

GlaxoSmithKline PLC

GSK:L Sector: Health Care

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Business model

GlaxoSmithKline plc is a global pharmaceutical company incorporated in 1999 and headquartered in Brentford, London. It has three global businesses: Pharmaceuticals, vaccines, and consumer healthcare.

Group turnover increased 4% in 2018 to £22,624 million, with all three businesses showing growth.

Pharmaceuticals sales went up 2% to £12,459 and this was mainly due to growth in HIV sales (*Tivicay* and *Triumeq* produced sales of £1.1 billion), as well as new Respiratory products, Nucala and the Ellipta portfolio.

Vaccines sales increased 15% in 2018 to £4,415. This was mainly driven by sales of *Shingrix* (shingles vaccine) in the US, a competitor supply shortage in Hepatitis, and market growth for *Bexsero* (meningitis).

Consumer Healthcare sales grew 2% in 2018 to £5,750, with continued strong growth in the Oral healthcare sector (Aquafresh and Sensodyne toothpastes).

Investment rationale

Our 'to watch' recommendation is derived from a valuation analysis which employs the following methods:

Fundamental Analysis. GlaxoSmithKline plc is cheaper to buy-in when compared with its competitors. This is due to its below industry averages for Price-to-Earnings, Prices to Sales, and Price to Cash Flow. It also has above industry averages for Return on Investment and Return on Equity. On top of this, the five-year dividend yield is more than 3.5 times greater than the industry average.

Statistical Analysis. Using data from the last 3 years, GlaxoSmithKline plc provided returns of -0.000913% on average per day, and so we can expect a return of -3.33% for a holding period of one year. Daily variance from the mean averaged at 0.000131 or 0.0131%. This means that on average each day, we can expect movements of $\pm 0.0131\%$.

Valuation Range. Although the share price is expensive, the valuation range of 1,400.00 to 1,900.00 indicates that it could be good to watch this company, especially because the current share price is in the lower 50% of the valuation range. Currently the company is underperforming in the market however, so it is unlikely to produce a return that would be capable of covering or exceeding transaction costs.

Investment risks

Currently, Brexit is the biggest potential risk facing GlaxoSmithKline. It could have major impacts on the company as it will mean that certain medicines will need to be retested and manufacturing licences will need to be changed: this has been forecasted to cost GlaxoSmithKline at least £50m each year. Brexit will also lead to a loss of European research funding and so GlaxoSmithKline will have less R&D funding, reducing the development of new drugs. GlaxoSmithKline is the most active player in the pharma and bio-tech industry in regards to M&A activity, however this could change due to the macroeconomic effects potentially caused by Brexit. GlaxoSmithKline also recently

RECOMMENDATION

WATCH

Current Price

1,581.00

Our Valuation Range






















1,400.00 – 1,900.00

GlaxoSmithKline plc is a United Kingdom-based company, which operates through 3 segments: Pharmaceuticals, Vaccines and Consumer Healthcare.








































MARKET DATA

Revenue in GBP (TTM)	30.821bn
Net income in GBP	3.623bn
Incorporated in	1999
Employees	98.46k
52-week range	1,269.80 – 1,648.80
Average volume	8.07m
Shares outstanding	4.96bn
Free float	4.95bn
P/E (TTM)	21.09
Market cap	78.5bn GBP
EPS (TTM)	0.7495 GBP
Cash flow per share	1.19
Price/Cash flow per share	13.28
Book value per share	0.8782
Tangible book value per share	-3.75
Net profit margin	13.46
Operating margin	17.80
Annual div (ADY)	92.00 GBX
Annual div yield (ADY)	5.82%
Return on assets	7.25
Return on equity	173.53
Return on investment	13.27

acquired another biopharmaceutical company, Tesaro, and announcement of this deal decreased GlaxoSmithKline share price by 3.12%.

Fiscal year ends in December						
GBP in Million except per share data						
		2013-12	2014-12	2015-12	2016-12	2017-12
Revenue		26,505	23,006	23,923	27,889	30,186
Cost of revenue		8,585	7,323	8,853	9,290	10,342
Gross profit		17,920	15,683	15,070	18,599	19,844
▼ Operating expenses						
Research and developme...		3,923	3,450	3,560	3,628	4,476
Sales, General and adm...		8,480	8,246	9,232	9,366	9,672
Other operating expens...		(387)	(319)	(350)	(421)	(365)
Total operating expens...		12,016	11,377	12,442	12,573	13,783
Operating income		5,904	4,306	2,628	6,026	6,061
Interest Expense		708	665	655	671	698
Other income (expense)		1,451	(673)	8,553	(3,416)	(1,838)
Income before taxes		6,647	2,968	10,526	1,939	3,525
Provision for income t...		1,019	137	2,154	877	1,356
Net income from contin...		5,628	2,831	8,372	1,062	2,169
Other		(192)	(75)	50	(150)	(637)
Net income		5,436	2,756	8,422	912	1,532
Net income available t...		5,436	2,756	8,422	912	1,532
Earnings per share						
Basic		2.25	1.15	3.49	0.38	0.63
Diluted		2.21	1.13	3.45	0.37	0.62
Weighted average share...						
Basic		2,416	2,404	2,416	2,430	2,443
Diluted		2,460	2,433	2,444	2,455	2,471
EBITDA		8,769	5,117	12,811	4,384	6,145

Fiscal year ends in December GBP in Million except per share data	2013-12	2014-12	2015-12	2016-12	2017-12
▼ Cash Flows From Operat...					
Net income	5,628	2,831	8,372	1,062	2,169
Depreciation & amortiz...	1,414	1,484	1,630	1,774	1,922
Investments losses (ga...	(36)	(149)	(342)	(254)	(37)
Deferred income taxes	1,019	137	2,154	877	1,356
Stock based compensati...	319	332	368	319	333
Change in working capi...	56	661	1,675	1,727	823
Inventory	(95)	(529)	(111)	70	(461)
Other working capital	151	1,190	1,786	1,657	1,284
Other non-cash items	(1,178)	(120)	(11,288)	992	352
Net cash provided by o...	7,222	5,176	2,569	6,497	6,918
▼ Cash Flows From Invest...					
Investments in propert...	(1,188)	(1,188)	(1,380)	(1,543)	(1,545)
Property, plant, and e...	46	39	72	98	281
Acquisitions, net	2,025	113	7,253	78	463
Purchases of investmen...	(133)	(82)	(84)	(96)	(76)
Sales/Maturities of in...	74	205	357	683	64
Purchases of intangibl...	(513)	(563)	(521)	(809)	(657)
Sales of intangibles	136	330	236	283	48
Other investing activi...	77	68	104	37	(21)
Net cash used for inve...	524	(1,078)	6,037	(1,269)	(1,443)
▼ Cash Flows From Financ...					
Debt issued	1,913	1,960	—	1,067	2,233
Debt repayment	(1,872)	(1,709)	(2,412)	(919)	(3,200)
Common stock issued	540	72	(26)	15	(9)
Common stock repurchas...	(1,504)	(238)	—	—	—
Dividend paid	(3,680)	(3,843)	(3,874)	(4,850)	(3,906)
Other financing activi...	(1,670)	(1,627)	(791)	(1,705)	(1,498)
Net cash provided by (...)	(6,273)	(5,385)	(7,103)	(6,392)	(6,380)
Effect of exchange rat...	(148)	84	(45)	283	(100)
Net change in cash	1,325	(1,203)	1,458	(881)	(1,005)
Cash at beginning of p...	3,906	5,231	4,028	5,486	4,605
Cash at end of period	5,231	4,028	5,486	4,605	3,600
Free Cash Flow					
Operating cash flow	7,222	5,176	2,569	6,497	6,918
Capital expenditure	(1,701)	(1,751)	(1,901)	(2,352)	(2,202)
Free cash flow	5,521	3,425	668	4,145	4,716

Fiscal year ends in December		2013-12	2014-12	2015-12	2016-12	2017-12
GBP in Million except per share data						
▼ Assets						
▼ Current assets						
▼ Cash						
Cash and cash equiva...		5,534	4,338	5,830	4,897	3,833
Short-term investments		66	69	75	89	78
Total cash		5,600	4,407	5,905	4,986	3,911
Receivables		3,966	3,556	3,824	4,615	4,672
Inventories		3,900	4,231	4,716	5,102	5,557
Prepaid expenses		—	289	307	335	308
Other current assets		1,761	2,195	1,835	1,673	1,459
Total current assets		15,227	14,678	16,587	16,711	15,907
▼ Non-current assets						
▼ Property, plant and eq...						
Gross property, plant ...		18,853	19,355	20,750	22,164	21,719
Accumulated Depreciati...		(9,981)	(10,303)	(11,082)	(11,356)	(10,859)
Net property, plant an...		8,872	9,052	9,668	10,808	10,860
Goodwill		4,205	3,724	5,162	5,965	5,734
Intangible assets		9,283	8,320	16,672	18,776	17,562
Deferred income taxes		2,084	2,688	2,905	4,374	3,796
Prepaid pension benefi...		330	93	258	313	538
Other long-term assets		2,085	2,096	2,194	2,134	1,984
Total non-current asse...		26,859	25,973	36,859	42,370	40,474
Total assets		42,086	40,651	53,446	59,081	56,381
▼ Liabilities and stockh...						
▼ Liabilities						
▼ Current liabilities						
Short-term debt		2,762	2,915	1,285	4,106	2,802
Capital leases		27	28	23	23	23
Accounts payable		2,739	2,790	3,120	3,596	3,528
Taxes payable		1,452	945	1,421	1,305	995
Other current liabilit...		6,697	6,617	7,568	9,971	19,221
Total current liabilit...		13,677	13,295	13,417	19,001	26,569
▼ Non-current liabilitie...						
Long-term debt		15,403	15,784	15,277	14,620	14,221
Capital leases		53	57	47	41	43
Deferred taxes liabil...		693	445	1,522	1,934	1,396
Accrued liabilities		101	92	64	66	104
Pensions and other ben...		2,189	3,179	3,229	4,090	3,539
Minority interest		815	673	3,764	3,839	3,557
Other long-term liabil...		2,158	2,863	11,012	14,366	7,020
Total non-current liab...		21,412	23,093	34,915	38,956	29,880
Total liabilities		35,089	36,388	48,332	57,957	56,449
▼ Stockholders' equity						
Common stock		1,336	1,339	1,340	1,342	1,343
Additional paid-in cap...		2,595	2,759	2,831	2,954	3,019
Retained earnings		913	(2,074)	(1,397)	(5,392)	(6,477)
Accumulated other comp...		2,153	2,239	2,340	2,220	2,047
Total stockholders' eq...		6,997	4,263	5,114	1,124	(68)
Total liabilities and ...		42,086	40,651	53,446	59,081	56,381

LINCOLN STUDEMENT MANAGED INVESTMENT FUND (LSMIF)

Founded in 2018, the Lincoln Student Managed Investment Fund (LSMIF) is exactly what it says on the tin, a fund which will analyse, determine upon, and purchase shares to create a portfolio. The only difference is we are students. No simulations, just our knowledge and ability vs the real market. The best test of our teachings and learnings.

The fund is set up with a structure similar to any other professionally run fund management company with students running every aspect of the fund, from CEO to analyst. It is designed to give any student involved the best experience of the financial world possible before getting a job.

The fund will be handed down to new students each year as those partake in this fund finish their studying. The fund aims to grow in the future, with more positions available to give the most number of students the chance to partake.

The ultimate goal of the fund is to raise the profile of each student involved to allow for them to get the best experience possible. We, however, set the following objectives to make the fund grow on sustainable basis:

- To generate long-term returns from investments using our stylized investment strategies.
- To raise funds through crowdfunding and donors to help increase the capital base.
- To increase the number of students involved in the fund with expanded capital base.
- To link the fund's activities with the related programmes and modules' assessments
- To get more outside sponsors who want to work directly with the fund as well, to further simulate the professional environment.

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