Preliminary results 2013 – Simon Dingemans

Q1 performance

Q: How would you summarise GSK's performance this quarter?

A: Well, it's still early days, but I think a very good start to the year. Encouragingly we've delivered another quarter in line with our expectations. And importantly, within that, we've see very good momentum across the business, and that's left us in a position where we feel very comfortable about the trends that we're seeing from our performance, and the trends that put us on track to deliver the guidance that we've reported for the year. And remember that guidance is to deliver 3 to 4% earnings growth in constant currency terms, on sales growth of around 1%.

Now that performance is perhaps a little difficult to see in the reported numbers, because as we called out at the full-year, Q1 we're seeing some difficult comparators, particularly from the disposal of our OTC brands from last year, the conclusion of the Vesicare transaction that we reported in Q1 in the US last year, and also the Cervarix comparators in Japan in particular. But if you look beyond that I think you can see very broad based momentum across the business that really is building on the performance that we came out of the end of last year with, and leaves us confident about the outlook for the year.

I think the other important thing that I'd call out for the quarter is the significant, continued progress we're making in the pipeline. We now have the six products that we've called out in front of regulators on both sides of the Atlantic, and most recently we saw the positive recommendation from the AdCom in relation to BREO. So I think again, continued progress here; we're not done yet, there's still many more steps to complete. But I think we're feeling very good about progress there, and what that does for the Company's medium-term prospects.

Q: So, where have you seen the momentum the greatest this quarter?

A: Well, I think across the board, the EMAP business is delivering 8% and a good balance between Pharma and Vaccines. We've seen the Consumer business delivering up 6% if you strip away the impact of the disposals we made last year; both of those key growth businesses for us and ones that have continued quarter-on-quarter to deliver very good momentum.

I think also in Japan, the Pharma business up 12%, and remember the reported numbers they're very distorted by the comparison with the Cervarix tenders we saw last year, but I think really illustrating a very strong Respiratory season, and also the delivery of new pipeline contributions to that market, which I think gives us good signals for the future.

Perhaps the most encouraging is the continued momentum we're seeing built in the US business, this is across the board. But I think particularly worth a call out this quarter, Respiratory up 7% as a portfolio, Advair up 8%. This is the best performance for Advair we've seen in the US since 2008. And I think that also gives us the confidence in the platform that we're building to be able to launch the pipeline of new products as and when they get approved.

I think even Europe, which has clearly been a challenge for us over the last several quarters, showed down 3%, that some of the initiatives we're taking in that business beginning to show through. I think it's still early stages to call a particular trend here, and that market remains very challenging, but it's one where I think the initiatives we're taking are making a difference, and we're definitely seeing improved performance.

Financial summary

Q: So how is your financial architecture contributing to performance?

A: Well, I think as we saw last year this is really helping us to prioritise the investments we're making in the Group and prioritise where we're really allocating our resources; and I think this quarter was no exception. Despite the difficult comparator issues that we had in the top line, which obviously led to the top line being negative, it has allowed us to continue to prioritise the support we're putting behind our growth businesses and the support we're also putting behind the investments we're making to be ready for the pipeline, and be able to launch it as quickly and as effectively as possible.

Now that's led to a bit of pressure on the margin, but I'm pleased in the progress we're making in our cost reduction initiatives and our restructuring programmes, that that has allowed us to offset a significant proportion of that pressure; deliberately not all, because of those investments, but it has certainly allowed us to start building the leverage into the P&L that we're looking for over the year. But remember we've called out that during 2013 in particular we're likely to see a lot more contribution to that from the financial side of the equation, and in the bottom half of the P&L, I'm particularly pleased with the progress we've made in both our financing costs and our tax charges, leaving us very much on track with what we're expecting to deliver for the full-year.

I think the last piece of the architecture which remains a key focus across the Company is to continue to improve our cash conversion, to convert more of our earnings into cash that we can either reinvest in the business or return to shareholders. And with over £1.4bn of cash flow generated this quarter, significant step-up from the £1bn we generated a year ago, really showing through the improvement in our conversion ability, our control of working capital and our management of costs in supporting the further 6% increase in the dividend that we made this quarter.

So overall, the financial architecture contributing very materially.

New strategic initiatives

Q: Can you tell us more about the initiatives you've launched today to increase strategic focus and growth?

A: Well, beyond the pipeline, which is obviously a key focus for the Company, we are continuing to look at how we can maintain our focus and improve the overall growth profile for the Company going forward. We announced with the full-year results that we were conducting a strategic review around our two drinks brands, Lucozade and Ribena, and I'm pleased that we were able to announce today that we've completed that review and that we've decided to pursue divestment options for those brands. Now these are very important and iconic brands for us as a Company. We saw some very good opportunities for us, but we think that overall, from a shareholder value perspective, that exploring the divestment of those may well release better value. We will explore that over the coming months and that will probably take the balance of 2013 to complete that process. But we are confident that we can deliver attractive value and importantly focus.

I think in the same vein the second initiative that we announced today really is about the same point, of focus around our ongoing core business. We're going to create a focus-group around our ‘Established Products’, and these are older, more legacy products, which require perhaps a different set of skills to bring the right value and optimise the resources we have behind them, and make sure that they are maintaining their momentum at the same time as we are continuing to support and develop the more innovative end of the portfolio so that we can do both. And that's really what this is about; it's making sure that we're optimising the value within the Group's existing portfolio by putting focus around this portfolio.

So hopefully you can see with those two initiatives that we're continuing to drive relentlessly our particular pursuit of the core objectives we have of the Company, and that's really what gives us the confidence and the momentum we have going forward that we can maintain that, and that we're on track to deliver the guidance that we have out for 2013.