



GSK - 2015 Third Quarter results

Interview with Simon Dingemans, CFO

Q: How do you characterise the third-quarter performance for the business?

A: Overall, we're very pleased with the progress we've seen in the quarter, particularly in the execution of our restructuring and integration programmes. But across the Company, we're seeing great momentum in the top line, sales up 5% on a pro forma basis, with good contributions, particularly from Vaccines and Consumer. But also in the Pharmaceutical business, we're seeing the refresh of our pharmaceutical portfolio making significant progress, particularly in HIV sales.

But contributions from the new products that we identified back at the Capital Markets Day totalling £591m in the quarter, up over £400m from the same period last year, more than offsetting the decline we saw in Advair over the quarter of £182m. Beyond that, the benefits we're seeing from the integration programmes are allowing us to move cost around the Group much more flexibly.

A couple of good examples would be in the supply chain, where some of the changes we've made to streamline production and give us more capacity and more reliability in that space allowed us to get early onto the flu sales and deliver a significant step up in both market share and pricing and an improvement in profitability that is very evident in the quarter. Same in Consumer, where some of the improvements and efforts that we've put into increasing the capacity in that business on the back of the transaction have seen us be able to get earlier onto the cough and cold season and deliver a very strong sell in to the trade ahead of that season playing out over the next couple of quarters.

So I think just a couple of good examples of how the transaction and the execution of those integration programmes is already making a very positive difference to the Group.

Q: But more specifically, where exactly are you when it comes to the cost savings following the completion of the transaction and the beginning of the integration process?

A: Well, the overall restructuring and integration programmes obviously consist of very many different initiatives. I think on balance we're on

track, or if anything, slightly ahead, and we've delivered in the nine months of 2015 that's elapsed so far over £700m more cost savings than we delivered in the same period last year, £300m of that in the third quarter alone.

And I think that really plays to the same point that we were discussing before, where we are creating a lot more flexibility in our cost base to be able to reallocate behind the new launch activity, where we see the greatest commercial opportunity and also offset some of the pricing pressure that we're still seeing in our existing Respiratory businesses in some of the established products. So that when you look at the overall margin for the Group for the quarter, you saw the operating margin on a pro forma basis up 2.1 percentage points, excluding the one-off benefit in the comparator from 2014. But I think that really highlights the momentum that's building in the Company and the leverage that we're putting in the P&L as we start to deliver on the benefits of the transaction.

Q: So as we approach of the end of the year now, how will what's been achieved in 2015 position the Group for 2016?

A: I think the progress we've made in quarters two and three leave us in very good shape to deliver the guidance for 2015 that we published back in May at the Capital Markets Day but that we've also reiterated today. And also, I think the momentum that we're seeing in the business leaves us in a very good position to deliver on our outlook for 2016 that we also published back in May to return to growth at rates that we expect to reach double digits.

Now, the balance of the Group has clearly changed significantly on the back of the Novartis transaction, and as we highlighted when we closed the transaction, we expected a significant amount of volatility during the course of 2015 on a quarter-to-quarter basis. Q4 will be no exception to that, as there are some significant drag factors that you need to take into account.

But I think underlying that, in terms of the momentum that we're seeing in the business, Q3 is very self-evidently demonstrating that across the Company and is the reason why we're very confident as we move into 2016, we are returning to growth and we'll see significant progress next year on the back of the baseline that we're establishing in 2015.