



- **Margin pressures greater than expected.** Core operating margin was under significant pressure in 1Q, down 405bps over the prior period and modestly worse than assumed by consensus (23.2% Core EBIT vs consensus of 23.6%). This deterioration reflects pricing pressure on Advair and impact of the Novartis transaction. Management is now guiding to a c.500bp drag on margins for the FY partly as a result of greater than expected costs from the acquired vaccines division of Novartis. Core EPS of 17.3p (-16% CER) was 2% below consensus.

## Investor Event: Credible plans, now all down to execution

At its investor event management presented detail of its expected pathway to a return to growth from 2016, driven by: (1) growth and improving margins of its Consumer and Vaccines businesses; (2) a strong contribution from its ViiV franchise and; (3) expectations for resilience of its respiratory franchise. The key messages focused on its diversified growth pillars and arguments that investors should look through pressures/risks to the Advair/respiratory franchise. We expect downgrades to near-term consensus estimates (c.6% to 2016) given a more negative outlook for margins of acquired businesses than assumed and the decision to forgo the £4bn B share scheme. However, management's targets for each of the respective divisions look credible and broadly consistent with our prior assumptions. That said, investors are likely to remain cautious on execution given recent poor performance.

## Forecast changes

We have revised our forecasts to reflect dilution from the cancelled £4bn B share scheme and a further reset in margins. This is partly offset by GSK's accelerated timelines for its £3bn cost saving and synergies programme. This leads us to reduce our Core EPS forecasts by 10% in 2015 and 6-8% thereafter. Of this c.3% in 2015 and c.5% thereafter reflect a higher share count and 2-3% lower underlying profitability. Beyond this our assumptions are largely unchanged leading to 2015-19 EPS CAGR of 8% (from 7%) albeit from a significantly lower base.

Figure 2: Changes to DB Core EPS forecasts (p)

	FY15E	FY16E	FY17E	FY18E	FY19E	CAGR 14/18E	CAGR 15/19E
Old core EPS	87.0	93.7	102.4	109.0	114.6	3.4%	7.1%
New core EPS	78.3	87.8	95.3	100.4	105.1	1.3%	7.6%
Change (new vs old) %	-10.0%	-6.3%	-6.9%	-7.9%	-8.3%		
Yoy growth %	-17.9%	12.2%	8.6%	5.3%	4.7%		
CER yoy growth %	-18.5%	12.4%	8.5%	5.1%	4.8%		

Source: Deutsche Bank