

GSK Plc

# GSK settles another California Zantac bellwether. Delaware still -ve risk/reward

Reiterate Rating: UNDERPERFORM | PO: 1,433 GBp | Price: 1,568 GBp

## Settlement may suggest nothing imminent from Delaware

GSK announced settlement of the next scheduled Zantac bellwether trial (Browne) ahead of trial Feb 20<sup>th</sup> in a confidential settlement (unlikely a material amount in our view). Settlement takes imminent risk of going to trial in California on Feb 20<sup>th</sup> off the table, and is in line with what we see as GSK's strategy of settling individual California cases ([see our report](#)) avoiding trial ahead of resolving the larger Delaware litigation (73k cases) on which Daubert hearing (deciding whether to proceed to trial) took place last week (judge's decision could take months). In our view, this settlement may suggest no imminent settlement likely in Delaware (Daubert hearing was in January), which we believe many investors are hoping for, and that GSK may await the judge's ruling. We continue to see negative risk-reward around Delaware given widespread expectation of win/settlement offers limited upside to shares whereas a decision to move to trial could see potential \$7bn liability re-emerge and material downside, hence we remain cautious. We see settlement of remaining California (c4,500) and other states (c1,500 cases) as achievable for c\$600m based on prior similar cases & expert feedback (i.e. not material). Following the settlement of Browne, there are no imminent trial dates set in California, with three bellwethers all transferring into different courts. One case in Illinois is set for trial April 25<sup>th</sup>. Reiterate Underperform given weak pipeline vs LOEs, and negative risk-reward into near-term catalysts, *see overleaf*.

## Zantac could be net positive but Daubert negative risk reward

Although we see potential resolution of Zantac litigation in 2024 as a potential small positive for GSK, we see negative risk reward into the Zantac Delaware Daubert verdict (73k cases, hearings Jan-23), given we/consensus assume GSK win vs risk of substantial liability in event cases move to trial (albeit unlikely). We (and we believe consensus) assume the 73k Delaware cases are unlikely to progress to trial, or be settled relatively cheaply, given Delaware courts tend to follow federal precedent, and the comparatively low-quality cases (not qualifying for the original federal multi-district litigation). However, in the event the cases progress to trial (decision in coming months) we believe it would raise risk of a much more significant liability, (c\$7bn est at \$100k per case based on historical precedent from Bayer/Monsanto's Glyphosate, and the average of other similar claims), hence negative risk-reward. Ex resolution if Delaware, we see settlement of remaining c6k state-based cases (including 4.5k in California) as possible for c\$600m based on prior similar cases & expert feedback, a non-material amount for GSK, and mid-single-digit upside to shares on overhang removal. We believe a global settlement of all cases (Delaware and other states) in the \$1-2bn range (implies \$5-10k per case for Delaware) would be palatable for investors to remove risk but above this level GSK may be perceived as paying for low quality cases it was expected to win, in our view.

01 February 2024

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### Stock Data

Price (Common / ADR)	1,568 GBp / 39.44 USD
Price Objective	1,433 GBp / 35.00 USD
Date Established	1-Nov-2023 / 17-Jul-2023
Investment Opinion	A-3-8 / B-3-8
52-Week Range	1,303 GBp-1,623 GBp
Market Value (mn)	63,582 GBP
Shares Outstanding (mn)	4,055.0 / 2,027.5
Average Daily Value (mn)	82.09 USD
Free Float	95.2%
BofA Ticker / Exchange	GLAXF / LSE
BofA Ticker / Exchange	GSK / NYS
Bloomberg / Reuters	GSK LN / GSK.L
ROE (2023E)	50.0%
Net Dbt to Eqty (Dec-2022A)	170.3%
ESGMeter™	High

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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Timestamp: 01 February 2024 07:00AM EST

*See inside report for reminder of case counts and history*

## Reminder, Delaware 73k cases is the key overhang

As a reminder, of the original c150k cases in the Federal Florida MDL registry, 47k proceeded to Daubert hearing and were subsequently dismissed in December 2022. Circa 13k of these have appealed (we see low likelihood of success). 77k of the MDL registry cases that did not make it into the actual MDL litigation/Daubert were filed in Delaware with 73k cases against GSK outstanding (1,200 GSK cases already dismissed) with Daubert hearing scheduled for Jan 2024 where we see higher likelihood of GSK success given MDL Daubert precedent. In California there are 3,100 cases filed and 1,400 tolled.

## Low PE but sales/EPS growth turning negative 25-28E

Although GSK's 9.5x 25E PE puts it as one the lowest-rated stocks in the sector, we maintain our Underperform given: 1) Slowest post 25E growth in the sector (-2% 25-28E EPS CAGR) as key franchises Shingrix and dolutegravir (DTG) peak 26/27E without sufficient pipeline to offset; 2) Near-term catalysts are -ve risk-reward (Zantac Delaware Daubert settlement/ruling, Arexvy 3rd season data May/June) as cons assumes success.

## Price objective basis & risk

### GSK Plc (GLAXF / GSK)

Our PO of 1433p for GSK Plc (\$35/ADS) assumes GSK Plc trades on 8.5x 25E EPS, a c50% discount to our target sector c16x 25E PE. Given GSK's 25-28E EPS CAGR of -4% is significantly below our sector average of c7%, we continue to believe a discounted multiple is warranted given GSK's relatively weak late stage pipeline and high LOE exposure (most notably dolutegravir 28/29E (c30% of 27E opinc) and Zantac litigation overhang.

Our target sector multiple of c16x 25E PE is based on: 1) A 40% premium to the market average multiple which implies c15x 25E PE, a premium which is in line with the long-term historical trend for periods of growth for the sector during times of broader market uncertainty, 2) Regression analysis of historical sector forward PEs and three-year-forward EPS CAGR implies a target PE of c16x 25E PE based on sector growth of c7%, 3) Our DCF valuations imply c17x 25E PE

Upside risks to our PO are pipeline success, favourable currency moves, better-than-expected pipeline data/approvals, cost-cutting, higher comparator multiples, favourable outcome in Zantac litigation and faster Arexvy (RSV vaccine) launch

Downside risks to our PO are slower product launches, risk of litigation, worse margins, fines, unfavourable currency moves, unexpected generic launches, pipeline failure or further worsening in pricing, dilutive M&A and/or R&D investment, lower comparator multiples and Zantac litigation.

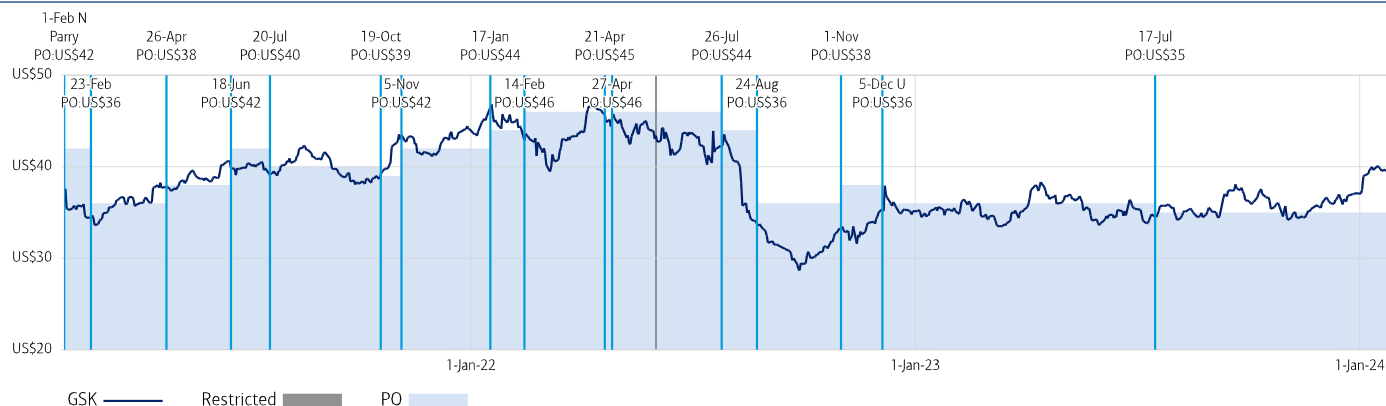
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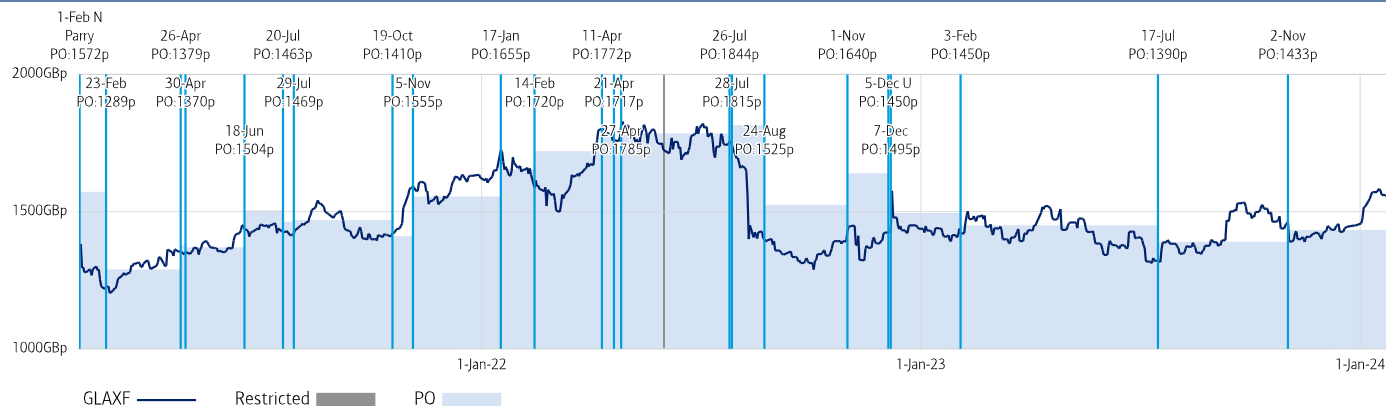
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### GSK Plc (GLAXF) Price Chart



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Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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