

GlaxoSmithKline

United Kingdom/Pharmaceuticals

3 February 2016

UBS Research

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12-month rating	Neutral
12-month price target	1,400.00p
Price	1,426.00GBp

GSK – FY'15 Results and 2016 Outlook in Line

- FX Guidance (+5%) should boost FY'16 Core EPS to 88p, c.5% above cons
- Divisions: Pharma & Vaccines light, Consumer better than expected
- 4Q'15 Key product trends
- Valuation: Neutral, PT 1,400p based on 16.7x 2017E Core basic EPS

FX Guidance (+5%) should boost FY'16 Core EPS to 88p, c.5% above cons

GSK reported 4Q/ FY'15 results broadly in line with our estimates, with Core EPS of 18.1p, 3% ahead of UBSe. 4Q'15 sales (£6,286m) were 1% ahead of UBSe, but core op. profit missed our forecast by 4% based on higher fixed cost (SG&A, R&D); the core op profit miss was offset by lower financial charges and a significantly lower tax rate (17.9% vs UBSe 20.1%) which seems a one-time effect (resolution of tax matters). As expected, GSK reiterated its previous guidance that 2016 core EPS growth will reach double digit level (in LC), w/o raising the lower end of this guidance. GSK further called out a 5% FX benefit on FY '16 Core EPS at Jan FX rates, due to US\$ and Yen strengthening, suggesting limited impact from weakening emerging market currency where GSK's sales have been declining (International -2% in FY15, -5% in 4Q'15). Including FX, this suggests '16 Core EPS of at least 87.5p, c 5% above the latest FOA consensus for 2016 (83p). Overall, this represents a fairly uneventful earnings update; we would expect the share to be modestly up in view of FX guidance.

Divisions: Pharma & Vaccines light, Consumer better than expected

The Pharma Core Op margin fell below 30% in 4Q'15 despite a sales beat that included rebate reversals for Advair in the US. Vaccines profitability (17.0%) in 4Q15 (vs UBSe 23% and 39% in 3Q'15) was low, with Vaccine core op profit 28% below UBSe. This was largely compensated by Consumer where core op margins stayed at double-digits (at 11.5%, only 180bps below 3Q'15.). The ViiV margin at 70.4% was slightly below UBSe of 72%, though this only represents an additional cost of £7m vs UBSe.

4Q'15 Key product trends

In Respiratory, Advair sales of £1,029m beat consensus by 10% (UBSe by 17%) driven by US sales of £592m substantially higher than both UBSe (+39%) and cons (+26%), due to payer rebate adjustments related to prior quarters. Meanwhile, Breo (£99m) beat consensus by 25% and UBSe by 16% (US & International beat). Triumeq sales of £289m was a substantial beat vs. both cons (+18%) & UBSe (+12%), although Tivicay sales of £174m was broadly in line with both consensus and UBSe (-1% vs. both).

Valuation: Neutral, PT 1,400p based on 16.7x 2017E Core basic EPS

Our PT is supported by our NPV/SOTP valuation.

Trading data and key metrics

52-wk range	1,642p-1,238
Market cap.	£68.6bn/US\$98.9bn
Shares o/s	4,811m (ORD)
Free float	100%
Avg. daily volume ('000)	7,658
Avg. daily value (m)	£104.4
Common s/h equity (12/15E)	£7.76bn
P/BV (12/15E)	8.9x
Net debt / EBITDA (12/15E)	1.5x
RIC	GSK.L
BBG	GSK LN

Sources: UBS, Bloomberg

EPS (UBS, diluted) (p)

	UBS	Cons.
12/15E	74.64	75.90
12/16E	84.81	84.21
12/17E	83.69	89.61

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at www.ubs.com/glossary

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Analyst certification and required disclosures begin on page 3**

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GlaxoSmithKline

Company Profile: GlaxoSmithKline

GlaxoSmithKline (GSK) is a European large-cap pharmaceutical company. Following the asset swap with Novartis (closed in March 2015), it has emerged as a world leader in consumer/OTC healthcare products (Novartis is a minority shareholder with a 36.8% stake) and vaccines. GSK's pharma business consists of ViiV/HIV (with Pfizer and Shionogi as minority shareholders), respiratory and a few smaller therapeutic areas.

Statement of Risk

(1) Company-specific risks include continuing execution issues, especially related to capturing merger synergies (Novartis asset swap), and the ongoing respiratory launches, as well as increased competitive pressures on the respiratory business. GSK has committed to pay an 80p dividend out to 2017, which could be difficult to fund, if GSK does not deliver on merger synergies and continues to deliver an underwhelming performance from the respiratory business. (2) Risks generally applicable to the pharmaceutical sector include: development risk – uncertainty regarding the timing, efficacy, and market potential of new products and technologies; commercial risk – threats from new/existing competition and pricing pressure; regulatory risk – timing/status of approvals and changes in labelling or new warnings on existing products and technologies; patent risk – products losing patent protection may face significant market share/price erosion and potential litigation; and currency risk – because of the mismatch between geographical location of cost base and sales. (3) Our PT1,400p is based on 16.7x 2017E Core basic EPS multiple and supported by NPV/SOTP valuation.

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Highlights (£m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	26,431	26,505	23,006	23,848	24,667	25,022	26,045	27,761
EBIT (UBS)	8,238	8,015	6,594	5,788	6,608	6,772	7,285	8,310
Net earnings (UBS)	5,470	5,421	4,584	3,634	4,140	4,106	4,479	5,225
EPS (UBS, diluted) (p)	109.64	110.21	94.22	74.64	84.81	83.69	90.78	105.31
DPS (p)	74.00	78.00	80.00	80.00	100.00	80.00	80.00	80.00
Net (debt) / cash	(14,037)	(12,645)	(14,377)	(11,258)	(13,996)	(14,753)	(14,511)	(13,619)
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	31.2	30.2	28.7	24.3	26.8	27.1	28.0	29.9
ROIC (EBIT) %	39.4	36.7	31.3	27.2	30.5	30.9	33.1	38.0
EV/EBITDA (core) x	8.8	10.0	11.3	11.6	10.4	10.3	9.7	8.6
P/E (UBS, diluted) x	13.0	14.5	16.2	19.1	16.8	17.0	15.7	13.5
Equity FCF (UBS) yield %	3.0	6.2	3.7	(0.5)	3.7	5.3	6.9	8.0
Net dividend yield %	5.2	4.9	5.2	5.6	7.0	5.6	5.6	5.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of 1,426p on 02 Feb 2016 21:37 GMT

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	47%	33%
Neutral	Hold/Neutral	42%	34%
Sell	Sell	11%	23%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2014.

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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Global Equity 12-Month Rating Definitions

Buy: FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

Key Definitions

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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Company Disclosures

GlaxoSmithKline	GSK LN	Neutral	1,426p	02 Feb 2016
AstraZeneca	AZN LN	Buy	4,499p	02 Feb 2016
Sanofi	SAN FP	Neutral	€75.27	02 Feb 2016
Novartis	NOVN VX	Buy	CHF77.75	02 Feb 2016
Roche	ROG VX	Buy	CHF260.70	02 Feb 2016
Novo Nordisk	NOVOB DC	Neutral	DKr377.70	02 Feb 2016
Bayer	BAYN GR	Neutral	€99.67	02 Feb 2016
Company Name	Reuters	12-mo rating	Price	Price date

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Disclosures (3 February 2016)

AstraZeneca 2, 3, 4, 5, GlaxoSmithKline 1, 2, 3, Novartis 1, 2, 3, 6, 7, 8, 9, 10, 11, Novo Nordisk 2, 12; Roche 1, 3, 7, 8, 9, 10, Sanofi 2, 3, 1. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.

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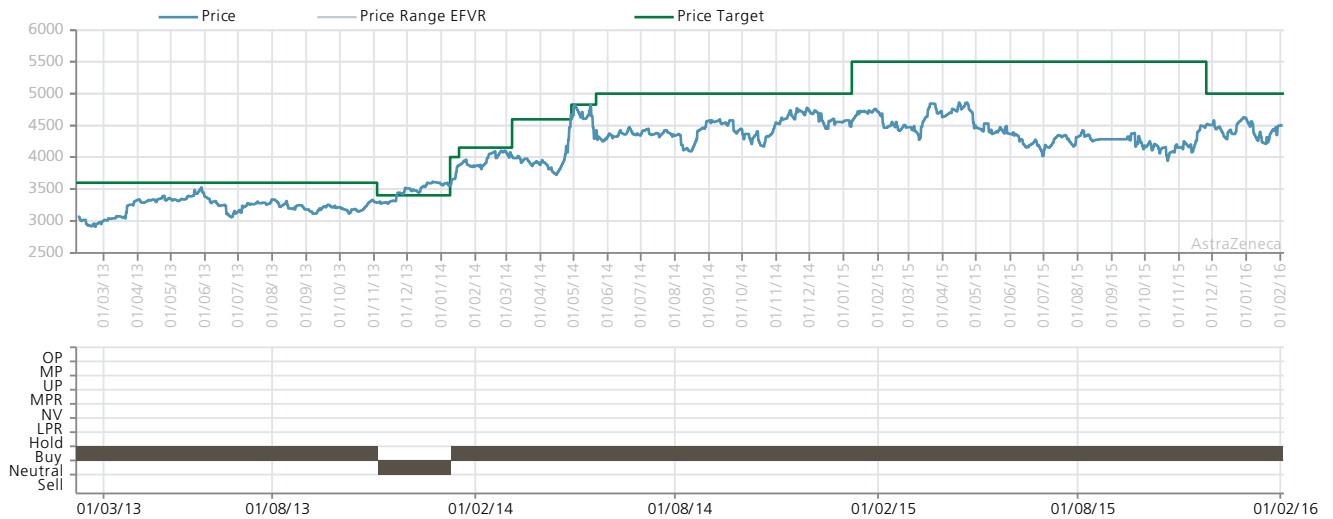
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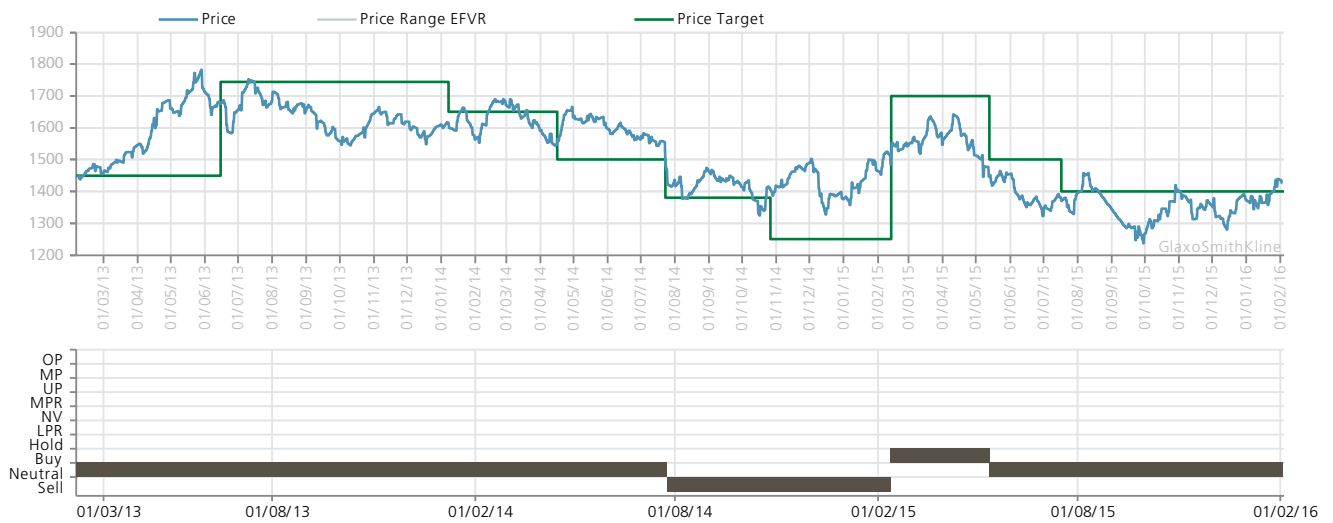
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Global rating history -- AstraZeneca, AZN LN



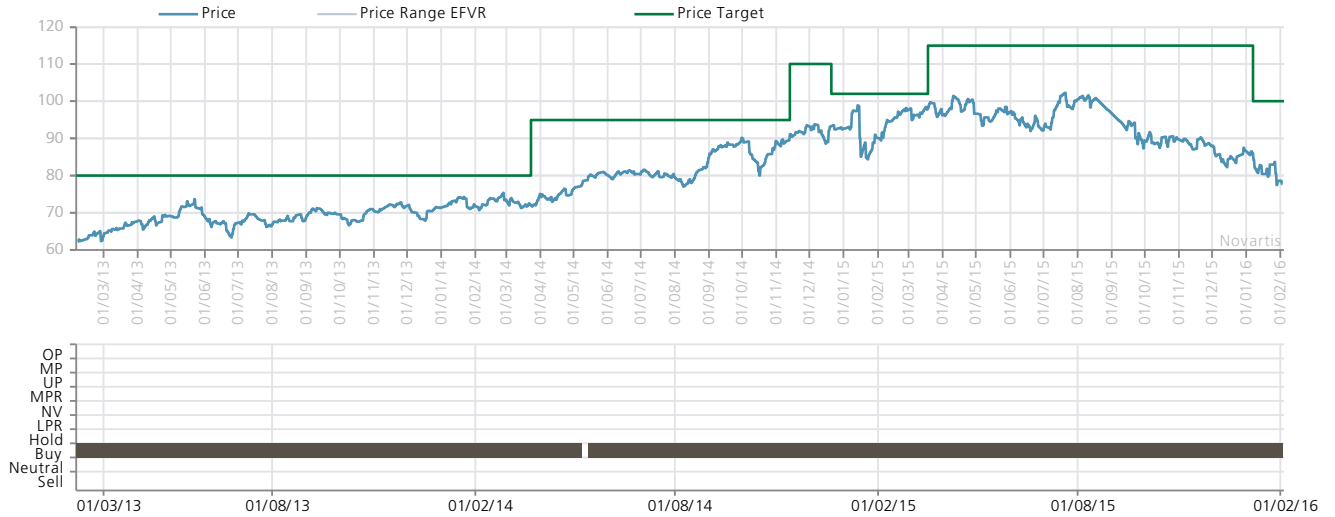
Source: UBS CIO as of 3 February 2016

Global rating history -- GlaxoSmithKline, GSK LN



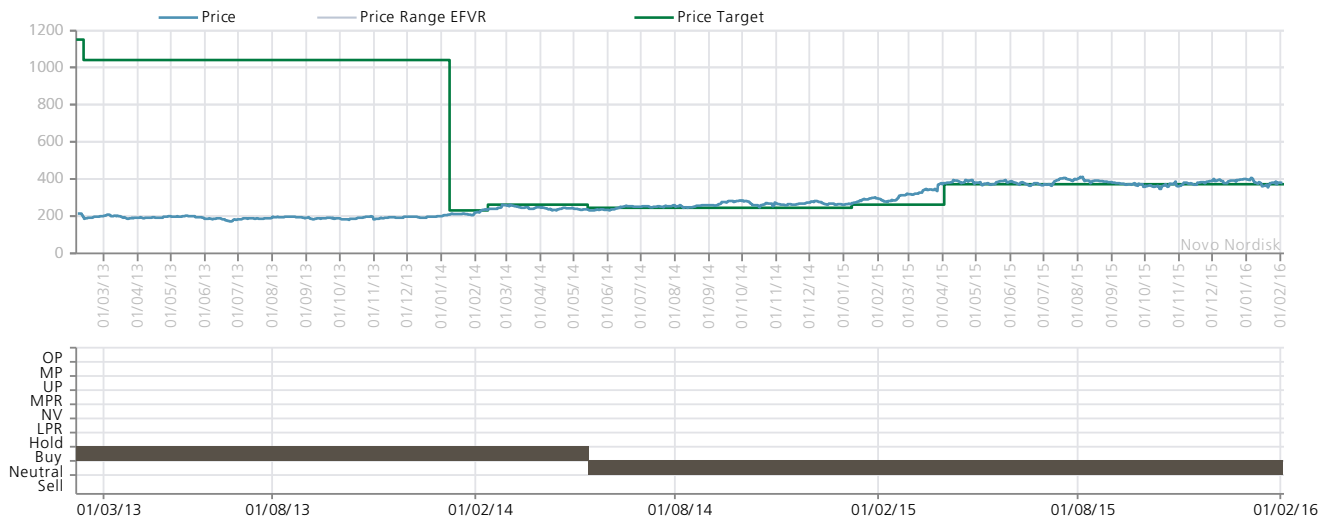
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Global rating history -- Novartis, NOVN VX



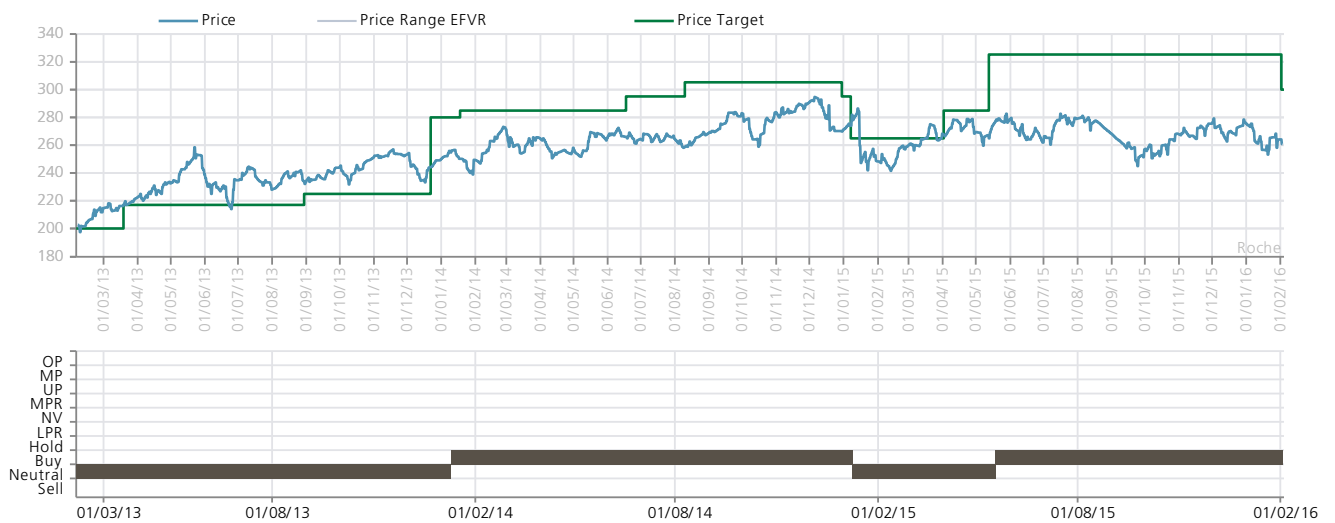
Source: UBS CIO as of 3 February 2016

Global rating history -- Novo Nordisk, NOVOB DC



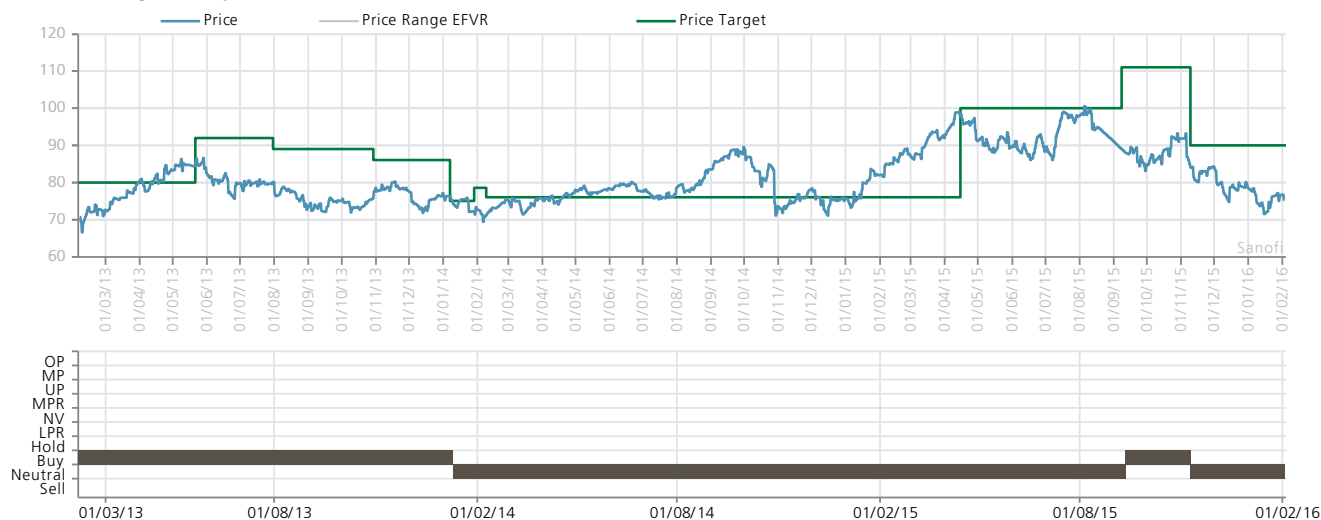
Source: UBS CIO as of 3 February 2016

Global rating history -- Roche, ROG VX



Source: UBS CIO as of 3 February 2016

Global rating history -- Sanofi, SAN FP



Source: UBS CIO as of 3 February 2016

Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	1Q, 2Q, etc. or 1Q11, 2Q11, etc.	First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.
2011E, 2012E, etc.	2011 estimate, 2012 estimate, etc.	A	actual i.e. 2010A
ADR	American depository receipt	ARPU	Average Revenue Per User
AUM	Assets under management = total value of own and third-party assets managed	Avg.	average
bn	Billion	bp or bps	Basis point or basis points (100 bps = 1 percentage point)
BVPS	Book value per share = shareholders' equity divided by the number of shares	CAGR	Compound annual growth rate
Cant Inc/Capita	Cantonal income per capita (Switzerland only)	Capex	Capital expenditures
CF	Cash flow	CFO	1) Cash flow from operations, 2) Chief financial officer
COGS	Cost of goods sold	COM	Common shares
Cons.	Consensus	Core Tier 1 Ratio	Tier 1 capital minus tier 1 hybrid securities
Cost/Inc Ratio (%)	Costs as a percentage of income	CPI	Consumer price index
CR	Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies)	CY	Calendar year
DCF	Discounted cash flow	DDM	Dividend discount model
Dividend Yield (%)	Dividend per share divided by price per share	DPS	Dividend per share
E	expected i.e. 2011E	EBIT	Earnings before interest and taxes
EBIT Margin (%)	EBIT divided by revenues	EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin (%)	EBITDA divided by revenues	EBITDA/Net Interest	EBITDA divided by net interest expense
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rental expense	EFVR	Estimated fair value range
EmV	Embedded value = net asset value + present value of forecasted future profits (for life insurers)	EPS	Earnings per share
Equity Ratio (%)	Shareholders' equity divided by total assets	EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base	FCF Yield (%)	Free cash flow divided by market capitalization
FFO	Funds from operations	FY	Fiscal year / financial year
GDP	Gross domestic product	Gross Margin (%)	Gross profit divided by revenues
H	half year	h/h	Half-year over half-year; half on half
hist av.	Historical average	Interbank Ratio	Interbank deposits due from banks divided by interbank deposits due to banks
Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings	Interest exp	Interest expense
ISIN	International securities identification number	K	One thousand
LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income	LLR/Gross Loans (%)	Loan loss reserves divided by gross loans

GlaxoSmithKline

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
LPR	Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms.	Market cap	Number of all shares of a company (at the end of the quarter) times closing price
m/m	Month-over-month; month on month	mn or m	Million
M and A	Merger and Acquisition	MP	Marketperform: The stocks expected performance is in line with the sector benchmark
MPR	Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms.	n.a.	Not available or not applicable
NAV	Net asset value	Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents
Net DPS	Net dividends per share	NIM or Net Int Margin (%)	Net interest income divided by average interest-bearing assets
Net Margin (%)	Net income dividend by revenues	NV	Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms.
n.m. or NM	Not meaningful	NPL	Non-performing loans
OP	Outperform: The stocks is expected to outperform the sector benchmark	Op Margin (%)	Operating income divided by revenues
p.a.	Per annum (per year)	P/BV	Price to book value
P/E or PE	Price to earnings / Price Earnings Ratio	P/E Relative	P/E relative to the market
P/EmV	Price to embedded value	PEG Ratio	P/E ratio divided by earnings growth
PPI	Producer price index	Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)
Profit Margin (%)	Net income divided by revenues	q/q or QQQ	Quarter-over-quarter; quarter on quarter
R and D	Research and development	ROA (%)	Return on assets
ROAE (%)	Return on average equity	ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities
ROE (%)	Return on equity	ROIC (%) or ROI	Return on invested capital
Shares o/s	Shares outstanding	Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)
sotp or SOTP	Sum of the parts	Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons
tgt	Target	Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy
tn	Trillion	UP	Underperform: The stock is expected to underperform the sector benchmark
Valor	Swiss company identifier	WACC	Weighted average cost of capital
CIO	UBS WM Chief Investment Office	x	multiple / multiplier
y/y or YOY	Year-over-year; year on year	yr	Year
YTD	Year-to-date		

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