GlaxoSmithKline PLC

GSK board considers break-up of group

Chairman weighs spinning off consumer division after pressure from investors

© Bloomberg

Sarah Neville and Attracta Mooney JULY 20, 2018

GlaxoSmithKline's chairman is weighing the merits of splitting up the company after several top-10 investors pressed the board to consider spinning off the UK pharma group's consumer division.

Philip Hampton has been talking to the company's biggest shareholders about creating a standalone pharma and vaccines company in the medium term, according to people familiar with his thinking.

Such a move, which could take place within two or three years, would represent a sharp strategic shift by one of the world's largest drugs groups.

One top 10 shareholder said: "I have had these conversations [with Sir Philip]. The logic of [splitting] the business is pretty clear . . . The financial dynamics of consumer and pharma are pretty different."

The company's share price has strengthened significantly in recent months, and is more than 18 per cent higher than at the start of the year. However, it is down more than 4.6 per cent on a year ago, standing at £15.50 — even as the dividend has been maintained at 80p for the fourth consecutive year.

The investor praised Emma Walmsley, who took the reins as chief executive last April, as "very good" and "determined". However, the individual said that shareholders "don't quite believe in the company. Any time where the [dividend] is at that level of yield but the share price is where it is, there is something fundamental wrong in shareholders' view."

Recommended

Another top 10 shareholder added: "If you are on the GSK board, you need to keep testing that both parts still work together."

A third told the FT: "It has been a question on the table for a long time. We have been asking 'what are you? Are you pharma? Are you consumer goods'? Emma came in with a fresh pair of eyes — there is potential for thinking that [a spin-off] would make sense . . . We have spoken to the board about it."

The decision by Swiss drugmaker Novartis to sell its 36.5 per cent stake in the two companies' consumer health joint venture for $13bn this year, handing GSK outright control, has given the UK company a free hand to determine its future for the first time since the deal was struck in 2014.

The company on Friday said that its current structure of three distinct business divisions — pharma, vaccines and consumer — offered "significant opportunities" but was subject to each "continuing to perform competitively and having access to capital".

GSK, which added that its consumer business had "very good potential for growth", has forecast operating margins in the "mid-20s percentages" by 2022.

Andrew Witty, who stood down as chief executive last year, consistently resisted pressure from some shareholders for the group to abandon its diversified toothpaste-to-vaccines business model.

Recommended

GSK's resumption of full ownership has potentially put the prospect of divestment back on the table, however.

Any decision to proceed with a spin-off of the consumer division would be likely to depend in part on how far the UK-based company can lift the performance of its pharma division which, despite some striking recent successes, has produced fewer blockbuster drugs than rivals in recent years. That side of the business would need to be stronger if GSK were to shed consumer, insiders believe.

Ms Walmsley last year announced she had secured as head of R&D one of the biggest names in the drug development world, Hal Barron, who oversaw a portfolio of lucrative new medicines while working for Roche and Genentech. He is due to deliver an update on strategy when the company unveils its second-quarter results next week.

Samuel Johar, chairman of Buchanan Harvey, a board advisory firm, said investors "just think something has to be done because the status quo is not working".