



CONCOURS INTERNATIONAL D'ÉTUDE DE CAS MBA
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MBA INTERNATIONAL CASE COMPETITION

CASE 5:

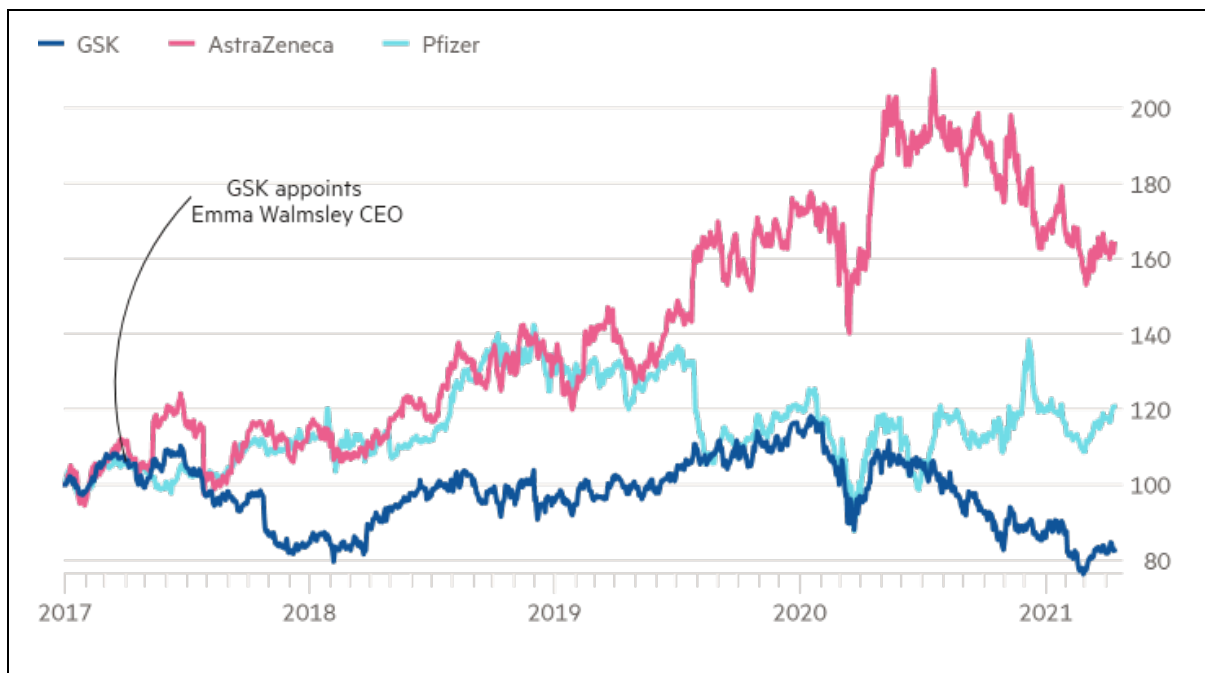
January 05

Emma Walmsley – Can she cure GlaxoSmithKline?

Emma Walmsley (Walmsley), Chief Executive Officer (CEO) of leading British pharmaceutical company GlaxoSmithKline Plc (GSK), was facing one of the toughest challenges of her career and as a CEO.

Walmsley, who had worked earlier with L’Oreal China, had assumed charge as the CEO of GSK, a £80 billion¹ company. She was the first woman CEO of a major pharma company. Walmsley had initiated several plans aimed at improving Research and Development activity at the company to produce new vaccines and drugs. But these new vaccines and drugs had not been introduced into the market on time (*Refer to **Exhibit I** for Research and Development Productivity of GSK compared to other companies*). There was also a decline of around 15% in the share price of the company after she became a CEO (2017-2020) (*Refer to **Figure I** for the Performance of GSK’s share price in comparison with its peer companies*).

Figure I: Performance GSK share price in comparison with its peer companies



Source: Hannah Kuchler, Sarah Neville, Attracta Mooney and Arash Massoudi, “Pipeline pressure and Elliott’s stake have GSK in a spin”, www.ft.com/, April 17, 2021

Besides, Walmsley was also answerable to GSK’s investors and other stakeholders for not being able to bring a vaccine for Covid-19 to the market, though the company was a leading vaccine manufacturer in the world (*Refer to **Exhibit II** for GSK’s Clinical Trials Status*).

¹ 1£ = US\$ 1.35 as of October 2021.

In June 2021, Walmsley in order to improve the efficiency of the overall business announced plans to restructure the business by spinning off the consumer healthcare business, and revitalizing the Drugs and Vaccine division, which she called New GSK.

Though this plan was well appreciated by many investors and shareholders, there were a few who were not exactly happy with the direction in which GSK was going, and Walmsley needed their support to make her plan a success.

Walmsley, along with the Chairman of the company, Jonathan Symonds (Symonds), was on her way to meet some of the prominent investors in the company, to convince them that the future of the company was in safe hands, and that the restructuring plan would put the company back on the growth track. Symonds had called for the meeting after Elliott Investment Management² (Elliott), a US-based activist fund, contacted him. Elliott had been acquiring shares of GSK and had accumulated a significant stake in the company by April 2021. In July 2021, Elliott sent a letter to the board of the company where it expressed doubts about Walmsley's competence to separate the Consumer Health Business of GSK from the Pharmaceutical and Vaccine business. The investor also demanded a change of leadership. Elliott was in the process of influencing other investors to put pressure on the management to take a relook at the restructuring plan and change the CEO as well.

ABOUT GSK

GSK was formed in the year 2001 after a merger between Glaxo Wellcome and SmithKline Beecham. The merger resulted in the creation of the world's largest pharmaceutical company with a global share of around 7%. GSK had always been in the forefront in producing and distributing vaccines and drugs to meet the requirements of underdeveloped countries. It was also actively involved in research and development activities to meet the ever-increasing demand caused by global medical requirements.

Despite facing challenges and competition, it remained one of the top global pharmaceutical giants from the United Kingdom. The three major business categories of GSK were Pharmaceuticals, Vaccines, and Consumer Healthcare. GSK made pharmaceutical products for HIV drugs, diabetes treatment drugs, and also consumer products like Sensodyne toothpaste and Horlicks malt drink.

Under the leadership of Andrew Witty (Witty), GSK focused mostly on bringing essential medicines to developing markets and underserved markets around the world. Witty did not go in for price hikes and aimed for higher volumes rather than high prices. Though GSK had won laurels for its practices and featured at the top spot in Fortune's 'Change the World' list in 2016, shareholders were not happy with the company. They said the company pipeline was weak and wouldn't be able to withstand competition.

² It is a United States based Investment management firm, also the largest activist funds in the world.

The company had been underperforming for several years. British Fund Manager Neil Woodford pointed out that the revenue of the firm's core pharma unit in 2017 was the same as the revenue in 2004. Critics also pointed out that the R&D team of GSK was working on several products, thus spreading the resources thin, rather than concentrating on a handful of blockbuster drugs. According to an analyst, "Decision-making within the R&D organisation has been slow, assets have languished in phase one and phase two studies for long periods, and there hasn't been enough focusing of resources and investment in assets that could really move the needle."³

Analysts from Credit Suisse pointed out that the sales from GSK's pipeline would be around £1.2 billion as against an annual R&D spend of £ 3.4 billion.

THE NEW CEO

Born in Britain, Walmsley studied Classic and Modern Languages at Oxford University. Prior to joining GSK in the year 2010 as President of Consumer Healthcare Europe, she had worked at L'Oréal for 17 years in different positions of general management and global marketing. She was heading the Chinese consumer business of L'Oreal in Shanghai when she quit to join GSK.

In October 2011, Walmsley became the President of the Global Consumer Healthcare division and also a member of the executive team at GSK. Subsequently, she became CEO of GSK's Consumer Healthcare business. This was a division with 21,000 employees which made OTC products like Panadol painkillers, Voltarol pain relief gel, and Sensodyne Toothpaste.

Walmsley played a key role in improving the sales of consumer healthcare products in the emerging markets. Under her leadership, the consumer healthcare division contributed to around a quarter of the total revenues of GSK.

In March 2017, she succeeded Andrew Witty as the CEO of GSK. She was the first woman CEO of a global leading pharmaceutical company and the third largest company in the FTSE 100. By then, the company had a global workforce of 100,000 employees and its operations were spread across 150 countries. By becoming the CEO of GSK, Wamsley was said to be ushering in a new era in the pharma industry and her appointment was hailed as a watershed moment in breaking the glass ceiling. Deborah Dunsire, a former CEO of Millenium Pharmaceuticals, said, "It is terrific to see a woman heading GSK! Given her excellent experience, performance and skills it is gratifying to see the board of GSK not allowing her or any other candidate's gender to influence the decision. Not surprising to find that the GSK board has over 25% women. With more diverse boards we will see more diversity in the C-Suite."⁴

³ "Prescription for success: Emma Walmsley leads GSK transformation," www.europeanceo.com, November 29, 2018.

⁴ Juliet Preston, "Emma Wamsley makes History as Big Pharma's First Female CEO," <https://medcitynews.com>, March 31, 2007.

After taking over as CEO, Walmsley spent six months touring different plants and units of the company and listening to employees, customers, and investors. In her meetings with senior people in R&D, she brought forth the lack of commercial success.

CHANGES BROUGHT FORTH

Walmsley wanted to offload 130 non-core brands of the company, and also sell the unit that made drugs to treat rare diseases. She said the company needed to focus on medicines that were real winners – that is, the ones that generated good returns.

The programs that Walmsley intended to cancel or sell included 13 clinical development programs – treatments for hepatitis C, psoriasis, cancer, and rheumatoid arthritis and also 20 preclinical development programs. At the same time, she announced that the money spent on R&D would not be reduced and would instead be spent on other areas. She said that research would focus on only four areas – respiratory, HIV and infectious diseases, cancer, and immune-inflammation conditions. These four would get 80% of the research spending. She said, “We have been much more thinly spread but also our spend per asset has been a bit low. More and more we need to make sure we are backing the assets that are winning ... We should be spending where we believe we have an asset that can be competitive, and reallocating money appropriately.”⁵

Walmsley revamped the R&D team by bringing in research talent. One such person was Hal Barron, who had worked in Roche’s Genentech in R&D. Hal Barron was the president of Research and Development at Calico LLC, a California life Company that leverages on advanced technology for an in-depth understanding of lifespan biology. . Another hire was Luke Miles from AstraZeneca who joined GSK’s global pharmaceuticals business. Walmsley also changed the leadership in GSK and changed 40% of the top executives within a few months of becoming CEO.

In 2014, GSK had entered into a joint venture with Novartis in the consumer healthcare business. In June 2018, GSK gained full ownership by acquiring Novartis’s 36.5% share in the company for \$13 billion.

Walmsley sold off the rare diseases unit and started a strategic review of the antibiotic business. She planned to invest more on oncology and the immune inflammation business, and also to focus on respiratory conditions, HIV, and infectious diseases.

Walmsley also planned to cut the number of suppliers by a quarter by 2020.

Through these moves she said she was looking at cost savings of £1 billion by 2020. The savings would be directed toward development and launch of new products. In this direction (as a part of cost saving exercise), the company announced the sale of the Horlicks UK brand

⁵ Julia Kollwe, GSK to cut Drug Development Projects to focus on 'Winners',” www.theguardian.com, July 27, 2017.

and closure of the factory where it was made, stopped plans to start a biopharmaceutical factory in Cumbria, outsourced some of the manufacturing works, eliminating 320 jobs in Britain.

One of the major issues that the shareholders of GSK had been pressing for was breaking the group up into two. When Walmsley was asked about it after she became CEO, she was not very receptive to the idea. In December 2018, she announced a joint venture with another pharma major, Pfizer, to combine the consumer healthcare businesses. The joint venture would be 68% owned by GSK and was expected to have total sales of £ 9.8 billion (US\$ 12.7 billion). The company was expected to be a consumer health giant with products like Advil, Centrum, and Caltrate added to GSK's Sensodyne and Panadol. The company was expected to have the top market position in almost all geographies including the US and China.

The resultant joint venture entity would be demerged from GSK by 2022 and listed as GSK Consumer Healthcare in the UK. The deal was completed in August 2019 and Walmsley announced on the occasion, "The completion of the joint venture with Pfizer marks the beginning of the next phase of our transformation of GSK. This is an important moment for the Group, laying the foundation for two great companies, one in Pharmaceuticals and Vaccines and one in Consumer Health."⁶

In July 2018, GSK entered into an exclusive four-year US\$ 300 million collaboration with US-based personal genomics and biotechnology company, 23andMe, to focus on research and development of innovative new medicines and potential cures, using human genetics as the basis for discovery. Under this agreement, GSK became 23andMe's exclusive collaborator for drug target discovery programs.

Critics pointed out that GSK often lagged behind competitors in producing blockbuster drugs, and it was not very active in entering into deals with other companies. Addressing this point, GSK acquired cancer drug specialist Tesaro in December 2018 for US\$ 1.5 billion. This marked a major investment by it in the biotech field. Experts said that the acquisition would help GSK build its portfolio further. The deal brought in ovarian cancer drug Zejula, a poly ADP ribose polymerase inhibitor, into GSK's fold. Observers, however, pointed out that "Such big deals are clearly risky, and we won't know if they've worked for many years. GSK needed to boost its flagging pipeline of new drugs." They were of the view that GSK had overpaid for Tesaro.

In April 2019, GSK and French pharmaceutical brand Sanofi joined hands to develop an adjuvanted⁷ vaccine for Covid-19 using innovative technologies. The companies announced that the vaccine would go for Phase I trials in the second half of 2020. On the deal, Walmsley said, "*This collaboration brings together two of the world's largest vaccines companies. By combining our scientific expertise, technologies and capabilities, we believe that we can help accelerate the global effort to develop a vaccine to protect as many people as possible from*

⁶ "GSK completes transaction with Pfizer to form new world-leading Consumer Healthcare Joint Venture," www.gsk.com, August 01, 2019.

⁷ An *adjuvant* is an ingredient used in some vaccines that helps create a stronger immune response in people receiving the vaccine

Covid-19.” Pharma industry insiders said that even if the companies did come up with a vaccine, it would be ready only in the last quarter of 2021. But Walmsley said that vaccines usually took 10 months to develop, and GSK and Sanofi were planning to bring it out in just a matter of 18 months.

THE PROBLEM

When Walmsley became CEO, she faced a tough transition. Earnings expectations were reset, and she was questioned several times by investors over dividend payment. GSK’s shares which were at £16.50 when Walmsley took over, fell to £12.90 by early 2018. Several investors were not happy with the decision to promote Walmsley to the office of CEO. Critics said that Walmsley did not have experience in the pharma industry and she would not be able to deliver. Despite Walmsley’s focus on the development of the Pharma division, it was underperforming. The consumer healthcare division, considered to be Walmsley’s stronghold, was also not looking satisfactory. *“Market’s view is that both the consumer business has underperformed — although it’s improving now — and the pharmaceutical business is underperforming. And Walmsley has been there for four years,”* said a shareholder⁸.

After being at the helm for two years, Walmsley replaced about 100 of the top 125 managers in the company and removed 3,800 employees. The number of drugs in the research pipeline were reduced by one third.

By December 2020, when the world was eagerly looking for a Covid vaccine, GSK and Sanofi announced that their adjuvanted protein-based vaccine would be delayed, as the vaccine showed low immune response in older adults. They announced that the immune response of the vaccine was good for people aged 18-49 years. This delayed further trials, and observers said that the vaccine would be ready only by the end of 2021. The observers viewed it as a setback in the efforts to fight the pandemic. GSK announced, “Positive results from this study would lead to regulatory submissions in the second half of 2021, hence delaying the vaccine’s potential availability from mid-2021 to Q4 2021.” Both the companies restarted their trial only in February 2021. With two of the world’s largest vaccine makers failing to come up with a vaccine on time, critics said that the companies had failed to lead the way in inoculating against Coronavirus. They even said that several other companies had successfully brought out the vaccine in less than a year, and cited the example of AstraZeneca, which released a vaccine despite having little experience in vaccine development.

Another setback for Walmsley was in the area of cancer research. After years of research, Hal Barron (Head of R&D, GSK) projected Feladilimab as a billion dollar drug prospect for GSK. He said that GSK was testing the drug on patients. But the data monitoring committee recommended that GSK stop enrolling patients and halt dosing the drug. GSK was also

⁸ Fraiser Kansteiner, “Activist Elliott, in investor call, questioned whether GSK CEO Walmsley is the best fit for the job: report”, www.fiercepharma.com, June 1, 2021

conducting another study for Feladilimab, which was called INDUCE-4. With the data of the previous trial not showing the desired results, the second trial was also stopped.

Some observers pointed out that the contribution of pharmaceuticals to GSK’s revenues, which had been 58% in 2016, had fallen to 50% by 2020. At the same time, that of vaccines had grown from 16% to 21% and that of consumer healthcare from 26% to 29%. Thus, the largest and core business of GSK was deteriorating and the company needed to focus on it (*Refer to Exhibit III and Exhibit IV for the Profit and Loss and Balance Sheet of GSK Plc*).

The problems in the business had an adverse impact on the stock price of the company, which fell by 14% in one year.

Walmsley was, however, confident of the future performance of the company and cited the drug pipeline with around 20 late stage drugs. She was positive about the prospects of Shingrix, a shingles vaccine; drugs for asthma, and also a vaccine for respiratory disease RSV (*Refer to Table I for List of Drugs under Development and the Efficacy Rates*).

Table I: List of Drugs under Development and the Efficacy Rates

Vaccines	Disease	Type	Populations	%2020 Revs	Efficacy
Shingrix	Shingles	Virus	Adult	28%	>95%
Boostrix, Infanrix, Pediarix	DTP	Bacteria	Adult+ Pediatric	16%	>95%
Menveo, Bexsero	Meningitis	Bacteria	Pediatric	13%	>90%
Fluarix, FluLaval	Influenza	Virus	Adult	10%	30-60%
Rotarix	Rotavirus	Virus	Pediatric	8%	>90%
Hepatitis franchise	Hep A, B	Virus	Adult+ Pediatric	8%	>90%
Synflorix	Pneumococcal	Bacteria	Adult+ Pediatric	6%	>90%

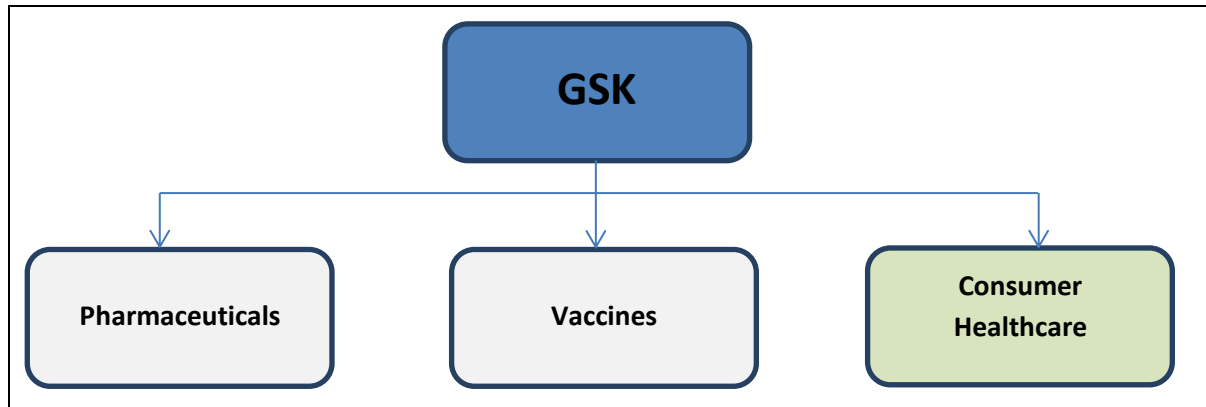
Source: <https://www.prnewswire.co.uk/news-releases/elliott-publishes-letter-on-glaxosmithkline-810368327.html>

SLIMMED DOWN ‘GSK’

In June 2021, Walmsley came up with a plan to transform the pharmaceuticals business after spinning off the consumer healthcare business by mid-2022 (During JV with Pfizer in 2019 GSK had indicated that the unit would be spun-off as a separate company within the next three years). She projected annual sales of £33 billion from the pharmaceuticals business by 2031. She called the pharma business ‘New GSK’ and said the change would unlock the value of the consumer healthcare business (*Refer to Figure II and Figure III for Pre and*

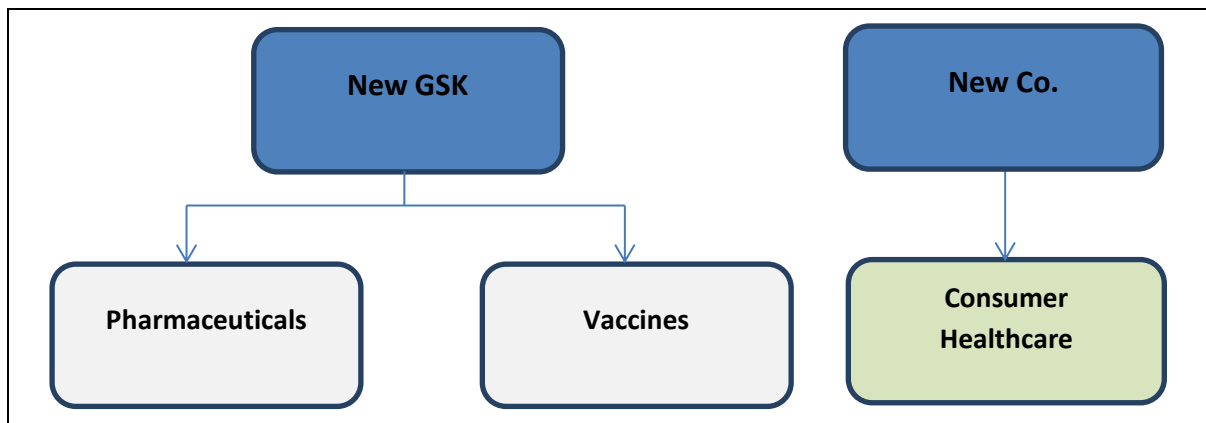
Post Spinoff Organizational Structure of GSK). New GSK would be a growth company fuelled by new vaccines and speciality medicines, focusing on core therapeutic areas: Infectious Diseases, HIV, Oncology, and Immunology/Respiratory. The company, she said, would also look for opportunities beyond these four areas.

Figure II: Pre Spin-Off Organizational Structure of GSK



Source: <https://www.forbes.com/sites/joecornell/2021/07/15/glaxosmithkline-to-spin-off-consumer-healthcare-business-by-mid-2022/?sh=cc7243072d0c>

Figure III: Post Spin-Off Organizational Structure of GSK



Source: <https://www.forbes.com/sites/joecornell/2021/07/15/glaxosmithkline-to-spin-off-consumer-healthcare-business-by-mid-2022/?sh=cc7243072d0c>

Walmsley announced that assets in late stage development had the potential in aggregate to deliver peak year sales of £20 billion. She also announced that New GSK would concentrate on R&D and commercial investment in vaccines and Specialty Medicines which would account for three-fourths of the company’s sales by 2026.

GSK was the top player in vaccines globally, with revenues of £1.4 billion in 2005 and £7.0 billion in 2020. The existing vaccine business of GSK was very strong as development of

biopharma vaccines was highly complex, expensive, and the trials were challenging. GSK had highly novel vaccine technology mRNA⁹.

Forming a part of New GSK was the General Medicines product group, that included all the old and established products in respiratory medicine and also some primary care brands. These medicines differed by region and brand and the growth of this would be mostly from emerging markets. The profit and cash from General Medicines would be invested in Vaccines and Specialty Medicines.

The consumer healthcare company, post division, would have a portfolio of products with annual sales of £ 10 billion in 2020. Several popular and well-known brands were a part of the portfolio that included nine power brands (*Refer to **Table II** for GSK Consumer Healthcare Products and their Market Share and Global Market Position*). This company, called ‘NewCo’, would be a global leader in OTC products with a market share of 7.3%.

Table II: GSK Consumer Healthcare Products and their Market Share and Global Market Position

Segment	Key brands	18-20 Market Growth	Global Market Position
Oral Health	Sensodyne, Aquafresh, Polident	4.7%	3 rd and 1 st in Europe
Analgesics	Voltaren, Advil, Panadol	4.4%	1 st
Cough, Cold and Allergy	Centrum and Caltrate	2.9%	1 st
V&D	Flonase and Otrivine	5.2%	2 nd and 1 st in Europe
Digestive Health	TUMS, ENO and Nexium	3.5%	1 st
Overall		3-5%	1 st

Source: <https://www.prnewswire.co.uk/news-releases/elliott-publishes-letter-on-glaxosmithkline-810368327.html>

Walmsley said, “The benefits of the huge transformation we have driven since 2017 are now clear. We have strengthened our R&D and commercial execution, and transformed our group structure and capital allocation, while driving a profound cultural change with new leadership.”

ELLIOTT IS NOT CONVINCED

⁹ mRNA vaccines teach our cells how to make a protein—or even just a piece of a protein—that triggers an immune response inside our bodies.

By April 2021, activist investment firm Elliott Management Corp. had acquired a huge stake in GSK. Previously, Elliott had called for changes in several underperforming companies in the healthcare sector. These included Alkermes Plc, Allergan and Bayer AG, and Alexion Pharmaceuticals Inc. Elliott was known as one of the most aggressive investors in the world.

In July 2021, Elliott wrote a letter to GSK's management board where it put forth the idea that the GSK management board should review its leadership and consider selling its consumer healthcare business. It also demanded the addition of non-executive directors to the board. It said that the new board needed to choose the right people for leadership positions.

Elliott contacted Jonathan Symonds, Chairman of GSK, and asked him to call top executives of the company. According to some observers, "No corporate leader relishes a call from Elliott, one of the most aggressive investors on the planet, with a long track record of forcing sales or breakups, ousting CEOs, overhauling boards – and even, on one occasion, seizing an Argentine naval vessel over a debt dispute."

Elliott's managing partner Gondon Singer and his colleague gave a presentation detailing the failings at GSK over the years. Elliott also presented analysis and proposed an action plan for GSK. In the letter, Elliott wrote, "We made our investment after months of diligence and analysis, which resulted in our strong conviction that GSK could and should be a better business for patients, doctors, employees and shareholders."

In the letter, Elliot pointed out that GSK had a value creation opportunity, and its share price could increase by 45% and that this could be realized through better execution. It said that despite strong business in attractive markets, GSK had underperformed for several years due to under-management.

Elliott also said that the two businesses, New GSK and Consumer Health, faced separate opportunities and challenges and wanted each of these companies to have leaders to achieve the best outcomes for shareholders.

Emphasizing the point 'GSK's Leadership Role and the Case for Change', Elliott said that GSK was a strong company that was making a positive impact on millions of people around the world, but it lacked proper execution. It pointed out that GSK from being the third largest pharma company in the world, had dropped to being the eleventh largest within a span of 15 years, and that the R&D spend of the company had dropped by 30%. It was of the view that the company could achieve better growth through improved execution and leadership. Elliott called for an innovative, nimble, and efficient GSK.

Elliott pointed out that GSK lacked consistency and strategic direction. A case in point was selling its oncology business to Novartis in 2015 and re-entering the business through a US\$ 5 billion acquisition of Tesaro.

Elliott wanted people with biopharmaceuticals and consumer healthcare experience to join the GSK board and said the board would then be in a better position to select the best leaders for both New GSK and the consumer healthcare company.

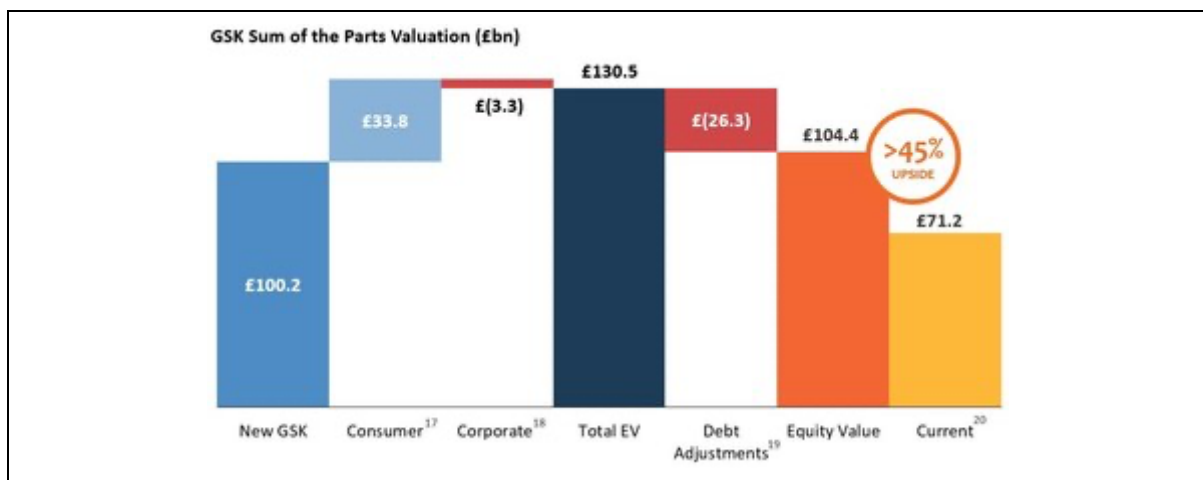
As against the target of 30% operating profit margins for New GSK, Elliott wanted a 32% operating profit margin. It said that GSK should be ready to pursue any strategic opportunity for the sale of the Consumer Healthcare business, and the proceeds from such sale should be used to fund R&D activities at New GSK.

Elliott also wanted pharma and vaccines to remain separate entities and was against the complete integration of the two. Vaccines should be provided more autonomy to capture opportunities, it said. A separate divisional reporting for vaccines would also help investors know the value that vaccines created for the company. On Walmsley, Elliott said that she had failed to cut the dividend and had not communicated the demerger properly.

Elliott wrote, “After years of disappointing performance, which led to frustrated shareholders, demotivated employees and an erosion of the Company’s public perception and credibility, GSK is facing a significant inflection point. The separation of Consumer Healthcare will unlock value for shareholders while allowing a dedicated biopharma-focused management to deliver on its near-term growth prospects while investing in innovation for the long term. With the right governance, ambition and execution, we strongly believe that New GSK can deliver and exceed the stated targets by building on its strong asset base and staying the course.”

Elliott’s final assessment was that GSK could be worth 45% more than its current market value. The main reason for the gap between the existing value and the potential was years of missteps and communication. The fund said that GSK had been valued unreasonably low, at a 33% discount to fair value. Elliott also asked Walmsley to reapply for her own job (*Refer to **Figure IV** for Projected Valuation of Different Business units and Current Valuation Gap of Equity*).

Figure IV: Projected Valuation of Different Business units and Current Valuation Gap of Equity



Source: <https://www.prnewswire.co.uk/news-releases/elliott-publishes-letter-on-glaxosmithkline-810368327.html#>

WHAT NEXT?

Walmsley was of the view that her plan would help GSK achieve a turnaround. She was confident that the high-impact research in vaccines, HIV, and cancer treatment would put the

company in a comfortable position as far as drug discovery was concerned. One of the investors speaking to the media said that it was going to be challenging for Walmsley to convince the investors that the company's performance would improve. In the meantime, the GSK management was trying to gain the support of other large investor groups for the restructuring plan and for Walmsley's leadership. In this regard, three leading institutional investors of GSK rendered their support to the management of GSK. They were BlackRock, GSK's largest investor; Investment management company the Dodge & Cox, GSK's fifth largest investor; and the U.K. Royal London. All three met the chairman of GSK to express their support to the management¹⁰.

Replying to Elliott, GSK refused to replace Walmsley or nor wanted to initiate the discussion on the change of CEO, and said that she would remain in charge of New GSK. At the same time, Elliott's executives were contacting other shareholders to monitor their views. Walmsley claimed that her plans had strong investor support and the firm had more board members from scientific backgrounds. She said, "We listened hard and many of our shareholders have expressed a very positive view on being owners of this new consumer business."

Walmsley needed to prove that the company was heading in the right direction, and that she was the best person to lead it. She needed to complete the spinoff of the consumer healthcare business, make the company strong in the highly competitive cancer research field, and also go ahead with the Covid-19 vaccine. She said, "I've been really clear about my personal level of commitment and energy to see GSK very successfully through this absolutely critical moment. You shouldn't take on these jobs if you're not prepared to weather with some resilience challenges that come along the way, and I'm blessed with a degree of resilience."

While Walmsley's hands were full with tasks related to GSK and also the demands from Elliott, another activist investor Bluebell Capital Partners started demanding a change in leadership at GSK. Bluebell, an Italian firm, had a stake of £ 10 million in GSK and it too believed that Walmsley did not have the required pharma experience as she had worked in the cosmetics industry earlier. In a letter it said, "The lack of Mrs Walmsley's industry knowledge was very evident during the latest investor update, which given the criticism raised prior to the event and pent up expectation for the occasion, should have been 'the' opportunity for her to show strong leadership and dispel this perception."

Walmsley found a supporter in Pascal Soriot of Astra Zeneca, who urged her to stand firm and stick to her plans for GSK. On Walmsley's lack of pharma experience, he said, "It's important that the pharmaceutical companies understand every aspect of the firm. You don't necessarily need to be a scientist. Over the years very smart people will gain the knowledge and be able to be fluent in discussions with scientists."

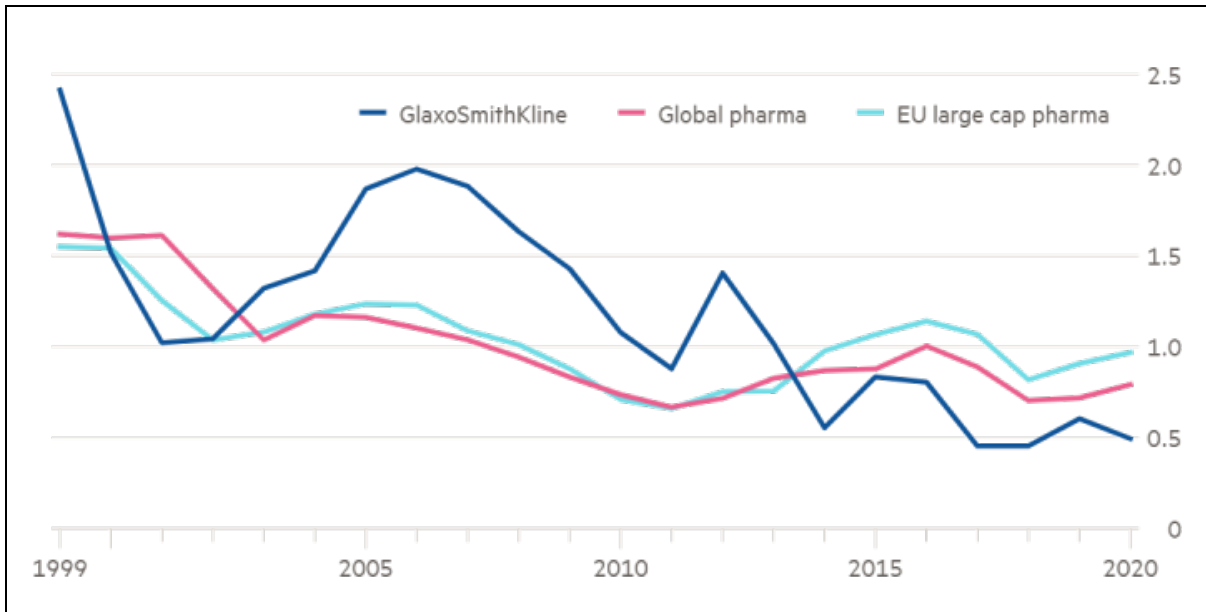
¹⁰ Angus Liu, "GlaxoSmithKline CEO Walmsley snares key investor backing for upcoming fight with activist Elliott: report", www.fiercepharma.com, May 21, 2021

Questions:

Do you think spinning off consumer healthcare is a good idea? What would you advise her?

Draw a plan for Walmsley to help GSK regain its position in the pharma industry. What should she do to make GSK innovative, nimble and efficient? How should she convince Elliott about her plans?

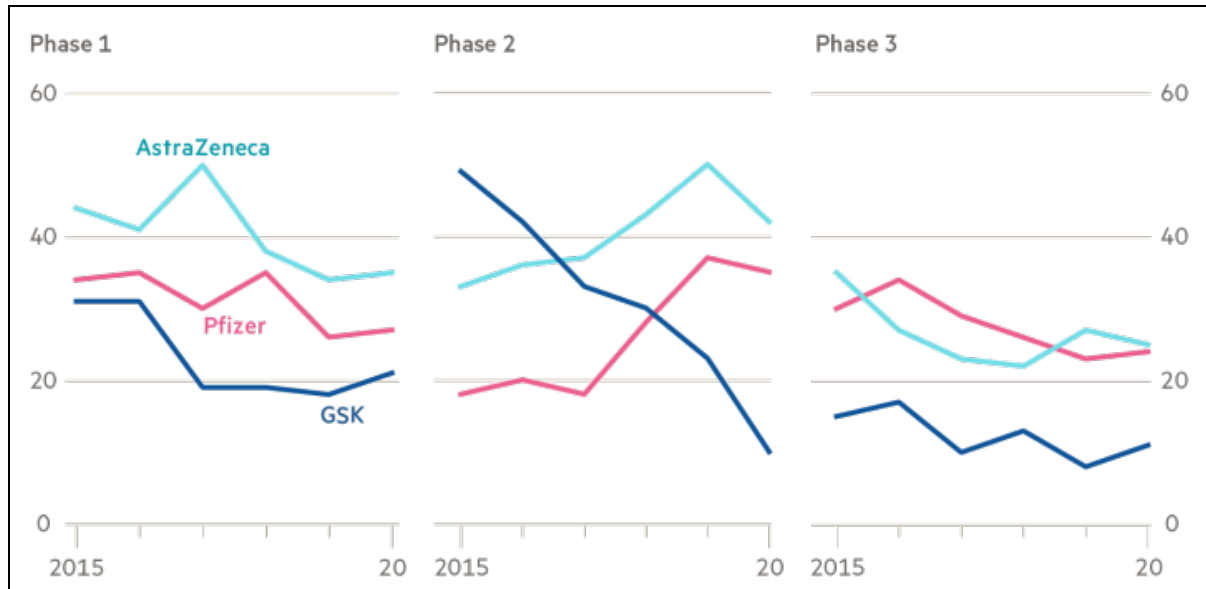
**Exhibit I:
Research and Development Productivity of GSK**



Source: Hannah Kuchler, Sarah Neville, Attracta Mooney and Arash Massoudi, “Pipeline pressure and Elliott’s stake have GSK in a spin”, www.ft.com/, April 17, 2021

**Exhibit II:
GSK’s Clinical Trials Status**

(No. of Products in Trials)



Source: Hannah Kuchler, Sarah Neville, Attracta Mooney and Arash Massoudi, “Pipeline pressure and Elliott’s stake have GSK in a spin”, www.ft.com/, April 17, 2021

Exhibit III:
Income Statement of GSK Plc
(2016 to 2020)

Amount in million pounds (£m)

Particulars	2016	2017	2018	2019	2020
Turn Over	27,889	30,186	30,821	33,754	34,099
Cost of Sales	(9290)	(10,342)	(10,241)	(11,863)	(11,704)
Gross Profit	18,599	19,844	20,580	21,891	22,395
Selling, general and administration	(9,366)	(9,672)	(9,915)	(11,402)	(11,456)
Research and development	(3,628)	(4,476)	(3,893)	(4,568)	(5,098)
Royalty income	398	356	299	351	318
Other operating income/(expense)	(3,405)	(1,965)	(1,588)	689	1,624
Operating profit	2,598	4,087	5,483	6,961	7,783
Finance income	72	65	81	98	44
Finance expense	(736)	(734)	(798)	(912)	(892)
Profit on disposal of interest in associates	0	94	3	0	0
Share of after tax profits of associates and joint ventures	5	13	31	74	33
Profit before taxation	1,939	3,525	4,800	6,221	6,968
Taxation	(877)	(1,356)	(754)	(953)	(580)
Profit after taxation for the year	1,062	2,169	4,046	5,268	6,388

Source: Compiled from Annual Reports of Glaxo Smithkline Plc (2016-2020), <https://www.gsk.com/>

Exhibit IV
Balance Sheet of GSK Plc
(2016 to 2020)

Amount in million pounds (£m)

Particulars	2016	2017	2018	2019	2020
Non-Current Assets					
Property, plant and equipment	10,808	10,860	11,058	10,348	10,176
Right of use assets				966	830
Goodwill	5,965	5,734	5,789	10,562	10,597
Other intangible assets	18,776	17,562	17,202	30,955	29,824
Investments in associates and joint ventures	263	183	236	314	364
Other investments	985	918	1,322	1,837	3,060
Deferred tax assets	4,374	3,796	3,887	4,096	4,287
Derivative financial instruments	0	8	69	103	5
Other non-current assets	1,199	1,413	1,576	1,020	1,041
Total Non-Current Assets	42,370	40,474	41,139	60,201	60,184
Current Assets					
Inventories	5,102	5,557	5,476	5,947	5,996
Current tax recoverable	226	258	229	262	671
Trade and other receivables	6,026	6,000	6,423	7,202	6,952
Derivative financial instruments	156	68	188	421	152
Liquid investments	89	78	84	79	78
Cash and cash equivalents	4,897	3,833	3,874	4,707	6,292
Assets held for sale	215	113	653	873	106
Total Current Assets	16,711	15,907	16,927	19,491	20,247
Total Assets	59,081	56,381	58,066	79,692	80,431
Current Liabilities					
Short-term borrowings	(4,129)	(2,825)	(5,793)	(6,918)	(3,725)
Contingent consideration liabilities	(561)	(1,076)	(837)	(755)	(765)
Trade and other payables	(11,964)	(20,970)	(14,037)	(14,939)	(15,840)
Derivative financial instruments	(194)	(74)	(127)	(188)	(221)
Current tax payable	(1,305)	(995)	(965)	(629)	(545)
Short-term provisions	(848)	(629)	(732)	(621)	(1,052)

Particulars	2016	2017	2018	2019	2020
Total Current Liabilities	(19,001)	(26,569)	(22,491)	(24,050)	(22,148)
Non-Current Liabilities					
Long-term borrowings	(14,661)	(14,264)	(20,271)	(23,590)	(23,425)
Corporation tax payable	0	(411)	(272)	(189)	(176)
Deferred tax liabilities	(1,934)	(1,396)	(1,156)	(3,810)	(3,600)
Pensions and other post-employment benefits	(4,090)	(3,539)	(3,125)	(3,457)	(3,650)
Other provisions	(652)	(636)	(691)	(670)	(707)
Derivative financial instruments	0	0	(1)	(1)	(10)
Contingent consideration liabilities	(5,335)	(5,096)	(5,449)	(4,724)	(5,104)
Other non-current liabilities	(8,445)	(981)	(938)	(844)	(803)
Total Non-Current Liabilities	(35,117)	(26,323)	(31,903)	(37,285)	(37,475)
Total Liabilities	(54,118)	(52,892)	(54,394)	(61,335)	(59,623)
Net Assets	4,963	3,489	3672	18357	20,808
Equity					
Share capital	1,342	1,343	1,345	1,346	1,346
Share premium account	2,954	3,019	3,091	3,174	3,281
Retained earnings	(5,392)	(6,477)	(2,716)	4,530	6,755
Other reserves	2,220	2,047	2,061	2,355	3,205
Shareholders' equity	1,124	(68)	3,781	11,405	14,587
Non-controlling interests	3,839	3,557	(109)	6,952	6,221
Total equity	4,963	3,489	3,672	18,357	20,808

Source: Compiled from Annual Reports of Glaxo Smithkline Plc (2016-2020), <https://www.gsk.com/>

