GLAXOSMITHKLINE PLC
Form 6-K
July 26, 2017

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For period ending 26 July 2017

GlaxoSmithKline plc
(Name of registrant)

980 Great West Road, Brentford, Middlesex, TW8 9GS
(Address of principal executive offices)

Indicate by check mark whether the registrant files or
will file annual reports under cover Form 20-F or Form 40-F

Form 20-F x Form 40-F

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Indicate by check mark whether the registrant by furnishing the
information contained in this Form is also thereby furnishing the
information to the Commission pursuant to Rule 12g3-2(b) under the
Securities Exchange Act of 1934.

Yes No x

Issued: Wednesday, 26 July 2017, London U.K.

GSK delivers further progress in Q2 and sets out new priorities for the Group

Q2 sales of £7.3 billion, +12% AER, +3% CER
Total loss per share of 3.7p, +59% AER, +29% CER; Adjusted EPS of 27.2p, +12% AER, -2% CER

Financial highlights

- Pharmaceutical sales, £4.4 billion, +12% AER, +3% CER, Vaccines sales, £1.1 billion, +16% AER, +5% CER, Consumer Healthcare sales, £1.9 billion,+10% AER, flat at CER
- Group operating margin 28.5%; Pharmaceuticals 33.6%; Vaccines 33.7%; Consumer 17.7%
- Total Q2 loss per share of 3.7p reflecting charges resulting from increases in the valuation of Consumer and HIV businesses and new portfolio choices
- Updated 2017 guidance: Adjusted EPS growth now expected to be 3% to 5% CER reflecting impact of Priority Review Voucher
- H1 Free Cash Flow £0.4 billion (H1 2016: £0.1 billion)
- 19p dividend declared for Q2; continue to expect 80p for FY 2017

Product and pipeline highlights

- New product sales of £1.7 billion, +62% AER, +47% CER
- HIV two drug regimen (dolutegravir and rilpivirine) filed for approval in US and EU
- Shingrix filed for approval in Japan
- FDA approval received for subcutaneous Benlysta for treatment of SLE

New business priorities to 2020

- New priorities to strengthen innovation, improve performance and build trust
- Pharmaceutical R&D pipeline reviewed with target over time to allocate 80% of capital to priority assets in two current (Respiratory and HIV/infectious diseases) and two potential (Oncology and Immuno-inflammation) therapy areas; more than 30 pre-clinical and clinical programmes to be stopped
- Extended cost reduction programme expected to deliver additional £1 billion annual cost savings by 2020 driven by new business priorities, improved supply chain efficiency and reduced administrative costs
- Enhanced focus on improved cash generation and strengthening credit profile
- Dividend of 80p expected for 2018 in conjunction with new dividend policy
- Group outlook for 2020: Expected 5 year percentage CAGR to 2020 on a CER basis for sales of low-to-mid-single digits and Adjusted EPS of mid-to-high single digits

Q2 2017 results

	Q2 2017	Growth		H1 2017	Growth	
	£m	£%	CER%	£m	£%	CER%
Turnover	7,320	12	3	14,704	15	4
Total operating (loss)/profit	(20)	87	(45)	1,698	>100	>100
Adjusted operating profit	2,083	14	-	4,062	21	4

Total (loss)/earnings per share	(3.7)p	59	29	17.7p	>100	>100
Adjusted earnings per share	27.2p	12	(2)	52.1p	20	3
Net cash from operations	1,008	(18)		2,152	24	
Free cash flow	(282)	>(100)		368	>100	

Emma Walmsley, Chief Executive Officer, GSK said:
"Q2 was another quarter of progress for GSK with Group sales up 3% to £7.3 billion and Adjusted EPS of 27.2p. Our priority for the second half of the year is to maintain this momentum and prepare for the successful execution of several important near-term launches in Respiratory, Vaccines and HIV.

"Today we are updating our full year earnings guidance to reflect the investments we have made to accelerate the review of our new two drug regimen in HIV. We are also providing an update to investors on the longer-term outlook for the Group and our priorities to improve innovation, performance and trust in GSK."

The Total results are presented under 'Income Statement' on page 39 and Adjusted results reconciliations are presented on pages 19, 25 and 62 to 65. The definitions of £% or AER% growth, CER% growth, Adjusted results, free cash flow, other non-IFRS measures are set out on page 36.
All expectations and targets regarding future performance should be read together with "Assumptions related to 2017 guidance and 2016-2020 outlook" and "Assumptions and cautionary statement regarding forward-looking statements" on page 37.

New business priorities
At a meeting in London today, GSK set out a series of new priorities and updated its financial outlook for the Group.

The Group affirmed its commitment to developing innovative healthcare products for patients and consumers across Pharmaceuticals, Vaccines and Consumer Healthcare.

These businesses have leadership positions in some of the world's biggest therapeutic areas and categories, a broad international reach, and together have strategic and operational synergies. Earnings and cash flows from this combination of businesses offer balance to the Group and provide a level of sustainability to its performance, its ability to invest in future growth and in its returns to shareholders.

The recent performance of these three businesses has demonstrated the benefits of the transaction with Novartis in 2015 as well as the impact of more effective introductions of new products, notably new Respiratory and HIV medicines and vaccines to prevent meningitis. Better performance, together with cost savings has also resulted in improved margins and cash flows for all three businesses over the last 18 months.

Whilst this recent delivery is encouraging, the company highlighted that there are several key issues it needs to address, over the next three years, to make sure the Group delivers long-term competitive performance.

All three businesses need to perform but the priority for GSK is to improve in Pharmaceuticals. Delivering full value from recent and imminent product launches, together with cost base improvements, is required to help mitigate the impact of pricing pressures to its current portfolio. Strengthening the Pharmaceuticals pipeline is a key objective for the Group.

Beyond Pharmaceuticals, the Group aims to realise further benefits from its newly scaled Consumer Healthcare and Vaccines businesses. The Group is also aiming to increase investment flexibility with a series of measures to improve cash generation and clearer capital allocation priorities.

Going forward, GSK intends to focus on three long-term priorities: Innovation, Performance and Trust.

Innovation is important for all three businesses but the Group's top priority is to improve in Pharmaceuticals.

A key near-term focus is to maximise value from new products and three other material new launch opportunities: Shingrix, a potential new vaccine for shingles; Closed Triple, a new 3-in-1 respiratory medicine; and new two drug regimens in HIV.

In its Pharmaceuticals pipeline, GSK has developed a priority list of assets to invest behind. This priority list will evolve as data reads out. The Group has also set a target to deploy over time 80% of its Pharmaceuticals R&D capital to priority assets in two current therapy areas: Respiratory and HIV/infectious diseases; and two potential areas: Oncology and Immuno-inflammation. Significant data is expected from these priority assets over the next three years which will be used to inform R&D investment decisions and how best to generate value from these assets. GSK also expects to pursue disciplined business development to augment its early-stage pipeline in these priority areas.

As part of its efforts to prioritise and allocate resources in R&D, GSK is terminating development programmes that are unlikely to generate sufficient returns. GSK has so far made decisions to terminate, partner or divest more than 30 pre-clinical and clinical programmes. The Group has also undertaken a strategic review of its Rare Diseases unit and is now considering options for future ownership of these assets.

In addition, the Group is taking steps to improve the partnership between R&D and its commercial organisation as well as its governance around pipeline decision-making with the establishment of a new Development Advisory Board and a new Board Scientific Committee.

GSK's second priority is a new company-wide focus on delivery of sustainable, ethical and more competitive performance.

The Group is making a number of choices to prioritise the strongest assets and markets in its portfolio and move capital and resources away from those that offer more limited opportunities. It is prioritising investment to support commercial execution in the US market and is implementing a new operating model for Emerging Markets to increase competitiveness and support long-term profitable growth in these markets. The Group has also decided to terminate its collaboration on sirukumab with Janssen Biologics and progressively withdraw its support for Tanzeum.

The Group is putting in place plans to improve its cash generation and is expanding its current cost saving programme. It is targeting delivery of an additional £1 billion in annual cost savings by 2020 at constant exchange rates. These new cost savings will be used to fund new product launches, R&D investments and to help mitigate pricing pressure on margins.

A key driver of the new savings will be through realising efficiency improvements in the Group's supply chain. This will include changes to GSK's manufacturing network, divestment and exit of more than 130 non-core tail brands (£0.5 billion in annual sales), reductions in overheads, improved procurement savings and more strategic supplier relationships.

The Group is also seeking to strengthen its capabilities through investments in people and appointment of external talent. One of the key areas for this will be in digital, data and analytics, with the Group aiming to leverage technology to improve clinical outcomes, develop real world data and make a step-change in its customer and consumer engagement.

GSK's third priority is to build Trust. The Group recognises that levels of trust in the industry are not sufficient and, if not addressed, will impact long-term value creation.

GSK will continue to make very strong commitments to delivering on the fundamentals of Trust: quality and safety, reliability of supply and service levels and effective compliance. It is also important that GSK's partners and customers trust the company's science and its intentions. GSK continues to develop its Healthcare Practitioner engagement model to make sure it is competitive and trusted.

The Group is operating in an environment with sustained pressure to reduce prices and recognises the issues that are being faced by payers. GSK has taken a balanced approach to pricing of its recently launched products and this will continue with the company looking to support payer needs whilst generating sufficient returns. GSK will also continue to allocate resources to supporting major global health needs such as malaria and HIV and will be increasing its efforts to adopt modern, progressive employer practices.

In addition to these new priorities, GSK also set out its intentions for future uses of capital.

Firstly, free cash flow will be used to invest in the business and support in particular: the Pharmaceuticals pipeline; realisation of the Consumer Healthcare put option, if exercised; and expansion of capacity in the Vaccines business. Secondly, free cash flow will be used to deliver returns to our shareholders through the payment of dividends. Thirdly, cash will be used for disciplined business development.

As well as establishing these clearer priorities for the allocation of capital in the future, the Group intends to manage its investments so that it continues to strengthen its credit profile and protect its target short-term A1/P1 credit ratings.

GSK reiterated its outlook for sales and earnings performance to 2020 (first set out in 2015).

GSK expects sales to grow at CER at a low-to-mid single digits percentage CAGR and Adjusted EPS to grow at a mid-to-high single digits percentage CAGR for the period 2016-2020. These outlooks are based on 2015 exchange rates and anticipate that at least one version of generic Advair will be launched in the US before 2020. The outlook includes the divestments announced today and those executed since 2015 (£0.9 billion in annual sales).

Given the potential development options in GSK's pipeline, the outlook may be affected by additional data-driven R&D investment decisions.

The Group also announced its policy for future distributions from 2018 onwards and its expectations for the 2018 dividend.

GSK recognises the importance of dividends to shareholders and aims to distribute regular dividend payments that will be determined primarily with reference to the free cash flow generated by the business after funding the investment necessary to support the Group's future growth.

The Board intends to maintain the dividend for 2018 at the current level of 80p per share, subject to any material change in the external environment or performance expectations. Over time, as free cash flow strengthens, it intends to build free cash flow cover of the annual dividend to a target range of 1.25-1.50x, before returning the dividend to growth.

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Sales performance

Group turnover by business and geographic region – Q2 2017

Group turnover by business	Q2 2017		
	£m	Growth £%	Growth CER%
Pharmaceuticals	4,357	12	3
Vaccines	1,111	16	5
Consumer Healthcare	1,852	10	-
Group turnover	7,320	12	3

Group turnover increased 12% AER, 3% CER to £7,320 million driven by continued momentum and growth in Pharmaceuticals and Vaccines.

Pharmaceuticals sales were up 12% AER, 3% CER, reflecting the continued strong growth of new products, driven particularly by Triumeq, Tivicay and Relvar/Breo Ellipta, partly offset by the impact of divestments. Nucala also contributed significantly to total Respiratory growth of 14% AER, 4% CER.

Vaccines sales were up 16% AER, 5% CER, reflecting a strong performance from Meningitis vaccines and higher demand for Established Vaccines as well as favourable year-on-year US CDC stockpile movements, partly offset by the reversal of the beneficial phasing of shipments in Emerging Markets in the first quarter.

Consumer Healthcare sales were up 10% AER, but flat at CER, reflecting strong performances from power brands, particularly in Pain relief and Oral health, offset by a weaker US allergy performance, and a broader slow down in key categories, particularly in International markets. In addition, reported growth was impacted by the Nigerian beverages business divestment and retailer de-stocking in India ahead of the Goods & Service Tax (GST) implementation on 1 July.

Sales of New Pharmaceutical and Vaccine products in the quarter were £1,703 million, up 62% AER, 47% CER.

Group turnover by geographic region	Q2 2017		
	£m	Growth £%	Growth CER%
US	2,720	15	5
Europe	1,966	11	2
International	2,634	10	1
Group turnover	7,320	12	3

The US sales growth of 15% AER, 5% CER was driven by continued strong performances from Triumeq and Tivicay, growth in the Respiratory portfolio and, in the US, a competitor supply shortage and higher demand for Hepatitis vaccines.

Europe sales grew 11% AER, 2% CER with growth from Triumeq, Tivicay, Meningitis vaccines and Voltaren. This growth was partly offset by the decline in Established Pharmaceuticals, reflecting in part the disposal of the Romanian distribution business, and Respiratory sales, as the decline in Seretide more than offset the continued progress in transitioning to the new Respiratory products.

In International, sales growth of 10% AER, 1% CER reflected strong performances from Boostrix in Emerging Markets, benefiting from the phasing of tenders, as well as strong growth in Triumeq, Tivicay and the Respiratory portfolio, which was partly offset by the impact of divestments on Established Pharmaceuticals. Growth in Emerging Markets of 11% AER, 2% CER was also impacted by the divestments.

Group turnover by business and geographic region – H1 2017

Group turnover by business	H1 2017		
	£m	Growth £%	Growth CER%