that *Ellipta* portfolio in terms of price, going into 2018?

My second question is that I wondered if you could just comment on industry consumer and OTC trends. Obviously, you have reduced your mid-term guidance and Q3 was a little better than expected. There seems to be a slowing across the industry and I wonder if you comment on whether, in the US in particular, you see that as a structural change, given the impact of things like e-commerce. How much you might adjust your strategy to cope with that?

Then finally, I have a pipeline question on the BCMA-ADC antibody. It looks as though we will get data at ASH by the sounds of it. We have previously seen some pretty robust responses but with dose-limiting toxicities, it looks like it might be a little more challenging that with other new drugs like Darzalex. Do you feel that that limit's the drug's potential to the refractory setting? How do you think about that market opportunity and how that will evolve, given likely highly effective new first-line regimens that are coming through in the near-term horizon in multiple myeloma?

Emma Walmsley: Thanks, Richard. In a moment, I will come to Brian to comment on the Consumer sector outlook and obviously Patrick on BCMA.

I will just comment first of all on *Ellipta.* You framed your question as 'what continues to surprise there?' but I don't think we are surprised by what is going on in the respiratory market, as we outlined also in Q2. The ongoing competitive pricing environment is something that we anticipate to continue through 2018. Simon has already mentioned the RAR true-ups and I might ask him to add a little more detail on that in a second.

I will start with a reminder on the good performance as far as TRx – prescription trends – are concerned, in terms of the *Ellipta* portfolio. *Breo* is up 74%, year-on-year; *Anoro* is up 70%; *Anoro* and *Incruse* with NBRx and LAMA containing at 38%, *Breo* NBRx at 24%. So we are seeing good growth here.

Obviously, what is also key is taking into account the total *Ellipta* portfolio and what will come when we launch *Trelegy* too. This will take a little time to build but, once we are able to factor in the IMPACT data, we think it will bring us back to a place, as we gave in the outlook, where our 2020 total Respiratory sales are at least as strong as our 2015, having factored in an *Advair* genericisation. However, pricing pressure is real and very much continuing.

Simon, would you like to add any more detail on the RAR true-ups?

Simon Dingemans: No. I think key point, Emma, is that the script trends are very, very consistent. We continue to build share. Volume is obviously the key driver. I wouldn't get too hung up about the individual quarter-to-quarter adjustments, because we can certainly see them flowing both ways. It is the big driver of the gap you are seeing, or that you highlighted, between the script trends and what you have seen in terms of reported revenue in the quarter.

The new products are moving pretty much in line with the old products, in terms of the general pricing trend, and then you have this volatility position. Net-net, across the whole Respiratory portfolio, which is how I would encourage you to think about it, it is not a material factor.

Emma Walmsley: Thank you. Brian, would you like to just say a few comments around the Consumer sector?

Brian McNamara: Yes, as Simon said earlier, we are seeing growth of 2% this year versus 3% to 4% in previous years. Our outlook is more like 2% to 3% for the categories. Really, linking the two things. We are continuing to see volatility in emerging markets, so economic slowdown in countries like Brazil and Saudi Arabia and others, and also the impact that we have seen in India of demonetisation and now GST, we are working through, but we are also seeing pricing pressure in developed markets, and the US

specifically, linked to growing eCommerce. For us, eCommerce is a key channel and a key focus area, and while in our categories it is still relatively small, we are growing ahead of the category and in the US specifically almost double the category growth in those channels, so that is a big focus for us. We have great brands, with great equities and we think eCommerce is another channel where consumers are, and we can compete in that channel.

Emma Walmsley: Thanks Brian. Patrick, do you want to comment on BCMA?

Patrick Vallance: Yes. Obviously, BCMA is a great and rather specific target that we presented the results last year of the first wave of this study, showing very high response rates. Later this year we will present the expansion cohort and the durability data associated with that, but clearly, that level of efficacy is what people really care about in this disease, and in oncology, of course, that is what drives most behaviours is the level of efficacy.

In terms of the side effect profile, the one that one thinks about with the drug antibody conjugate is corneal effects, and those corneal effects that we saw in the first phase of the study, we reported, tend to be mild, grade 1 or 2, and tend to be reversible. Yes, there are some corneal effects that are there. We don't think they, in any way, reduce the importance of the efficacy signal and we think they are manageable and reversible, so I think we are pretty confident on what we have seen so far, and we will present the updated results before the end of the year.

Emma Walmsley: Thanks, Patrick. Next question, please.

Andrew Baum (Citi): Thank you; a couple of questions, please? At your mid-year analysts meeting, many investors came away feeling that what you were offering was a challenged HIV and Respiratory and just downgraded the expectations for Consumer. You clearly have an active oncology business. The BCMA has been highlighted, you have signed the Adaptimmune deal, you are extensively hiring; can you help me understand why you just haven't committed and it still remains a potential area rather than an important future growth driver for GSK?

Secondly, in relation to emerging markets, perhaps you could break down for us the underlying Pharma growth within China? I ask in referencing an older question which is what would it take to reconsider the commitment of your established drugs to China rather than licensing to third party and thus obviating some of their headwinds associated with the legacy of GSK in recent years in the market?

Emma Walmsley: Thanks very much, Andrew. You are right in terms of us laying out in Q2 that, as well as our two core areas of HIV and Respiratory, when we want to think about preparing for the next wave of growth for the company, particularly into the 2020s and beyond, oncology, and specifically the three subsets of oncology – immuno-oncology, epigenetics, and cell and gene therapy, you are right, were potentially key for us to be able to re-accelerate to growth for the company, within the Pharma business unit, but it is still very early days.

We said there were potential new therapy areas for us to re-compete in, being immuno-inflammation and oncology. We are one quarter on. We highlighted in July five assets I think it was in oncology that were part of our priority assets, and we have updated on two of them this quarter, but we are still in early phases, and it is premature to pronounce on how we may or may not to choose to compete alone or in partnership, in terms of the commercial part of it, but obviously you will understand that Luke and Patrick and the growing, as you said, oncology teams are working on quite hard now and will keep everybody informed on as data defines it.

In terms of China, I will ask Simon just to comment on the numbers for China, but our position is unchanged, which is China remains an extremely important and strategic market for the industry and the company. As of events of this week, it is obvious that reform is likely to continue to accelerate in the sector in China, and that is something that we are participating in, and we take a long-term view of continuing to be able to build our business profitably there. Simon, do you want to comment at all in terms of the actual numbers?

Simon Dingemans: Yes, we are down mid-teams in the quarter for the Pharma business. The Vaccines business showing very good progress in the quarter after the launch of *Cervarix* there, which has started well. I think, as we talked about beforehand, we are not closed minds to a structural answer to a different way forward in China. I think it is a market we want to stay in, it is a market that we see opportunity and, particularly with some of the rule changes about how you get products approved there and what we might be able to do to bring our pipeline a bit further forward in that market, but we have to find the right base for it. I think it is a bit early to give you anything more specific than that, but other than to say that we are looking at all the options that we might have available to try and take advantage of the opportunities there.

Emma Walmsley: Thanks. Next question, please.

Tim Anderson (Bernstein): Thank you, a couple of high-level questions, please. Emma, since the late-July analyst meeting Glaxo stock price has basically been in a

freefall and it is down today again, what do you think are the things the market is misunderstanding the most about the future of Glaxo under your leadership and, in your opinion, what are going to be the triggers for a rerating and when do you think those triggers are going to play out, and it sounds like you are not indicating a very hopeful 2018?

Related to the same question, one of the concerns that came out of that meeting, and I think it still exists today in the mind of certain shareholders, is the security of your dividend, you gave guidance through 2018 on the dividend, but can you give investors assurances that in all likelihood there really is no dividend risk here, either in 2018 or beyond? If you can't do that, in terms of talking about beyond 2018, can you articulate what could be the potential factors most likely to create future dividend uncertainty, for example looking at Glaxo – looking at Pfizer's Consumer business, if you were to acquire that can you say that that creates some possibility of a dividend risk?

Emma Walmsley: Thanks, Tim, for your questions. I will just slightly contest the "freefall" point, but that aside I will answer your point on what do I think may be undervalued or under-recognised. I think consistently I view that our Vaccines business is not fully recognised, we have a very competitive position here, a strong pipeline, we feel very positive about the long-term growth contribution of *Shingrix*, which is such a differentiated vaccine and we will see what more comes through on that today. We also think we have a world-leading, very competitive Consumer business and a great track record there too of progress.

I think, as I highlighted in Q2, the reality of rebuilding confidence is being able to show visibility on the pipeline which isn't currently valued because it is early days and we need to let that data play through, so that we can be convincing on the next wave of growth for the company, and that is something that needs a bit of time to play through with data. We have also got to make sure we build confidence around our capacity to execute new launches with excellence, which is why we are all very focused on the three primary launches that we have talked about.

In terms of the dividend, our position is absolutely unchanged from where it was a quarter ago, we know the dividend matters to our investors, we intend and we do pay it now as a function of our free cash flow after investing in the necessary priorities to secure long-term growth for the company, and that capital allocation was very clearly laid out in Q2, starting with the Pharma pipeline, potentially bulking up Consumer and then surety of Vaccines supply.

We confirmed our intention to pay the dividend in 2017 at 80p and, again, in 2108, and then we will be returning to declaring the dividend quarterly and not giving a more

specific outlook beyond that and, in all cases, as you know, the dividend is a decision at the time for the Board.

Next question, please.

Kerry Holford (Exane BNP Paribas): Thank you, three questions please.

Firstly, on the meningitis vaccines, I wonder if you could detail what the underlying growth of *Menveo* and *Bexsero* was in Q3, so excluding that positive impact of CTC movements. Secondly, on *Trelegy*, could you just detail a little more about how you plan to position that triple in COPD versus *Breo* and *Anoro*? Also, on pricing, I see that the *Trelegy* list price is around 50% above that of *Breo* and *Anoro*, which I find relatively surprising, given it is such a highly competitive market, so is it fair to suggest that higher rebate pressure we are now seeing on the existing *Ellipta* brands reflects the need to support that premium priced triple or on a net basis should we assume they will all be priced at broad parity?

Lastly, just on Vaccines, coming back to Graham's early question, just to clarify, Simon, you mentioned we should potentially anticipate margin decline with *Advair* generics, were you referring Pharma, the Pharma division only, or Group margins? I wonder, should we expect that the Consumer Vaccine margin expansion could offset any decline in Pharma over that period?

Emma Walmsley: Thanks very much, Kerry. I think, since most of those questions were linked to comparators financially, I am going to pass them to Simon.

Simon Dingemans: Okay, thanks, Kerry.

So, on meningitis, it is really a *Menveo* story and we saw some withdrawals this time last year, in Q3 last year, from the CDC stockpile, so it is really a growth rate point going into this year. I think the underlying market share data are very consistent, so it is really a *Menveo* point. If you strip out the year-on-year benefit from that comparison point, *Menveo* would be flat in the quarter. That is the kind of swing overall, so it is about a £30 million swing quarter to quarter in terms of the quantum of that.

On your respiratory pricing point, we are not going to get into what our pricing strategy is around *Trelegy* but we have always made it very clear that we want to be competitive, we have to be comparable with some of the older products in the portfolio so that we do not create discontinuity, but we also want to get value for the innovation that we have. We are not going to get into the detail of how we might contract with people on that but you can see from the list price the signal we are sending that we want to get access and be into the market as strongly and as quickly as we can.

My point on margin was a Pharma one but potentially also a group one depending on how quickly and how hard *Advair* lands on us. If it comes in a typical analogue genericisation of a product or if we get two or three players in the market all at the same time, I don't believe it is realistic to lose that amount of super high profit sales because of the age of the product and not expect some impact on the group margin.

Emma Walmsley: The only other thing I would say on the triple is that, short term as far as the label, it is directly for patients who are either using *Breo* and *Incruse* or just *Breo* and could step up. However, the results of our IMPACT study really do look very significant we believe, and they are important for the long-term potential of this when you are seeing an exacerbation reduction of 15%, versus *Breo* 25%, versus *Anoro*. If we combine that with the FULFIL study versus Symbicort, we have in hand the only closed triple with a significant long-term opportunity here. Therefore, as well as the financial combination, we are looking at what we think in the long term will be a meaningful contributor to this market and to our growth. Next question please?

Jo Walton (Crédit Suisse): My question follows on from Emma's last comment, or at least one of them does. In the Respiratory side, your initial label for *Trelegy* relates only to patients who are already taking your own product, so I wonder whether we should think very much for next year of *Trelegy* effectively cannibalising your existing sales, and when should we start to think that you can take material gains from outside your portfolio to be long and sustainable? I wonder if you can also help us on any elements of formulary coverage that you may have, anything you can share with us, because *Trelegy* came very late to the season for contracting for next year?

Regarding your HIV portfolio, it was said that about 45% of the dolutegravir prescriptions are coming with *Tivicay* and then being used with Descovy. I wonder if you can help us on what the dynamics would be for a patient: presumably, they are taking two co-pays if they take *Tivicay* and Descovy and, if they were to move to a combination bictegravir next year, that would be cheaper from a patient point of view. I wonder if you can tell us how important patient co-pays are in the HIV market?

A final quick question on the Consumer business. You highlighted that e-commerce is a trend that has depressed the market but, presumably, where people are buying brands they are, ultimately, sourcing your product but via a different route, which may be less profitable for you. Is there also a move towards private label or are people getting by and not buying these products, because they are not going to the pharmacy and, therefore, they are not making impulse purchases? Just a little more on those consumer dynamics please.

Emma Walmsley: Great, Jo. I shall pass the consumer one to Brian in a moment and David will pick up on HIV. On your question about *Trelegy*, you are right that it will be a slow build but, again, we are working very hard to get the IMPACT study published. I would just point out that we think that *Breo* represents a maximum of about 15% of the open triple market today, so we see plenty of opportunity for this medicine.

As far as the formularies, they will be published in Q4, the team have done a great job and are looking to see at least similar, if not slightly improved, access for our medicines. David, do you want to comment on HIV?

David Redfern: Thanks, Jo. What I said was that we think 40-45% of the *Tivicay* business is prescribed with Descovy. Exactly what the co-pay situation is depends a little on which channel you are in, so there is a difference between Medicaid, Medicare and the private insurance market. You are right that in the private insurance market, they will be paying two co-pays.

It is clearly not irrelevant but it is not the main influencer either and we all work very hard to keep the co-pay to a very manageable level. In a specialty area like HIV, it is the data that drive the prescribing decision and I think that will probably override everything else.

The other thing I would say, of course, one option, potentially, subject to the FDA approval in the next few weeks is, if they want to move to one tablet, is to move to if you are virally controlled, the potential to move to our first dual with dolutegravir and rilpivirine. I would flag there we have had some important news in the last 10 days with US guidelines, the DHS Guidelines in the US, which specifically refers with a strong recommendation for those patients that might want to switch, but they could switch to dolutegravir plus rilpivirine based on the SWORD data that we published earlier in the year.

Emma Walmsley: Thank you. Brian, do you want to pick up on eCommerce?

Brian McNamara: Yes. On eCommerce you are right, it is another channel where consumers can go to buy our products. I think the dynamic that we are seeing that is causing some suppression in the market growth is around pricing and pressure on pricing, especially as bricks and mortar retailers look to compete with eCommerce and get more foot traffic into the store. That is depressing the value growth on the market.

Emma Walmsley: Yes, that's true, but you also made the point about private label; we have forever been competing in the US, and the UK particularly with the private label business, really in OTC – you don't see much private label anywhere in the world in our oral care business, and you see another quarter of very strong results in oral care, way ahead of the market. In all cases, whichever channel you are in, and when you are

competing against private label, what matters, as Brian said earlier, is extremely strong brands, and that is where our power brand model continues to work, we have high single digit growth this quarter on our power brands, despite the market environment, and also having the right kind of differentiated innovation. Those are priorities for this business, so we think we can continue to compete, but it does mean that demand for differentiation matters ever more.

Time for one last question, please?

Jeff Holford (Jefferies): Hi, thanks very much for taking the question. Emma, I would just like to come back to the dividend, just a bit more again on the back of Tim's question, because I think it is a no-brainer that you would look at the Pfizer Consumer unit, but market confidence in Glaxo's dividend is being slowly eroded by some of the current commentary from Q2, and then the fact that you would be "looking" at the Pfizer business unit. Can you give us a more specific answer to the question would you seriously consider making a purchase such as Pfizer Consumer if the dividend or portion of the dividend had to be sacrificed to fund that? I am just trying to work out, is there a red line on the dividend? Can it be sacrificed to do M&A, or is it something that is sacrosanct and if you can't afford to do the M&A without cutting that, then you have to let those opportunities go? Thanks very much.

Emma Walmsley: Thanks very much for the question, Jeff. I am afraid I am just going to say that it is too premature and hypothetical to respond to that at the moment.

With that, thank you very much and I wish all a good rest of the day.

[*Conference call concluded*]