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Q1 Consumer Health Earnings Preview: GSK, Sanofi And Bayer

by Tom Gallen

Likely talking points when three of the biggest global consumer health players report Q1 results include: GSK's separation plan and the influence of a new major investor; Sanofi's program to divest over half of its OTC brands; and Bayer's ability to sustain higher sales of dietary supplements post-COVID-19.

GSK Facing Difficult Start To Year

Like many of its peers, GlaxoSmithKline was a major beneficiary of the OTC drug stockpiling seen in the early days of the COVID-19 pandemic as consumers cleared shelves of trusted brands in the face of uncertainty. That pantry loading which helped drive up GSK’s Consumer Healthcare sales 11% in the opening three months of 2020 means the firm now faces a difficult comparison when it posts Q1 results on 28 April. (Also see "*GSK Navigates COVID-19 Opportunities And Obstacles In Q1*" - HBW Insight, 30 Apr, 2020.)

GSK’s CFO Iain MacKay warned back in February that Q1 sales volatility in comparison to the prior year period for the Consumer Healthcare business would be “amplified” due to the weak cough and cold season going into 2021.

Indeed, GSK noted as it reported its 2020 full year results that a drop in demand for cold and flu products in Q4 had more than offset the benefit from increased consumption in the first quarter. (Also see "*GSK Rides E-Commerce Wave In Choppy COVID Waters*" - HBW Insight, 5 Feb, 2021.)

While sales of cough and cold products are likely to be down in Q1, GSK will be hopeful of sustaining upward momentum for its vitamins, minerals and supplements brands. Full year 2020 VMS sales advanced in the high teens percent, which GSK said reflected “continued consumer focus on health and wellness...as a result of the COVID-19 pandemic.”

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Alongside a report on Consumer Healthcare's financial performance, analysts and investors will be hoping the Q1 filing provides an update on GSK's plans to split into two and create independent consumer health and biopharma businesses.

Questions remain over how the separation will be structured, whether an initial public offering or spin-off is favored. "We're looking at all the options that are available, and we're working to find the one with the greatest benefit for shareholders and other key stakeholders," GSK CEO Emma Walmsley explained at the start of the year. "So we're retaining flexibility right now." (Also see "GSK Consumer Separation On Track For Summer '22" - HBW Insight, 15 Jan, 2021.)

Twitchy Times At GSK As Activist Investor Takes Big Stake

By Kevin Grogan

16 Apr 2021 GlaxoSmithKline's market value has slipped in the past three years and the number of failures in the clinic have grown. The major's leadership will be casting nervous glances towards a major shareholder that has a reputation for aggressive restructuring calls.
Read the full article here

Interest in GSK's separation plans will only have been heightened by recent news that activist hedge fund Elliott Management has taken a sizeable stake in the company. Analysts at Credit Suisse note the fund "has a reputation for building significant positions in companies and pushing aggressively for change."

Elliott may want to have a say in the structure of the consumer separation, Credit Suisse says, "to ensure maximum value creation."

Sanofi Brands On The Chopping Block

When Sanofi reports its Q1 results on 28 April, the release of any further details on its radical plan to offload more than half of its Consumer Healthcare portfolio may prove more interesting than the sales figures themselves.

Consumer Healthcare head Julie Van Ongevalle unveiled in February her plan to rationalize a "complex" portfolio of over 250 brands by reducing this number through divestments to around 100 within two years. (Also see "Sanofi To Divest 60% Of Brands In Consumer Healthcare Overhaul" - HBW Insight, 10 Feb, 2021.)

While Van Ongevalle said Sanofi had identified priority categories – including probiotics and mental wellness – where it intended to invest, she did not reveal which brand portfolios were now on the chopping block. Details of this, along with more precise timelines, would be greatly welcomed by analysts and investors.

Turning to the Q1 numbers, Sanofi, like GSK, faces a difficult comparison with the prior year period, when "COVID-related pantry loading" contributed 6 percentage points of growth, lifting Consumer Healthcare sales by 4.2% at constant exchange rates.

This is likely to be keenly felt in Europe given Sanofi's high penetration in the region's cough and cold category, and compounded by an especially weak cold and flu season.

US sales, however, should rebound now the impact of the Zantac recall – the key factor behind a 5% drop in US turnover in Q1 2020 – has passed. During Sanofi's Q4 earnings announcement, Van Ongevalle said Sanofi had been gaining share in the US OTC market since October 2020, thanks to strong performances in its Allergy, Digestive and Sleep categories. (Also see "*Sanofi Overcomes Zantac Troubles To Gain Share In US*" - HBW Insight, 8 Feb, 2021.)

Bayer Looks To Maintain Supplements Momentum

Bayer's Consumer Health head Heiko Schipper warned on the firm's Q4 call that the first half of 2021 would be "quite challenging," given the unprecedented demand for cough and cold products seen in the early months of the pandemic. "We're going to have a difficult comp in the first half because, particularly in March, there is this large sort of stocking up that happened in 2020 that we're going to cycle over on top of already very low demand, because there's very little flu," he noted in February. (Also see "*Demand For Supplements Helps Bayer Outpace Global Market In 2020*" - HBW Insight, 1 Mar, 2021.)

When Bayer reports its Q1 results on 12 May it will also struggle to match the 32% rise in dietary supplement sales it recorded in the prior year period. The firm posted double-digit gains for its Nutritionals portfolio in Asia Pacific and Latin America, and saw "significant increases" in demand in Europe. (Also see "*Bayer's Supplement Sales Leap By A Third On COVID Boost*" - HBW Insight, 28 Apr, 2020.)

However, Bayer's Nutritional sales in Q1 are not expected to tumble dramatically. Schipper has said previously that he expects the surge in use of supplements globally since the coronavirus outbreak is here to stay. (Also see "*Bayer Sees Positive Consumer Change From COVID-19 Despite Slowing Sales*" - HBW Insight, 5 Aug, 2020.)

Away from sales performance, analysts and investors will hope the Q1 report provides an update on the research and development activities which formed a central part of Schipper's Consumer Health turnaround plan. (Also see "*Bayer's Innovation Engine Shifts Up A Gear To Propel Turnaround*" - HBW Insight, 2 Mar, 2021.)

Bayer recently revealed it has more than 110 active projects under development across categories including, pain, cardiovascular risk prevention, dermatology, nutritional supplements, digestive health, allergy and cough & cold.

At the end of Q1, Bayer announced the launch in Brazil of Bepanthen Derma, which the firm says offers a new solution for dry skin by repairing the skin at a cellular level. “In rigorous clinical testing with thousands of consumers, Bepanthen Derma showed a 23% increase in ceramides in the skin,” according to Schipper.

Brazil is the first of 11 countries which will see the roll out of Bepanthen Derma, Bayer’s first major launch of the year.