Evaluate Vantage

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New Glaxo: it's all about the late-stage assets

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Walmsley wins some breathing space but, for ambitious new growth targets to be met, the pipeline must start delivering.

If the initial share price reaction to Glaxosmithkline's investor day is anything to go by, executives might have won themselves some breathing space. Shares in the beleaguered big pharma jumped 3% as details of the consumer arm spinoff and new growth targets were unveiled.

The stock reaction probably had more to do with a less severe dividend cut than some were expecting, however, than any sudden increase in confidence in the company's outlook. A prediction of £20bn ($28bn) in peak sales from certain late-stage R&D projects looks highly ambitious, and to win back investors Glaxo needs to provide much firmer proof of their value.

That means clinical data, and for some of the late-stage assets highlighted today this remains a way off. The table below, which also includes current sellside consensus, shows that for now the market has substantially smaller hopes for Glaxo's crown jewels.

True, the company's numbers are not risk adjusted, while the *Evaluate Pharma* data are. But serious concerns exist around several of these projects, and some of Glaxo's projections look much riskier than others.

For example, Blenrep toxicities make moving the multiple myeloma ADC into earlier lines seem highly optimistic. Jemperli's status as the seventh anti-PD-(L)1 MAb to market, with little differentiation, will also be a major barrier to commercial success. And, while RSV is seen as a potentially huge area where Glaxo is in a strong position, past disappointments mean that many remain to be convinced.

Daprodustat remains something of a wild card. Safety concerns and data scandals have rocked more advanced rival projects from Fibrogen and Akebia, so if Glaxo manages to deliver a clean dataset later this year it could look competitive. Encouragingly, cabotegravir's submission has already begun and a demand for HIV prevention already established, although of course Glaxo will be up against a very motivated rival in Gilead here.

The crown jewels: "new GSK's" products with £20bn peak sales potential				
Product	**Next indication**	**Planned filing**	**Glaxo's non-risk adjusted peak sales**	**Consensus 2026e sales (£m)***
Cabotegravir	HIV PrEP	2021	>£2bn**	-
Duvroq (daprodustat)	Anaemia in CKD	2022	£0.5-1bn	214
Blenrep	Multiple myeloma earlier lines	2022	>£3bn	936
Jemperli	1L endometrial cancer	2022	£1-2bn	394
Gepotidacin	uUTIs	2023	£0.5-1bn	116
RSV vaccines	Older adults / maternal & paediatric	2023	>£3bn /£1-2bn	150
Men ABCWY	Meningitis	2023	£1-2bn	199
Otilimab	Rheumatoid arthritis	2023	£1-2bn	98
Zejula	1L ovarian cancer with dostarlimab	2024	>£2bn	1,036
Depemokimab	Asthma	2024	£1-2bn	27
HBV ASO	Hepatitis B	2025	>£2bn	38
**Total product sales across all indications; **includes treatment sales. Source: Glaxo presentation & Evaluate Pharma.*				

Glaxo also set out new growth targets for its standalone pharma business, including a goal of more than £33bn in sales by 2031. This does not include any contribution from early-stage projects or business development; bolt-ons and licensing in are the sort of deals the company is looking for, executives said.

These will be funded by the dividend cut and the spinout of the consumer unit, which will happen around the middle of next year. The spinout will be by a demerger of 80% of Glaxo’s stake to its existing investors; the stock will be-listed on the London stock exchange and as ADRs in New York.

The remaining 20% will effectively serve as a piggybank for Glaxo, although executives stressed that this was only a “short term” investment. The consumer unit’s shareholders will be keen to see this sold as soon as possible, so if Glaxo does have any ambition for larger M&A moves, this potential source of capital could be deployed sooner rather than later.

As for the dividend, an effective 31% cut next year is shallower than some expected; “new GSK” will pay 45p from 2023, again higher than some expected. The company's chief executive, Emma Walmsley, said the new pharma-focused business would employ a “growth-orientated capital allocation policy” – a sure sign that the company’s investments in both R&D and business development are on the way up.

Calls for bigger change?

But Glaxo needs to do more than plough more money into its pipeline; it needs to prove that it is spending that cash wisely. Such evidence has been sparse in recent years, hence the need for today’s presentations, the culmination of several years of restructurings undertaken by Ms Walmsley.

She also made clear that a spinout of Glaxo’s vaccines business was off the table. The company’s argument is that a convergence between prevention and treatment in a number of diseases means that keeping vaccines and pharma will stand the company in good stead.

Whether Ms Walmsley will continue to lead “new GSK” had been another major consideration in recent weeks, as activist investors, said to be keen to seek bigger organisational changes, stepped into the fray. The chief exec sidestepped questions on her tenure on a media call earlier today, saying only that she was “committed to lead [Glaxo] through this separation and beyond”.

In reality whether she stays or goes is up to shareholders, of course, and today’s apparently well-received news could quieten calls for change. But Glaxo’s hopes ride on a group of products that have much to prove. If the wheels start to fall off, demands will be quickly heard again.

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