

University of Law-Business School. CR E1

AstraZeneca PLC (AZN)

Industry Drug Manufacturers - General

vs

GlaxoSmithKline PLC (GSK)

Industry Drug Manufacturers - General

((FCA), 2021)

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The Global Pharmaceutical Industry

“Pharmaceuticals Industries: The discovery, development, and manufacture of drugs and medications by public and private organizations.”

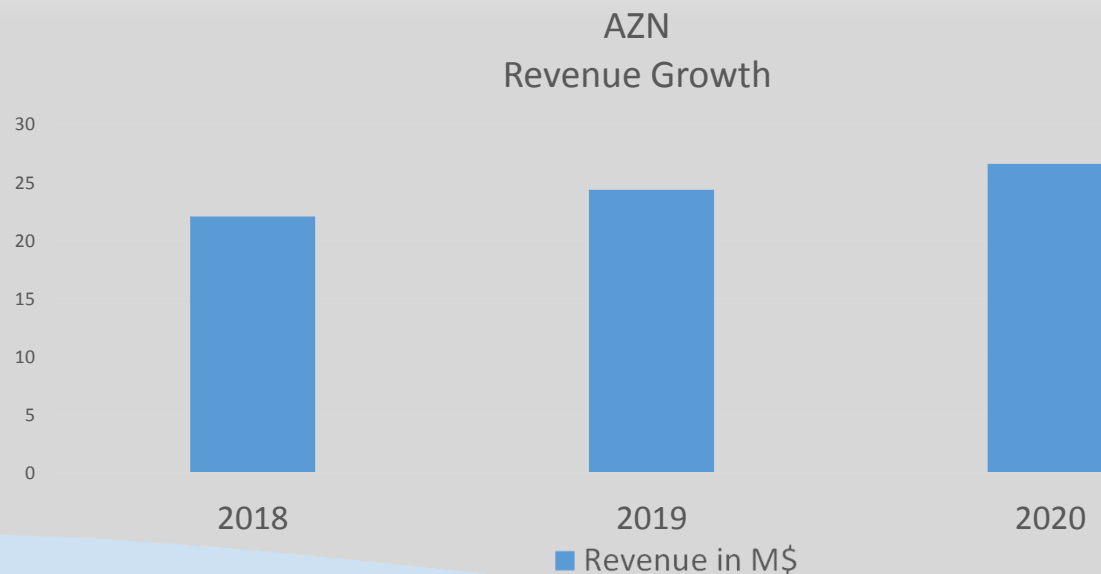
(Dailey , 2003)

“The market has experienced significant growth during the past two decades.” (Mikulic, 2021)

“Revenue totaled 1.27 T\$ in 2020 by the industry.” (Mikulic, 2021)

AstraZeneca PLC (AZN)

The company claims that it is a global, science-led biopharmaceutical business.
(AstraZeneca, 2021)



(AstraZeneca, 2021, p1, A)

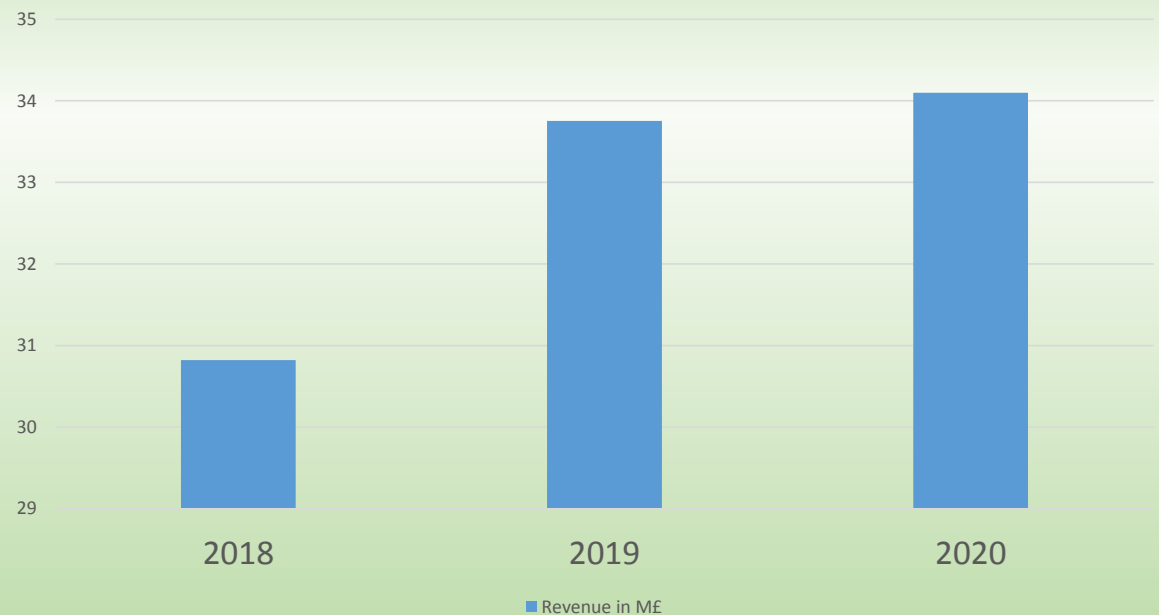
I checked the statements and reports about this claim from the company and noticed that, even though it is really a global one, but GSK is more globally.

GlaxoSmithKline PLC

“creates, discovers, develops, manufactures and markets pharmaceutical products including respiratory and antiviral, vaccines, over-the-counter (OTC) medicines and health-related consumer products”

(Fidelity Investments, 2021)

Glaxosmithkline
Revenue Growth



(GlaxoSmithKline, 2021, P156, A)

I would say that the company is really creative, and discovers medicines

Think about:

- Pro-forma growth rates.
- Loan with amortized cost.
- Cash generation
- Cash conversion
- GAAP vs. IFRS cash flow

(See the Appendix A)

Environmental Reporting

AstraZeneca PLC

“Having achieved the industry highest score in Environmental Reporting and Strategy to Improve Access to Drugs or Products.” (AstraZeneca, 2021, B)

60% Reduction in greenhouse gas emissions since 2015	20% reduction in our water use since 2015	2% reduction in our waste since 2015	1st life cycle assessment study completed for a clinical trial
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(AstraZeneca, 2021, B)

I see that for example 60 percent of reduction in harmful gas in just 5 years is huge and appreciable, as well as reducing in water usage for one per five ratio.

Environmental Reporting

GlaxoSmithKline PLC

The company, in its annual report of 2020, claims that they set some new serious environmental sustainability objectives in 2020, so new detailed tasks are:

“water
resilience
assessments”

“Increase Task Force on Climate-
related Financial Disclosures
(TCFD) analysis”

“continuing to monitor trends in
physical, reputational and regulatory
risks from climate change impacts”

(GlaxoSmithKline, 2021, A)

I searched in different statements of GSK, but did not find any figures to show how much they tried or got the results about environmental issues.

Sustainability Reporting

AstraZeneca PLC

“ranked **5th in the Dow Jones Sustainability Index** for our industry globally.” (AstraZeneca, 2021, B)

“ranked **56th in the Corporate Knights Global 100** (an overview of global 100 most sustainable corporations in the world).” (AstraZeneca, 2021, B)

This company says that about sustainability strategy, they use their capabilities to make the most meaningful impact where society needs it, meaning in health. (AstraZeneca, 2021, B)

9 members govern sustainability on our Sustainability Advisory Board



composed of 4 external experts and five Senior Executive Team (SET) members

1 component of Great Place to Work, one of our strategic priorities

30+ performance measured quarterly in the internal company scorecard

(AstraZeneca, 2021, B)

About sustainability ranking in the fifth position of DJSI is great, while we see GSK reached the better result.

Sustainability Reporting

GlaxoSmithKline PLC

- “In 2020 Dow Jones Sustainability Index, the company was ranked in the second position in the pharmaceuticals industry” (GlaxoSmithKline, 2021, A)
- “And the company promised to have new sustainability goals as, net zero impact on climate and nature by 2030” (GlaxoSmithKline, 2021, A)

Simply, I see as I pointed out in the last slide, GSK got better rank.

Ethical Reporting

AstraZeneca PLC

“Ethics and transparency Create positive societal impact and promote ethical behavior in all markets across our value chain” (AstraZeneca, 2021, B)

“46.9%

women in senior middle management roles and above”

“89%

of employee survey respondents feel that AstraZeneca is a Great Place to Work”

84%

of employee survey respondents feel that AstraZeneca has a ‘Speak Up’ culture

“49.1 instances

of non-compliance with the Code of Ethics per thousand employees in commercial business units” (AstraZeneca, 2021, B)

Obviously, AZN showed figures of its ethical features as proofs.

Ethical Reporting

GlaxoSmithKline PLC

“Our commitment is to operate an ethical, values-driven culture, in which any issues are responded to swiftly and transparently” (GlaxoSmithKline, 2021, A)

“Making our products affordable and available: Familiar with the issues of public access to medicine, ethical practices and patient advocacy, ideally gained in the life sciences sector” (GlaxoSmithKline, 2021, A)

“An effective Board needs a range and balance of skills, experience, knowledge, ethnicity, gender, social-economic backgrounds and independence, with individuals who are prepared to challenge each other and work collaboratively.

This mix needs to be complemented by a diversity of personal attributes, including character, intellect, judgment, honesty and courage.” (GlaxoSmithKline, 2021, A)

On the other hand we see that GSK, unlike the AZN did not issue any data in its ethical report, exactly similar to environmental matters.

Social Responsibility Reporting

AstraZeneca PLC

“We have a dedicated Environmental, Social and Governance (ESG) investor relations officer and, throughout 2020, our Investor Relations (IR) team has engaged in more than 70 external events with more than 300 stakeholders.” (AstraZeneca, 2021, B)

GlaxoSmithKline PLC

“Our commitment is to operate an ethical, values-driven culture, in which any issues are responded to swiftly and transparently.”
(GlaxoSmithKline, 2021, A)

Despite the report about external social-related contributions, neither of both companies pointed out any specific data here.

Reported Issues

AstraZeneca PLC

“AstraZeneca has also agreed to support the establishment of a joint research center at Oxford University for pandemic preparedness research.” (Kemp, 2020)

GlaxoSmithKline PLC

“The pandemic also raised questions around **the affordability of, and equality of access to**, healthcare with demands that, when licensed, COVID-19 vaccines and medicines became widely available. Multi-stakeholder organizations such as COVAX were critical in helping to navigate such challenges as governments looked to secure access for their own citizens as well as ensuring global access.” (GlaxoSmithKline, 2021, A)

In these last years with extremely particular situation of pandemic, both companies talked about Covid-19 and relevant activities of that.

The impact of COVID-19 on accounting policies

AstraZeneca PLC

> expected credit losses associated with changes in credit **risk** relating to trade and other receivables

> **Recoverable value** of goodwill, intangible assets and PPE.

> **Contingent** consideration liabilities

> Group's defined benefit pension obligations

> **Clinical trial accruals** (**Current liability**)

> Unlisted equity investments (**Not in open market**)

> net realizable value of inventories

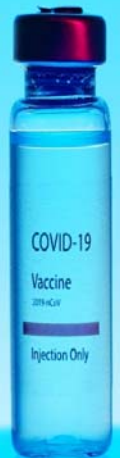
> fair value of certain financial instruments

> recoverability of deferred tax assets (**Like overpaid tax**)

> effectiveness of hedge relationships. (**e.g. Insurance contract for mitigation risks**)

Continue to next the slide

(AstraZeneca, 2021, A)



(Podrez, 2020)

The impact of COVID-19 on accounting policies

Hedge accounting by **AstraZeneca PLC**. Note27

- Foreign currency borrowings
- Foreign currency forwards and swaps
- Currency options
- Interest rate swaps
- Cross-currency interest rate swaps

Purpose: **hedging** the foreign currency and interest rate **risks**. accordance with IFRS 9. (AstraZeneca, 2021, P219, A)

GlaxoSmithKline PLC

The GSK only mentions that four of their assets entered pivotal studies, one of which is the COVID-19 vaccine discovery developments” (GlaxoSmithKline, 2021)

All in all, the reports of AZN suggests that this firm is strictly involved in the pandemic and its affects, so tried to mitigate the risk of dangerous situation by changing some accounting policies, as well as discovering new vaccine or medicines which in fact would be a benefit out of opportunity. On the other hand, GSK did not issue directly any impact.

Reporting the interest rates of Loans by AZN

“All bonds are issued with **fixed interest rates** with **an exception** of two bonds, the 2022 and the 2023 floating rate notes. This might impact the fair values of loans as they change according to changes in the market rate. **As the loans are held at amortized cost,** change in interest rates and the credit rating of the Company do not have an effect on the Company’s net assets.” (Dunoyer & Soriot , 2021)

The company reported the reason

Reporting the interest rates of Loans by GSK

“The majority of debt is issued at fixed interest rates and changes in the floating rates of interest **do not significantly affect** the Group’s net interest charge.” (GlaxoSmithKline, 2020, A)

The company did not report the reason

AZN clearly reported that amortization was the reason for two loans’ interest rates due to 2022 and 2023, however, GSK only wrote in the annual report of 2020, that it did not affected very much the net interest cost.

Non-IFRS Measures and Reports

GlaxoSmithKline PLC

“We use a number of adjusted, non-IFRS, measures to report the performance of our business. Total reported results represent the Group's overall performance under IFRS. Adjusted results, pro-forma growth rates and other non-IFRS measures may be considered in addition to, but not as a substitute for or superior to, information presented in accordance with IFRS.” (GlaxoSmithKline, 2020)

It was not found any non-IFRS measures in annual report, except to some **permissions to** overseas **subsidiaries** of **AZN**

Cash inflow

GlaxoSmithKline PLC (Non-IFRS Measures)

Cash generation and conversion in 2019 was 8,020 £m and in 2020 was 8,441 £m . (GlaxoSmithKline, 2020)

And the company issues in the financial statement of 2020, that Cash generated from operations for 2018-2020 are 9,747, 9,532, and 10,096 respectively. (GlaxoSmithKline, 2020)

(see appendix B)

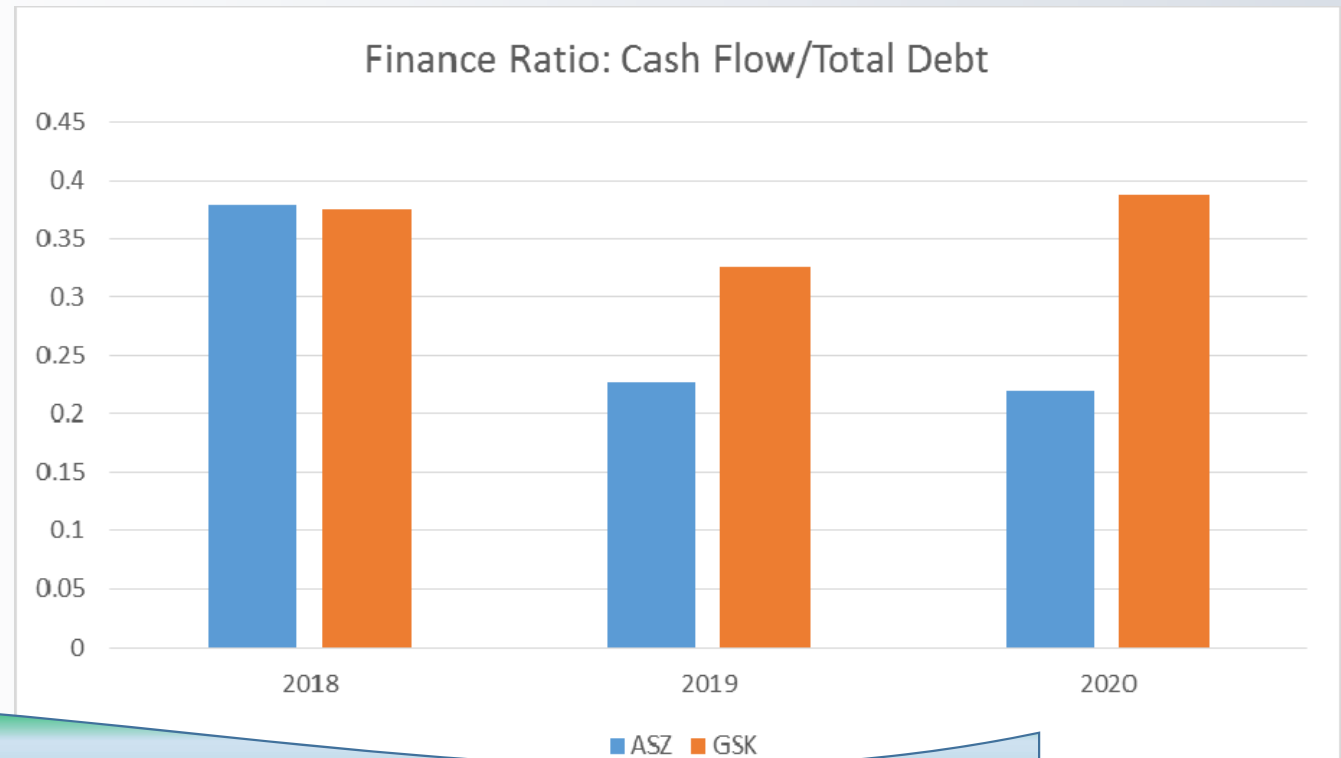
AstraZeneca PLC (IFRS Measures)

“Net cash inflow from operating activities (2020 4,799) (2019 2,969) (2018 2,618) \$m”

(AstraZeneca, 2021)

Cash inflow

**Notice the changes in
2019 and 2020**



Totally, I conclude that AZN is less than GSK worldwide, and mostly IFRS-based accounting policy working compared with GSK.

(AstraZeneca, 2021)
(AstraZeneca, 2019)
(GlaxoSmithKline, 2021)
(GlaxoSmithKline, 2019)

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Appendix A:

- “The following represent the principal subsidiaries and their countries of incorporation of the Group at 31 December 2020. The equity share capital of these entities is wholly owned by the Group except where its percentage interest is shown otherwise. All companies are incorporated in their principal country of operation except where stated.”
- To see the complete list of the names see the report: On <https://www.gsk.com/media/6662/annual-report-2020.pdf>. In page 95, Notes 45. (GlaxoSmithKline, 2020)
- “In financial accounting, pro forma refers to **a report of the company's earnings that excludes unusual or nonrecurring transactions.**” (Tuovila, et al., 2021)
- Loan with amortized cost: As the expression itself seems, this kind of loan is happening when the borrower has delay to pay back the installments, so the lender amortize it to pay back with new installments, but without any extra interest or cost on the new installments.
- Cash generation: It seems to produce any kind of cash or equivalent by a company.
- Cash conversion: It might mean the process or activities for a company to sell any product and take the price of that in cash and bring it to use by the company.

Appendix B:

- In page 157 we see consolidated cash flow statement about cash generated, with the “Note 41” which refers to page No 212. In page 212 we notice the details that the non-IFRS reporting methods did not affect this part of the report.

Details are as follows: **41. Adjustments reconciling profit after tax to operating cash flows**

Profit after tax	6,388	5,268	4,046
Tax on profits	580 (33)	953	754 (74) (31)
Share of after-tax profits of associates and joint ventures	848	814	717
Finance expense net of finance income	1,214	1,231	954
Depreciation	1,137	1,103	902
Amortisation of intangible assets Impairment and assets written off Profit on sale of businesses	781 (2,831)	825	350 (201) (63) (342)
Profit on sale of intangible assets	(426)	(201)	
Profit on sale of investments in associates	– (69)	–	(3) (2) (4)
Profit on sale of equity investments	–	–	(513)
Gain on Novartis Consumer Healthcare Joint Venture put option hedging	–	59	47
Business acquisition costs Changes in working capital: Decrease in inventories Increase in trade receivables	119 (224)	300	51 (32) (429)
Increase in trade payables	225	263	131
(Increase)/decrease in other receivables	(159) (765)	(160)	18 (780) (984)
Contingent consideration paid (see Note 32)	1,275	83	1,250
Other non-cash increase in contingent consideration liabilities	818	89	2,362 (188) 102
Increase in other payables	400	365	360
Increase/(decrease) in pension and other provisions	381	19	(7) (61) (62)
Share-based incentive plans	464 (27)		
Fair value adjustments			
Other			
	3,708	4,264	5,701
Cash generated from operations	10,096	9,532	9,747