COWEN
AND COMPANY

Pharmaceuticals/Major

GlaxoSmithKline plc (ADR)

Equity Research

Estimate Changes

September 14, 2015

Price: $40.26 (09/11/2015)
Price Target: $49.00

MARKET PERFORM (2)

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Key Data

Symbol	NYSE: GSK
52-Week Range:	$49.08 - 39.27
Market Cap (MM):	$97,965.4
Net Debt (MM):	$14,377.0
Cash/Share:	NA
Dil. Shares Out (MM):	2,433.3
Enterprise Value (MM):	NA
ROIC:	NA
ROE (LTM):	NA
BV/Share:	NA
Dividend:	$2.37
Yield:	5.89%

FY (Dec)	2014A	2015E	2016E
Earnings Per Share			
Q1	p21.00	p17.30A	p19.70
Prior Q1	-	-	*p18.70*
Q2	p19.10	p17.30A	p18.40
Prior Q2	-	-	*p18.20*
Q3	p27.90	p21.60	p24.40
Prior Q3	-	*p22.80*	*p26.20*
Q4	p27.30	p19.30	p21.50
Prior Q4	-	*p19.60*	*p21.90*
Year	p95.30	p75.50	p84.00
Prior Year	-	*p77.00*	*p85.00*

Core EPS

Revenue (MM)			
Year	£23,006.0	£23,940.0	£25,255.0
Prior Year	-	*£23,845.0*	*£24,655.0*

Model Updated; SUMMIT Feedback Mixed

The Cowen Insight

As we near the end of Q3 and in the wake of Breo's SUMMIT data, we took another look at our GSK model. Physician feedback on SUMMIT has been mixed.

EPS Estimates Lowered In Most Years

Our EPS estimate has been lowered by 1.5 pence to 75.5p (-21%) in 2015, which reflects in part GSK guidance for a "decline at a high teens percentage at CER." We reduced our estimate by 1 pence to 84.0p (+11%) in 2016 and by 6 pence to 84.0p (flat) in 2017. Our 2020 EPS estimate is intact at 118.0p. The 2015-20 EPS CAGR is 9%, which is on par with the industry average.

Turnover Estimates Raised

Our 2015 and 2016 turnover estimates have been raised by £95MM to £23,940MM (+4%) and £600MM to £25,255MM (+5%), respectively. Our estimate was raised by £260MM to £25,720MM (+2%) in 2017 and by £1.04B to £31,925MM in 2020. Increased turnover largely reflects higher sales forecasts for Triumeq (HIV) and Shingrix zoster vaccine. The 2015-20 turnover CAGR is 6%.

Physician Feedback on SUMMIT Is Mixed

On September 8, GSK announced that the SUMMIT data of Breo missed its primary endpoint. Our physician expert's reaction to SUMMIT has been mixed. One expert viewed the data as worse than expected. The primary endpoint's 12% reduction in risk was not close to statistically significant, although a 12% change in mortality was respectable in absolute terms. The only secondary endpoint to hit (reduced rate of lung function decline) did so to a smaller degree than TORCH at 8mL per year compared to placebo, while TORCH saw 16mL. Having no strong pneumonia signal is positive, but these patients were low risk to start. The notion of improving mortality in this population is farther away than ever. Many publications likely will emerge from this 16,000-patient study, giving it significant academic and scientific exposure. However, our physician believes that Breo use will not change. Another physician noted that everything trended in the right direction. There was a trend on mortality. Nonetheless, the push to use LAMA/LABA may strengthen at the expense of LABA/ICS. SUMMIT was a landmark study based upon a hypothesis and was not a good use of resources. Ellipta is a very good device, but insurance coverage is problematic.

Our Breo forecast is £1.05B in 2020, representing a £450MM decline from our last published forecast.

GlaxoSmithKline Annual Product Sales Buildup (£MM) (continued)

	2014	2015E	2016E	2017P	2018P	2019P	2020P	2014-20 CGR	2015-20 CGR	Comment
3377794					25	50	75	NM	NM	NY-ESO-1 T cell receptor; cancer; Phase I
Tarextumab					25	50	75	NM	NM	Anti-notch 2/3 mAB; cancer; Phase II
MAGE-A3							10			Melanoma; Phase III
Other Oncology/emesis	110	15								
Oncology	**1,202**	**215**			**50**	**100**	**160**			Sold to Novartis for $16B, $1.5B of which v
% Change	24%	-82%								
Flolan - U.S. (lc, ex fx)										
Flolan - U.S.	22	25	30	35	40	45	50	15%	15%	
Flolan - EU (lc, ex fx)										
Flolan - EU	12	10	15	20	25	30	35	19%	28%	
Flolan - EM	0									
Flolan - ROW	37	40	60	80	100	120	140	25%	28%	
Flolan	72	75	105	135	165	195	225	21%	25%	Pulmonary arterial hypertension
Volibris - U.S. (lc, ex fx)										
Volibris - U.S.										
Volibris - EU (lc, ex fx)										
Volibris - EU	102	100	120	140	160	180	200	12%	15%	
Volibris - EM	13									
Volibris - ROW	43	60	80	100	120	140	160	25%	22%	
Volibris	157	160	200	240	280	320	360	15%	18%	Pulmonary arterial hypertension
2696273					25	50	75	NM	NM	Ex-vivo stem cell gene therapy; ADA-SCID
2696274					25	50	75	NM	NM	Ex-vivo stem cell gene therapy; metachron
2696275					25	50	75	NM	NM	Ex-vivo stem cell gene therapy; Wiscott-A
2398852 + 23156898					25	50	75	NM	NM	SAP mAB + SAP depleter; amyloidosis; Ph
Other	188	175	185	195	205	215	225	3%	5%	
Rare Diseases	**417**	**410**	**490**	**570**	**750**	**930**	**1,110**	18%	22%	
% Change	-16%	-2%	20%	16%	32%	24%	19%			
Avodart - U.S. (lc, ex fx)										
Avodart - U.S.	258	235	50	25	5	5	5	-48%	-54%	Patent expires 2015; Teva can launch via s
Avodart - EU (lc, ex fx)										
Avodart - EU	280	260	240	75	50	25	10	-43%	-48%	Patent expires 2017
Avodart - EM	113									
Avodart - Japan	114									
Avodart - ROW	40	245	230	215	200	185	170	27%	-7%	
Avodart	805	740	520	315	255	215	185	-22%	-24%	BPH; good growth despite finasteride gen

Source: Cowen and Company