

Q2 results

Interview with Simon Dingemans, Chief Financial Officer

Q: Can you summarise the performance of the quarter?

A: This is the first full quarter since we closed the Novartis transactions and I think we're very encouraged by the progress that we've made. With sales up 2% on a pro-forma basis, 7% on a reported basis, I think you can see the impact that the transaction is having on the shape of the group already. Importantly, the businesses we've acquired are performing very much in line with expectations and the integration programmes are very much on track.

But I think alongside that, we're also encouraged by the continued momentum we're seeing in our new launches. HIV was particularly outstanding in the quarter. But on the respiratory side as well, as we've foreshadowed a number of times, we are seeing steady build, particularly in Breo post the asthma recommendation. I think that is leading us to see some encouraging signs in the transition of the pharmaceutical business alongside obviously the significant additions that we've seen in vaccines and consumer from the transaction.

Overall, that's what underpinned our reassertion today of the guidance for the year and our outlook for 2016.

Q: So those new products that you've mentioned, are they the same ones that you spoke about at your investor day recently?

A: So the group of products that we identified on 6th May were those that we were targeting to deliver £6bn of sales by 2020. That included HIV, it included our respiratory business, it also included a number of important vaccines that we've just recently acquired from Novartis. So yes, it does include the same products.

I think an important point that we should also call out for the quarter is that the contribution from those products was now nearly £450m in the quarter, and is more than offsetting the drag that we're seeing from Seretide/Advair around the world.

That's an important part of the group's transition, which the transaction was designed to secure. And it really shows the broader momentum

and the balance that we have across the portfolio continuing to contribute to the top line that we're now demonstrating.

Q: Do you see that momentum continuing into the second half?

A: So I think on an underlying basis, I think we very much do. I think the important thing though to remember is that in the second half of this year, we're going to see a number of drag factors which will help to shape the profile for the group across the quarters, that ultimately contribute to the guidance for 2015 that we've reiterated today of being down at the earnings per share level, down high-teens percentages.

In particular we're going to see a couple of one-off factors in Q3 and Q4 in terms of the structural benefits we saw last year and the tax rate ultimately that we delivered that ultimately lead to a second half that's going to see some greater drag at the earnings per share level. None of which obscures the overall momentum that we're delivering in the business and that underpins our important statements that we're reaffirmed today around the 2016 outlook when we expect to return to growth, and at the earnings per share level to see that growth turn into double-digit rates on a constant currency basis.

Q: What are you saying today about R&D and your pipeline?

A: So the company continues to be very focused on sustainable innovation. We've already talked today about the progress we're making in a number of the recent launches. We've called out a group of products that we expect to contribute significantly to revenues over the period to 2020. The next two to go onto that pool - Shingrix vaccine and mepolizumab or Nucala - made important progress during the quarter.

In addition, as we've called out, we're going to host an R&D day on 3 November. That will be highlighting our 40 NMEs and talking about important progress and data around a number of those projects. In particular, I think really looking to highlight the focus areas that we've identified in the releases today that are really driving our R&D organisation towards that sustainable delivery.

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