

GSK faces initial resistance following directional shift

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Following a less than flattering financial performance in 2014, GlaxoSmithKline (GSK) is realigning its operating structure with its corporate objectives and cashing in on its assets in the process, as the company seeks to drive up external investments and deliver stronger shareholder returns in the long term.

Excluding divestments, GSK's total revenue fell by 10 percent year-on-year while operating profits were down by 15 percent on a pro forma basis in 2014.

While the growing strength of the pound sterling was largely to blame for lower revenues through the first three quarters of the year, a large proportion of the company's decline was inorganic.

Ms Chloe Thornton, GlobalData's analyst, states that within its central pharmaceuticals business, GSK's greatest growth resistor was by far its flagship respiratory franchise, which fell by 10 percent year-on-year to just over £6 billion (\$9.8 billion), excluding currency impacts.

She explained: "GSK invested heavily in developing its respiratory pipeline, but the expectation that it could compensate for the imminent patent cliff facing Seretide/Advair appears optimistic.

"Sales of Breo Ellipta came to £67 million (\$106 million), while Anoro earned just £17 million (\$27 million) in 2014, well short of GSK's estimates."

In addition, a further 26 pharmaceutical products witnessed year-on-year declines through 2014, at a total loss of £1.2 billion (\$1.9 billion).

The analyst notes that despite the strong performance of GSK's cancer therapeutics business, the company has agreed to

divest its oncology assets to Novartis, while GSK is also considering divesting a share of its stake in its other best performing business, the ViiV Healthcare joint venture.

Ms Thornton continued: "The strength of GSK's oncology portfolio against a backdrop of decline elsewhere across its pharma business somewhat calls into question the decision to trade these assets to Novartis.

"However, the \$16 billion capital boost GSK will derive from the deal when it is completed over the next few months should help to dispel those concerns, provided the company can proactively invest this capital in areas of high growth potential."