GIBRALTAR ASSET MANAGEMENT

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# Research Note

GlaxoSmithKline

## GlaxoSmithKline

GlaxoSmithKline ("Glaxo") is one of the world's leading pharmaceutical research companies. It is regarded as being a defensive company as an increasingly ageing population will need its products, enabling Glaxo to generate cash almost no matter what the economic conditions.

### History

Glaxo's roots go back to the early eighteenth century, evolving out of the British, New Zealand and U.S. companies; Beecham, SmithKline, Glaxo and Wellcome. The company in its present form was formed through the merger of Glaxo Wellcome and SmithKline Beecham in 2000.


### Operations

Headquartered in the UK and with operations based in the US (which produces 45% of revenues), Glaxo is the largest pharmaceutical company in Europe and a global player with an estimated 7% of the world's pharmaceutical market. Glaxo employs approximately 99,000 people in over 100 countries, including over 40,000 sales representatives, which makes it an attractive partner for other players seeking to maximise the sales potential of their new drugs.


### Research

Over 15,000 people are employed in research to discover new medicines. Of all the global pharmaceuticals Glaxo, with it's broad pipeline of drugs under development, is one of the best positioned to handle the current environment of expiring patents on existing drugs.

The company has developed a "drug discovery" organisation, where the pharmaceutical giant attempts to replicate the research and development ethos in much smaller biotech companies in order to find new drugs. It has deliberately shunned large-scale mergers and acquisitions.

Professional partnerships with others in industry, academia and government are another source of research. For example, Glaxo has developed more than 800 early discovery research collaborations with colleges and universities around the globe and they fund research for hundreds of masters-level, doctoral and fellowship students each year.

### Strategy

The pharmaceutical industry is experiencing a time of unprecedented challenge. Patent protections coming to an end (which may not be replaced by products of equivalent financial size), regulatory issues and increased pressures from healthcare providers (no longer do pharmaceuticals have to discover and develop-they now have to justify that their products represent the greatest value) have combined to create a difficult environment in which to operate.

In 2008, Glaxo established the following three strategic priorities with the aim of increasing growth, reducing risk and improving long-term financial performance:

1. Grow a diversified global business

   Glaxo is reducing risk by broadening and balancing their portfolio, diversifying into new product areas that show potential, whilst fully capturing opportunities for its products across all geographic boundaries.

   Future sales growth is to be generated by strengthening the core pharmaceuticals business and supplementing it with increased investment in growth areas such as vaccines, biopharmaceuticals and consumer healthcare.

   The group is also investing heavily in emerging markets, a major source of growth for the company.

2. Deliver more products of value

   Glaxo is striving to build one of the strongest pipelines in the industry. The Research & Development department is being transformed to ensure that they not only deliver the current pipeline but are also able to sustain a flow of new products for years to come.

   As Glaxo moves towards a more diversified business it will concentrate on developing a higher volume of mid-size products for more clearly defined patient populations. This will help develop a lower risk portfolio, which is not dependent on the performance of one or two large products.

   There are currently 30 late-stage assets in the pharmaceuticals and vaccines pipeline and the objective is to sustain this throughput of products over the long-term.

3. Simplify Glaxos's operating model

   Glaxo is a complex organisation and management recognises the need to simplify their operating model further, changing the way they work and removing unnecessary processes and structures, which slow them down.

   The global restructuring programme is a vital catalyst of this strategy, aimed at radically changing it's business model to give them the capability to support a more diverse, growing business that is also expected to be more profitable in the long term.

**Products**

1. Prescription Medicines

   Glaxo produces medicines that treat six major disease areas – asthma, virus control, infections, mental health, diabetes and digestive conditions.

   They are one of the few pharmaceutical companies researching both medicines and vaccines for the World Health Organization's three priority diseases – HIV/AIDS, tuberculosis and malaria.

2. Vaccines

   Glaxo is one of the world's key players in vaccines with their sales generating close to 20% of the global market. They market over 25 vaccines that prevent life-threatening or crippling illnesses such as hepatitis A, B & C, diphtheria, tetanus, whooping cough, measles, mumps, rubella, polio, typhoid, influenza and bacterial meningitis. Their products are so-called biologics, which are shielded from generic competition because they are so difficult to copy. Glaxo is also targeting therapeutic vaccines that may prevent relapse in cancer patients.

   The strength of the vaccine pipeline is expected to provide opportunities to consistently deliver new vaccines for many years to come.

3. Consumer Healthcare

   The consumer healthcare business brings an added dynamic dimension to the company, yet the driving force behind the business is still science. With four dedicated consumer healthcare R&D centres, the business takes scientific innovation as seriously as it does marketing excellence, as the following products can testify:

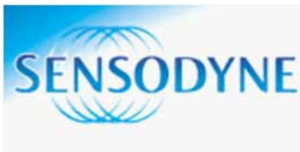
*Aquafresh*


*Beechams*

*Corsodyl*


*Ribena*

*Poligrip Ultra*



*Sensodyne*


*Horlicks*

*Panadol*

*Lucozade*

*Macleans*

*Nicorette*

In contrast to the more volatile nature of the pharmaceutical markets, the Consumer Heathcare business offers long-term steady cash flow which can help mitigate the impact of losses to generics. The business also capitalises on the growing trend worldwide for patients to manage their own healthcare, choosing OTC products, rather than relying on a prescription.

21 July 2009