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1. INTRODUCTION

This report aims to analyze the financial performance of the company for the financial years 2020-2022. And it does so by looking at the Annual Reports presented by the company, especially the financial statements. Also, it takes into account the company's overall environment i.e., competitive landscape, economic conditions, calamities, etc. The analysis is mainly based on Ratio Analysis under 4 main headings of Liquidity, Profitability, Efficiency and Investment. Ratio Analysis is significant as it would be inappropriate to compare absolute figures like profits of companies as they might operate on a different scale, but Ratios bring different companies' as well as same company's performance for different time periods on a same scale.

The analysis is limited to the financial data available from the annual reports. As well as some general knowledge about the events happening around the company. The report tries to comment on the financial position of the company and identify the strong and weak points therein. Moreover, it attempts to advise the company on future prospects.

2. COMPANY BACKGROUND & BUSINESS AREAS

GSK plc (an acronym from its former name GlaxoSmithKline plc) is a British multinational pharmaceutical and biotechnology company with headquarters in London. It was established in 2000 by a merger of Glaxo Wellcome and SmithKline Beecham, which was itself a merger of a number of pharmaceutical companies around the Smith, Kline & French firm.[1]

It is engaged with the development and manufacture of pharmaceutical drugs, vaccines, and health care products such as customer goods. The areas of therapy development that GSK focuses include respiratory, HIV, immuno-inflammation, and oncology. In addition, the company has a healthy global vaccines portfolio which manufactures vaccines against diseases like shingles, bacterial meningitis, and viral hepatitis. With a wide assortment of OTC health items and prescription drugs in their filmmaking, GSK seeks to improve healthcare systems everywhere in the world.

GlaxoSmithKline formed in the year 2000 were a product of the strategic coupling of Glaxo Wellcome against SmithKline Beecham, two giants globally in the pharmaceutical sector. With this merger, GSK essentially made their way up to the hierarchy of the healthcare system. The corporation in pursuit of strategy has supported research and development (R&D) and medicines prformance innovation up leveraging their investment portfolio through collaborations and acquisition and a spotlight on growth emerging markets. The 2022 spinoff of GlaxoSmithKline's consumer healthcare business into a separate publicly-traded company, named Haleon, has enabled GSK to further focus on biopharmaceuticals and vaccines (Wikipedia contributors, n.d.).

[1] Wikipedia (https://en.wikipedia.org/wiki/GSK_plc)

3. RATIO ANALYSIS

3.1 Liquidity and Gearing Ratios

Under this heading we are looking at three ratios namely, Current Ratio, Quick Ratio and Gearing Ratio. The heading mentions Gearing Ratio separately as it focuses on company's ability meet its long-term obligations and on the other hand Current and Quick Ratios measures the ability to meet short term obligations. They are grouped together despite the differences as both ratios focus on liquidity of a company.

Current Ratio

This ratio is a comparison between current assets and current liabilities of a company. It helps to assess if the current assets of a company are sufficient to meet its current liabilities. As it measures the liquidity of the company, a higher number represents higher liquidity and vice versa. Therefore, higher figures are desirable. But its being too high might also pose a problem as it suggests that cash and other liquid assets are sitting idle. There is a belief that 2:1 (2 times the current assets as to current liabilities) is an ideal ratio. But it is not the case as different companies require different ratios, depending on business areas. We will look at the current ratios for the period 2019-2022.

2022	2021	2020	2019
0.91:1	0.79:1	0.91:1	0.81:1

As stated above, 2:1 is considered to be the ideal number and the ratios being below 1 for all the 4 years is not only a less-than-optimal figure but a sign of negative liquidity. As it shows that company does not have enough liquid assets to meet its current liabilities. On the positive side, company is steering into right direction as ratio has increased in 2022, which is to the fact that current assets have increased by more than 2,000 million pounds (11%) between 2021 and 2022, owing it to company's current equity investments of £4,000 million and its counterpart i.e. current liabilities has decreased by 4%, as company has cleared their suppliers' dues of £1,291 million.

Quick Ratio

Also referred to as Acid Test Ratio, is the same measure as Current Ratio but with Inventories taken into account. This is an essential test to perform as inventories cannot be converted into cash quickly[2]. Which is the case with the company as well because it takes an average of 206 days (based on 2020-22) for them to turn their inventory. Therefore, this ratio is current assets except inventories by current liabilities.

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[2] Financial Accounting for Decision Makers 10th Edition

2022	2021	2020	2019
0.68:1	0.54:1	0.64:1	0.56:1

The ideal number for the Quick Ratio is said to be 1:1, but again that is a general assumption and does not work in all the cases. In the case of GSK, this ratio being low is not surprising as it is dependent on the current ratio. The number is at the highest in the four years as current assets have increased (as seen above) and Inventories have drastically reduced. The efforts that are being taken to improve this ratio are evident, but more aggressive efforts can bring the business into a positively liquid position.

Gearing Ratio

Also termed as Leverage ratio, Gearing Ratio calculates how much of a company's financing is done by way of borrowing in relation to the total financing. The term Gearing denotes borrowing. For example, a highly geared business is heavier on the side of borrowing in their finance structure. The implication of this ratio is that high numbers (>50%) are considered bad for the business, as debt is an expensive source of financing. That being said, borrowings are necessary for business and a balance must be maintained.

2022	2021	2020	2019
62%	58%	62%	67%

As seen in the above table, the numbers are quite high on the negative side. The ratio was worst in 2019, which got better in 2020 as Shareholders' equity saw an increase due to an increase in Retained Earnings of £2,225 million. The ratio maintained its positive trend in 2021, as company paid its long-term debt of around £3,000 million during the 2020-2021 financial year, which is an admirable decision considering it was Global Pandemic period. 2022 again saw an adverse change as Retained Earnings of £3,581 million were spent, resulting in reduction of equity. But the ratio didn't see a steep increase as £3,500 million debt was repaid by the company.

3.2 Profitability Ratios

As the name suggests, this group of ratios is concerned with the profits of the business. And since profits are the main purpose of any business, these ratios are significant. Generally, these ratios calculate profits of the company in relation to different important figures or business resources. There's no ideal figure as these ratios indicate the percentage of profits in relation to sales figures or assets of the business. And, higher the percentage of ratios the better. We will look at Gross Profit Margin, Net Profit Margin and Return on Assets under this heading.

Gross Profit Margin

This ratio calculates the gross profit of the business in relation to the revenue. Since, Gross Profit is what remains after deducting Cost of sales from Sales and it doesn't consider any other expenses it basically tells us cost of sales in relation to amount of revenue. The change in this ratio will affect all other earnings calculated after Gross Profit. Thus, higher the Gross Profit Margin the better the earnings of the business.

2022	2021	2020	2019
67.42%	66.95%	65.68%	64.85%

As the above table depicts, the Gross Profit margins of company are growing at a slow and consistent rate, even though the revenue has seen a sharp decline over the four-year period. Therefore, the increase in Gross Profit Margin is attributable to the decrease in Cost of Sales in proportion to the Sales for that period. *Overall sales change and overall cogs change*. This gross profit margin also translates that there was 67.42p, 66.95p, 65.68p and 64.85p of per 1£ Sales was left to cover other expenses.

Net Profit Margin

This ratio calculates the percentage of net profits with relation to the sales. Net Profit is calculated after deducting all the expenses, interests and tax, in other words Net Profits are the final earnings of the business. This ratio is significant for assessing if current company practices are working and to forecast future profits based on revenue. It is also a good measure to assess if operating costs overhead costs are under control.

2022	2021	2020	2019
16.78%	14.24%	18.73%	15.61%

It is good practice to look at the revenues for all the 4 years to understand if the ratio is skewed by revenue being more or expenses being less. The revenue for all the years were £33,754 million, £34,099 million, £24,696 million, £29,324 million, from 2019-2022. It is worth noting that 2019 was a good year for revenue but still has only 15.61% net profit, one of the reasons for which is highest Taxes were paid in that year and it saw a £1,000 million less other operating income as compared to 2020 (profit from Disposal of Horlicks and other consumer brands). 2021 was the worst year for net profits owing to the fact that revenue was drastically low for that year (reason). Additionally, the company had other operating expenses instead of income unlike previous years. 2022 margin has improved as there was 19% YOY change from 2021. Expenses were in control, but tax obligations were immensely more than 2021.

Return on Assets

Return on Assets calculates how much profit a company is generating in relation to total assets. This ratio helps to measure how efficiently a company is utilizing their resources to earn income. It is calculated as a percentage and the higher the percentage the more profit is made in relation to the total assets and vice versa. The profits considered in this ratio are the Net Profits of the company, as they represent penultimate earning for the company.

2022	2021	2020	2019
9.36%	4.55%	8.66%	7.81%

The trend of this ratio is pretty similar to Net Margin, since Assets were consistent throughout with the exception of 2022. The movement of ratios in 2019-2021 are influenced by the net profits as assets experience a (overall change) during the period. And the net profits stood at £5,268 million, £6,388 million and £3,516 million, respectively from 2019-2021. Therefore, 2021 was the worst year as despite Assets being at one of the highest numbers, the profits generated from those was merely 4.55% (due to the revenue and expenses in that year). 2022 is a special case as Assets saw a £18,957 million unforeseen decrease from 2021. Mainly due to the decrease in Other Intangible Assets and Goodwill because of disposals as a part of Consumer Healthcare business demerger. But revenue and net profits saw an increase despite a fall in total assets, boosting the ratio to its highest at 9.36% profits from total assets.

3.3 Efficiency Ratios

Efficiency Ratios are group of ratios that answer the question of how successfully company resources like Inventory, Receivables and Payables of the company are used and managed. In simple terms, efficiency means achieving maximum output from minimal input. There are four ratios under this heading viz., Inventory Turnover, Inventory Days, Accounts Payable and Accounts Receivable. These ratios alone do not paint tell the whole story, comparisons with other ratios will be drawn for the thorough understanding.

Inventory Turnover

This ratio calculates how many times Inventory is turned (sold) in a year. This figure is achieved by dividing Cost of Sales with Average Inventory and presented as ‘number of times’. It is a significant ratio for understanding the rate at which company stock is moving on average. Higher numbers represent that stocks are moving quickly, and lower numbers indicate slow moving stock, which is a bad sign.

2022	2021	2020	2019
1.86 times	1.41 times	1.95 times	1.99 times

The period from 2019-2020 shows no difference as Cost of Sales and Inventories did not see major differences and company was able to move their Stock almost twice in a year. The year 2021 paints different picture as cost of sales was reduced in relation to revenue as seen in Gross Profit Margin and the Inventories did not see a proportionate reduction as to Cost of Sales. Thus, in 2021 stock moved the slowest at 1.41 times. 2022 saw a bounce back in the ratio as Inventories at the end of the year were drastically reduced owing to good revenue achieved during that year.

Inventory Days

This ratio is a byproduct of Inventory Turnover in the sense that this ratio is calculated using Inventory Turnover Ratio. As the name suggests, this ratio calculates the number of days it takes for the company to move their inventory or in other words for how many days a company is holding their inventory. The lesser the number of days the better for a company.

2022	2021	2020	2019
196.6 days	258.6 days	187 days	183 days

There is a trend here is similar to Inventory Turnover but expressed differently. On Average the company is taking 206 days to move their goods, which is a big number on the face of it. But as seen in Profitability Ratios, the company is generating good revenues and earning substantial profits. Thus, the slow-moving Inventory should not be a matter of concern as company deals in medicines and vaccines which are non-perishable items and does not run the risk of being out of demand.

Accounts Receivable Days

This ratio calculates the number of days it takes for credit customers to pay back the company. It is calculated by dividing Accounts Receivable amount with Sales and multiplied by 365 to get the number of days. This ratio is important for measuring how long the funds are stuck with customers. The higher the number of days the bad it is, as those tied up funds can be utilized for profitable purposes.

2022	2021	2020	2019
87.79 days	116.17 days	74.42 days	77.88 days

There was a decrease in 2020 from 2019 as the Accounts Receivables was decreased, even though the Revenue was increased in during that period. 2021 again saw an adverse increase of around 42 days more than 2020, as Account Receivables amount stood highest at £7,860 million which was worsened by decrease in Sales in that year. 2022 was no different for this ratio than other ratios as Receivables decreased by 10.3% even though the Revenue was increased. On an average it takes 82 days for the company to get paid from its customers which is not a very bad number on the face of it but comparison with Accounts Payable will give clearer idea.

Accounts Payable Days

This ratio is a counterpart of Accounts Receivable above, as it calculates how long the company is taking to pay its suppliers. It calculated by relation of Accounts Payable or Trade Payable to Cost of Sales and multiplied by 365 to get the measure in terms of days. The higher the number of these days the better for the company as they can utilize the cash, elsewhere. But it is a risky game to play as stretching it too far might strain the supplier relations and goodwill.

2022	2021	2020	2019
621.31 days	784.91 days	493.98 days	459.64 days

On an average the company is taking 589 days to pay back its suppliers, which extends out of one financial year. The Trade Payables of company has seen an overall increase of 9%, even though there was an overall decrease in Cost of Sales of 19%. The settlement period being this high is good for company, but it might come at a consequence, as stated above. The company is working towards reducing the numbers at Trade Payables were decreased even after an increase in Cost of Sales.

3.4 Investment Ratios

This group of ratios consider business performance from a perspective of a shareholder. These ratios help the current investors to keep track of their investments as well as future shareholders to assess and decide whether to invest in the company. These ratios are significant as shareholders are the owners and financiers of the business and satisfying them is one of the main purposes of a company. Under this heading we will look at Earnings per Share and Dividend per Share.

Earnings per Share

It is a widely used and highly regarded ratio to measure the performance of a company's share. It is used to predict investment potential of a company's share. The ratio measures the earnings which the company is making for per share in issue, which is calculated by Net Income available to shareholders divided by Ordinary number of shares in issue.

2022	2021	2020	2019
£1.11	£0.83	£1.16	£0.94

On average the company can earn 1£ per share. The trend looks consistent and somewhat growing despite the overall decrease in net profit of 4%, is due to a decrease in Number of shares in issue between 2019-20 and 2021-2022 (£4,976 million to around £4,000 million).

Dividend per Share

As the name suggests, this ratio calculates how much dividend was paid to shareholders per share. This is different from earnings per share as dividend is the actual amount paid to shareholders from its profits. This is calculated Total amounts of dividend paid by the company in relation Number of shares in issue. Higher numbers are very good and a sign of strength, whereas lower numbers indicate low confidence in success of a company.

2022	2021	2020	2019
£0.61	£1	£0.8	£0.8

The pattern that showed 2022 was the best year for company falls apart here, as the dividend per share was lowest in a four-year period, but it is explained by the demerger of Consumer

Healthcare business and declaration of interim dividend in specie of Haleon plc shares. 2021 is a more interesting story as despite profits being lowest for the year in four-year period, the company paid its highest dividend of £1 per share. This decision displays confidence of management in the company's future success.

4. CONCLUSION

The company is continuously generating good revenues and earning substantial profits, even after the big decision to demerge the Consumer Healthcare Business. The company somewhat struggles to pay off its current obligations, as seen in Liquidity and Efficiency ratios. 2021 was a bad year for the company as compared to others, but management increased the confidence of shareholders and general media by declaring a high dividend. Overall, 2022 was the best year for the company especially considering they had disposed the Consumer Healthcare business, a widely known and possibly profitable venture. Looking at 2022's figures, the future seems bright as they company is generating more revenue for lesser costs, paying off long term debts as well as increase in current equity investments.

5. REFERENCES

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