COMPANY PROFILE

GlaxoSmithKline Plc

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COMPANY OVERVIEW

GlaxoSmithKline plc (GSK or 'the company') is a leading global provider of pharmaceuticals, vaccines and consumer healthcare products. It is primarily involved in developing, manufacturing and commercializing pharmaceuticals, vaccines and consumer healthcare products. These cater to the needs of HIV, respiratory, cancer, anti-virals, metabolic, cardiovascular and urogenital, dermatology, anti-bacterials and several other rare diseases. It merchandise and sell these products through wholesalers, pharmacies, hospitals, physicians and other groups worldwide. GSK is headquartered in England, the UK.

The company reported revenues of (British Pounds) GBP30,186 million for the fiscal year ended December 2017 (FY2017), an increase of 8.2% over FY2016. In FY2017, the company's operating margin was 13.9%, compared to an operating margin of 9.3% in FY2016. In FY2017, the company recorded a net margin of 5.1%, compared to a net margin of 3.3% in FY2016.

The company reported revenues of GBP7,222 million for the first quarter ended March 2018, a decrease of 5.5% over the previous quarter.

KEY FACTS

Head Office	GlaxoSmithKline Plc 980 Great West Road Brentford Middlesex Brentford Middlesex GBR
Phone	44 20 80475000
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Web Address	www.gsk.com
Revenue / turnover (GBP Mn)	30,186.0
Revenue (USD Mn)	38,865.9
Financial Year End	December
Employees	98,462
London Stock Exchange (LON) Ticker	GSK

SWOT ANALYSIS

GlaxoSmithKline plc (GSK or 'the company') is one of the world's leading providers of pharmaceutical and consumer healthcare products. Dominant market position compiled with robust research and development activities are the major strengths of the company whereas recalls and discountinuations remains as major areas of concern. In future, competition and healthcare reforms and drug controls could affect its business operations. However, initiatives, contracts and agreements and product approvals could provide growth opportunities for the company.

Strength	**Weakness**
Strong Sales and Marketing Infrastructure across the Globe Strong R&D Capabilities Driving GSK’s Product Portfolio	Product discontinuations and recalls hampers the brand image
Opportunity	**Threat**
Collaborations to Develop Innovative Medicines and Gene Therapy Treatment Drug Approvals Likely to Help the Company in Generating Incremental Revenues Strategic initiatives enhances its future business operations	Generic Competition could Put Pressure on the Company’s Sales Healthcare Reforms and Drug Pricing Controls Likely to Affect the Company's Operating Margin

Strength

Strong Sales and Marketing Infrastructure across the Globe

GSK is one of the most prominent prescription pharmaceutical companies, and benefits from its global footprint. Its primary focus is to enhance the quality of its products which in turn enhances the lifestyle of its users. In addition, it also maintains a dominant market position in the areas of respiratory and HIV therapy.

The company is active in more than 160 countries and also manages and operates 86 manufacturing facilities located worldwide.Its major products in the respiratory area include Seretide/Advair, Relvar/Breo Ellipta, Ventolin and Flovent. In addition, its Vaccines business offers a diverse range of vaccines with a leading position in meningitis. Its four largest Vaccines by sales include Infanrix (diphtheria and tetanus), Boostrix (diphtheria, tetanus, acellular pertussis booster vaccination), Hepatitis, Rotarix (rotavirus) and Synflorix (pneumonia). The Vaccine division delivers more than two million vaccine doses to its clients residing in more than 160 countries.Its well-known brands in the Healthcare segment includes Panadol, Horlicks, Sensodyne, Tums, ENO, Polident, paradontax, NiQuitin/Nicorette and Aquafresh. Furthermore, its Horlicks and ENO have a distinct brand heritage of 140 years and 160 years market presence.

GSK is a worldwide leader in specialist Oral health, with leading positions in Sensitivity (Sensodyne), Acid Erosion (Pronamel), Denture Care and Gum Health. Panadol is a top paracetamol brand worldwide and Tums is the number one antacid brand in the US.

Such enhanced market presence enable the company to improve its future growth business opportunities and expansion plans in various emerging and potential markets.

Strong R&D Capabilities Driving GSK’s Product Portfolio

GSK has strong research and development (R&D) capabilities. Across its three businesses (Pharmaceuticals, Consumer Healthcare and Vaccines), the company invested £BP3,862 million on its R&D activities, which stood at 12.8% of the company's total revenues.

The company's Pharmaceuticals R&D organization drives discovery and development in several areas of research, including respiratory, HIV, infectious diseases, immuno-inflammation, oncology cancer and rare diseases. The team is primarily involved in developing innovative technologies and techniques that in turn enhance the treatment and prevention of diseases and illnesses. It employs over 11,000 people in ITS Pharmaceutical, Vaccines and Consumer Healthcare R&D organizations across various major research centers residing around the globe.

The company's Pharmaceutical R&D division discovers and develops several areas of research, including respiratory, cancer, HIV, immuno-inflammation, infectious diseases and other diseases and its Vaccine R&D focuses on the discovery and development of vaccines to help protect people against a wide range of diseases and conditions across all age groups. As of March 2018, GSK had a pipeline of seven pharmaceutical product candidates in Phase III stage and 14 vaccine candidates in development against a wide range of diseases.

A part from these, it also operates and manages research centers in the UK, the US, Canada, Asia (Singapore and China) and Europe (Spain, Belgium and Germany). GSK maintains strong partnerships (pharmaceuticals) with more than 1,500 organizations worldwide including academic institutions, public-private partnerships, pharmaceutical companies and biotechnology companies and more than 180 external scientific partnerships (vaccines) with external scientists and leading academic and public health institutions. The company owns numerous domestic and foreign patents covering pharmaceutical and vaccine products and their uses, product manufacturing processes and pharmaceutical formulations.

Innovation based strategies enables the company to stay abreast of the changes in the industry and provides it with ‘first mover’ advantage by launching products ahead of competition and also delivers advanced products and services to its customers.

Weakness

Product discontinuations and recalls hampers the brand image

GSK underwent numerous product recalls and discontinuations. In July 2017, the company discontinued the global development of GSK-2879552 in its first Phase of development for relapsed or refractory small-cell lung cancer and GSK-2816126 in Phase I stage of development for follicular lymphoma, diffuse large B-cell lymphoma, solid tumor and refractory multiple myeloma.Instances of product discontinuations at various phases of clinical development procedures is a major disadvantage for the company as it results in the loss of huge monetary investments and intellectual time. Furthermore, In July 2017, GSK recalled MENVEO [Meningococcal (Groups A, C, Y and W-135) Oligosaccharide Diphtheria CRM197 Conjugate Vaccine] solution for intramuscular injection 5 DOSES (10 vials) per package of lot number M16095 as a precautionary measure as the associated batch was subject to a mechanical intervention executed during the aseptic filling operations. In April 2017, GSK initiated a voluntary Class II recall of three lots of Ventolin HFA 200D Inhalers from US hospitals, pharmacies, retailers and wholesalers as a precautionary measure. The recall was due to some complaints about the overwrap, or pouches comprising the inhalers, becoming inflated by leaking from the product and causing the inhaler to deliver fewer doses than shown on the dose counter.

Such recalls and discountinuties could hamper the company's market position and its future growth plans.

Opportunity

Collaborations to Develop Innovative Medicines and Gene Therapy Treatment

The company could enhance its business operations through collaborative partnerships and agreements. For instance, in April 2018, the company entered into a collaboration agreement with Kymera Therapeutics LLC, to advance new treatment modality. In February 2018, GSK signed a GBP1.24 million partnership with NIHR Biomedical Research Centers for creating and developing various therapies for Chronic Obstructive Pulmonary Disease (COPD) and other respiratory diseases. In the same month, it also signed a technology agreement with Covance business to deploy its Xcellerate Monitoring, Xcellerate Insights, and Xcellerate Clinical Data Hub solutions in its SaaS model. In January 2018, the company, Indiana University School of Medicine, Massachusetts General Hospital Cancer Center and the Harvard Stem Cell Institute investigators signed a partnership to harvest stem cells for Bone Marrow Transplantation.

In September 2017, GSK entered into an antibody discovery research collaboration with AbCellera Biologics to discover monoclonal antibodies against an undisclosed membrane protein target. In July 2017, GSK entered into a collaboration with the Oklahoma Medical Research Foundation to discover, develop and commercialize novel therapies to prevent organ damage and death. In June 2017, GSK entered into a partnership with Schneider Electric to manage an online community that provide healthcare leader's suppliers information and tools to improve environmental performance. In May 2017, GSK and Epizyme collaborated to initiate GLP toxicology studies for the methyltransferase inhibitor, for US$10 million.

Such collaborations and agreements could further enhance the company's market position in various emerging and potential markets.

Drug Approvals Likely to Help the Company in Generating Incremental Revenues

Periodic drug approvals could enable the company to invent and develop new formulas, technologies and solutions in the fast growing pharmaceutical industry.

For instance, in February 2018, GSK received European approval for an expanded indication for Fluarix Tetra (Quadrivalent Influenza Vaccine) for children aged six months and older. In 2017, the US FDA approved Nucala (mepolizumab) as the first targeted treatment for eosinophilic granulomatosis with polyangiitis for adults; Juluca (dolutegravir and rilpivirine) as first 2-drug regimen, once-daily, single pill, a complete regimen for the maintenance treatment of virologically suppressed HIV-1 infection; Shingrix for the prevention of shingles (herpes zoster) in adults aged 50 years and older; Trelegy Ellipta as the first once-daily single inhaler triple therapy for the treatment of appropriate patients with COPD; and a new subcutaneous formulation of Benlysta (belimumab) for the treatment of adult patients with active, autoantibody□positive systemic lupus erythematosus (SLE). In 2017, GSL received approval from the European Commission to market Trelegy Ellipta as a maintenance treatment in adult patients with moderate to severe COPD; and self-injectable formulation of Benlysta to treat systemic lupus erythematosus. In October 2017, GSK's Shingrix received approval in Canada for the prevention of shingles (herpes zoster) in people aged 50 years or older. In September 2017, the Japanese Ministry of Health, Labour and Welfare approved Benlysta (belimumab) for the treatment of adult patients with systemic lupus erythematosus (SLE).

These drug approvals are likely to help the company in generating incremental revenues.

Strategic initiatives enhances its future business operations

GSK could benefit from periodic initiatives. In February 2018, the US FDA granted BTD for GSK's meningitis B vaccine Bexsero for the development of the vaccine for the prevention of invasive meningococcal disease caused by serogroup B in children aged 2-10 years. The company's ability to obtain Breakthrough Therapy Designation (BTD) for its drug candidates not only underscores the need for improved therapies, but also highlights its development strategy in pursuing research to address unmet needs.

In July 2017, the company announced plans to make investments in the manufacture of respiratory and HIV medicines in the UK to improve the efficiency and competitiveness of its manufacturing network. From July 2017 to 2020, GSK plans to invest more than GBP140 million at its Ware, Hertfordshire, Barnard Castle, Co Durham and Montrose, Scotland facilities. This new investment is in addition to the GBP275 million announced in FY2016 and investment of more than GBP1.2 billion in UK manufacturing since 2012. It will expand the manufacturing facilities for respiratory and HIV medicines. In March 2017, GSK divested its anesthesia portfolio consisting of Ultiva, Nimbex, Tracrium, Mivacron and Anectine to Aspen (excluding previously divested operations in the US and Canada) for GBP180 million plus milestones of up to GBP100 million. The divestment aligned with GSK's strategy of simplification by focusing on core therapeutic areas.

Such activities enable the company to handle various demand-supply fluctuations in the market.

Threat

Generic Competition could Put Pressure on the Company’s Sales

GSK faces intense competition from manufacturers of generic pharmaceutical products in all of its major markets. Introduction of generic products, particularly in the US, could affect sales of its proprietary products.

The company faces competition not only from major drug discovery and development companies, but also the internal discovery and development departments of large pharmaceutical and biotechnology companies, whose resources are significantly greater than those of the company. It faces competition from players such as AstraZeneca, Bristol-Myers Squibb, Eli Lilly, Pfizer, Roche Holdings, Johnson & Johnson, Merck, Novartis, Sanofi, AbbVie and Amgen. GSK also competes with generic pharmaceutical companies such as Sandoz, Teva and others. Increased competition could lead to price pressure that could affect its operating results.

As a result of competitive pressure, the industry could register increasing consolidation, which is likely to generate more competition from the resultant entities.

Healthcare Reforms and Drug Pricing Controls Likely to Affect the Company's Operating Margin

Pharmaceutical companies are subject to extensive regulation by national, state and local agencies in the countries in which they do business. For instance, in the US, the Patient Protection and Affordable Care Act (ACA) was enacted by Congress in March 2010 and established a major expansion of health care coverage, financed in part by a number of new rebates, discounts, and taxes that had a significant effect on the company’s expenses and profitability. Among other things, major changes that significantly affected the pharmaceutical industry included an increase in the drug rebates paid to state Medicaid programs under the Medicaid Drug Rebate Program for brand name and generic prescription drugs and extending those rebates to Medicaid managed care.

Health authorities in many middle and lower income countries require marketing approval by a recognized regulatory authority (similar to the authority of the FDA or the EMA) before they begin to conduct their application review process and/or issue their final approval. Many authorities also require local clinical data in the country's population in order to receive final marketing approval. These requirements delay marketing authorization in those countries relative to the US and Europe.

Exposure to such healthcare reforms and drug pricing controls could have a negative impact on the company's operating margins and profitability.