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Growth by Merger

-A long- term analysis of GlaxoSmithKline

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Master of Science in Accounting
Master Degree Project No. 2009:26
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Dedication

I dedicate this study to my family for their eternal love & support

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To a very kind & loving friend of mine: Muhammad Shabbir, for his unconditional friendship & support.

Title:	Growth by Merger: A Long-Term Analysis of GlaxoSmithKline
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Key Words:	Mergers & Acquisitions, GlaxoSmithKline, Key Performance Indicators, GSK, Financial Statement Analysis, Ratio Analysis.

ABSTRACT

In the present circumstances, the most debatable issue is Merger & Acquisition (M&A) in the corporate sector. In the recent two decades large number of M&A activity has been experienced by various industries including pharmaceutical industry. M&A is a tool for achieving corporate growth and associated synergies. Consolidation of businesses is motivated by gains through expense reduction, economies of scale and increased market power. Recent studies reveal that 60-80 percent of M&As' failed to deliver value; which is very critical for the companies and shareholders. The objective of the thesis is to evaluate the performance of GlaxoSmithKline in the context of a merger. It is a study to understand & analyze the growth of merged company. The main purpose is to reveal whether; merger deliver value and achieved expectations? Pre and post merger analysis has been conducted by applying different key performance indicators such as sales & net earnings growth, relationship between revenue & operating expenses, R&D analysis, share price & dividend performance and ratios analysis. In this research, mainly secondary data were used. The research results indicate that there has been continues growth in GSK; but the growth trend is slow as per expectations and not in line with motives of merger set prior to the merger of GlaxoWellcome and SmithKline Beecham.

Acknowledgements

I feel Honored to acknowledge here the support and guidance of my Supervisor, Prof. Thomas Polesie for his encouragement and positive criticism of the study which made possible to complete & make it better. I owe special thanks to GS office for their kind support during the study period.

I owe deepest gratitude for my friends, Muhammad Shabbir, Abrar Hussain & Syed Abdul Haleem Shah, for their encouragements, motivations and support during research study.

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List of Abbreviation

- GW. GlaxoWellcome
- SKB. SmithKline Beecham
- GSK. GlaxoSmithKline
- KPI. Key Performance Indicator
- R&D. Research & Development
- M&A. Merger & Acquisition
- IFRS. International Financial Reporting Standards
- EPS. Earnings per Share

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1 Introduction

This chapter starts with the background of study, explanation of theme of study by discussing research problem, aims and objectives and significance of study.

1.1 Background

Mergers and Acquisitions (M&A) have become tremendous source within the field of Strategic change. The numbers of M&A's are growing in almost every business area in Europe, US and around the world (Eisner, Haglund, Johansson, 1999). M&A's in the pharmaceutical industry are also very common to see in recent times. Since, the mid of 1980s, the pharmaceutical industry has been characterized by huge M&A's where over $400 million invested on M&A activities (Coles, Gray , Armstrong, 2002). The pharmaceutical industry face challenges for corporate growth and for increasing share holder's value, urge to merge in pharmaceutical industry is due to certain market and economic growth pressures, i.e. new product development, patent expiry, increased regulatory conservatism, increased market stringency and the effects of over leverage, have put the industry in vulnerable situation (Coles, Gray , Armstrong, 2002). These market pressures have made effect on the top and bottom-line concerns for the industry to which companies in pharmaceutical industry responded with surges of M&A in large numbers. As a result of the market pressures which ultimately derive companies towards M&A, CEOs have always considered M&A as core strategy to create corporate growth and sustainable development for the company and shareholders (Cap Gemini, Ernst & Young, 2002).

The phenomenon of M&A depends on various factors due to which companies choose to merge or acquire, according to (Porter, 1980) integrating two business units means to gain competitive advantage. Merging two businesses is considered one of the most complex strategic move companies can make. The rewards through merger comes in form of increase in market share, expansion of product lines, financial strength, establishing seasonal business and technical talent (Tkachenko & Fiabedzi, 2001). Some authors have argued that mergers increase value and efficiency while resources are utilized in a best manner, hence mergers increase shareholder's wealth (Tkachenko & Fiabedzi, 2001). Some researchers having skeptical point of view said that companies that are acquired or merged are efficient to pursue their growth even without such corporate activity and their subsequent performance after M&A is not improved (Hitt, Harrison & Ireland , 2001).

Different challenges like need for consolidation, increased market pressures and competitive environment in the global market are few of the main reasons that influence companies to do mergers. Further, companies present valuable reasons in support of the mergers, which seem very logical at least on the onset of corporate strategies like mergers.

Mergers in pharmaceutical industry started not very long but from the start of 1980's, more intensity in companies mergers came from the mid of 1990's. The main headline mergers were Astra with Zeneca in Dec 1998, Pfizer with Warner-lambert in Jun. 2000, and GlaxoWellcome (GW) with SmithKline Beecham (SKB) in December 2000 to form GlaxoSmithKline (GSK). The wave of mergers in pharmaceutical industry is a result of increased market pressures and other challenges concerning pharmaceutical industry like new health care model, regulatory conservatism and issues concerning patent expiry (Coles, Gray , Armstrong, 2002).

The potential benefits that companies in pharmaceutical industry expects from the activities of mergers mainly consists of; reduction in costs to invest more in research process, consolidation of research departments to find new products and drugs, express utilization of manufacturing capacity. According to a report "Perspectives on Life Sciences" by Capgemini and Earnst & Young in Fall 2002, why pharmaceutical companies chosen to merge or acquire despite the low success ratio of M&A activities described factors like creating market muscle, consolidation for cost reduction, broadening geographic coverage and pipe line stuffing.

Despite the frequency and size of merger deals in the recent years and extravagant advantages illustrated by the companies, significant amount of research indicate that the success rate of M&A's in the industry is not very high. Moreover, large firms involved in greater merger transactions use different financial tools to present a picture of company's success for what they had promised to shareholders. In this kind of situation it becomes difficult for the shareholders to figure out about the outcomes of company's performance. A fair and transparent financial analysis of pre and post merger performance of the company can be a beneficial source for the shareholders.

1.2 Problem Discussion

Despite the enduring popularity and benefits attached with M&A and firms' reliance on M&A to gain corporate growth is seems to be problematic. It's a growing concern that companies engaged in M&A's are unable to achieve expectations and fail to deliver shareholders value that has been promised. According to a report, between 1990 and 2000, the volume and value of all mergers

across different industries increased tenfold over the same period, only 17% of mergers delivered significant value, while around 50% in fact deteriorate shareholders return[1]. As the number of M&A increases according to the statistics the tendency of failures also increase due to which many of M&A transactions do not meet the expectations of firms & shareholders. Research also shows that in comparison to other strategic investments in firms M&A rarely produce any good economic results. As a result of this a paradox situation emerges, where firms use M&A as a strategic alternative for creating positive economic effects, but the outcomes are not in line with the expectations.

Corporate executives and policy makers in pharmaceutical industry are aware of the fact that use of merger as a corporate growth strategy is a decision that holds enormous risks along with its benefits. In addition to the stereo type risk, i.e. completion, volatile product price and management culture differences, companies may face other risks by opting merger strategy i.e. operating risk, over payment risk and financial risk. Companies already engaged in corporate deals like mergers always try to reflect success in their financial reports, regardless of the actual performance shareholders are presented with pleasant picture of the company's performance.

In order to disclose success of the company's performance, firms' in their financial disclosures use different accounting policies which may present the gloomy picture of the financial performance to intact the shareholders interests by showing high profits, growth rates and increased market value of the company.

This study intends to explore and analyse the performance and profitability for shareholders of GlaxoSmithKline (GSK), came into being as a result of a merger of GlaxoWellcome (GW) and SmithKline Beecham (SKB) in Dec. 2000. Further, in this research the financial analysis of the company's merger will be conducted to know about the merger performance over the years to reveal the value of a GSK merger.

1.3 Aims and Objectives of the study

In this era, increases of mergers in pharmaceutical companies as corporate growth strategies for the financial and operational growth and to increase shareholders value have become a question mark. In most cases, companies claim to deliver value and profitability is not up to the merits. In this situation, it becomes very crucial for the investors and shareholders, to know about the actual image of the happening, it's essential to know about pre and post merger performance and so what steps are to be taken to improve their financial and operational growth.

The aims and objectives of this study are to investigate the pre and post financial performance and value creation of the GSK merger, which is a major merger in the pharmaceutical industry. Following are the specific objectives that will be considered in the study.

- Companies' operational and financial results will be analysed through financial statement analysis.
- Pre and post merger performance of the companies' will be investigated, whether the company have achieved financial & operational growth and delivered the value to its shareholders in form of earnings per share and dividends.
- How GSK has emerged ever since the merger period until 2009.

1.4 Research Questions

In view of the above said objectives, aim and problem of study, following is the research question of the study,

- Does the GSK merger delivers value and achieves expectations?

1.5 Significance of the study

The study will be beneficial and intend to provide valuable information for the following stakeholders.

- Investors, by providing guidance on the measures that can be used in assessment of the merger's performance and the results in terms of profitability and returns to shareholders.
- Corporate management, by providing analysis of the merger that will reflect performance lapses and achievements.
- Students and researchers and general public, by providing a reference material that will help to understand merger performance of the company in particular and about M&A in general.

1.6 Thesis Outline

The following figure shows the general outline of study and express the flow of study carried out.

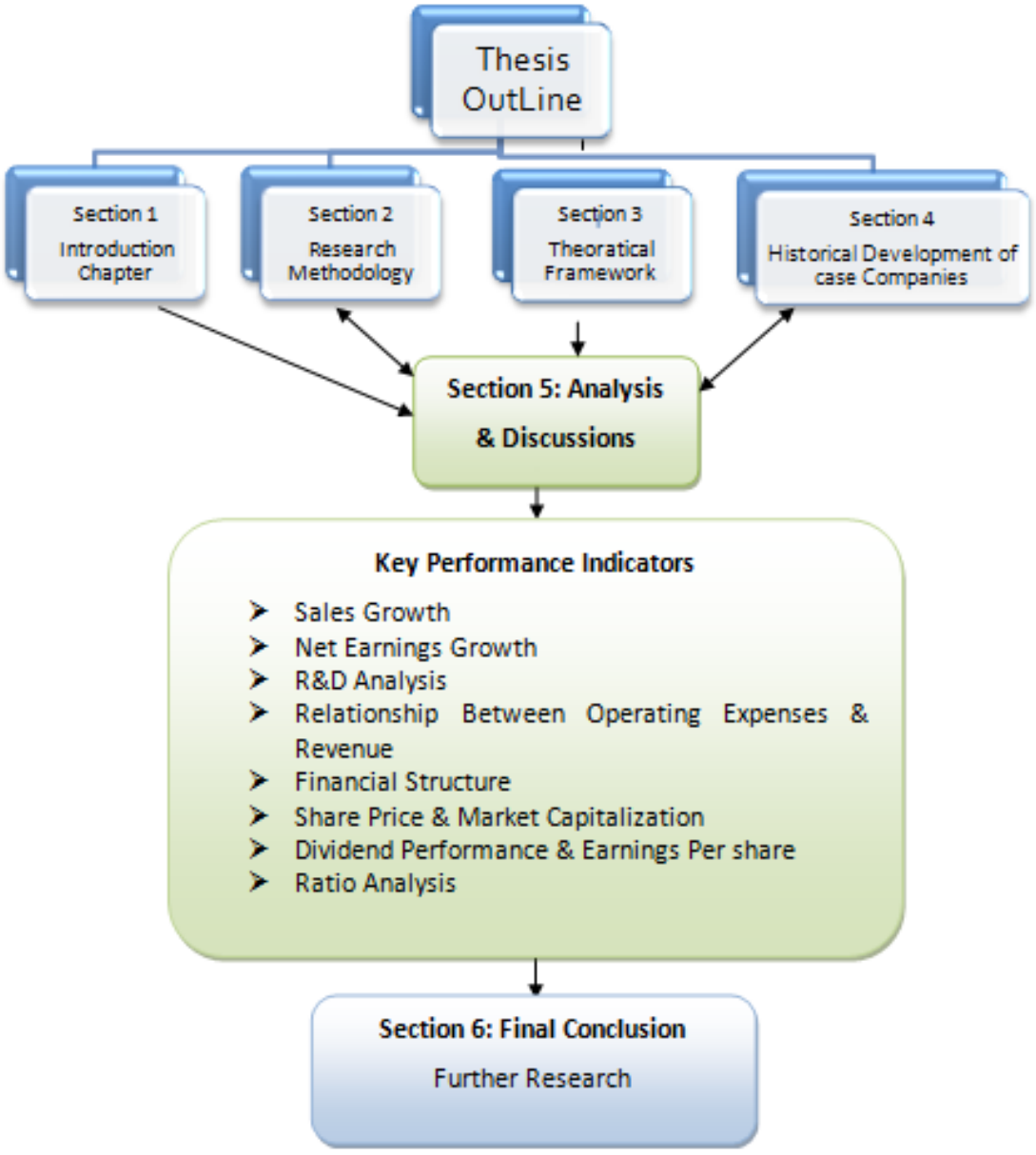

Figure 1: Thesis Outline

2 Research Methodology

This section describes the research methodology used in the thesis and explains the research approach used methods of data collection and scientific evaluation methods.

2.1 Research Strategy

Research strategies include different sort of experiments, surveys, archival analysis and case study methods (Yin K. R., 1984). Among these different strategies based on the requirements of the research, it is concluded that the case study method in support of quantitative analysis will be most beneficial approach to use for the purpose of this study. A case study method is used when analyzing a particular & complex single entity within its important circumstances (Stake, 1995). Further, the case study design can be used to gain route of the cause while this method is preferred when examining present day events within real life scenarios. As the study is carried out in two major parts theoretical & empirical, two main approaches relating to this particular case study are used. Descriptive research approach will clarify the theoretical concepts used i.e. financial statement analysis, common size analysis, trend analysis and ratio analysis. Explanatory research approach will further used for empirical part of the study by analysing the key performance indicators to make a cause & affect relationships.

2.2 Choice of Research Method

Choice of research method depends on the researcher and demand of research work. Among others the two main research methods are qualitative and quantitative research methods. A researcher can use both or any of these research methods for a case study, or by saying that a case study can be done through quantitative or qualitative research methods (Yin K. R., 1994). Quantitative research method is more formal and structured; it is applied when experimental methods are to be used to form a hypothesis. . Further, in quantitative research, mathematical procedures are used as norms to analyse the numerical data. This in turn leads to final phase of results, that are declared and evaluated through statistical technologies (Naheed, 2003). Qualitative methods are used when a lot of information about few units is required (Merriam, 1997). Any research is considered qualitative research where findings of the research are produced by using means other than any quantitative or statistical procedures.

In this study mainly qualitative research method is used for empirical study part, while all the theoretical data is solely qualitative. The empirical data gained from the annual reports of the

companies is based on quantitative research method in order to analyze the financial statements from different perspectives. Reasons for choosing quantitative research method is also due to the fact that research is intended to analyse company's pre and post merger financial performance.

2.3 Data Collection

The researcher gathers data in order to provide basis in the research process[1]. All data that is to be collected in the research process can be categorised in two main types i.e. primary and secondary. Primary data collection is made through interviews, surveys from the concerned personal (employees, students, general public etc) while secondary data is collected through available prior research, available reports, news and published work.

For the purpose of this research, the secondary data is used & collected through different sources, such as annual reports, previous research, academic books journals and internet. That will be used as basis for both theoretical and empirical dimension of study. The research is based on the above said external sources, due to time constraints primary data collection through surveys and interviews from selected companies could not be obtained. Further, due to practical concerns of not conducting standard interviews also caused problems for primary data collection process.

2.4 Critique

A major criticism of secondary data is that it can be manipulated and affected by its value, unlike primary data collection method which is used for creating new data and ultimately results are derived that may not be biased. Shareholders reliance on the public information or secondary information of companies available through annual reports may mislead their decisions.

2.5 Scientific Evaluation

2.5.1 **Errors**

Accounting data is as imperfect as stock price data, and have certain disclosure shortages. Company's corporate financial reports can be affected by the choice of accounting policies (stock valuations, depreciation etc) which may in turn show biasness in company's profitability and

[1] Ibert, Baumard, Donada and Xuereb, 2001, p.172.

performance. As a precaution above stated errors in the company's performance and profitability corporate reports are to be carefully analysed.

2.5.2 **Validity**

Validity in the research work means that, the developed framework of research concerning the entity or topic which is being researched, how truly and clearly represents the reality. The validity of research is seen to be a common problem where different data collection instruments are used. Research outcomes will be valid if the data collection instrument is free of bias.

In this study, to get better and transparent construct validity multiple sources of data collection i.e. annual reports, internet sources and trade associations to cross check the data. Further, validity will be ensured to its high standards through information from various sources.

2.5.3 **Reliability**

Reliability in the research work is concerned with the accuracy and consistency of the research out comes. Big companies use different manipulation tools while making annual reports, so the disclosure presented in them is not meant to be 100% reliable, that's why possibility of missing some information is considered during this study. However, information used in the study will be thoroughly investigated by applying different analytical tools to unleash hidden figures, which will represent a real picture. Different sorts of analysis techniques like financial statement analysis, comparative financial analysis, ratio analysis and stock price check will help to achieve reliable results for the share holders, industry and general stakeholders perspective.

3 Theoretical Framework

This section explains the concept and motives of mergers in pharmaceutical industry along with the reasons of merger's failures and success .Different approaches that are used to evaluate the mergers performance through empirical, theoretical studies and different analysis tools used to evaluate the performance of the merger.

3.1 Theoretical Studies

Theoretical studies described that higher percentage of mergers and acquisitions are not up to the desired expectations of the firms and do not deliver shareholders value which was promised, consequently that leaded to M&A failure. According to a report (Cap Gemini, Ernst & Young, 2002) the significant activity of mega mergers started during 1980s and early 1990s in pharmaceutical industry. The intended transactions to reap the benefits of increased market, diversity of products, ultimately most of the firms failed to yield sustainable value for long term. That raised the question why companies failed to achieve the targets and to deliver shareholders value after merger which they had while operating separately prior to merger. For the answer of the above said question it is important to look into the factors that heavily cause the firms to embrace corporate failures. Common factors that cause merger & acquisition failure is, failure to achieve synergies and cost savings, management failure of effective policy making and diversification. Further, the success speculations are proved to be wrong when above mentioned reasons exist which are not expected by the firms, prior to mergers and acquisitions deals. Consequently, the management, shareholders and consumers have to bear the circumstances of failure. It is important to look through the factors that may cause failure for a strategic alliance and to look at the critical success factors gained through mergers & acquisitions for which companies go for such complex strategies.

3.2 Causes of Failure

There are many point of views which address the failure grounds of M&A's, but most researchers conclude that, M&A fails when the acquiring company cannot increase and deliver shareholders value and cannot achieve financial, commercial or strategic objectives[2].

[2] Denzil Rankine, "Why Acquisitions Fail", p. xxi

If we look at the causes of failure of a merger, it is opposite to the objectives and motives set by the company prior to merger deals. Factors leading to failure of mergers and acquisitions may be numerous depending upon different industry segments. The most common causes of failures of M&A relating to pharmaceutical companies include failure to achieve synergies and cost reductions in manufacturing processes, shortening over lapping resource usage, low tax savings, failure of strategies to capture improved market, firms' inability to gain post integration efficiently

And personal interests of management against the company shareholders value creation. The mentioned causes can lead to distraction from the goals and objectives of the merger and consequently result in a mega failure.

The most common causes of failure of M&A in different industries can be seen in the subsequent.

- *Target Management Attitudes and organisational cultural differences* – a set of belief, assumption and rules of conduct that defines the company working criteria [3] is one of the general reasons while two companies merge being acquired. Cultural differences and management attitudes refer to the way decisions are taken in acquiring or acquired company. In most of the cases acquiring company imposes its culture on the acquired company or in the case of a merger, mutual understanding is lost which brings hurdles in efficient decision making.
- *Ineffective post acquisition integration planning* – integration planning prior to M&A is needed since, integration of acquirer and acquired company depends on the ability of integrating those two companies, which is essential to achieve synergies from M&A[4].
- *Lack of Knowledge about industry/target firm* – As (Hariharan, 2005) suggests that knowledge concerning about the target firm capacity, manufacturing facilities, product development facilities, marketing networks, profile of key management and productivity level of employees are the factors that should be taken into account.
- *Over estimation of synergies* – If the synergies of the firms after merger/acquisition are not as expected, depending on the premium paid for deal, the net present value of the acquisition turns negative which is a usual happening.

[3] Max M Habeck, Fritz Kröger, Michael R Träm, "After the Merger"(2000), p.84
[4] Denzil Rankine, "Why Acquisitions Fail", p. 155

- *Paying more for less* – This failure is also co related with the former one. If the price of the premium paid is higher than the synergies, the net present value will be negative. The reason behind this as pointed out by some researchers is that during the process of competitive bidding situation, a company may pay more to win or be attractive for the target firm (Roll, 1986). The after effects of such high payments are vulnerable for the companies later on if the acquiring company is not capable to take benefit from synergies and to increase shareholders value.
- *Wrong management of Integration* – if the managers are unable to integrate two companies with new strategies of the merged companies, the consequence could be a failure. Poor communication, wrong implementation of change, underestimation of task management and lack of clear leadership are the reasons that fall in the wrong management of integration (Rankine, 2001).
- *Customer ignorance* – Customers are the integral part any company, during the integration process only focusing on internal affair while not considering the customers who are essential part of the company is a big mistake[5].
- *Avoidance of Financial Analysis* – Companies that are undergoing alliances like M&A concentrate on the financial position of the acquiring a company, while there should be an audit of the company conducted to collect valuable information relating issues like quality of receivables, litigation problems etc.
- *Inadequate due diligence* – Effective due diligence is essential to avoid problems start to appear after M&A's. Due diligence is helps to identify problems which should be resolved prior to the mega transaction to achieve success, it provides forecasts about the business performance and provides information the way target company is positioned and managed [6].

3.3 Critical Success Factors

Besides the different factors which lead to corporate failure and higher percentage of failure perceived in the M&A's around the globe, these alliances are still considered sources of corporate growth. Increase of synergies, cost reductions, expansion of markets and importantly to increase shareholder's value. Here the question arises why pharmaceutical companies would go for such a decision where odds of success are so low. According to a report by (Cap Gemini, Ernst &

[5] Ibid, p. 213
[6] Denzil Rankine, "Why Acquisitions Fail", p. 87

Young, 2002) the drivers of three major waves of M&A activity over the last fifteen years, shows four distinct strategies which are the driving forces of such alliances in todays pharmaceutical industry.

1. Creating market muscle
2. Consolidation for cost reductions
3. Broadening geographic coverage
4. Pipeline stuffing

Creating market muscle – In the 1980s and 1990s the first significant merger activity happened in pharmaceutical industry and the genesis of the mega merger[7]. The transactions were actually intended by the companies to reap the benefits of increased muscle in the market which they could achieve through M&A not for long but at least for the approximately five years time.

Consolidation for cost reductions – In pharmaceutical industry development of medicine and products demands very high costs for R&D, to be able to achieve one of the synergy sources like reduction in costs companies engage in M&A's. GW in 1995 from their alliance achieved cost savings of 10.08%, ranging almost 4% above industry average and 16.08% in combined expenses which was 8% above the standard sector reduction[8].

Broadening geographic coverage – Pharmaceutical industry having a global business status and products use worldwide, but companies still need to have sales force. M&A's provide companies the opportunity to operate globally by integrating resources and geographic coverage. The example is Pharmacia (A Scandinavian Company) and Upjohn (A US Company) with limited European sales force and being isolated, regardless of their failure in other areas, benefited from their merger as regards to broadening geographic coverage which boosted sales and customer base[8].

Pipeline stuffing – one of the obvious reasons for company's choice to opt for M&A is the shortfall in the R&D pipeline. Glaxo in 1995, due to expiry of Zantac (world's best selling drug at the time) was coming to the end of its patent expiry was about to face big problems. Meanwhile, Glaxo decision to acquire Wellcome in 1995 and renewed its product pipeline which created a substantial and innovated asset, included drugs like Seroxat, one of top ten drugs of its time[8].

[7] Capgemini Ernst & Young, Life Sciences – Perspectives on Life Sciences 2000, p. 08
[8] Capgemini Ernst & Young, Life Sciences – Perspectives on Life Sciences 2000, p. 09

Having considered the critical success factors derived from M&A's, it is vital to know and discuss about different sources of synergies that are essential to achieve for the companies involved in strategic alliances.

3.4 Sources of Synergies

Synergies are of mainly four types: revenue enhancement, cost reduction, lower taxes and lower cost of capital (Collantes.A.I; Jiménez.M.A, 2007).

Revenue enhancement – The key concept being developed here is that, combined firm will generate higher revenues that both firms working as individual. There are three main reasons due to which revenue enhancement is gained those are marketing gains, strategic benefits and market power (Collantes.A.I; Jiménez.M.A, 2007) .

Cost Reduction – The essential part of mergers success depends upon the merged firms capability and efficiency to reduce costs. Firms accomplish greater operating efficiency by lowering their costs in multiple ways: *Economies of Scale, which states* the average cost of production, can be decreased due to increase in the amount of production, and this concept is related to horizontal mergers and widely used in pharmaceutical industry. *Elimination of inefficient management,* this method of cost reduction can be achieved by integration of related activities, obtaining fewer bottlenecks and short lead times also, by mechanizing different process of production. *Complementary Resources,* that refers to the firm's ability to use its resources for multiple purposes which can help to draw more sales with less expenses and efficient usage of resources.

Lower Taxes – Lower tax payments motivate a great number of M&A. Firms achieve these gains by several ways of decreasing taxes: *Tax losses from net operating losses,* that states the two firms merging will have to pay lower taxes while if they remain separate they can't benefit potential tax losses (Collantes.A.I; Jiménez.M.A, 2007). *Unused debt capacity,* this is referred to the idea of optimal capital structure, referring to the capital structure means to talk about debt to equity ratio. Capital structure of the firms will be optimal when marginal tax benefit from extra debt equals marginal increase in the financial distress costs from additional debt[9]. In many cases when merger happens the cost of the financial distress is lower than the sum of two separate firms due to diversification[9]. Therefore, after merger or acquisition firms are able to increase debt to equity ratios with high profits due to additional tax benefits generation. *Surplus funds,* if firms have free

[9] Collantes.A.I; Jiménez.M.A(2007) Master Thesis – Why do Majority of Mergers & Acquisitions Fail?

cash flows, there can be several ways to spend them i.e. by paying dividends, by buying their own shares or acquiring shares from another firm, for instance the firm's objective to do the latter one contains two goals. First, the firms' shareholders avoid taxes from dividends which would have been paid[9]. Second, firms save money by paying lower corporate taxes on dividends received from the acquired firms' shares since, 70% of the received dividend income is excluded from tax according to different regulations (Cap Gemini, Ernst & Young, 2002).

Lower cost of capital – This can be achieved due to economies of scale accomplished when issuing securities in a merger[9]. The costs for issuing securities both debt and equity are lower for larger amount of issues than that of fewer ones.

3.5 Determining Success or Failure of Mergers

The history of merger activity experienced higher percentage of failure rather success. Studies revealed that two out of every three deals have not worked out (Tkachenko & Fiabedzi, 2001). According to statistics and studies done on the valuation of mergers, one year after the deal completion 83% mergers were unsuccessful in producing any business growth as regards to shareholder value (Tkachenko & Fiabedzi, 2001).

The Study of merger activity has existed for long time and it has been a high interest for the economists and for financial community (Melicher, Ledolter & D'Antonio, 1983). Analysis of corporate deals like mergers is not a simple task and requires in depth knowledge of the involved entities from various aspects. Previously studies have been done mainly of three directions: the accounting studies; the market studies; and interview studies (Tkachenko & Fiabedzi, 2001). In my study, accounting approach is more important than the other studies, because the accounting approach is directly connected to the merger's outcome.

Analysing success or failure of merger is very complex issue, different perspectives and motives can be set to analyze the performance of the merger. Most researchers in the previous studies of mergers have focused on the market studies rather other which two approaches (Tkachenko & Fiabedzi, 2001). In order to analyze the success or failure, it is important to know what an outcome of a merger is to be considered a failure or success. In accounting studies, the main question about merger outcome is whether "merger is successful or unsuccessful", so in what term? Since, accounting approach measures the outcome of a merger on consolidation level, so success means that the merged company performs better than the companies would have done

without merging. While, failure of merger can be stated as inability of merged companies to achieve the financial outcomes and goals set prior to the deal.

A contrary view exists in the previous studies conducted from different perspectives to evaluate the performance of the mergers and acquisitions. Previous studies analysing stock prices during the announcement of an acquisition (market study/event study method) report that: the acquired firms' gain positive excess returns significantly, while the acquiring firms' shareholders receive modest excessive returns (Tkachenko & Fiabedzi, 2001). However, in contrary to event study method, empirical studies investing accounting financial data show inconsistent outcomes. Some researchers found negative impact on the profits for the merged firms (Hogarty, 1970; Bradford, 1978; Ravenscraft and Scherer, 1989) and some authors have claimed that positive effects on profitability for the acquiring firms (Lev and Mandelker, 1972; Smith, 1990). The inconsistency and variability of results derived from the study of merged companies may be due to the different methodologies used and different sample selections are used (Tkachenko & Fiabedzi, 2001).

Determining success and failure of mergers are based on the comparison, which is very complex to be applied in practice. The researchers apply several methodologies and approaches to critically observe how the companies involved in the merger activity would have developed if not being merged. Researchers use different evaluation studies like 'absolute performance' where the company's post merger return is compared to weighted average of the companies in merger for their pre merger return. Even, more complex approach is used through 'relative performance' studies, where the post merger performance is analyzed by comparing it with a control sample (Tkachenko & Fiabedzi, 2001).

On the other hand, the accounting studies use various different measures of accounting return, related to profitability, leverage, sales performance, asset utilization and so on. The important and mostly used of these measures include return on equity (ROE), return on assets (ROA), return on capital employed (ROCE) and return on sales (ROS). For shareholder perspective, return on equity (ROE) measures the return provided for their investments, while ROA, ROS and ROCE measures the operative profitability of the firm.

Keeping in view the objectives and research perspective of this study, it is vital to deliver what is going to be considered in the following section of study. Since, the focus of the study is to determine the outcomes of the merger under investigation, accounting studies are best suited for such analysis and provide the measures to evaluate profitability for the firm and shareholders

perspective. In the following sections, accounting studies and different tools used in this study will be explained for the general users understanding.

3.6 Accounting Studies

Accounting studies are used as one of the alternative and traditional approaches to analyze the merger performance. Financial economists use accounting based studies to evaluate M&As' by looking at the change occurred over time (approx 1 to 5 years) using different measures of earnings, cash flow, margins or productivity (Kaplan, 2006).

Accounting approach measures the merger effects by examining the accounting data of the firms before and after the merger, to determine the changes associated with the merger (Pautler, 2001). Accounting studies may focus accounting rates of return, profit margins, expense ratios and any other forms of accounting and financial measures of firm performance (Pautler, 2001).

The accounting studies try to control the confounding factors through comparison of post acquisition changes in financial performance to industry averages, or to multiple factors set by the researcher like comparison of changes in post and pre merger performance of the companies. Accounting studies use assumptions as described by (Kaplan, 2006), "The implicit assumptions in these studies are that the acquisition is important enough to drive the changes and that no other factors are important on average". The reason behind this assumption is that merely in accounting studies; the information exceeding the financial aspects is not taken into consideration. Like accounting studies would not consider the management aspects of the firms involved in M&A, along with the assumptions made in stock market study are different then accounting perspective, stock market study or event study perspective will be considered later sections.

Accounting studies like other study used to evaluate M&A performance, have its pros and cons. Or if rightly said, the results derived using accounting studies are not considered to be totally unbiased due to use of different accounting methodologies used by the firms' which has implications on the profitability and financial performance of the firms.

The accuracy of the performance results of the merger also, depends on the way the merger accounting is done and what accounting policies are followed by the companies' pre and post merger timeline. In the subsequent section, problems regarding accounting data, merger accounting method and different accounting policies will be discussed.

3.6.1 **Financial Accounting Data & Associated Problems**

Financial accounting data can be evaluated and results are based on what is considered for analysis, questions like what would have happened to profits of the companies if no merger was there? Such questions cannot be answered with certainty, but merger economists have tried to come up with comparison mechanism of merged entities' profit performance with the control groups (Tkachenko & Fiabedzi, 2001). These are of mainly two types, before and after comparison (as used in this study) and comparison with business units those having no merger activity but similar in size, or industry etc.

While analysing the pre and post merger performance of the company, a problem occurs due to the consolidation of companies accounts into one account. Confining the analysis of large mergers is not a totally reliable solution due to systematic profitability differences associated with merged entity size (Tkachenko & Fiabedzi, 2001). These problems of a large merger analysis can be avoided by analysing post merger performance at the level of individual segments, or 'lines of businesses instead of analysing merger at the whole company level.

3.6.2 **Merger Accounting Methods & Implications**

During the analysis of a merger, another problem arises from the way merger accounting is done. It is also questionable whether the consolidated accounts of merged entity would present true and fair view, where group comprised of enterprises of almost same size which has joined together as a genuine marriage of interests and where no undertaking was dominant partner (Watts, 1996). This criticism answered with development of alternative way of looking at consolidation known as merger or *pooling of interest* method, evolved in the USA and became increasingly popular in the UK during 1980s (Watts, 1996). The merger accounting method, "recognises that if enterprises come together to pool their resources then the combined assets should equal the individual assets of the companies forming the group" (Watts, 1996). Further, in pooling of interest method, firms' assets and liabilities are simply added together and no revaluation of any sort takes place. Since it is pooling of interests rather than purchase of one firm by other so, neither goodwill is created nor any share premium is recognised in the merged accounts (Watts, 1996). Another method that is used in mergers is in contrast to pooling of interests method. Using *Purchase Accounting* method the acquired assets are recorded at effective price for them. For instance, if a premium is paid for the acquired firm's book value, the required assets are "stepped up" in relation to their pre merger book value or an addition may be made to the acquirer's goodwill account (Tkachenko & Fiabedzi, 2001). In purchase accounting method,

plant and equipment value increase are always depreciated in the following years of merger while good will amortization is required. Due to the differences in these methods of merger accounting, the post merger profit performance using *purchase accounting*, it is likely to be different that of *pooling of interest accounting method*. The choice of accounting methods used for merger can be systematically different so it can present difference in the merged company's performance. The difference can be explained by the following example: if purchase premium over book value is paid, the denominator of any ratio i.e. profitability or asset utilization will be greater under purchase accounting rather than pooling of interests if other values are equal. While purchase accounting premiums are amortized, the numerator of any post merger profitability ratio will be smaller than of pooling of interests accounting. Hence, assuming that a premium above pre merger book value is paid, both profit/assets and profit/sales ratios will be systematically lower under purchase accounting than of pooling accounting.

It is interesting to find out different accounting policies used by the firms' involved in mergers and how these accounting polices makes a difference in presenting the performance of the companies.

3.6.3 **Accounting Policies Effects on Disclosure**

To analyze the performance of a merger it is essential to look at the accounting policies used for disclosures which is used by the investors and other stakeholders. Accounting discretion allowed to managers is valuable because it allows them to inside information of financial statement. However, investors view profits of the firm as the measure of firm's performance, managers have the luxury to use their accounting discretion to distort reports profits of the firm by applying biased assumptions (Palepu, Healy, & Bernard, 2004). A number of accounting conventions have evolved to ensure the quality of disclosure by firms, but still the discretion allowed to managers and use of real world accounting systems leave considerable room for managers to influence financial statement data. A firm's reporting strategy/policy where managers use their accounting discretion has a great influence on the firm's financial statements.

Corporate managers can use different accounting & disclosure policies that may make it more or less difficult for external users of financial statements to understand the true economic picture of the business (Palepu, Healy, & Bernard, 2004). A superior disclosure strategy enables mangers to communicate the underlying business reality to investors; by doing so one constraint on the firm's disclosure strategy is the competitive dynamics in product markets. Disclosure of proprietary information about business strategies of the firm and the economic outcomes of

these strategies may change the firm's competitive position in the market. So, in this case managers may use financial statements to provide information which is useful to investors in assessing the true economic performance of their firm (Palepu, Healy, & Bernard, 2004). On the other Hand, managers can also use different financial reporting policies to manipulate investor's perception about the firm. Usually the discretion granted to managers, can make it hard for investors to identify and understand the poor performance. For instance, managers can choose accounting policies and estimates to portray an optimistic assessment of their firm's true performance. But, it can be difficult and costly for investors to understand the actual performance as managers control the amount of information which is disclosed voluntarily (Palepu, Healy, & Bernard, 2004).

To determine the true performance of the merged entities, it is vital to discuss and carry out the financial statement analysis using different analysis techniques and performance indicators as discussed in the subsequent.

3.7 Financial Statement Analysis

In order to figure out the financial status of business, enterprises prepares certain statements of financial data i.e. income statements, balance sheets and cash flow statements are known as financial statements of the company. These statements are mainly made for decision making, and are concerned with financial performance of the company. The external users i.e. investors and other stakeholders also benefit from these statements, but information provided in these financial statements are not very adequate and meaningful for decision making and subject to be biased or manipulated (Financial Statement Analysis: An Introduction). Thus, a detailed analysis of financial statement is obligatory to view the actual situation of the firm.

Financial statement analysis facilitates with widely available data on public corporations' economic activities involving their financial performance from different perspectives. Investors and other stakeholders rely on financial disclosures to assess their plans and performance of firms (Palepu, Healy, & Bernard, 2004). Financial statement analysis provides with various options to analyze the financial performance of the firm depending upon the nature and need of the information. Different tools of financial statement analysis can be used to evaluate the performance of the firm; most applicable in this study are the comparative financial statement analysis, common size statement analysis and ratio analysis. Financial statement analysis as according to objectives of study falls within following areas of inquiry related to profitability,

liquidity, capital structure and long term solvency, asset utilization and operational performance and funds flow of the company.

- *Return on Investments* – measures the company's ability to provide returns on the investments and to attract further sources of finance.
- *Short-term liquidity* – measures the company's ability to meet short-term obligations.
- *Capital structure* & *long-term solvency* – measures the company's ability generate future revenues and ability to meet long-term obligations.
- *Asset Utilization* – measures the company's ability of using its assets for generating revenues which indicates profitability level of the company.
- *Operating performance* – operating performance analysis measures the company's success at maximization of revenues and minimizing expenses from long run operating activities.
- *Funds flow* – measures the future availability and disposition of cash for the company.

3.7.1 **Comparative Financial Statements**

Comparative financial statement analysis provides information to determine the direction of change in the business as of the selected period of time. Comparative financial statement analysis is carried out by examining consecutive balance sheets, income statements or cash flow statement and reviewing changes individually in categories on a year to year basis (Shabbir & Abdullah, 2009). In comparative financial statement analysis trend is the important factor which progress the company's performance during the selected period of time. Trend derived from comparison of financial statements of several years depicts company's direction, speed and volatility of performance. It's of common interest for the top management of the company, financial managers and external users of these financial statements to observe the favourable or non favourable trend of the company's performance. For this reason, figures of current year have to be compared with the previous year performance. Comparative financial statement analysis is also known as horizontal analysis due the fact of left to right movement of comparative statements. In this study, one of the techniques of comparative analysis used is year to year change analysis. Analysis of year to year changes is done by comparison of financial statements prior and post merger; where three years pre merger data is used in comparison with three years' post merger data. In addition to draw a detailed picture of the company's performance, in total

ten years of post merger financial statements are compared. In comparative analysis of financial statements it is ideal to use cumulative and average values for the period under investigation. Comparison of yearly amounts with an average computed for a number years highlights the critical slumps or ups, as average values level odd fluctuations[10].

3.7.2 **Common Size Financial Statement Analysis**

Common size analysis involves representing the income statement figures as percentage of sales and balance sheet figures as percentage of total assets. Financial statements are tending to represent absolute figures and so comparison of these figures can be misleading. In order to understand and value increase and decrease correctly, the figures reported are converted into percentage of some variable setting as common base. In income statement revenues are set as 100% of all other items of income statement are expressed as percentage of revenue. Also, in balance sheet the assets of the company are set to be common base as 100% and all other items of balance sheet are expressed as percentage of total assets. The analysis technique capitulates common size financial statements since the sum of individual items in it make to 100 percent (Shabbir & Abdullah, 2009). This kind of statements prepared are called common size statements and analysis performed on these statements is referred as common size financial statement analysis, or vertical analysis, due to up and down movement of our eyes while reviewing the statements (Shabbir & Abdullah, 2009). The idea to conduct common size financial statement analysis is to reveal the internal structure of the financial statements. For instance, while analysing the balance sheet a structural analysis focus on sources of finance, including distribution of financing among current liabilities, non-current liabilities and equity capital, also in composition of investments including (current and non- current assets)[11].

3.7.3 **Ratio Analysis**

Ratio analysis is used with the objective to evaluate the effectiveness of firm's policies which reflect in their performance of following four areas, Operating management; investment management; financing strategy and dividend policies (Palepu, Healy, & Bernard, 2004). Using ratio analysis, analyst can compare ratios for a company over several years 'time series comparison', compare ratios for the firm and other companies in the industry 'cross sectional comparison' and can compare ratios to some absolute benchmark. Using time series comparison

[10] Financial Statement Analysis and Reporting, Bernstein, pg 32
[11] Financial Statement Analysis and Reporting, Bernstein, pg 37

by holding the firm's specific factors analyst can determine the firm's strategy over time. Cross sectional comparison facilitates to examine the firm's performance relative to its industry. For most of the ratios there is no bench mark available except for the measures of rates of return, which is possible to be compared with cost of capital associated with the investments (Palepu, Healy, & Bernard, 2004). Since there are no bench marks available, so it is totally dependent on the analyst how and where to apply these ratios. While considering ratios analysis it is necessary to be interpreted with care and responsibility since, factors affecting the numerator can correlate with those of affecting the denominator[12]. For instance a firm may improve the operating expense ratio to sales by cutting its costs that stimulate sales such as R&D but this might result in decrease of future sales or market share (Shabbir & Abdullah, 2009). Many ratios have variables in common with other ratios so carrying out analysis for all the possible ratios might not be obligatory most of the times. Ratios are not very significant but interpretable to various results depending on the variable chosen; ratios are somewhat useful when compared with previous ratios, or with ratios of competitors and predetermined standards. The amount of inconsistency in ratios over time has the almost same importance as its trend.

[12] Financial Statement Analysis and Reporting, Bernstein, pg 41

4 Historical Development of Case Companies

> *This section explains the historical developments of the companies included in study. Historical development of case companies will be followed by the emergence of merger. This section also includes, company's product line, stock exchange listings, and introduction of merger.*

4.1 History of GlaxoWellcome

GW originated by the merger of two companies, Glaxo and Wellcome. Glaxo already knows the merger game having merged with Wellcome on 16th March, 1995 by taking over Wellcome for £ 9 billion[13], which was the biggest merger of the UK corporate history. Glaxo story started from New Zealand where Joseph Nathan in 1873 initiated to start a family business and registered the company as Joseph Nathan & Co, which later became Glaxo. Joseph Nathan & Co product of milk powder mainly used for catering and military use; gradually became a source of infant food. Due to growing use and realization of its health features caused the change of product name from Defiance Dried Milk to Glaxo brand of milk powder, registered in 1906. Joseph Nathan & Co earned significantly from its product during the First World War. In 1919, Harry Jephcott joined the company having chemical and pharmaceutical qualifications, and led the team to the new era in pharmaceutical business[14]. Jephcott obtained rights for the process of vitamin D extraction through fish liver oil that ultimately lead to the launch of the company's first product Ostelin Liquid in 1924. Joseph Nathan & Co made considerable progress during 1920's and 1930's by opening many subsidiaries and agencies. The Glaxo department became a subsidiary of Joseph Nathan & Co, called Glaxo Laboratories which appeared as main drive for the company business during the Second World War. In 1947, Glaxo Laboratories Ltd. absorbed the Joseph Nathan & Co and so become the parent company listed in London Stock Exchange. Glaxo expanded through subsidiaries around the world and through acquisitions among which Allen & Hanbury Ltd in 1958 and Meyer Laboratories Inc in 1978 are the major ones.

Wellcome started by Henry Wellcome initially being a result of a partnership with Silas Burroughs for Burroughs Wellcome & amp which last for 15 years. Although it was a partnership but the company prosperity owed much to Wellcome's dependent on Wellcome's marketing elegance, scientific medical conferences and the creation of tabloid trademark in 1884. Wellcome Tabloid Medicine chests was mainly used by Explorers, seafarers, British royalty and even US president

[13] http://www.gsk.com/about/history.htm -
[14] http://www.gsk.com/about/history.htm - 1999

were among the users of the Tabloid Medicine. George Hitchings and Gertrude Elion in Wellcome US laboratories led to the discovery of Purinethol (Mercatopurine) one of the first anticancer treatment that set the company on the charts during 1951. Also, in the following years two scientists initiated many new cures (cancer, malaria) and also extended efforts for health programs. Wellcome made good progress through 1950's and onward through acquisitions of Cooper, McDougall and Robertson Ltd and launch of new products and moved its production facility to Greenville, North Carolina and opened its research centre at Research Triangle Park, North Carolina during in 1970's[15].

In 1995, Glaxo and Wellcome merged to form Glaxo Wellcome. The merger was considered the largest in UK corporate history at that point of time. Wellcome owned 40% stake in brand of Glaxo like Zantac and Zovirax for which Glaxo struggled to find a replacement due to patent expiry in US. Following the merger, GW made acquisition of California based Affymax, a leader in the field of combinatorial chemistry[16]. GW after merger extended its research operations by opening Medicines Research Centre at Stevenage in England. In 1995, GW acquired California based Affymax, a leader in the field of combinational chemistry. In 1999, GW Ventolin (albuterol) became company's largest therapeutic area, which expresses the focus on pharmaceuticals and consumer health care.

4.1.1 **Products of GlaxoWellcome**

GW products are directed to nine major therapeutic areas and range of various medicines concerning each therapeutic area. Following are the description of main therapeutic areas and major medicines.

- Respiratory – Serevent & Ventolin for the treatment of asthma, Flixotide/Flovent and Becotide/Beclovent associated for bronchial asthma. Flixotide over the years remained the highest selling product of the company.

- Viral infections – Combivir, Ziagen, Agenerase for the treatment of HIV, Zeffix for the treatment of hepatitis B. Zovirax for treatment of herpes infections like chicken pox, genital herpes etc and Rlenze for influenza treatment.

[15] http://www.gsk.com/about/history.htm
[16] http://www.gsk.com/about/history.htm

- Central Nervous system (CNS) – Imigran/Imitrex used for severe migraine cluster headache which had become reference product in this sector[17].
- Bacterial infections – Zinnat, Fortum and Zinacef used in hospital based inject able antibiotics markets.
- Gastro Intestinal – Zantac is used for the treatment of peptic ulcer disease with other various gastric acid related disorders, the medicine used in many markets around the world.
- Oncology – Zofran is used to prevent nausea and vomiting associated with chemotherapy and radiotherapy for cancer.
- Dermatological – the group principle dermatological products are Betnovate, Dermovate and Cutivate for the treatment of skin diseases.
- Anaesthesia – the group markets a range of neuromuscular blocking agents used during surgical operations.

4.1.2 **Description of Business**

GW Plc. an English public limited company. Its subsidiary and associated undertakings constituted a major global pharmaceutical group, which developed and produced prescription and non-prescription medicines[18]. GW in its time before merger had its principle executive offices, R&D and production facilities located around UK along with operating companies in 57 countries. GW products are manufactured in 33 countries and sold around 157 countries. Major markets for GW products are the USA, Japan, UK, France, Italy and Germany. GW shares prior to acquisition and also after the acquisition of Wellcome, both companies shares were listed in London and New York stock exchanges. Although after 1995, GW shares are listed in London, New York and Paris stock exchanges.

4.2 History of SmithKline Beecham

SKB Plc, incorporated in 1989 under the laws of England, was formed through the merger of SmithKline Beckman Corporation, a Pennsylvania Corporation and Beecham group Plc incorporated under the laws of England[19].

[17] GW Annual Report 1999, p. 06
[18] GW Annual Report 1999, p. 05
[19] SKB Annual Report 1999, p. 08

SKB a company with series of mergers and acquisitions in its history came into being in 1989 by the merger of SmithKline & Co and Beecham. The Beecham company history started from Thomas Beecham in 1843, when Thomas Beecham launched Beecham' pills laxative in England. Beecham opened its first factory in St. Helens, Lancashire, England for the increased and rapid production of medicines in 1959[20]. In 1830, John, K. Smith opened his pharmacy store in Philadelphia, which initiated the basis for the Smith Kline & Co. In 1865, Mahlon Kline joined the business with John, K. Smith which after the partnership of 10 years became SmithKline & Co.[21]. Subsequently in 1891, SmithKline & Co merged with French Richard & Co so; the company became Smith Kline & French Laboratories which ultimately lead to more focus on research. Years later, Smith Kline & French laboratories opened a new laboratory in Philadelphia and the company later bought Norden Laboratories, a business doing research for animal health.

In 1963, Smith Kline & French Laboratories bought Recherche ET Industrie Therapeutiques (Belgium) and expanded research work to focus on vaccines[22]. The company started expanding globally buying seven laboratories in Canada and US in 1969 and in 1982 acquired Allergan, a manufacturer of eye and skin care products. Later that year, the company merged with Bechman Inc. which changed the company name to SmithKline Beckman[23].

SmithKline Bechman in 1988, acquired its major competitor, International Clinical Laboratories followed by the merger with Beecham in 1989, which formed SKB Plc. After, the merger headquarters of the company were moved to England. In order to expand R&D in US, SKB bought a new research centres during 1995. The company also opened a research centre at New Frontiers Science Park in Harlow during 1997.

4.2.1 **Products of SmithKline Beecham**

SKB principally operates in two industry segments, pharmaceutical and consumer health care products. The industry sectors are organised by products and services which include pharmaceuticals (prescription medicine, vaccines, R&D and disease management programmes) also Consumer Healthcare (Oral Care, OTC medicine and Nutritional Healthcare)[24]. SKB

[20] http://www.gsk.com/about/history.htm
[21] http://www.gsk.com/about/history.htm
[22] http://GSK.co.tv/#cite_note-history_5
[23] http://GSK.co.tv/#cite_note-history_5
[24] SKB Annual Report 1999, p. 08

principal products in pharmaceuticals are mainly belongs to six therapeutic areas and eight categories of consumer healthcare products.

Following are the main Therapeutic areas and concerning pharmaceuticals of SKB,

- Anti-infective – medicines for infections are among the best selling products of the company constitute 33% of sales [25] include Amoxil, Augmentin, Bactroban, Famvir, and Timentin.

- Cardiovascular – medicines that address aspects of fatality heart disease include Baycol, Dyazide and Coreg.
- Inflammation & Tissue Repair and Oncology – this area address a number of diseases associated with abnormal inflammatory and cell growth processes include Hycamtin and Relifex/Relafen.
- Metabolism and Pulmonary – Avandia, for the treatment of diabetes and lung diseases.
- Neurosciences – SKB is leader in medicine for mental health and well being, Kytril, Requip, and Seroxat/Paxill constitute 31% of the company sales[25].
- Vaccines – SKB is one of the world leaders in vaccines that work to protect people from many diseases. In 1999, SKB distributed £774 million doses to 160 countries25. Vaccines include Engerix-B, Havrix, Infanrix, LYMErix, and Twinrix, vaccines constitutes 15% of the company sales.

Along with pharmaceuticals, SKB also produced products for consumer healthcare in several categories, these are,

- Analgesics – medicine for pain, fever and discomfort, this category constitute 11% of consumer healthcare sector sales.

- Dermatological – medicine for skin problems
- Gastrointestinal – SKB's one of the speciality consumer health care products for common stomach and digestion ailments constitute 12% of sales in consumer healthcare.
- Nutritionals – Nutritional drink products that constitute 19% of consumer healthcare sales.

[25] SKB Annual Report 1999, p. 38

- Oral Healthcare – innovative products for enhanced health care constitute 25% of consumer health care sales.
- Respiratory Tract – medicine for cold and flu.
- Smoking Cessation – medicine to help people to quit smoking constitute 15% of consumer healthcare sales.
- Vitamins and Tonics – supplements to support a balance diet

4.2.2 Description of Business

SKB worked dedicatedly to discover, develop, manufacture and market, vaccines over the counter medicines (OTC) and consumer healthcare products. The company manufactures in 30 countries and potential markets in almost every country around the world.

SKB pharmaceuticals are sold throughout the world, the principle markets of the company being US, France, UK, Germany, Spain, Italy, Japan, Canada, India, China and Mexico. The US markets constituted 53% of the company pharmaceutical sales[26], with the next nine markets for the further 27% sales of pharmaceuticals. The company's worldwide headquarters are located at New Horizons Court, Brentford, London UK. The company was listed in the US and UK stock exchanges.

4.3 The Merger – Glaxo SmithKline

On January 17 2000, the board of GW and SKB announced that both companies unanimously agreed on the terms of a proposed merger of equals[27]. On 27th December GSK Plc acquired GW Plc and SKB plc by a scheme of arrangement for merger of two companies[28]. The merger of both companies worth £ 114 billion has created a giant industry with an estimated global market share of 7% of the world pharmaceutical market[29]. Glaxo SmithKline plc was expected to become one of the world leaders in R&D with a combined expenditure of £ 2.3 billion to research and discover new medicine. With a wide product pipeline, Glaxo SmithKline was expected to be a market leader in four of the five largest therapeutic areas: anti-infective, central nervous system, respiratory, and alimentary & metabolic.

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[26] SKB Annual Report 1999, p. 11
[27] SKB Annual Report 1999, p. 06
[28] GSK Annual Report 2000, p. 06
[29] http://crossborder.practicallaw.com/2-101-4509

The merger effected by way of a scheme of arrangement where a new holding company, GSK was put in place over the merger parties. This was done as both companies are constituted under English law, where two alternatives were recommended i.e. takeover or a merger by scheme of arrangement. The two companies agreed on arrangement of a scheme by way of merger instead of takeover valuing three factors; stamp duty saving, arrangement supported concept of merger of equals, exemptions from the registration requirements

The merger of both companies required approval from shareholders of GW and SKB, first at court convened meetings and at extraordinary general meetings (EGMs) to approve the reduction of capital. After the regulatory and shareholders' approval of both companies, the two companies became one on 27 December, 2000[30].

In the 1999 Annual reports of both companies, GW and SKB addressed the shareholders with great hope and growth promises. According to the merger update of GW and SKB published in annual report of 1999, the share holders of both companies upon completion of merger will be given the share capital of GSK Plc according to following ratio,

- GW Shareholder will hold – 58.75%
- SKB Shareholder will hold – 41.25%

In case of shares held as American Depository Shares (ADSs) evidenced by American Depository Receipts (ADRs), each GW ADS equals two ordinary shares of GW and each SKB ADS equals five ordinary shares of SKB while, each GSK ADS represents two GSK ordinary shares[31]. Accordingly, GW and SKB ADRs holders will receive the GSK's ADS by following ratio,

- 1 GW ADS = 1 GSK ADS
- 1 SKB ADS = 1.138 GSK ADS

GSK plc shares were traded on London Stock Exchange and GSK ADSs commenced trading on the New York Stock Exchange on 27 December 2000.

[30] GSK Annual Report 2000, p. 03
[31] GSK Annual Report 2000, p. 154

4.3.1 Motives of Merger

The main reasons and motives for one of the largest merger in pharmaceutical industry history can be discussed according to following main headings also; the companies i.e. GW and SKB objectives for merger will also be highlighted.

Product Portfolio

Growing demand and variety of new products is a challenge for every pharmaceutical company. Since, the merger of two companies' leads to the combination of product portfolio gives an upper edge to the company to compete on the basis of enhanced product line up. GW and SKB had very few remedies in direct competition to each other. For GSK already established franchises of key therapeutic areas and number of successful, fasting growing products of GW and SKB make a big difference in the market. Also, GSK strength of product line lies in the mixture of GW and SKB's pharmaceuticals and consumer healthcare products.

Patent Problems

The international pharmaceutical industry has to undergo several tough regulations when it comes to patent expiry restrictions and even for the launch of new products takes substantial time, effort and immense expenditure. High standards of technical appraisal by national regulatory authorities in many countries mean that approval of new product is very lengthy process. GW some of key products i.e. Zantac Flovant, Flonase, Cutivate where going to be expired in US during 2003 and Zantac during 2002, also SKB were going to face patent expiry around 2000-03 for some of its key products Augmentin, Amoxil, Tementin in the US and European markets. The merger of both companies helped to have wider range of product line up to overcome patent expiry and protection issues in the long run.

Synergies and Cost Savings

Merger of two companies predicted that, through cutting the cost of doing business, reduction in infrastructure and reinvestment of savings in R&D. The management of both companies estimated that annual pre tax cost saving of £ 1 billion/ $ 1.6 billion is achievable on the completion of third anniversary of merger19. It is expected that £250 million / $ 405 million of these savings will be derived by combining R&D infrastructure and will be reinvested in R&D. Other cost savings of £750 million / $ 1.2 billion will be generated through reducing the overlap in marketing & sales, administration and manufacturing facilities.

Research & Development Costs

Intense competition and demand of new drugs in the market have increased the need for effective and efficient R&D of products, which ultimately increased the cost of product development. By merging two companies generates more resources, experience and infrastructural facilities for better product development. As per GSK merger, combined annual R&D investment of £ 2.3 billion / $ 3.7 billion, GSK will have a powerful R&D capability.

Competition in the Market

The immensity of competition in the pharmaceutical industry have brought its own new challenges, where companies need to have brilliant sales and marketing infrastructure, market information and relevant resources to reach global markets. In the case of GSK, it was expected that the company will have an around 40,000 representatives, worldwide[21] and approximately 7200 representatives in the US, that is considered a powerful competitive advantage.

5 Analysis & Discussions

> *In the following chapter, analysis of financial performance of GW and SKB for the period of three years (1997-99) and GSK for the period of (2000-09) is done using different KPIs' where pre and post merger performance is analysed.*

The chapter reviews three companies' financial performance using KPIs' in order to analyse the effects of merger on the performance of companies. Analysing the purposes of merger through KPIs' will present a clear picture of the merged company. Although after merger, the data for ten years is analysed but for the comparison with pre merger performance, only three years data will be compared. Following years of merged company will be analysed to see the performance trends. In order to examine medium and long term effects of merger it is good to have several years after the merger to access performance of new company for long term perspective. In the analysis period, year 2000 for GSK is not going to be critically analysed, since the first year of merger have lots of distortions and disclosure manipulations. Year 2000 for GSK will only be used as a base year.

Comparison of post merger performance with pre merger performance of the companies provide basis to analyze change in corporate growth. In order to better understand and analyze pre and post merger performance, absolute change is used for pre merger companies assuming them as one company. External factors that may have influence on the financial performance of the companies i.e. economy, exchange rate fluctuations, are not considered in this study. So, factors concerning the financial and operational growth of the companies are of main focus in this study.

5.1 Key Performance Indicators

In order to efficiently analyze the performance of companies' in the context of a merger; different KPIs' are essential because only considering profit and loss figures can mislead the assessment. Following KPIs' are used to carry out the analysis, sales growth, Net earnings growth, R&D analysis, relationship between operating expenses & revenue. Also other performance analysis measures i.e. financial structure, share price & market capitalization, dividend performance and key ratio analysis are used in the analysis chapter.

5.1.1 **Sales Growth**

GW sales from year 1997-1999 was £7, 980 million, £7,983 million and £8,490 million respectively, which represent an increase of growth 6.40% from year 1997-1999. Increase in sales

growth from year 1997-1999 was mainly by the company new products that were launched in year 1990s because new launched product contributed 34% in total sales of year 1999[32]. GW succeeded to maintain its strategy for increase in sales. The SKB sales were £7.795 million, £8,082 million and £8,381 million respectively, which show the increase 7.52% from year 1997-1999. Before the merger of two companies, top management of GW in their annual report of year 1999 stated, "GlaxoSmithKline will be one of the world's largest pharmaceutical companies with combined sales from continuing businesses of £16 billion ($26 billion)"[33]. As determined by the GW and SKB for their combined business sales performance for year 2000 which will be approximately £ 16 billion, it is necessary to check the consistency of GSK sales performance for the following years 2000-09. Since observing only one year sales performance doesn't give the clear picture, that's why analysis of GSK performance of 10 years has been conducted, among which first three years will be compared with the GW and SKB financial years of 1997-99.

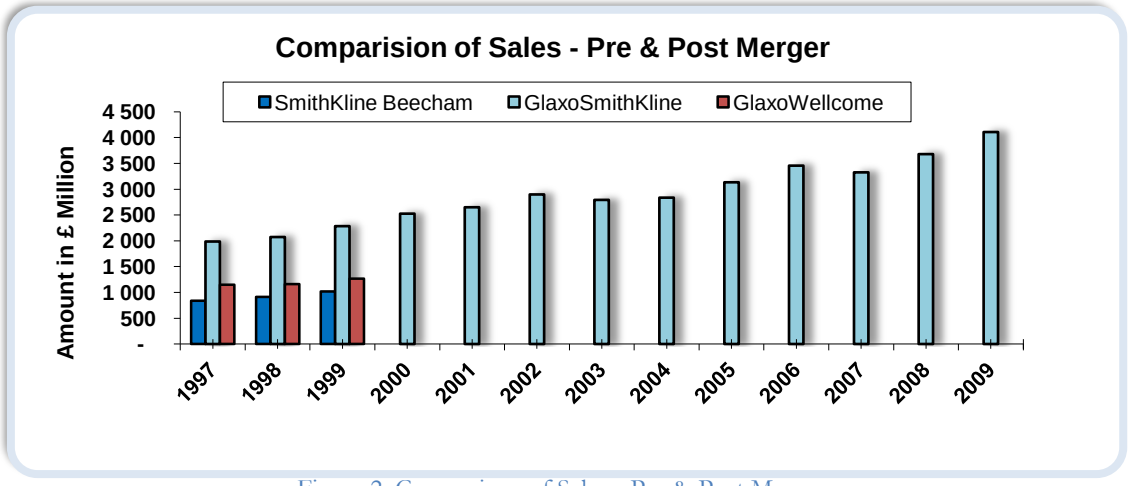

Figure 2: Comparison of Sales - Pre & Post Merger
(For data, see appendix 1)

As shown in the graph above, a trend analysis of sales has been conducted, GSK sales also shows increasing trend after the merger. Sales increased were 13.33% in year 2001, 3.53% in year 2002, 1.08% in year 2003, -5.05% in year 2004, 6.39% in year 2005, 7.23% in year 2006, 2.19% in year 2007, 7.20% in year 2008 and 16.49% in year 2009 as compared to previous years respectively. From year 2001 to 2004, sales improving trend is not sufficient because of the early years of merger. According to the market expert, the outcome of merger cannot see within three or four years. From year 2005 to 2009, the GSK performance shows significant progress and moving to a position where it can be delivered long term financial performance on sustainable basis for

[32]Annual Report GW 1999
[33]Annual Report GW 1999. p 04.

shareholders. GSK also gain approval in last three for new medicines and vaccines than any other company. That's why, the GSK sales shows sustainable and tremendous increase in last four years, which shows the best use of resources.

The key idea is that combine firms will generate more revenue than both companies working as individuals. The sales growth after the merger is one of the success indicators to create the value of shareholder.

5.1.2 Net Earnings Growth

Below comparison of net earning has been conducted before and after merger in order to know the growth trend of net earnings as well, because increasing trend in revenue does not mean that organization is going to be in profit.

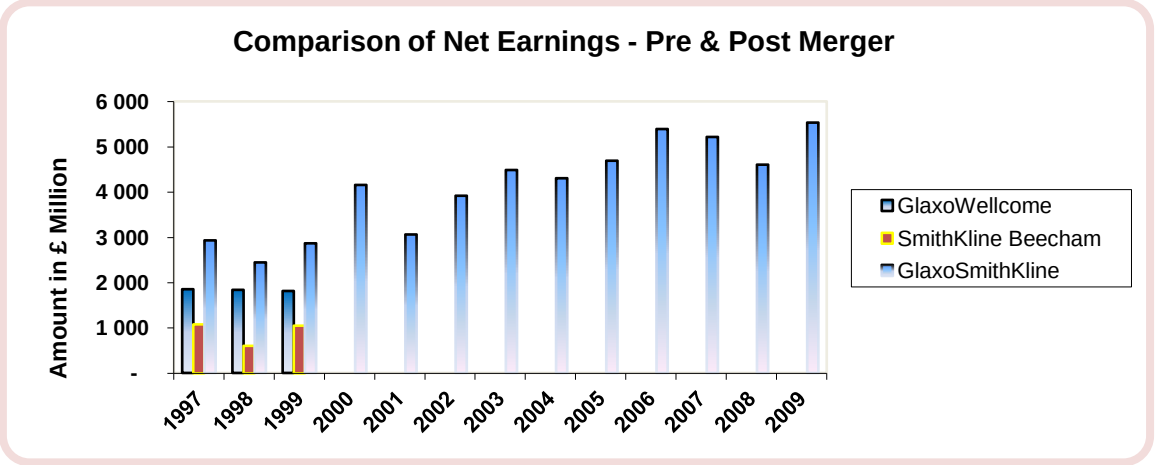

Figure 3: Comparison of Net Earnings - Pre & Post Merger
(For data, see appendix 2)

The net earnings growth rate was not sufficient for GW because in year 1998 and 1999, the net earnings growth declined by -0.76% and -1.36% respectively. SKB net earnings growth rate in year 1998 declined by -43.84 which was red flag for stakeholders. The huge decline was due to the provision, it has been found that SKB refer to the project loss £629 in the context of provision for the loss on operations to be discontinued[34]. The growth rate in year 1999 was increased by 73.76% because of much provision in year 1998. GSK growth trend after merger shows constant stability except in year 2001 and 2009. The comparison of revenue with net earnings shows favourable trend because the net earnings was £4154 million in year 2000 and the

[34]Annual Report, SmithKline Beecham, 1998, page 58

end of year 2009, the net earning was £5531 million which was 33.15% increased while at the same period, the revenue increase by 56.91%.

5.1.3 Research & Development Analysis

Cost reduction is one of the important indicators which cannot be ignored. For this, the relationship of sales with operating expenses and R&D analysis has been conducted.

R&D is the chief generator of future corporate profits and shareholder's value because R&D is the life blood of organization especially for pharmaceutical industry. This was one of the major reasons for merger because "The pharmaceutical industry is under growing pressure from a range of environmental issues, including major losses of revenue owing to patent expirations, increasingly cost-constrained healthcare systems and more demanding regulatory requirements "[35].

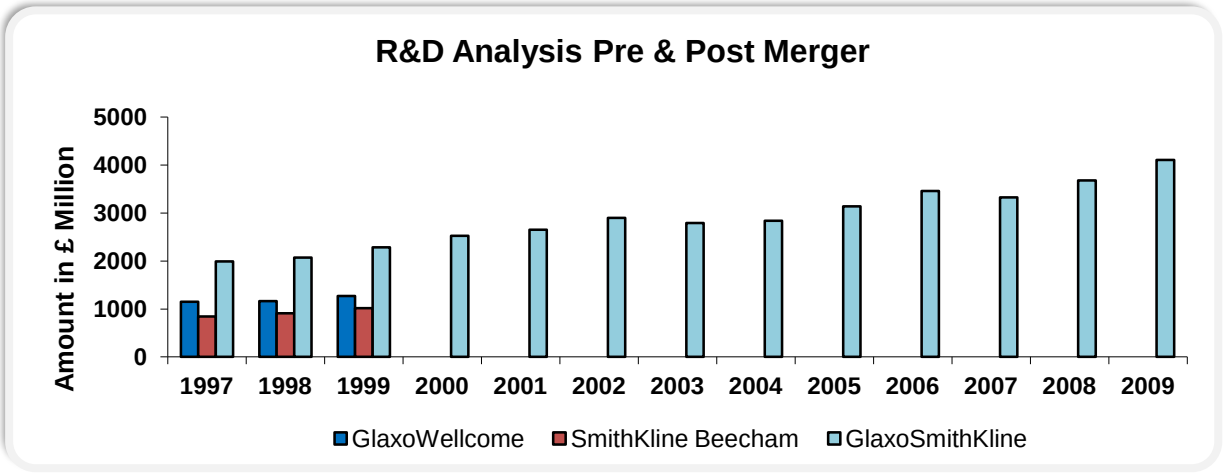

Figure 4: R&D Analysis Pre & Post Merger
(For data, see appendix 3)

The objective of GW R&D expenses was to discover and develop for marketing novel components for the purpose of advancement of existing treatment. Increasing trend in investment in R&D expenses has been seen from year 1997 to year 1998. The R&D expenses of GW were £1148 million in year 1997, £1163 million in year 1998 and £1269 million in year1999, which represent an increase of growth 1.31% in year 1998 as compared to previous year and 9.11% in year 1999 respectively. GW appointed nearly 9,000 employees till year 1999, engaged in

[35] http://www.nature.com/nrd/journal/v9/n3/abs/nrd3078.html.

different parts of the world[36]. Tremendous improvement has been seen in year 1999 in R&D productivity due to successful implementation of technology and process. This was due to £1.3 billion investment in R&D and 1,000 more appointment of skills persons in R&D department and also GW delivered several significant new products into the market during 1999[37].

The same trend has been seen in SKB. The company's R&D activities continue to be directed towards up-gradation of technology and development of new products in the area of human healthcare. Spending on Pharmaceutical R&D rose to £841 million, a 10% increase over year 1997[38]. SKB R&D expenses were £841million in year 1997, £910 million in year 1998 and £1018 million in year 1999, which represent an increase of growth 8.20% in year 1998 as compared to previous year and £11.87% as well. GW growth rate (1.31% to 9.11%=7.8%) is better than SKB which was (8.20% to 11.87%=3.67%). The absolute change growth was 4.22% and 10.32%. It has been seen that both companies before the merger were spending a huge amount in R&D. That's why; this was also the key reason for merger.

As shown in the R&D graph, the GSK investment on R&D also shows increasing trend after the merger. Investment on R&D were 4.95% in year 2001, 9.39% in year 2002, -3.76% in year 2003, 1.72% in year 2004, 10.46% in year 2005, 10.24% in year 2006, -3.76% in year 2007, 10.64% in year 2008 and 11.55% in year 2009 as compared to previous years respectively. Much investment has been in years 2002, 2005, 2006, 2008 and 2009 also with launching research facilities in different parts of the world, especially in USA, where sales were almost 45% of total sales. Much of the growth has been seen in years following the merger that was derived from the new products which was not possible without huge investment on selling, general and R&D. Sir Richard Sykes, head of GW and expected chairman of GSK, said about the determination of new company to do a deal. "This is where two big successful organizations come together, not to protect future earnings growth but actually to increase critical mass to really outperform the industry - The more effort, the more money, and the more power you can put to research, the stronger the company is going to be."[39]

GW and SKB promised to deliver the cost efficient R&D institution in pharmaceutical industry which was expected saving of £ 250 million from combined R&D activities. The company would

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[36]Annual report, GW, 1997
[37]Annual report, GW, 1999, page 14.
[38]Annual Report, SKB, 1998, page 5
[39]*Pharmaceutical Executive,* May 1999, p. 37

kick off into life with an annual research budget of 2.4 billion, the largest in the world after Pfizer[40]. Investors and stakeholder encouraged this because the steps taken by GSK to achieve and deliver cost efficient research well, with new leaderships and strategies.

5.1.4 Relationship between Operating Expenses & Revenue

To know the proportionate that how much expenses incurred to generate one unit of revenue, below a relationship between operating expenses and revenue has been conducted. Since R&D expenses are included in operating expenses so without analyzing the relationship between total operating expenses and revenue, it is difficult to know the positive or negative trend.

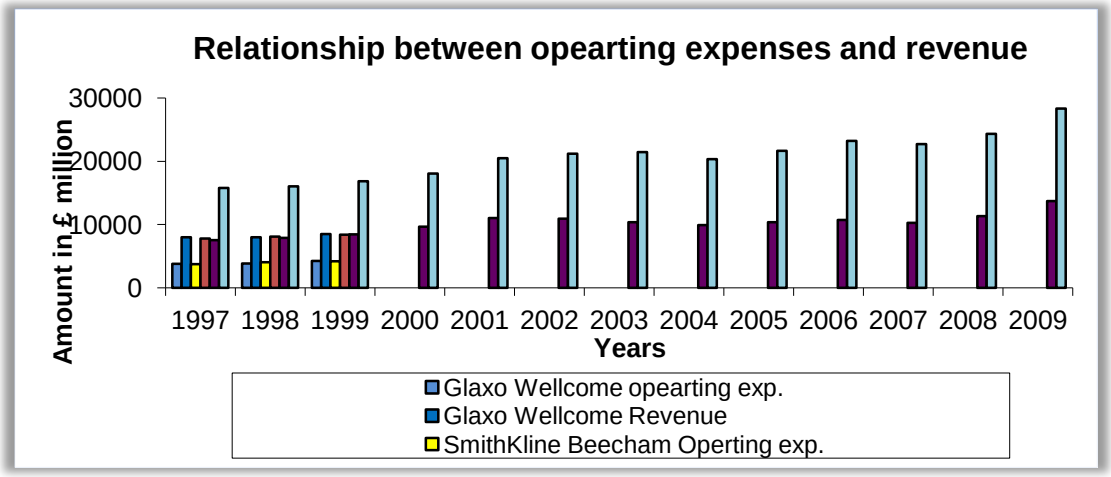

Figure 5: Relationship between Operating Expenses & Revenue
(For data, see appendix 4)

The operating expenses (R&D expenses + selling and general expenses), incurred compare to total sales represent that revenue grew at faster rate than operating expenses grew after merger. This show the best utilization of R&D expenses resources, sales and marketing staff abilities and also, launches of advancement technology with new products relating to healthcare in different phases.

5.2 Financial Structure

The following graph shows a simplified picture of financial position before and after merger. In previous financial analysis, revenue, net earnings and R&D has been conducted in context of motives of the merger. The above said indicators affect the financial position. So the financial

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structure of GW, SKB and GSK in the context of assets, liabilities and equity has been conducted.

5.2.1 GlaxoWellcome:

The graph below shows the relationship that how GW financed its operation. One way of financing is generated through shareholders and the other way is finance generated through external resources such as financial institution etc. Financing of firms is very important in the context of share value. The graph below shows the improvement in key balance sheet items of GW during the last three years. Total equity was £1843 million in year1997, £2702 million in year 1998 and £3142 million in year 1999. The equity in year 1998 increased by 31.79% and in year 1999, the equity increased by 14% as compared to year 1998. The fixed assets was £3635 million, £3837 million and £4347 million in years 1997, 98 and 99 respectively which represent an increase 5.26 % in year 1998 and 11.73% in year 1999 as compared to previous years. The current assets were £4802 million, £5509 million and £608 million in years 1997, 98 and 99 respectively. The current assets increase 12.87% in year 1999 as compared to year 1998 while in year 1999, total current assets increase 9.37% which show less as compare to year 1998. The liabilities increase from years 1997 to 1998 (£8436 to £9346 million) 9.73% and from years 1998 to 1999(£9346 to £10274 million) 10.37%. The comparison of GW financial structure from years 1997-99 shows that in year 1999 GW financed assets through shareholders because equity in that year increase by 31.79% which shows the positive performance with good financial control. But in the following year liabilities boost up to 10.37% as compared to previous year and equity decrease by 17.79% which shows GW financed its assets through external resource.

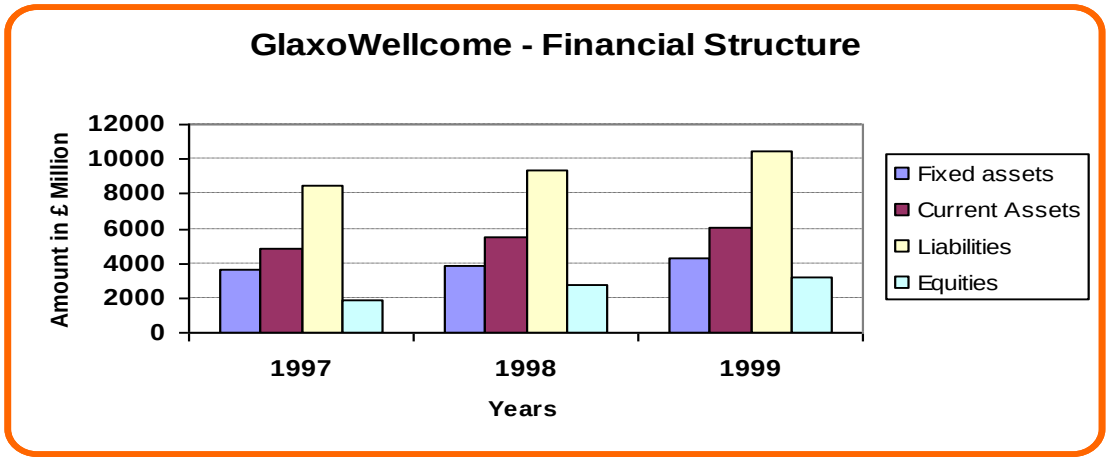

Figure 6: GlaxoWellcome - Financial Structure
(For data, see appendix 5)

5.2.2 SmithKline Beecham

The following graph shows that total assets growing rate was not satisfactory because fixed assets increased by £272 million (5.06%) in year 1998 as compared to previous year but decrease by £218 million (-4.22%) in year 1999 as compared to 1998. The same trend has been seen in current assets which increase by 7.21% and decrease by 5.91%. Total liabilities increase by 5.92% in year 1998 as compared to previous year while negative trend has been seen in year 1999 which was 4.90%. Total equity growing rate was satisfactory and increased by 24.92% in year 1999[41]. This shows that SKB was trying to reduce its debts and their financing was mostly from equity rather than debts.

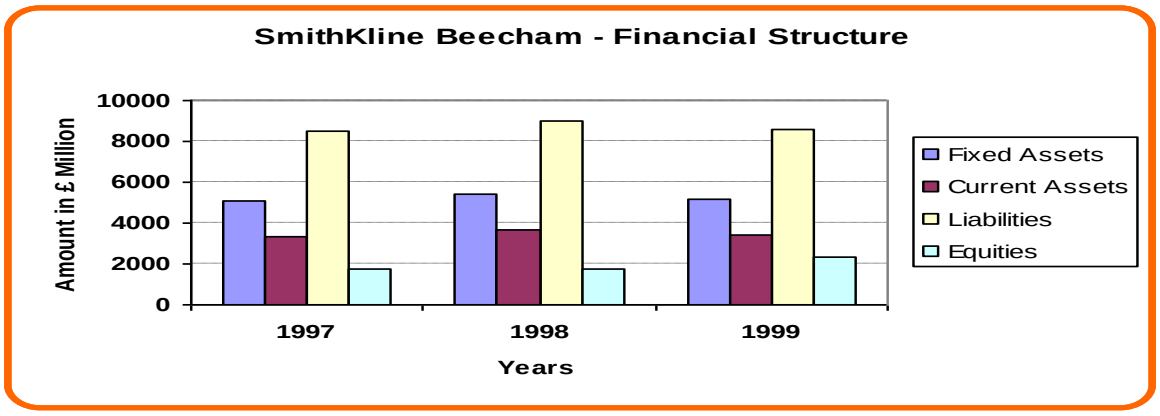

Figure 7: SmithKline Beecham – Financial Structure
(For data, see appendix 5)

5.2.3 GlaxoSmithKline:

Trend analysis of fixed assets, current assets, total liabilities and equity of years from 1997 to 2009 of GSK has been conducted in order to know the performance after the merger. Total assets have been seen upward, the fixed assets proportion is more than current assets. From year 2000 to 2009, total assets increased slowly and constant because of merger and consolidation while in year 2005, assets grew significantly from £ 8,941 million (36.20%) to 14,021 million as compared to year 2004. In the same year, current assets decreased by -3.46%. After that a significant positive trend has been seen till year 2009. Trend in equity increased just like assets and liabilities in year 2005 and equity increased by 22.11% while in following years, equity increase at constant rate. It seems that operations in different parts of the world were mainly finance by liabilities rather than equity because liabilities increase comparatively more than equity.

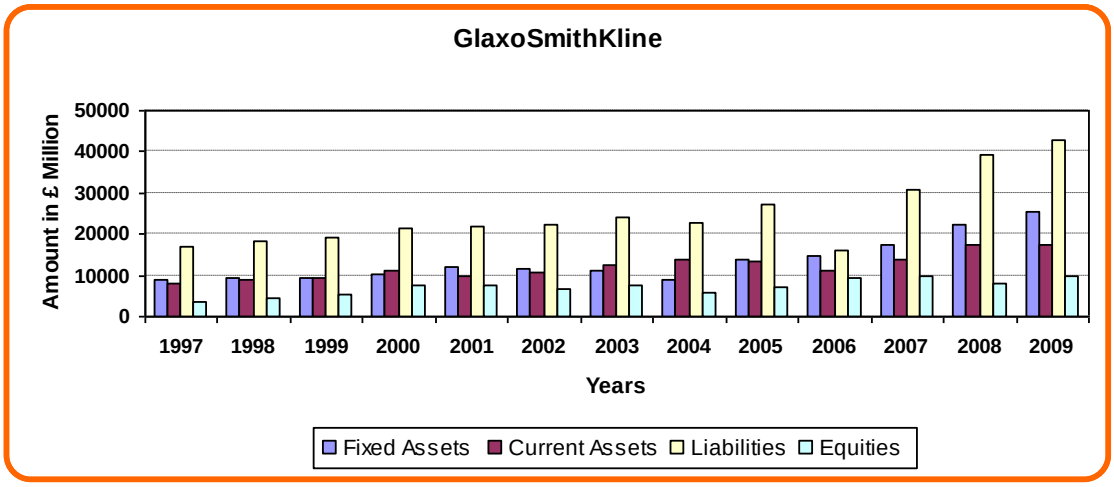

Figure 8: GlaxoSmithKline - Financial Structure
(For data, see appendix 5)

5.3 Share Price and Market Capitalization

In the subsequent segment a general overview of share price and market capitalization have been discussed in order to know the interest of stakeholders. Due to non availability of SKB share price and market capitalization information, the analysis of SKB is not discussed. Three years analysis of GW (From year 1997-99) and ten years share price & market capitalization of GSK data from year 2000 to 2009 has been analyzed.

GlaxoWellcome:

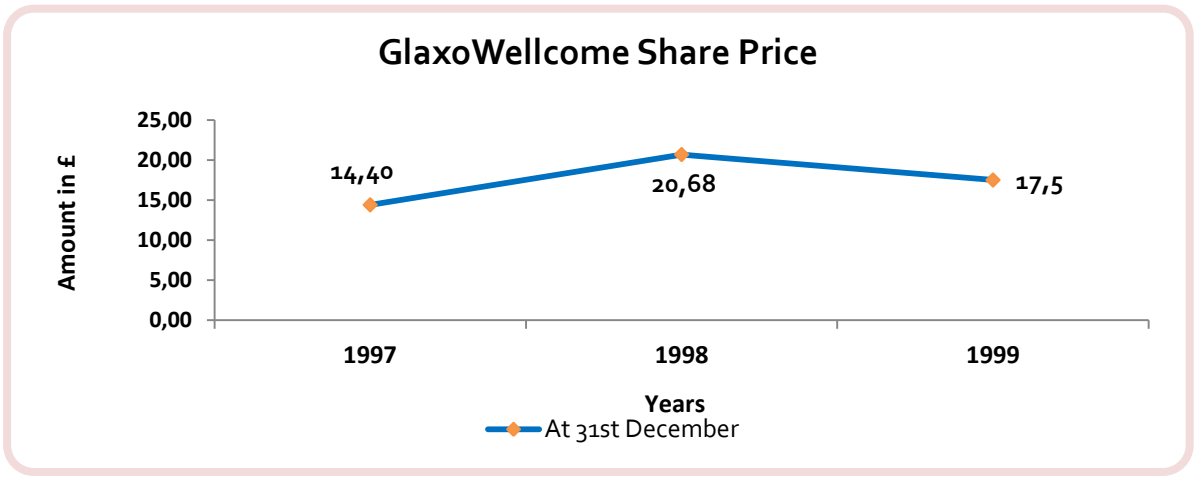

Figure 9: GlaxoWellcome Share Price
(For data, see appendix 6)

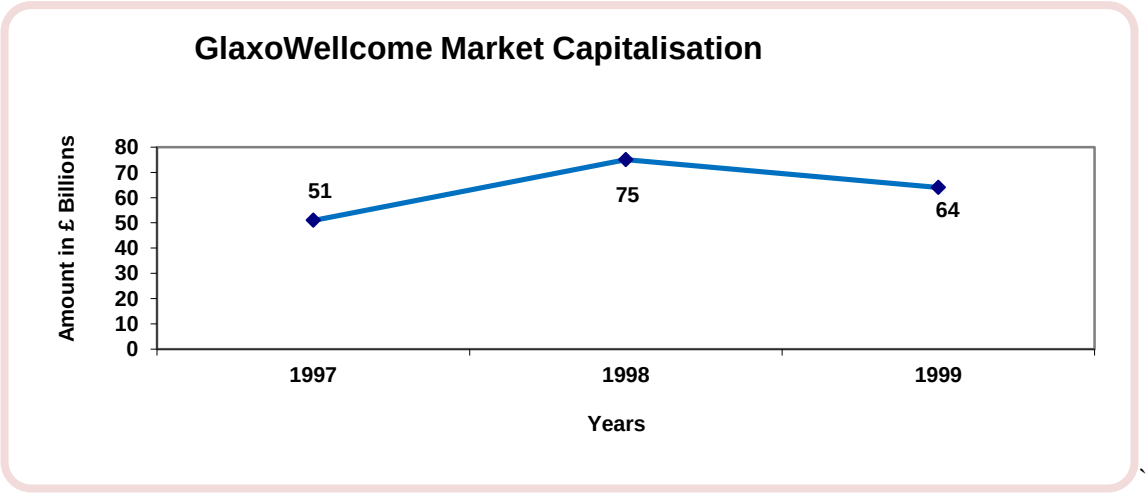

Figure 10: GlaxoWellcome Market Capitalization
(For data, see appendix 6)

The GW share price on the London Stock Exchange have been seen at the end day of the year (31st December) £14.40 in year 1997, £20.68 in year 1998 and £17.50 in 1999. The share price increase 51.89% in year 1997, 44% in year 1998 while decrease 15% in year 1999 as compare to every previous year. Market capitalization was therefore increase in year 1998 by 24 billion (£75 billion-51 billion) as compare to year 1997, while decreasing trend has been seen which was £11 billion (£64 billion-£75 billion) accordingly. The high level of share price during the year 1997 was £14.57 and low 8.94 %. The increasing trend has been seen in share capital from £894 million to £910 million from year 1997 to 1999. The overall value of the company as indicated by its stock market capitalization in year 1997 is considerably higher than the net assets value shown on the balance sheet[42]. The difference as compare to previous year 1996 was due to not shown significant intangible assets, written off R&D expenses which was incurred but not capitalized and internally developed intellectual property proceeded but not carried out on the balance sheet[43]. That's why in year 1998, the market capitalization and share price arises with a big difference.

GlaxoSmithKline:

The trading of the GSK started on 27th of December 2000. The day before the merger over the period from 1st January 2000 to 26th December 2000, both GW and SKB increase by 5% but

[42] GW, Annual Review 1997, page # 15
[43] GW, Annual Report, 1997

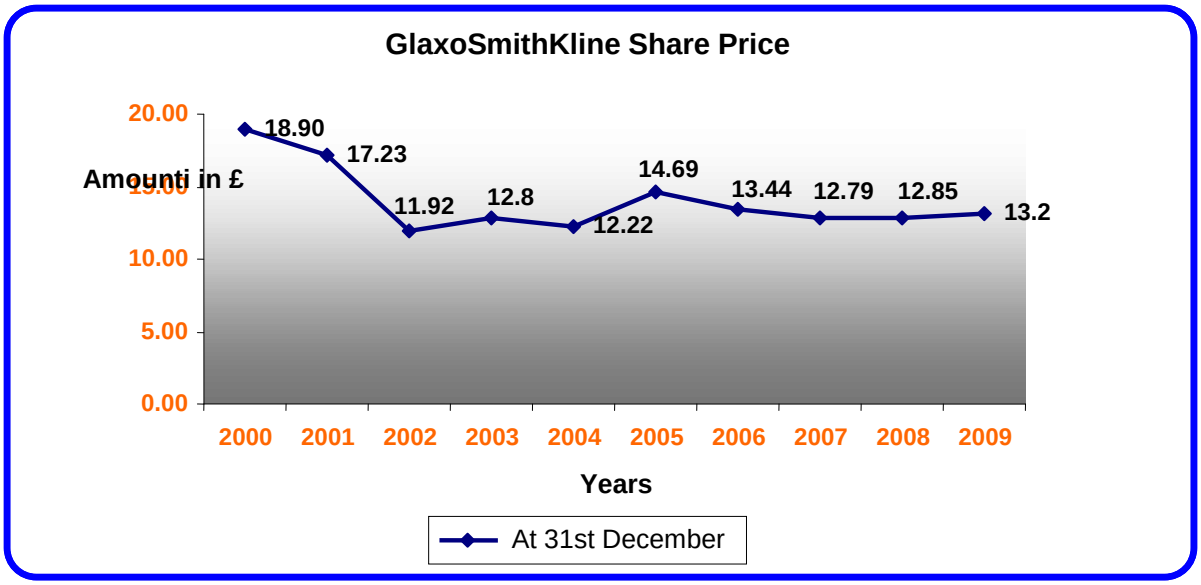

Figure 11: GlaxoSmithKline Share Price
(For data, see appendix 7)

After that over the year 31st December 2000, the share price decreased by 10%[44]. In year 2001, the share price declined by 9% which was due to the investor preference regarding the uncertain economic period in pharmaceutical industry. The GSK share price consecutively declined 31% in year 2002. In the two years since the merger, the share price has declined by 37% from £18.90 at 1st January 2001[45]. Improving trend has been seen in year 2003 by 7% as compared to previous year. From year 2004 to 2009, the share price growth negatively has been seen except last two years which were -5%, 20%, -9%, -5%, 0.50% and 2.70% respectively as shown in the graph. Over the period from year 2000 to year 2009, the GSK share price growth was from £18.90 to £13.2 declined by 30.16%. Market capitalization of GSK after the merger shows the constant positive trend with relation to the share price.

[44] GSK, Annual report, 2000, Page # 155
[45] GSK, Annual report, 2002, Page # 152

Figure 12: GlaxoSmithKline - Market Capitalization
(For data, see appendix 7)

5.4 Dividend Performance

It is essential for the companies to have substantial dividend performance since, for the shareholders not only the consistent share price is important but also, the dividend performance of the company when long term view is of keen interest for shareholders. In other words, sustainable dividend performance is a measure of company's substantial growth, the reason why company boards are reluctant to cut down their dividends which may be a reflection of the company's failure.

For the shareholders it is an essential source of measuring a company's performance, since dividends are in cash and are not distorted like any other financial numbers i.e. profits, or views represented in the Chairman's statement[46]. In the following section of divided performance of GW, SKB and GSK will be discussed, total dividend paid in a year and description of dividend per ordinary share for the given years will be analysed.

During the analysis of pre merger period, GW and SKB had the policy of consistent dividend performance to shareholders. By analysing the pre merger period under review, it has been observed that GW paid more to its shareholders in terms of dividends as a whole and on per ordinary share. Dividend growth of GW remained stable during year 1997-99 ranging from 35p, 36p and 37p respectively[47]. In comparison to SKB paid stable but less dividends to its

[46] http://www.dividendanalysis.co.uk/Articles/DoDivisMatter/
[47] GW Annual Reports 1997, 1998, 1999.

shareholders which remained 9.94p, 10.93p and 12.14p for the years 1997-99[48]. SKB paid fewer dividends to its shareholders in comparison to GW mainly due to less revenues generated during the investigated period, while GW better dividend performance yields better and stable financial performance for the shareholders.

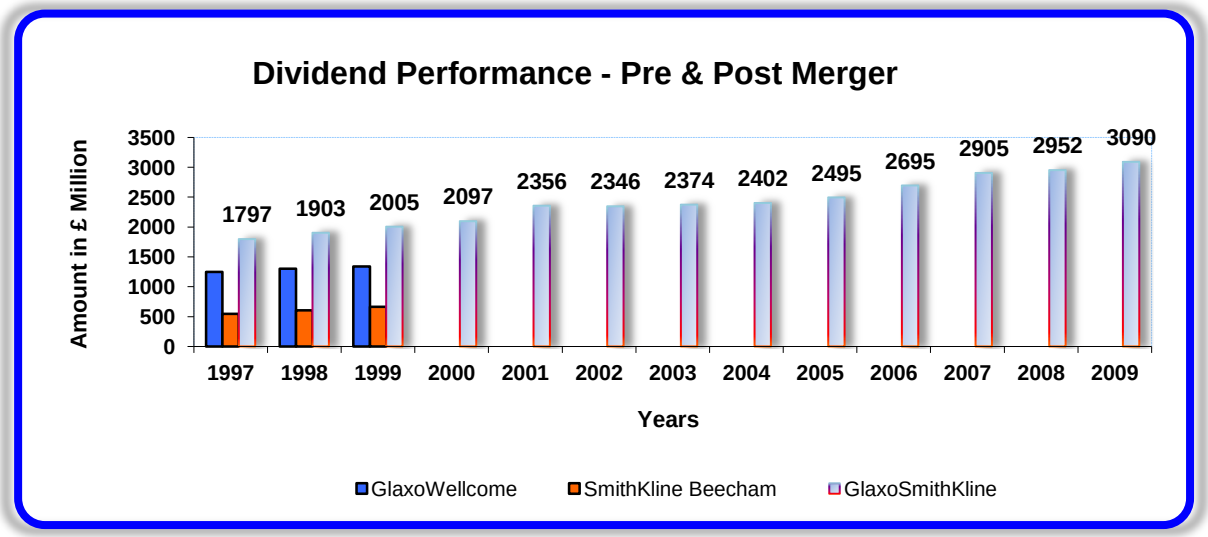

Figure 13: Dividend Performance - Pre & Post Merger
(For data see appendix 10)

Although both companies were performing better in terms of dividend performance for the shareholders, the merger of both had promised something better for shareholders. GSK in comparison to the performance of GW and SKB paid even consistent and stable amount of dividends to the shareholders (GW and SKB). After the merger the new policy for dividend was issued to the shareholder. According to the merger conditions for each GW ordinary share will be given 1 GSK ordinary share, while SKB 1 ordinary share will be given the value equivalent to GSK 0.4552 ordinary share[49].

GSK's dividend policy was sent to shareholders along with merger documents in year 2000. According to new policy GSK initially announced to pay dividends in line with GW year 2000 dividend of 38 pence per GW Share, equivalent to 38 pence per GSK share[50]. GSK maintained the annual dividend of 38 pence per share, whereas GSK's ratio between distributable profits and dividends towards the industry average was closer to SKB payout ratio of 40-50 percent as compare to GW higher payout ratio. As described in the merger update, GSK will follow the

[48] SKB Annual Reports 1997, 1998, 1999.
[49] GW Annual Report, 2000, p. 154
[50] GW Annual Report, 2000, p. 155

pattern developed by SKB by providing dividend quarterly with a higher dividend in the 4th quarter. Analysis of GSK dividend performance compared with pre merger performance reveal that, SKB share holders received more dividends than before merger. In year 2000 SKB shareholders received 13.50 pence per ordinary share (29.66 pence, total equivalent per GSK Share) and GW shareholders received 38 pence per GSK ordinary share. GSK performance for the following years of merger, as seen in the following table proves better situation for the shareholders of both companies, as they received fever returns before the companies merged.

In the conclusion of dividend performance of before and after merger, it is observed that merger turned in favour of both companies shareholders'. Continues and stable increases in dividend payments to shareholders justify the statement made by the company in favour of shareholders. SKB had fewer revenues, profits and dividends per and over all dividend paid, as compare to GW. So, for the shareholders of SKB the merger proved to be better and stable. GW shareholders on the other hand, also benefited from the merger as the least limit of dividend per share is set according to GW standards. GSK dividend performance reveals consistency and considerable growth for the shareholders over all as predicted prior to the merger of both companies.

Dividend per Ordinary Share (In £ Pence)

	GlaxoWellcome	SmithKline Beecham	GlaxoSmithKline
1997	35	9.94	
1998	36	10.93	
1999	37	12.15	
2000			38
2001			39
2002			40
2003			41
2004			42
2005			44
2006			48
2007			53
2008			57
2009			61

Figure 14: Dividend per Ordinary Share
(For data see appendix 10)

5.5 Financial Ratios

5.5.1 Current Ratio

Current ratio is used to mainly to get an overview of the company's ability to pay back short term liabilities (short term debts & payables) with its current assets (cash, inventory, receivables). The higher percentage of current ratio suggests that company is more capable to pay off its short term liabilities. The standard bench mark for current ratio is considered as 2.0, but it depends on the nature of the business. Companies having high growth need more short term assets to finance their expansion while, established firms may keep the current ratio more stable. The current ratio under 1.0 suggests that company's financial position is not stable but it doesn't imply that company may go bankrupt as there are many ways to access financing capacity of the firm. Companies having troubles getting paid on their receivables or having inventory turnover can face liquidity problems because they are not able to alleviate their obligations.

In the following chart current ratio of the GW, SKB and GSK has been measured for pre & post merger period. As the graph reveals, companies liquidity performance has been less but more stable which is a positive sign. Current ratio of GW ranged from 1.236 to 1.155 for the 3 years pre merger period which is more stable and higher than SKB's current ratio. SKB current ratio trend shows instability during 1997, where firm has less than 1 asset to repay its short term liability, mainly due to increased loans and instalments then current assets as compare to previous year. Current ratio for SKB ranged from 0.971 to 1.058 during 1997 to 1999 for pre merger period.

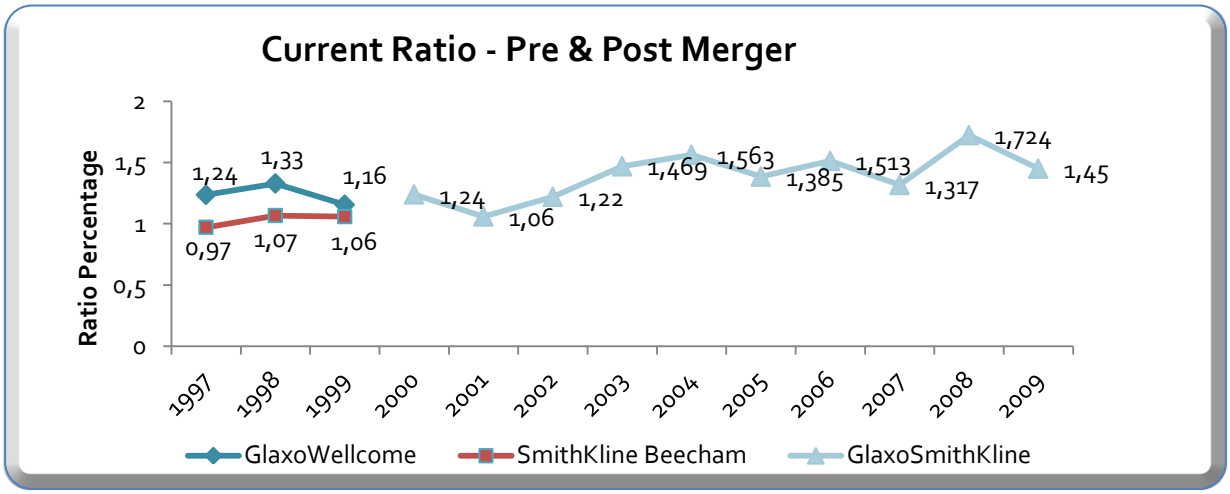

Figure 15: Current Ratio - Pre & Post Merger
(For data, see appendix 8&9)

Now comparing GW and SKB with GSK performance, we can see significant differences in the current ratio trends. Current ratio trend of GSK has been stable from 1.24 to 1.45 for the years 2000 to 2009. Only during few years GSK had high decrease like in year 2001, GSK had 1.06 ratio due to increase in short term debts for joint ventures and associated undertakings[51]. While after this current ratio of GSK kept increasing and maximum increase in the current ratio recorded during 2008 where it raised to 1.724 percent. The main reason for increase of current ratio during 2008 is due to high increase of current assets as compare to 2007 in form of cash and cash equitant while current liabilities increased with fever percentage.

The current ratio trends suggest that GW, SKB and GSK have stability in paying their short term liabilities which is a good sign for the companies and their investors.

5.5.2 **Quick Ratio**

Quick Ratio is used to determine the liquidity of the company's current assets to pay its short term obligations. Quick ratio is the best way to analyse company's liquidity which is not even possible with current ratio. Since current ratio deals with current assets like inventory that might not always be quickly liquidated to pay short term obligations (Palepu, Healy & Bernard. 2004). So, Quick Ratio is an alternative source of measuring liquidity[52]. Quick ratio captures the firm's ability to pay short term obligations through its liquid assets while assuming that the company's accounts receivable are liquid enough (Palepu, Healy & Bernard. 2004).

Quick ratio is measured using the following formula,

$$\textit{Quick Ratio} = \textit{Current Assets} - \textit{Inventory} \;/\; \textit{Current Liabilities}$$

Looking at the quick ratio figures GW, SKB and GSK certainly give indication of the liquidity ability of the firms analysed by this ratio. Following graph describes the pre & post merger liquidity situation of the companies.

GW as compare to SKB had better liquidity percentage in 1997-99 ranging from 1.06 to 0.86, while SKB rather had bad trend of liquidity during this time ranging from 0.79 to 0.84. GW during 1999 had fever liquidity mainly due to increase in equity investments and accounts receivables.

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[51] GSK Annual Report 2001. p 90

[52] http://www.netmba.com/finance/financial/ratios/

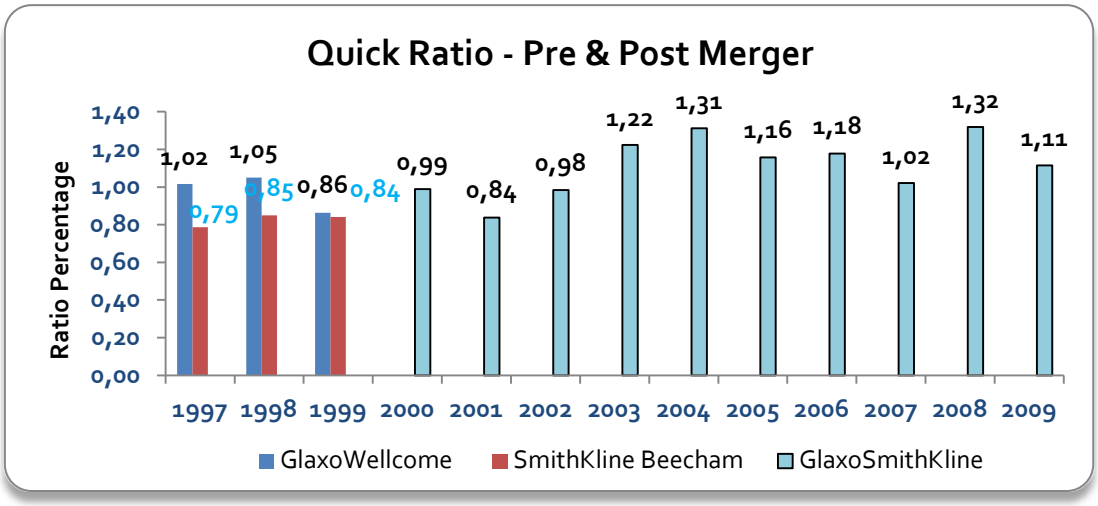

Figure 16: Quick Ratio - Pre & Post Merger
(For data, see appendix 8&9)

On the other side, GSK had a stable start during 2000-02 ranging from 0.99 to 0.98. Later, in coming years the ratio data shows increase trend which is a very positive sign for the investors and shareholders. GSK liquidity trend from 2002 to 2009 remained very stable ranging between 1.22 to 1.11 where max percentage recorded during 2004 and 2008, mainly due to increase in cash and decrease in liquid investments. Overall, the quick ratio shows a balanced and encouraging situation of GSK, which inherits good liquidity ability.

5.5.3 Debt Ratio

Debt Ratio measures the proportion of debt a firm contains relative to its assets. The measure gives the idea of the company's leverage as well as potential risks the company may face in terms of extra debt load. Financial leverage ratios provide indication of the firms' ability for long term solvency unlike liquidity ratios where firms ability to meet its short terms debts is measured[53].

Debt ratio is determined dividing firm's total debt over total assets of the firm,

$$Debt\ Ratio = Total\ Debt / Total\ Assets$$

Following graph depicts the long term solvency of GW, SKB and GSK. GW and SKB for the period 1997-99 had stability in debt ratio while the ratio ranged from 0.78 to 0.69 and 0.66 to 0.60 respectively.

[53] http://www.netmba.com/finance/financial/ratios/

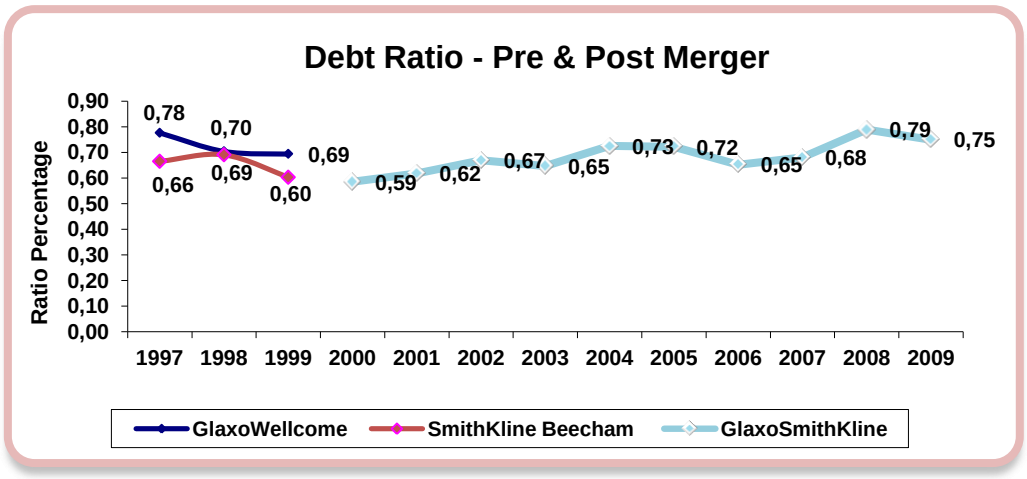

Figure 17: Debt Ratio - Pre & Post Merger
(For data, see appendix 8&9)

Debt ratio trends for the GSK for the period 2000 to 2009 remained very stable and mostly constant ranging from 0.59 to 0.75[54]. Slight increase during 2004, 2005, 2008 and 2009 is due to increase in long term borrowings. Overall performance of GSK is a favourable situation since, the debt ratio is less than 1 which portrays good financial situation of the company meaning, GSK has more assets to pay for its obligations. In the start of the merger debt ratio decreased during 2000 and 2001 since GSK had to get fewer debts to finance its operations. Pre and Post merger performance is not so different and overall represent a stable situation of the companies.

5.5.4 Debt to Equity Ratio

Debt to Equity Ratio is used as a measure to analyze company's financial leverage by diving total liabilities of the company over shareholders equity[55]. This indicates the proportion of debt and equity the company is using to finance its assets. Being referred to personal debt to equity ratio it can also be applied to personal as well as corporate transactions. A high percentage of debt to equity ratio implies company's aggressive approach to finance its growth by means of debts, which in turn results for volatile earnings due to additional interest expenses. Companies may generate more earnings by high debt to equity financing and so shareholders can benefit with increased earnings as well. However, the cost of higher debt financing outweigh the return that company generates on debt may lead a company to bankruptcy and shareholders may face loss. The standard debt to equity ratio depends on the industry in which the company operates.

[54] GSK Annual Reports 2000-09 (Consolidated Balance Sheets)
[55] http://www.investopedia.com/terms/d/debtequityratio.asp

The following graph represents the debt to equity ratio of GW, SKB and GSK. By looking at the pre merger years, as the graph depicts GW and SKB has more or less stability in financing their growth through equity. GW during the year 1997 has more debt to equity ratio 3.55 as compare to following years due to expansion of product line for which GW had to invest more through debts. SKB during pre merger period had less but stable debt to equity ratio as compare to GW.

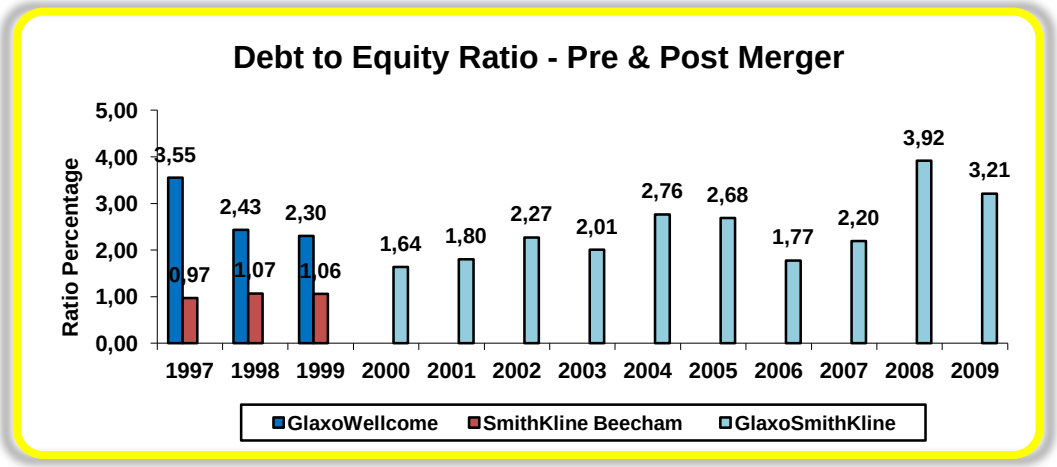

Figure 18: Debt to Equity Ratio - Pre & Post Merger
(For data, see appendix 8&9)

As compare to GW and SKB, GSK has more volatile debt to equity ratio. It ranges from 1.64 to 3.21 for the years 2000 to 2009. It is seen that from 2000 to 2003, GSK has stable debt to equity ratio while high decrease has occurred during 2006 where ratio was 1.77 as compared to previous years. During 2008, 2009 it reached to 3.92 and 3.21 respectively which are the highest values in the ratio line. During 2006 GSK issued shares at ESOP trust worth 153,451,642, which is the reason to decrease in debt to equity ratio. Further, GSK announced in October 2006 of its share buyback program which is to be completed until 2009[56]. GSK buyback program is the reason of continues increase in debt to equity ratio in the years 2007, 2008 and 2009.

5.5.5 Return on Equity Ratio

Return on Equity means, the portion of net income returned to shareholders as a percentage of shareholders equity. The measure is considered as one of the important factors to determine profitability from shareholder's and organisation's point of view. Return on Equity ratio is used to measure the company's profitability by revealing its profits being generated on shareholders

[56] GSK Annual Report 2006 p. 120

investments. Return on Equity is important for the shareholders to find out company's profitability to make an analysis for their investments. Shareholders and potential investor may use the following formula to calculate ROE of a company,

Return on Equity = Net Income/Shareholder's Equity

The above formula can be used to find out Return on Equity from different angles, as required by the shareholders i.e. Common Equity, Change in Return on Equity and Return on Equity for certain time period. The following graph presents the Return on Equity for GW, SKB and GSK for their pre and post merger period.

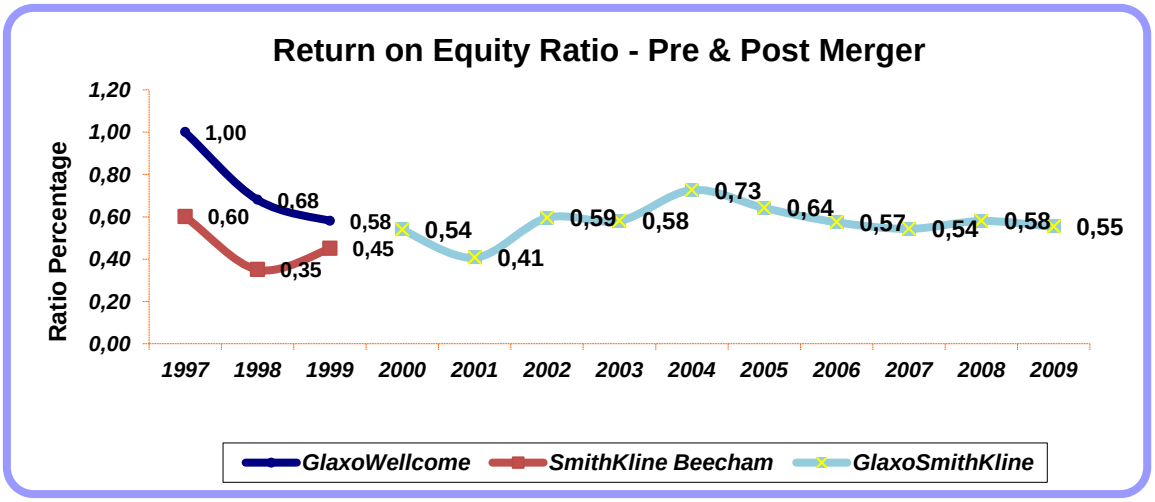

Figure 19: Return on Equity Ratio - Pre & Post Merger
(For data, see appendix 8&9)

As we can see from the graph, Return on Equity for the GW and SKB shareholders was volatile. GW in 1997 had ratio percentage of 1.0 which declined in the following two years, whereas SKB shareholders received less but somewhat stable returns. In 1997 ratio percentage for SKB was 0.60 which decreased in the following years to 0.35 and 0.45. The main reasons for volatility and decrease in returns are due to the capabilities of the companies to generate cash internally. Favourable returns for the shareholder's investments are necessary for shareholders and an integral part of company's success.

Ratio percentage of Return on Equity for GSK shows a balanced trend. The company from the start of its merger had good returns on shareholder's equity. The Return on Equity ratio ranges from 0.54 to 0.55 for the years 2000 to 2009, where the maximum ratio can be seen during 2004 and 2005 due to high net income. GSK in its first three years 2000-02, in comparison to GW and

SKB provided stable results in terms of returns. GSK returns on equities percentage over the years is a positive sign for the investors.

5.5.6 Return on Assets Ratio

Return on Assets ratio determines that how profitable the company is in relation to its total assets [57] or, Return on Assets ratio measures how effectively the assets are being utilized to create returns. Return on Assets ratio is measured by dividing net income over total assets of the company,

$$Return\ on\ Assets = Net\ Income / Total\ Assets$$

Returns on Assets as year to year basis can be a good indicator, but changes in the total assets may have an effect on the ratio which shouldn't necessarily mean that company is on rise or decline. Following graph depicts the Return on Assets for GW, SKB and GSK.

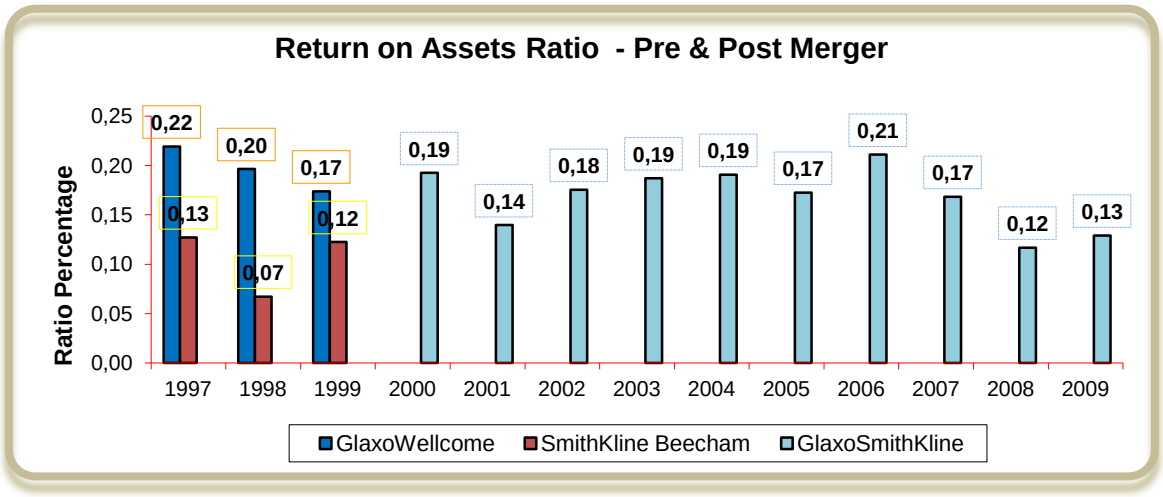

Figure 20: Return on Assets Ratio - Pre & Post Merger
(For data, see appendix 8&9)

As we can see from the graph, GW and SKB during 1997-99 had more or less stable returns on assets. GW returns on assets ratio ranges from 0.22 to 0.17 due to expansion of its fixed assets. SKB before merger had stable ratio ranging from 0.13 to 0.12, except for 2008 where return on asset ratio was 0.07 due to company's increased investment in fixed assets.

[57] http://www.investopedia.com/terms/r/returnonassets.asp

In comparison GSK in its first three years of existence, 2000-02 had stable returns on assets and also after this period. The returns on assets ration ranged from 0.19 to 0.13. GSK after 2006 where the returns on assets were on their highest, in the following years had less returns on assets due to consistent increase in company's fixed assets.

GSK increased its fixed assets during 2007-09, which resulted less return on assets as compare to previous years but company policy may be effective in the long run for the shareholders. Through maximum utilization of fixed assets GSK can make better returns in the future.

5.5.7 Gross Profit Margin Ratio

Gross Profit Margin is used as an indication of the extent where revenues exceed direct costs associated with sales of the company (Palepu, Healy & Bernard. 2004). Or, simply saying that Gross Profit Margin measures the gross profit less costs of goods sold earned on sales[58]. It considers the firms cost of goods sold while other costs are not included. Gross Profit Margin is derived by the following formula,

Gross Profit Margin = Sales – Cost of Goods Sold / Sales

Following graph depicts the gross profit margins of GW, SKB and GSK.

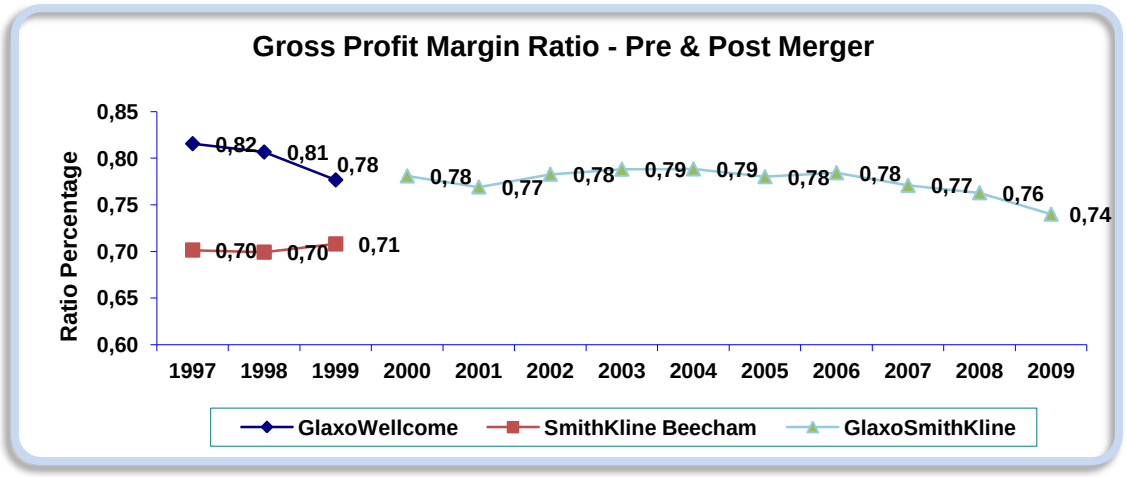

Figure 21: Gross Profit Margin Ratio - Pre & Post Merger
(For data, see appendix 8&9)

[58] http://www.netmba.com/finance/financial/ratios/

According to gross profit margin ratio, GW and SKB had stable gross profit margins before they merged. GW comparatively had better gross profit margins due to its high revenue compare to SKB. GW had 0.82, 0.81 and 0.78 ratios for the years 1997-99 respectively while, SKB had 0.70, 0.70 and 0.71 for the years 1997-99 respectively.

GSK on the other, during 2000 to 2009 had stable gross profit margins ranging from 0.78 to 0.74 where maximum ratio can be seen during 2003, 2004 and 2005 due to increase in revenue comparing to previous years.

Gross Profit Margins for the mentioned companies remained encouraging during pre and post merger periods. This indicates stability in sales which ultimately benefits the shareholders of the company.

5.6 Earnings per Share (EPS)

The EPS is one of the important tools to understand the share market operation, and evaluating the current prices of the shares. Investors rely on EPS up to some extent and use it as financial market parameters when they would be interested in share investment. EPS is measured by net income divided by the number of outstanding shares and gives ideas of company's growth for a specific period. EPS is calculated on the basis of previous data and future is unseen still because sometime management manipulates the data to obtain its own objectives.

5.6.1 **GlaxoWellcome**

The EPS of GW declined throughout the analysis period from 1997 to 1999. EPS have been calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period[59]. The growth rate of EPS of GW was declined by -1.73 and -2.15 in 1998 and 1999 respectively. The result of 1998 effected due to the capitalizing computer software which was mentioned in the accounting policies[60]. US GAAP adjustments are one of the major reasons for 1999 decline in EPS. Deferred tax effect decreased the net income by £ 5 million in 1998 and £ 12 million in 1997 so; EPS also declined accordingly which effected shareholders equity that declined £ 105 million in 1998[61].

[59] GW, annual report, 1999, page 65
[60] GW, annual report, 1998, page 26
[61] GW, annual report, 1999, page 87

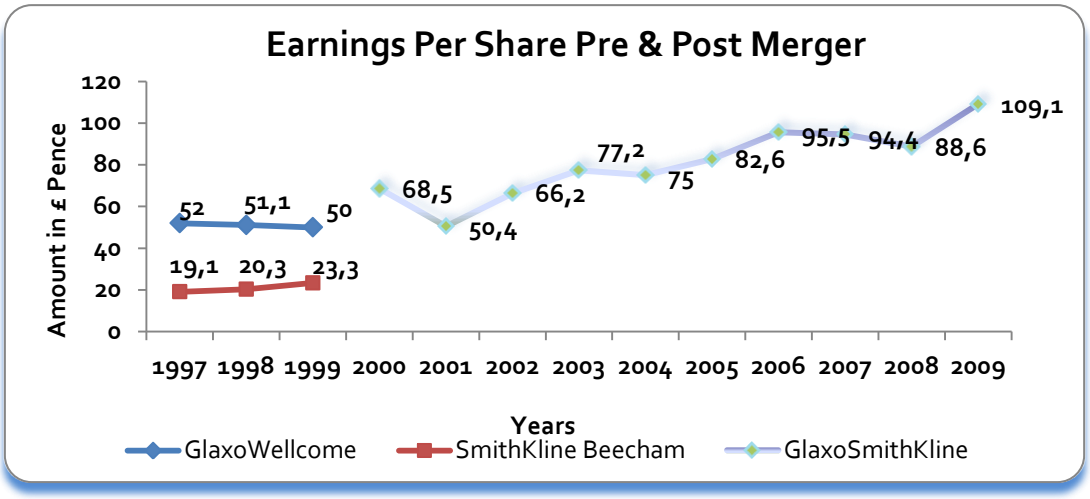

Figure 22: Earnings per Share - Pre & Post Merger
(For data, see appendix 11)

5.6.2 SmithKline Beecham

The EPS figure is excluding from exceptional items. The EPS of SKB have been seen improved from the year 1997 to 1999. In the year 1998, EPS before exceptional items grew by 10% at comparable rates and 6% at actual rate from 19.1 pence to 20.3 pence[62]. The tremendous increase has been seen in year 1999 which was 14.73% as compared to previous year and SKB achieved its target. Joint statement of CEO and Chairmen was that "We are happy to say that, once again, SKB has delivered on its 1999 earning promise. We achieved 13% EPS growth for 1999.[63]"

This is only financial performance of EPS for the purpose, whether GSK achieve its purpose of merging or not.

5.6.3 GlaxoSmithKline

EPS growth of GSK for the 10 years reveals that, basic EPS increasing trend was sustainable except for 26.42% and 31.35% decline in year 2001 and 2002 because integration cost for merger. Integration cost which were done in year 1999 at the time of merger. Merger and acquisition cost, integration cost, R&D expenses and etc incurred at the start of merger and do not recur in the following years that might be profitable for the long run. That's why the GSK, EPS have been seen increasing in the following years more than their competitors. At the start of merger the EPS was 68.5 while in 2009, EPS increase up to 109.10. In 2005, 2006 and 2009, EPS growth rate

[62] SKB, annual report, 1998, page 27
[63] SKB, annual report, 1999, page 3

increase sharply because GSK completed the difference projects within time. From 2004 to 2009, GSK operated its business where the tax rate differed and was less in UK as compared to e.g. Singapore and Eastern Europe. The effect of this reduction in taxation charge increased EPS[64].

Before the merger, the management of the both companies decided that our goal is "that the new company will have an estimated 7.3 per cent share of the global pharmaceutical market (based on 1999 sales)[65]. It has been observed that, GSK achieved stable EPS, but not before 2004. "The risk for GSK, however, was that investors remained unconvinced[66]. The share price of GSK slumped to its lowest level in five years, (when considering pre merger stock market valuations or its lowest ever as a standalone company[67]".

[64] GSK, annual report, 2009, page 115
[65] GW, annual report, 1999, page 4

[67] GSK-A merger too far? Written by Bernardo Batiz-Lazo

6 Final Conclusions

In this study, GSK merger performance is evaluated to analyze growth trends using different financial measures. GW and SKB had a well repute in the pharmaceutical industry. These companies merged and GSK originated with the expectations of improved economic performance and to gain benefits of synergies derived from the merger. Economic motives are seen to be the most dominant which consist of profitability, persuasion of market power, global sales, cost reductions, economies of scale and to increase share holders value. To comply with the above said motives creditworthiness of GSK have been analyzed and conducted by applying different key performance indicators such as sales growth, comparisons of revenue with different indicators, capital structure, ratios analysis, dividend performance, share price and market capitalization.

Growth measurement of a merger is a complex task, standard financial measurement tools used in this study, gave positive results of the GSK merger. However, analysis of GSK historical stock performance is contrary to the performance presented in the financial reports. After using Accounting approach to analyze the historical data of GSK, it is concluded that this mega pharmaceutical merger has partially delivered value regarding growth as per expectations which is not in line with the motives of the merger. The study also revealed that, GSK were able to increase in market power made possible through combined sales force, sales & profitability, made gains in economies of scale, and delivered shareholders' value through sufficient EPS and dividend payments.

According to the analysis the sales growth trends are very positive and figures portray a very pleasant picture of the company. It has been observed that GSK achieved expected sales performance and considerable sales growth from 2007 to 2009 which is a positive sign for the company and shareholders. The sales growth in later years of the merger was the result of the huge R&D investments and combination of manufacturing facilities in earlier years of the merger.

GSK through combination of manufacturing facilities, increased investments in R&D and due to having very few overlapping pre merger products, was able to increase product line up in eight key therapeutic areas and various consumer healthcare products. GSK was able to achieve strong

product pipelines, focus on going R&D projects for product development, and patents development helped to achieve long term benefits.

The analysis of operating expenses (R&D and general expenses) incurred in comparison with total sales reveal that, revenue performance grew intensively than operating expenses after the merger. This depicts GSK efficient utilization of resources spent for the R&D, sales & marketing and advanced technologies for new product developments.

To know the financial position of GSK the relationship between the fixed assets, current assets, total liabilities and equity has been analyzed. It has been found that proportion of fixed assets is more than current assets from year 2000-09, and the data tells that GSK operations were mainly financed by liabilities rather than equity which indicates that safety margin is decreased in the context of shareholders.

Ratio analysis of GSK is favorable in comparison to before merger, liquidity and solvency ratios trend of GSK indicate good signs of its capability to deal with short and long term obligations. Profitability ratios initially show that GSK having constant profits and returns to shareholders, although after paying off the debts and interests the profitability of the merged company is not as it was expected. Market ratio analysis (EPS) of GSK, reveals that earnings per share have been stable since the merger to recent years, but Pound Sterling and Dollar exchange rate fluctuations are critical for the investors in this regard. GSK dividend performance in comparison to pre merger dividend performance of GW and SKB has been better over the years, where GW and SKB shareholders received higher percentage of dividends.

Share price performance of GSK shows a distressing and contrary sign of merger performance, for the company itself and for the shareholders as the start was troublesome. Consistent decrease in share price after two years of merger except for the year 2006 where GSK bounced back, overall a decline in share price of GSK is a negative impression for investment. In the first two years of merger the stock price increase shows the investors' expectation that GSK will make good profits due to combination of two firms. In the following years after merger, decrease in profits and failure to achieve expectations at certain level caused the consistent decline in share price of GSK.

In the pursuit to make a complete judgment of achievements of the merger expectations; inside information is vital, being an external user of the financial reports it is hard to grasp the inside

information of the company. The analysis is based on accounting information provided in the financial reports of GSK depicts the positive performance of the merger which is not reflected in stock market performance of the company. Hence, possibilities of accounting information being distorted & manipulated by the company would lead to biasness in decision making and also, company analysis only based on financial reports would not be considered very précised.

6.1 Suggestions for further research

After conducting this research, it is accepted that in order to evaluate merger performance more dimensions and analysis measures can be adopted. In the quest to analyze merger performance and motives, following suggestions can be considered for further research in this area.

- As (Kaplan, 2006) describes different perspectives of analyzing M&A, financial economist perspectives i.e. analyzing the post merger performance of 3 t 5 years, can be used and compared to event announcement effects i.e. market expectations of change in firms' value at the time of M&A announcement in order to evaluate efficiency.

- Since this study only focused on the financial performance of the merged company which is only based on financial economist perspective. A study which analyzes merger effects on different levels i.e. organizational level, stock market level and financial performance would better provide the understanding and co relation of performance at different levels. To study sociological view of accounting techniques used in mergers, their structures and impacts on business and organization (Norman, 1985) study will be very useful.

- Mega mergers like GSK can be analyzed relative to other mergers in the industry to compare the performance trends considering 3 to 5 years of data.

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8 Appendices

APPENDIX 1: SALES GROWTH (Amount in £ million)

Year	GlaxoWellcome	SmithKline Beecham	GlaxoSmithKline
1997	7,980	7,795	15,775
1998	7,983	8,082	16,065
1999	8,490	8,381	16,871
2000			18,079
2001			20,489
2002			21,212
2003			21,441
2004			20,359
2005			21,660
2006			23,225
2007			22,716
2008			24,352
2009			28,368

APPENDIX 2: NET EARNINGS GROWTH (Amount in £ million)

Year	GlaxoWellcome	SmithKline Beecham	GlaxoSmithKline
1997	1,850	1,079	2,929
1998	1,836	606	2,442
1999	1,811	1,053	2,864
2000			4,154
2001			3,059
2002			3,915
2003			4,484
2004			4,302
2005			4,689
2006			5,389
2007			5,214
2008			4,602
2009			5,531

APPENDIX 3*:* RESEARCH & DEVELOPMENT (Amount in £ million)

Year	GlaxoWellcome	SmithKline Beecham	GlaxoSmithKline
1997	1,148	841	1,989
1998	1,163	910	2,073
1999	1,269	1,018	2,287
2000			2,526
2001			2,651
2002			2,900
2003			2,791
2004			2,839
2005			3,136
2006			3,457
2007			3,327
2008			3,681
2009			4,106

APPENDIX 4*:* RELAIONSHIP B/T OPERAITNG EXPENSES & REVENUE (Amount in £ million)

Year	GlaxoWellcome		SmithKline Beecham		GlaxoSmithKline	
	Operating exp.	Revenue	Operating exp.	Revenue	Operating exp.	Revenue
1997	3,784	7,980	3,739	7,795	7,523	15,775
1998	3,851	7,983	4,032	8,082	7,883	16,065
1999	4,260	8,490	4,220	8,381	8,480	16,871
2000					9,662	18,079
2001					11,055	20,489
2002					10,941	21,212
2003					10,372	21,441
2004					9,900	20,359
2005					10,386	21,660
2006					10,714	23,225
2007					10,281	22,716
2008					11,337	24,352
2009					13,698	28,368

APPENDIX 5: FINANCIAL STRUCTURE (Amount in £ million)

GlaxoWellcome

Description	1997	1998	1999
Fixed assets	3,635	3,837	4,347
Current Assets	4,802	5,509	6,080
Liabilities	8,437	9,346	10,427
Equities	1,843	2,702	3,142

SmithKline Beecham

Description	1997	1998	1999
Fixed Assets	5,108	5,380	5,162
Current Assets	3,374	3,636	3,433
Liabilities	8,482	9,016	8,595
Equities	1,791	1,747	2,327

GlaxoWellcome & SmithKline Beecham (Absolute)

Description	1997	1998	1999
Fixed Assets	8,743	9,217	9,509
Current Assets	8,176	9,145	9,513
Liabilities	16,919	18,362	19,022
Equities	3,634	4,449	5,469

GlaxoSmithKline

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Fixed Assets	10,322	11,920	11,578	11,350	8,945	14,021	14,561	17,377	22,124	25,292
Current Assets	11,268	9,997	10,749	12,625	13,633	13,177	10,992	13,626	17,269	17,570
Liabilities	21,590	21,917	22,327	23,975	22,578	27,198	15,905	31,003	39,393	42,862
Equities	7,711	7,517	6,581	7,720	5,925	7,311	9,386	9,603	7,931	10,005

APPENDIX 6*:* SHARE PRICE INFORMATION (GlaxoWellcome)

Share Capital (£ Million)			
Description	**1997**	**1998**	**1999**
At Year End	894	906	910

Share Capital Authorized (£ Million)			
Description	**1997**	**1998**	**1999**
At Year End	3,574,846,963	3,625,697,898	3,640,804,312
W.A.* for Year	3560	3596	3622

Market Capitalization (£ Billion)			
Description	**1997**	**1998**	**1999**
At Year End	51	75	64

Stock market price (£)			
Description	**1997**	**1998**	**1999**
At 1st January		14.4	20.68
High during the year	14.57	20.73	22.88
Low during the year	8.94	14.65	15.07
At 31st December	14.40	20.68	17.5
Increase/(decrease)		44%	-15%

GlaxoWellcome Share Price £			
Description	**1997**	**1998**	**1999**
At 31st December	14.40	20.68	17.5

APPENDIX 7*:* SHARE PRICE INFORMATION (GlaxoSmithKline)

Share Capital (£ Million)										
Description	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
At Year End	1556	1543	1506	1487	1484	1491	1498	1503	1415	1416

Share Capital Authorized (£Million)										
Description	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
At Year End	6,225,662,174	6,172,965,989	6,024,266,345	5,949,463,628	5,937,688,831	5,962,851,256	5,991,601,848	6,012,587,026	5,661,316,237	5,665,128,719
W.A.* for Year	6,065	6,064	5,912	5,806	5,736	5,674	5,643	5,524	5,195	5,069

Market Capitalization (£ Billion)										
Description	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
At Year End	117	106	72	76	72	85	77	70	67	69

Stock market price (£)										
Description	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
At 1st January	-	18.9	17.23	11.92	12.8	12.22	14.69	13.44	12.79	12.85
High during the year	-	20.32	17.8	13.9	12.99	15.44	15.77	14.93	13.85	13.34
Low during the year	-	16.26	10.57	10	10.42	11.75	13.26	11.6	9.95	9.87
At 31st December	18.90	17.23	11.92	12.8	12.22	14.69	13.44	12.79	12.85	13.2
Increase/(decrease)	-	-9%	-31%	7%	-5%	20%	-9%	-5%	0.50%	2.70%

APPENDIX 8: COMPANIES' DATA ANALYSIS (Amount in £ million)

	GlaxoWellcome			SmithKline Beecham		
Items	**1997**	**1998**	**1999**	**1997**	**1998**	**1999**
Current Assets	4,802	5,509	6,080	3,374	3,636	3,433
Fixed Assets	3,635	3,837	4,347	5,108	5,380	5,162
Total Assets	8,437	9,346	10,427	8,482	9,016	8,595
Current Liabilities	3,886	4,145	5,263	3,476	3,639	3,245
Long term Liabilities	2,661	2,433	1,971	2,160	2,583	1,931
Total Liabilities	6,547	6,578	7,234	5,636	6,222	5,176
Stock	855	1,154	1,537	637	741	706
Sales	7,980	7,983	8,490	7,795	8,082	8,381
Cost of Goods Sold	1,473	1,545	1,897	2,328	2,432	2,448
Net Income	1,850	1,836	1,811	1,079	606	1,053
Shareholder equity	1,843	2,702	3,142	1,791	1,747	2,327

GlaxoSmithKline

Items	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Current Assets	11,268	9,997	10,749	12,625	13,633	13,177	10,992	13,626	17,269	17,570
Fixed Assets	10,322	11,920	11,578	11,350	8,945	14,021	14,561	17,377	22,124	25,292
Total Assets	21,590	21,917	22,327	23,975	22,578	27,198	25,553	31,003	39,393	42,862
Current Liabilities	9,084	9,430	8,808	8,597	8,722	9,511	7,265	10,345	10,017	12,118
Long term Liabilities	3,551	4,108	6,131	6,913	7,654	10,117	8,640	10,748	21,058	20,002
Total Liabilities	12,635	13,538	14,939	15,510	16,376	19,628	15,905	21,093	31,075	32,120
Stocks	2,277	2,090	2,080	2,109	2,192	2,177	2,437	3,062	4,056	4,064
Sales	18,079	20,489	21,212	21,441	20,359	21,660	23,225	22,716	24,352	28,368
Cost of Goods Sold	3,962	4,733	4,609	4,544	4,309	4,764	5,010	5,206	5,776	7,380
Net Income	4,154	3,059	3,915	4,484	4,302	4,689	5,389	5,214	4,602	5,531
Shareholder Equity	7,711	7,517	6,581	7,720	5,925	7,311	9,386	9,603	7,931	10,005

APPENDIX 9: Ratio Analysis

Current Ratio

Year	GlaxoWellcome		Ratio	SmithKline Beecham		Ratio	GlaxoSmithKline		Ratio
	CA	CL		CA	CL		CA	CL	
1997	4802	3886	**1.236**	3374	3476	**0.971**			
1998	5509	4145	**1.329**	3636	3409	**1.067**			
1999	6080	5263	**1.155**	3433	3245	**1.058**			
2000							11268	9084	**1.240**
2001							9997	9430	**1.060**
2002							10749	8808	**1.220**
2003							12625	8597	**1.469**
2004							13633	8722	**1.563**
2005							13177	9511	**1.385**
2006							10992	7265	**1.513**
2007							13626	10345	**1.317**
2008							17269	10017	**1.724**
2009							17570	12118	**1.450**

Quick Ratio

Year	GlaxoWellcome			Ratio	SmithKline Beecham			Ratio	GlaxoSmithKline			Ratio
	CA	Inventory	CL		CA	Inventory	CL		CA	Inventory	CL	
1997	4802	855	3886	**1.02**	3374	637	3476	**0.79**				
1998	5509	1154	4145	**1.05**	3636	741	3409	**0.85**				
1999	6080	1537	5263	**0.86**	3433	706	3245	**0.84**				
2000									11268	2,277	9084	**0.99**
2001									9997	2,090	9430	**0.84**
2002									10749	2,080	8808	**0.98**
2003									12625	2,109	8597	**1.22**
2004									13633	2,192	8722	**1.31**
2005									13177	2,177	9511	**1.16**
2006									10992	2,437	7265	**1.18**
2007									13626	3,062	10345	**1.02**
2008									17269	4,056	10017	**1.32**
2009									17570	4,064	12118	**1.11**

Debt Ratio

Year	GlaxoWellcome		Ratio	SmithKline Beecham		Ratio	GlaxoSmithKline		Ratio
	Total Debt	Total Assets		Total Debt	Total Assets		Total Debt	Total Assets	
1997	6547	8437	**0.78**	5636	8482	**0.66**			
1998	6578	9346	**0.70**	6222	9016	**0.69**			
1999	7234	10427	**0.69**	5176	8595	**0.60**			
2000							12635	21590	**0.59**
2001							13538	21917	**0.62**
2002							14939	22327	**0.67**
2003							15510	23975	**0.65**
2004							16376	22578	**0.73**
2005							19628	27198	**0.72**
2006							16651	25553	**0.65**
2007							21093	31003	**0.68**
2008							31075	39393	**0.79**
2009							32120	42862	**0.75**

Debt to Equity Ratio

Year	GlaxoWellcome		Ratio	SmithKline Beecham		Ratio	GlaxoSmithKline		Ratio
	Total Liabilities	shareholders' Equity		Total Liabilities	shareholders' Equity		Total Liabilities	Shareholders' Equity	
1997	6547	1843	**3.55**	5636	1791	**3.14**			
1998	6578	2702	**2.43**	6222	1747	**3.56**			
1999	7234	3142	**2.30**	5176	2327	**2.22**			
2000							12635	7711	**1.63**
2001							13538	7517	**1.80**
2002							14939	6581	**2.27**
2003							15510	7720	**2.00**
2004							16376	5925	**2.76**
2005							19628	7311	**2.68**
2006							16651	9386	**1.77**
2007							21093	9603	**2.19**
2008							31075	7931	**3.91**
2009							32120	10005	**3.21**

Return on Equity Ratio

Years	GlaxoWellcome		Ratio	SmithKline Beecham		Ratio	GlaxoSmithKline		Ratio
	NI	Shareholders' equity		NI	Shareholders' Equity		NI	Shareholders' Equity	
1997	1850	1843	**1.00**	1079	1791	**0.60**			
1998	1836	2702	**0.68**	606	1747	**0.35**			
1999	1811	3142	**0.58**	1053	2327	**0.45**			
2000							4154	7711	**0.54**
2001							3059	7517	**0.41**
2002							3915	6581	**0.59**
2003							4484	7720	**0.58**
2004							4302	5925	**0.73**
2005							4689	7311	**0.64**
2006							5389	9386	**0.57**
2007							5214	9603	**0.54**
2008							4602	7931	**0.58**
2009							5531	10005	**0.55**

Return on Assets Ratio

Years	GlaxoWellcome		Ratio	SmithKline Beecham		Ratio	GlaxoSmithKline		Ratio
	NI	Total Assets		NI	Total Assets		NI	Total Assets	
1997	1850	8437	**0.22**	1079	8482	**0.13**			
1998	1836	9346	**0.20**	606	9016	**0.07**			
1999	1811	10427	**0.17**	1053	8595	**0.12**			
2000							4154	21590	**0.19**
2001							3059	21917	**0.14**
2002							3915	22327	**0.18**
2003							4484	23975	**0.19**
2004							4302	22578	**0.19**
2005							4689	27198	**0.17**
2006							5389	25553	**0.21**
2007							5214	31003	**0.17**
2008							4602	39393	**0.12**
2009							5531	42862	**0.13**

Gross Profit Margin Ratio (Amount in £ million)

Year	GlaxoWellcome			Ratio	SmithKline Beecham			Ratio	GlaxoSmithKline			Ratio
	Sales	COGS	Sales		Sales	COGS	Sales		Sales	COGS	Sales	
1997	7980	1473	7980	**0.82**	7795	2328	7795	**0.70**				
1998	7983	1545	7983	**0.81**	8082	2432	8082	**0.70**				
1999	8490	1897	8490	**0.78**	8381	2448	8381	**0.71**				
2000									18,079	3,962	18,079	**0.78**
2001									20,489	4,733	20,489	**0.77**
2002									21,212	4,609	21,212	**0.78**
2003									21,441	4,544	21,441	**0.79**
2004									20,359	4,309	20,359	**0.79**
2005									21660	4764	21660	**0.78**
2006									23225	5010	23225	**0.78**
2007									22716	5206	22716	**0.77**
2008									24352	5776	24352	**0.76**
2009									28368	7380	28368	**0.74**

APPENDIX 10*:* Dividend Performance (Amount in £ million)

Pre Merger

Year	GlaxoWellcome	SmithKline Beecham	GlaxoSmithKline
1997	1,249	545	1,794
1998	1,300	603	1,903
1999	1,341	664	2,005

Post Merger

Year	GlaxoWellcome	SmithKline Beecham	GlaxoSmithKline
1997	1,249	545	1,797
1998	1,300	603	1,903
1999	1,341	664	2,005
2000			2,097
2001			2,356
2002			2,346
2003			2,374
2004			2,402
2005			2,495
2006			2,695
2007			2,905
2008			2,952
2009			3,090

APPENDIX 11: EARNINGS PER SHARE (Amount in Pence)

Year	GlaxoWellcome	SmithKline Beecham	GlaxoSmithKline
1997	52	19.1	
1998	51.1	20.3	
1999	50	23.3	
2000			68.5
2001			50.4
2002			66.2
2003			77.2
2004			75
2005			82.6
2006			95.5
2007			94.4
2008			88.6
2009			109.1