GlaxoSmithKline plc (GSK)

$40.95 (As of 06/18/20)

Price Target (6-12 Months): **$43.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/11/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: C | Momentum: C	

Summary

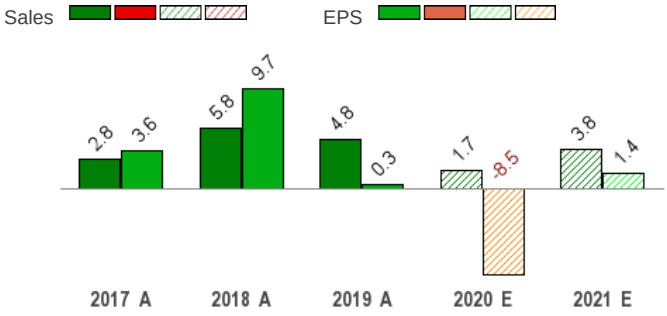
Glaxo's three newest products, Trelegy Ellipta, Shingrix and Juluca, are doing well, particularly Shingrix. These products coupled with restructuring in the Consumer Health unit have strengthened Glaxo's competitive position. We are encouraged by the company's initiatives to focus on its oncology pipeline. In 2020, Glaxo expects at least six potential approvals in oncology, HIV, and respiratory areas. However, pricing pressure and competitive dynamics due to generic competition for key drug, Advair, are hampering sales of Glaxo's respiratory products. Also, competitive pressure on HIV drugs has risen. Glaxo anticipates a major decrease in Shingrix sales in Q2 due to slowing vaccination rates. Its shares have underperformed the industry this year so far.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$48.25 - $31.43**
20 Day Average Volume (sh)	**2,934,102**
Market Cap	**$102.7 B**
YTD Price Change	**-12.9%**
Beta	**0.72**
Dividend / Div Yld	**$1.86 / 4.5%**
Industry	**Large Cap Pharmaceuticals**
Zacks Industry Rank	**Top 9% (23 out of 253)**
Last EPS Surprise	**22.8%**
Last Sales Surprise	**6.3%**
EPS F1 Est- 4 week change	**-0.8%**
Expected Report Date	**07/22/2020**
Earnings ESP	**0.0%**
P/E TTM	**12.3**
P/E F1	**14.1**
PEG F1	**2.0**
P/S TTM	**2.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					45,520 E
2020	11,642 A	10,132 E	11,293 E	11,313 E	43,847 E
2019	9,977 A	10,037 A	11,570 A	11,462 A	43,102 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					$2.94 E
2020	$0.97 A	$0.60 E	$0.82 E	$0.61 E	$2.90 E
2019	$0.79 A	$0.78 A	$0.95 A	$0.64 A	$3.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/18/2020. The reports text is as of 06/19/2020.

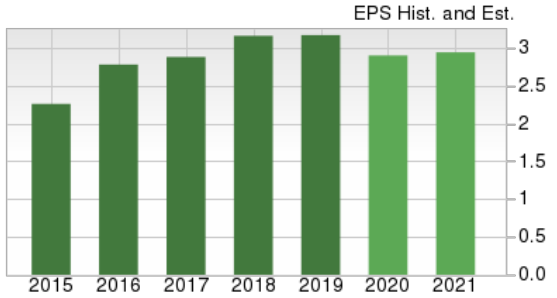
Overview

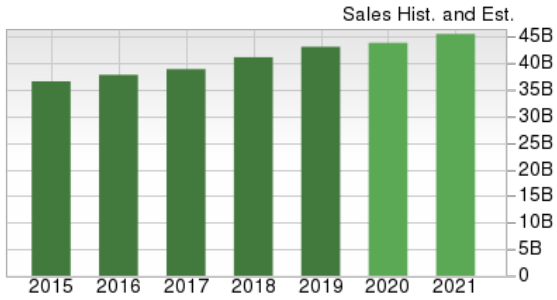
Glaxo has three core businesses – Pharmaceuticals (respiratory, HIV,immuno-inflammation and oncology), Vaccines (meningitis, shingles and influenza vaccines) and Consumer Healthcare (oral health, wellness, pain relief, vitamins & minerals, respiratory health and digestive health).

In December 2018, Glaxo and Pfizer announced an agreement to merge their consumer healthcare unit into a new joint venture (JV). The transaction closed on Aug 1, 2019. Glaxo owns a controlling stake of 68% in the JV.

Glaxo plans to split itself into two standalone companies. The new Glaxo will be a biopharma company focusing on developing new treatments. Glaxo intends to separate its Consumer Healthcare segment into a standalone company in 2022.

Glaxo is also divesting non-core assets. In 2015, Glaxo divested two quadrivalent meningitis ACWY vaccines – Nimenrix and Mencevax – to Pfizer, a portfolio of over-the-counter brands to Perrigo, and all its remaining rights to Arzerra for auto-immune indications including multiple sclerosis to Novartis. In January 2019, Glaxo acquired Tesaro, an oncology focused biotech company, which added the PARP inhibitor Zejula (approved for ovarian cancer) to its portfolio





The Pharmaceuticals, Vaccines and Consumer Healthcare segments contributed approximately 52%, 21% and 27%, respectively, to revenues in 2019. Total sales in 2019 were £33.75 billion ($43.2 billion).

The company is headquartered in Brentford, UK.

Reasons To Buy:

> Glaxo's three new products, Trelegy Ellipta, Shingrix and Juluca, are doing well, particularly Shingrix. These products coupled with restructuring in the Consumer Health unit have strengthened competitive position

- **Diversified Product Portfolio and Expansion in International Markets:** The company's diversified base and presence in different geographical areas should help support revenues. Expansion into markets like Japan and emerging markets should provide new opportunities for growth. The company has made significant progress in expanding its presence in emerging markets by acquiring product portfolios from companies like Bristol-Myers and UCB.

- **Successful New Product Launches:** Glaxo's relatively newer products like Nucala (severe eosinophilic asthma) and Bexsero (meningitis vaccine) are doing well and represent significant commercial opportunity.

  In 2017, Glaxo received approvals for three key new drugs, Shingrix vaccine for shingles, which enjoys preferential recommendation from ACIP; Trelegy Ellipta, which provides three medicines in a single inhaler to treat COPD and Juluca (dolutegravir and rilpivirine), first 2-drug regimen, once-daily, single pill for HIV. All the three products witnessed considerable success in 2018 and 2019, particularly Shingrix.

  In 2019, Glaxo gained approval for Dovato, a single tablet regimen of Tivicay (dolutegravir) + lamivudine for treatment-naïve HIV patients in the United States and EU. The new HIV medicine is off to a strong start in both the United States and the EU.

- **Strong Pipeline:** Glaxo is focused on oncology, immuno-inflammation, HIV and respiratory therapeutic areas. Promising candidates in late-stage development include fostemsavir (heavily pre-treated HIV — under review in the United States and EU), belantamab mafatotin (fourth-line multiple myeloma — under review in United States (PDUFA Date-August 2020) and EU), otilimab (rheumatoid arthritis - phase III), dostarlimab (second-line endometrial cancer — under review in the United States), gepotidacin (uncomplicated urinary tract infection and urogenital gonorrhoea — phase III), ICOS agonist (head and neck squamous cell cancer – phase II/III) and daprodustat (anaemia associated with chronic renal disease – phase III).

  Glaxo has had major positive data read-outs on multiple new medicines in HIV, oncology, immuno-inflammation and respiratory in 2019 with proof-of-concept readouts on several key pipeline assets scheduled for 2020. Glaxo expects at least six potential approvals in oncology, HIV, specialty and respiratory in 2020.

  The successful development and commercialization of the pipeline candidates should boost the company's top line. Glaxo is also working on expanding the label of marketed products into additional indications like Nucala for nasal polyps (regulatory filing in second half of 2020), COPD (phase III) and hypereosinophilic syndrome (under priority review in the United States), Benlysta for lupus nephritis (regulatory submissions to be filed in the second quarter of 2020) and Trelegy Ellipta for asthma (under review in the United States and EU).

- **Focus on Oncology:** Glaxo has made significant progress in its oncology pipeline and doubled its assets in development since early 2018. This has been achieved through advancement of internal programs as well as targeted business development including the January 2019 acquisition of Tesaro and the February 2019 global alliance with Merck KGaA (to co-develop bintrafusp alpha/M7824, a promising new oncology medicine).

  Meanwhile, Glaxo now has a number of molecules with diverse mechanisms of action, providing an opportunity for many innovative cancer combinations. Meanwhile, it divested its non-core Consumer Healthcare (CHC) nutrition business to Unilever and has formed a new CHC joint venture with Pfizer to focus on its pharmaceuticals business, particularly oncology.

  Zejula, the ovarian cancer drug Glaxo acquired from the Tesaro acquisition was approved for the treatment of late-stage ovarian cancer in October 2019. Meanwhile, Zejula was approved by the FDA for first-line maintenance therapy of women with platinum responsive ovarian cancer (regardless of BRCA mutational status) basedon the results of the PRIMA study in April 2020. The label expansion has significantly expanded Zejula's eligible ovarian cancer patient population.Meanwhile, Zejula is being evaluated for additional ovarian cancer stages as well as for non-small cell lung cancer and breast cancer.

- **Renewed Cost Saving Initiatives:** In July 2018, Glaxo announced a new restructuring program, which delivered approximately £4.2 billion of annual savings primarily through supply chain optimization and reductions in administrative costs. The program, together with cost savings from the TESARO buyout and CHC JV with Pfizer, is expected to generate total annual savings of £4.3 billion by 2020.

  The costs saved will be invested to support new product launches, strengthen the R&D pipeline and to help mitigate pricing pressure on margins.

  Meanwhile, the company's separation program is expected to generate £700 million of annual savings by 2022.

- **Favorable Debt Profile:** As of Mar 31, 2020, Glaxo's net debt was £26.7 billion, compared with £25.2 billion as of Dec 31, 2019. Net debt comprised gross debt of £32.0 billion and cash and liquid investments of £5.3 billion. However, the cash/liquid investments are sufficient to pay the short-term debt of £7.3 billion in case of insolvency. The company's debt/capital ratio was 61.4 at the end of March 2020, lower than 62.4 at the end of December 2019. A lower ratio indicates lower financial risk. Meanwhile, its times interest earned ratio stands 8.4, higher than 7.8 at the end of December 2019 and has risen consistently for the past few quarters. A higher times interest earned ratio indicates that the company is capable of meeting its interest obligations from operating earnings.

Reasons To Sell:

A generic version of its top-selling drug Advair has been launched, which is significantly eroding Advair's sales as well as hurting the overall top-line.

- **Shares Underperforming Industry:** This year so far, Glaxo's share price has declined 12.8%, underperforming the industry's decrease of 2.0% in the same period.

- **Pharma Unit Soft:** Glaxo's pharmaceutical segment sales were relatively weak in 2019, remaining flat at constant exchange rates. In the Respiratory drugs unit, though sales of relatively newer drugs like Trelegy Ellipta and Nucala rose, those of Relvar/Breo Ellipta declined 13% due to lower sales in the United States. Persistent competitive and pricing pressure, particularly for ICS/LABA class of medicines, hurt U.S. sales of Relvar/Breo Ellipta, which declined 37% in the year. The competitive pressure on the ICS/LABA class of medicines in the United States has intensified with the launch of generic Advair. Pricing pressure continues in 2020.

  Also, competitive pressure on Glaxo's HIV drugs has risen. Rising competitive pressure coupled with shift within its portfolio toward two-drug regimens is hurting sales of Glaxo's HIV business. Sales rose only 1% in 2019 and are expected to be broadly flat in 2020.

  Overall, Glaxo's Pharmaceutical segment sales are expected to decline in 2020, excluding divestments, as the growth of new products will be offset by a decline in Established Pharmaceuticals due to generic erosion. Glaxo's Established Pharmaceuticals business is expected to decline in mid-to-high single-digit range in 2020.

- **Generic Competition for Key Products:** Glaxo's top line is under significant pressure due to generic competition faced by key products. Products like Lovaza and Avodart are facing declining sales due to intense generic competition. HIV drug, Epzicom is facing generic competition in most major markets. Sales of Advair, which generated 14% of Glaxo's Pharmaceuticals revenues in 2018, are eroding rapidly as a generic version of the drug was launched in the United States in February 2019. The drug's sales were already being adversely impacted by pricing and competitive pressure in the United States and generic competition in Europe. Advair sales declined 13% in 2016, 14% in 2017 and 21% in 2018. Sales of Advair declined 29% in 2019, significantly affecting Glaxo's overall top-line performance in the year.

- **Pipeline Setbacks:** Although Glaxo has several pipeline candidates in different stages of development, the company has had its share of pipeline/regulatory setbacks. Major setbacks include disappointing top-line phase III data on chronic coronary heart disease candidate, darapladib; Duchenne muscular dystrophy candidate, Kyndrisa (drisapersen), failing to meet the primary endpoint in a phase III study; disappointing phase III data on its Crohn's disease candidate, vercirnon and cardiovascular candidate, Iosmapimod, failing to achieve the primary endpoint in a phase III study.

  Among the more recent pipeline setbacks, in September 2018, Glaxo received a complete response letter (CRL) from the FDA for its regulatory filing looking for label expansion of Nucala for the COPD indication**.**

- **Intense Competition:** In addition to facing generic competition, most of Glaxo's products are up against significant competition from small as well as large pharmaceutical companies. Glaxo's Consumer Healthcare segment faces competition from big companies like Colgate-Palmolive, Johnson & Johnson, Procter & Gamble and Pfizer. In addition, there are many small companies that compete with Glaxo in certain markets. Loss of market share due to intense competition will severely impact Glaxo's top line.

  In the respiratory market, Advair is facing stiff competition in the COPD and asthma markets from AstraZeneca and Merck's respiratory disease drugs. Meanwhile, the launch of AstraZeneca's Fasenra and Sanofi's Dupixent has raised competitive pressure for Nucala, which has begun to hurt sales growth of this key new drug in Glaxo's portfolio. Meanwhile, continued competitive and pricing pressure is hurting sales of Glaxo's ICS/LABA class of medicines.

Last Earnings Report

Glaxo Tops Q1 Earnings & Revenue Estimates

Quarter Ending	03/2020
Report Date	**Apr 29, 2020**
Sales Surprise	**6.34%**
EPS Surprise	**22.78%**
Quarterly EPS	**0.97**
Annual EPS (TTM)	**3.34**

Glaxo reported first-quarter 2020 adjusted earnings of 97 cents per American depositary share, which beat the Zacks Consensus Estimate of 79 cents. Adjusted earnings were up25% on a reported basis and 26% at constant exchange rate ("CER") year over year due to higher sales, lower tax rate and one-off impact of a revaluation of deferred tax assets during the quarter.

Quarterly revenues rose 19% on a reported basis as well as on aCER basis to $11.74 billion (£9.1 billion). Sales beat the Zacks Consensus Estimate of $10.95 billion. Further, on a pro-forma basis, excluding the impact of the acquired Pfizer consumer healthcare business, sales rose 10% at CER reflecting strong sales growth across all three businesses.

Sales benefited from COVID-19 related pull forward and stockpiling in Pharmaceuticals and Consumer Healthcare units.Glaxo expects the pull through in Q1 to unwind in the second quarter and therest of 2020.

All growth rates mentioned below are on a year-on-year basis and at CER.

Quarterly Highlights

Glaxo reports results under three segments: Pharmaceuticals, Vaccines and Consumer Healthcare.

Pharmaceuticals sales were up6% at CER driven by growth in Respiratory and HIV segment, partially offset by sales decline at Established Pharmaceuticals segment. Moreover, additional demand and customer stockpiling in Europe and the United States due to COVID-19 pandemic toward the end of the quarter positively impacted sales of HIV and Respiratory products. Approximately half to two-thirds of the 6% sales growth was due to COVID-19 related stockpiling.

Sales in the United States were up3%. Sales in European markets were up15% at CER and 4% in international markets. However, sales in China were lower due to the pandemic

HIV sales were up 8% year over year at CER, benefiting from customer stock building

Sales of dolutegravir franchise were up 9%, while sales from remaining drugs, comprising 4% of HIV portfolio, declined 13% at CER.

Sales of the dolutegravir franchise were up 2% in the U.S. market and up 18% in Europe. Sales growth in these regions was driven by market-share growth of two-drug regimens and increased COVID-19 related customer stock buildingtowards the end of the quarter. In international markets, sales were up 25% at CER mainly driven by Tivicay.

The dolutegravir franchise comprises two three-drug regimens — Triumeq and Tivicay — and two two-drug regimens — Juluca and Dovato. The growth in sales of Juluca and Dovato in the first quarter more than offset the 8% decline in sales of Triumeq. COVID-19 related consumer stockbuilding benefited sales of Tivicay and Triumeq. Tivicay sales rose 8% in the quarter.

Juluca generated sales of £120 million compared with £111 million in the previous quarter. Dovato generated sales of £66 million compared with £33 million in the previous quarter
In 2020, Glaxo expects HIV revenues to be broadly flat.

Respiratory sales now comprise only new respiratory drugs, namely Ellipta portfolio and Nucala with Advair and all other older respiratory products being moved to the Established Pharmaceuticals portfolio. Sales of respiratory drugs rose 38% at CER driven by increase in sales of Trelegy Ellipta and Nucala. Sales of respiratory drugs increased 42% in Europe and 36% each in International markets and the United States.

Sales of Nucala grew 38% in the quarter benefiting from global launch of new at-home use application. Sales grew 33% and 38% in the United States and Europe, respectively. In the International markets, sales of Nucala increased 55%.

Sales of Ellipta products rose 38% in the quarter as sales rose in all regions. Trelegy Ellipta generated sales of £193 million, benefiting from share gains after an expanded U.S. label compared with £172 million in the previous quarter. Relvar/Breo Ellipta registered growth of 32% in sales during the first quarter due to prior period RAR adjustment related to U.S. sales. Sales of Relvar/Breo Ellipta increased 45% in the United States.

However, the Respiratory segment continues to face competitive and pricing pressure particularly for ICS/LABA class of medicines. The competitive pressure on the ICS/LABA class of medicines in the United States has intensified with the launch of generic Advair.

Sales of Relvar/Breo Ellipta increased 33% and 16% in European and international markets, respectively.

Immuno-inflammation drug Benlysta rose 24% in the quarter, with U.S. sales rising 18%.The subcutaneous formulation generated sales of £67 million in the quarter.

Oncology sales comprising sales of Zejula were £81 million compared with £66 million in the previous quarter. The sales included £48 million in the United States and £33 million in Europe.

Sales of Established Pharmaceuticals declined 6% due to lower sales of Advair and adverse impact of prior period RAR adjustments in U.S. sales. Advair sales declined 40% year over year in the United States while Seretide sales were down 3% in Europe due to generic competition. International Seretide sales declined7%. Sales of Ventolin were up 4% in the quarter helped by incremental demand as a result of COVID-19. Ventolin sales were down1% in the U.S. market during the quarter.

The rest of the Established Pharmaceuticals portfolio declined 2% in the quarter.

Glaxo's Pharmaceutical segment sales are expected to decline slightly in 2020, excluding divestments, as the growth of new products will be offset by a decline in Established Pharmaceuticals. Glaxo's Established Pharmaceuticals business is expected to decline in mid-to-high single-digit range in 2020.

Glaxo revised the category structure for this segment's report from the first quarter of 2020. It now reports under five categories — Pain relief; Oral health; Respiratory health; Vitamins, minerals and supplements; and Digestive health and other.

Sales in the **Consumer Healthcare** segment increased 46% at CER, primarily driven by Pfizer's legacy brands. On a pro-forma basis, sales in the Consumer Health segment were up 11% at CER

The impact of COVID-19 was mixed for this segment. Sales in the United States, the United Kingdom and Australia benefited from increased demand and accelerated purchases while in other regions like India and China, sales were hurt by government mandated retailer shut-downs. Approximately two-thirds of the sales growth of the Consumer Healthcaresegment was due to COVID-19 related stockpiling.

Sales of Pain relief, Oral health and Respiratory health categories increased 68%, 13% and 51%, respectively, in the quarter. Sales of Vitamins, minerals and supplements category more than doubled in the first quarter.Digestive health and other category's sales were up 31%.

Sales from the **Vaccines** segment were impressive, up 19% at CER, primarily driven by strong growth of shingles vaccine, Shingrix and impressive performance of meningitis and influenza vaccines, partially offset by decline in sales of established vaccines. In the quarter, Glaxo did not see any material impact on Vaccines as a result of COVID-19.

Geographically, sales rose 29% in the United States, 4% in Europeand 13% in the international markets.

Shingrix sales increased 79% in the reported quarter, driven by strong uptake in the United States. The vaccine also witnessed solid demand in Germany and Canada. Glaxo plans to launch Shingrix in China in 2020.

In 2020, Glaxo expects Shingrix sales growth to be flat to slightly up from2019 levels. Glaxo maintained the guidance but expects sales in Q2 to be hurt by slowing vaccination rates in the United States under containment measures. Glaxo said that Shingrix vaccination rates dropped by 80-90% in April.

In the meningitis portfolio, Bexsero sales increased 8% on the back of strong demand and favorable timing of tenders in Europe as well as market growth in the United States. Menveo sales were up 24% due to higher demand in U.S. and European markets.

Sales of influenza vaccine Fluarix were up 53%, driven by strong demand in international markets. However, sales of Established vaccines were down 3% year over year.

In 2019, Glaxo divested its travel vaccines Rabipur and Encepur, which is expected to hurt sales by 3% in 2020.

Glaxo expects the sales of its meningitis vaccines to be hurt by the COVID-19 crisis and that of hepatitis vaccines to be hurt by global travel restrictions.

Profit Discussion

Adjusted operating profit rose 24% in the period to £2.68 billion. On a pro-forma basis, adjusted operating profit rose 14%. Adjusted operating margin rose 110 bps in the quarter at CER to 29.4%, driven by higher sales, a favorable mix in Vaccines and cost control, which offset the impact of generic competition onAdvair in the United States and higher R&D & SG&A costs.

Selling, general and administration (SG&A) costs increased 18% (8% on pro-forma basis) year over year to £2.8 billion. The rise in SG&A costs was driven by increased commercial activities to support launches and costs related to the acquisition of TESARO, partly offset by cost-saving initiatives.

Research and development (R&D) expenses were up 11% (9% on pro-forma basis) to £1.09 billion, reflecting increased investments to support progress of clinical studies, especially those on Zejula. Glaxo has 39 new medicines, including 15 vaccines, in different development stages.

2020 Guidance

Based on its current assessment of the COVID-19 impact, Glaxo maintained its previous adjusted EPS guidance of a decline of 1% to 4% at CER year over year in 2020. However, the current situation remains uncertain due to the pandemic and the company plans to update its outlook later, if needed.

Glaxo said that recruitment for clinical trials has slowed due to the pandemic related disruption and that itexpects1-3 months' delay for most ongoing studies. Glaxo has proactively paused recruitment in some clinical studies including pivotal programs related to otilimab in rheumatoid arthritis, and Nucala in COPD. Glaxo continues to enroll new patients in ongoing clinical studies and does not expect any significant delays to regulatory approvals due to the pandemic.

Glaxo, however, warned of significant uncertainty related to the pandemic and said it could disrupt its manufacturing activities and the supply chain, hurt its ability to conduct clinical studies and hurt demand of elective or discretionary treatments and vaccines such as Shingrix.

Recent News

Plans to Issue Senior Notes – June 17

Glaxo announced its intention to offer senior notes due 2023 exchangeable into ordinary shares of Theravance Biopharma, which Glaxo owns

Partnership With IDEAYA Biosciences in Synthetic Lethality – June 16

Glaxo announced a partnership with IDEAYA Biosciences in Synthetic Lethality, which is an emerging field in precision medicine oncology for an upfront payment of $100 million. The partnership includes three of IDEAYA Synthetic Lethality programs —MAT2A, Pol Theta and Werner Helicase —which are in pre-clinical studies. Under the deal, the companies will explore combinations of IDEAYA and Glaxo pipeline candidates. In addition to the upfront payment, Glaxo will also purchase IDEAYA stock worth $20 million. IDEAYA will also be entitled to receive a potential $50 million cash option exercise fee for the MAT2A program as well as potential milestone payments and profit share if the MAT2A and Werner Helicase programs are successfully developed.

IDEAYA will lead the development of MAT2A program through early stages and will take care of all costs of the MAT2A program prior to the Glaxo's option exercise. Thereafter, IDEAYA is responsible for 20% of global development costs.

FDA Approves Tivicay for Pediatric Use – June 12

Glaxo announced that the FDA has granted approval to Tivicay PD, the first-ever dispersible tablet formulation of dolutegravir for treating HIV-1 in pediatric patients. The tablet will be available for oral suspension to treat pediatric patients aged at least four weeks and weighing at least 3kg. Meanwhile, the FDA also approved an expanded label of Tivicay 50mg film-coated tablet for use in pediatric HIV patients (weighing 20kg and above). Until now, Tivicay was approved for use in children from six years of age and weighing more than 30kg

Plans to Make 1B Doses of Coronavirus Vaccine Adjuvant – May 28

Glaxo announced that it plans to produce 1 billion doses of its pandemic vaccine adjuvant in 2021 that can be used for the development of COVID-19 vaccine candidates that are suitable for use with an adjuvant. The pandemic adjuvant can reduce the amount of vaccine protein required per dose, which, in turn, will allow more vaccine doses to be produced. It can also increase the immune response of the vaccines, thereby providing better immunity.

Glaxo has formed several collaborations to make its pandemic adjuvant technology available to partners, including scientific partners in North America, Europe and China, who are making adjuvanted COVID-19 vaccine candidates. Glaxo has decided to enhance its manufacturing capacity at sites in Europe and North America, which will allow it to make 1 billion doses of the adjuvant. Glaxo is in discussion with several governments and global institutions to fund its development of the adjuvant.

FDA's Priority Review Tag for Nucala for HES – May 27

Glaxo announced that the FDA granted priority review designation to its regulatory application seeking approval of its drug Nucala for hypereosinophilic syndrome (HES), a rare disease caused by eosinophilic inflammation. Nucala is already marketed for severe eosinophilic asthma and for the treatment of eosinophilic granulomatosis with polyangiitis (EGPA).

ASCO Update – May 27

Glaxo presented a 13-month update from the DREAMM program on belantamab mafodotin for relapsed/refractory multiple myeloma at the annual meeting of the American Society of Clinical Oncology. In 13 months, treatment with belantamab mafodotin (2.5 mg/kg dose) as a monotherapy led to median overall survival of 14.9 months and median duration of response of 11 months.

Initial results from the DREAMM-6 study were also presented at ASCO. The data showed that belantamab mafodotin in combination with bortezomib and dexamethasone resulted in a 78% overall response rate.

Manufacturing Partnership with Samsung Biologics – May 21

Glaxo announced a long-term partnership with South Korea's Samsung Biologics under which the latter will provide Glaxo with additional capacity for large-scale manufacturing of biopharmaceutical products. The deal is worth more than $231 million over the next eight years. The flexible manufacturing capacity will be initially used for commercial production of lupus drug Benlysta and the first commercial supply is expected in 2022.

Valuation

Glaxo's shares are down 12.8% in the year-to-date period but up 1.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 2.0% and 2.2%, respectively, in the year-to-date period. Over the past year, stocks in the sub-industry are up 4.7%, while the

sector is down 1.7%.

The S&P 500 Index is down 3.3% in the year-to-date period but up 5.4% in the past year.

The stock is currently trading at 14.03X forward 12-month earnings per share, which compares with 14.46X for the Zacks sub-industry, 22.73X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.78X and as low as 10.67X, with a 5-year median of 14.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $43.00 price target reflects 14.7X forward 12-month earnings per share.

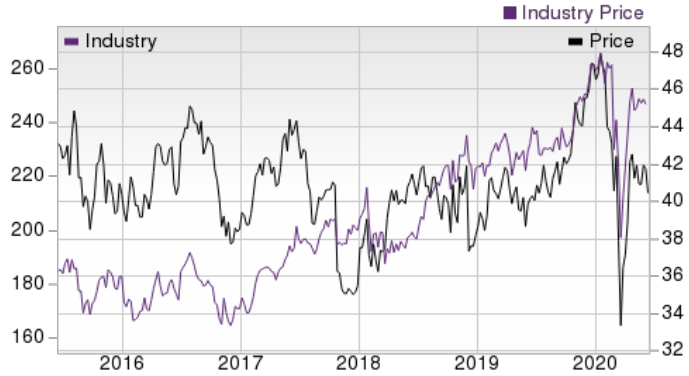
The table below shows summary valuation data for GSK

Valuation Multiples - GSK

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.03	14.46	22.73	22.4
	5-Year High	17.78	18.12	23.16	22.4
	5-Year Low	10.67	13.07	15.94	15.23
	5-Year Median	14.35	15.33	19.05	17.49
P/S F12M	Current	2.3	4.57	2.76	3.49
	5-Year High	2.92	4.83	3.74	3.49
	5-Year Low	1.76	3.92	2.21	2.53
	5-Year Median	2.51	4.39	2.91	3.02
P/B TTM	Current	3.99	5.96	4.14	4.19
	5-Year High	27.53	7.23	5.06	4.56
	5-Year Low	3.55	3.77	2.93	2.83
	5-Year Median	16.85	5.24	4.28	3.66

As of 6/18/2020

Industry Analysis **Zacks Industry Rank:** Top 9% (23 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AstraZeneca PLC **(AZN)**	Neutral	2
BristolMyers Squibb Company **(BMY)**	Neutral	2
Gilead Sciences, Inc. **(GILD)**	Neutral	2
JohnsonJohnson **(JNJ)**	Neutral	3
MerckCo., Inc. **(MRK)**	Neutral	3
Novartis AG **(NVS)**	Neutral	3
Pfizer Inc. **(PFE)**	Neutral	3
Roche Holding AG **(RHHBY)**	Neutral	3

Industry Comparison Industry: Large Cap Pharmaceuticals

Industry Peers

	GSK	X Industry	S&P 500	JNJ	PFE	RHHBY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	A	A
Market Cap	102.72 B	142.11 B	21.93 B	377.83 B	184.64 B	303.94 B
# of Analysts	6	3	14	9	4	4
Dividend Yield	4.54%	2.76%	1.93%	2.82%	4.57%	1.62%
Value Score	B	-	-	B	A	A
Cash/Price	0.08	0.05	0.06	0.05	0.06	0.04
EV/EBITDA	10.47	13.83	12.69	15.62	8.89	13.83
PEG Ratio	2.00	2.10	2.97	3.13	2.60	3.12
Price/Book (P/B)	3.99	4.01	3.02	6.16	2.82	8.42
Price/Cash Flow (P/CF)	9.45	11.39	11.62	12.45	8.09	13.89
P/E (F1)	14.12	15.21	21.45	18.68	11.54	17.07
Price/Sales (P/S)	2.30	4.13	2.33	4.57	3.64	NA
Earnings Yield	7.08%	6.57%	4.37%	5.36%	8.66%	5.86%
Debt/Equity	1.23	0.67	0.77	0.41	0.56	0.35
Cash Flow ($/share)	4.33	4.33	7.01	11.52	4.11	3.20
Growth Score	C	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	7.29%	8.53%	10.87%	9.40%	8.07%	NA
Proj. EPS Growth (F1/F0)	-8.52%	3.06%	-10.65%	-11.57%	-2.37%	2.36%
Curr. Cash Flow Growth	4.83%	3.68%	5.46%	3.68%	-6.57%	11.61%
Hist. Cash Flow Growth (3-5 yrs)	1.08%	7.62%	8.55%	7.62%	2.54%	9.89%
Current Ratio	0.87	1.11	1.29	1.31	1.02	1.30
Debt/Capital	55.18%	39.71%	45.14%	29.29%	35.70%	26.10%
Net Margin	15.28%	22.54%	10.53%	24.47%	31.17%	NA
Return on Equity	43.97%	32.02%	16.06%	39.71%	25.76%	NA
Sales/Assets	0.45	0.46	0.55	0.53	0.31	NA
Proj. Sales Growth (F1/F0)	1.86%	4.76%	-2.61%	-2.59%	-10.65%	5.32%
Momentum Score	C	-	-	C	A	A
Daily Price Chg	-2.10%	-0.92%	-0.07%	-0.42%	-0.95%	-0.92%
1 Week Price Chg	-3.07%	-3.50%	-7.25%	-3.50%	-6.22%	-0.37%
4 Week Price Chg	-0.19%	0.15%	6.92%	-2.25%	-10.79%	0.15%
12 Week Price Chg	9.93%	14.44%	16.91%	13.31%	4.69%	14.44%
52 Week Price Chg	1.34%	14.48%	-5.63%	0.84%	-23.76%	24.10%
20 Day Average Volume	2,934,102	2,934,102	2,574,456	7,249,531	32,842,730	1,640,315
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.82%	0.00%
(F1) EPS Est 4 week change	-0.80%	0.09%	0.00%	0.00%	0.82%	0.00%
(F1) EPS Est 12 week change	-2.03%	-2.03%	-14.21%	-15.00%	2.95%	-2.80%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	6.11%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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