



FEC

ACQUISITION OF GSK BY HUL

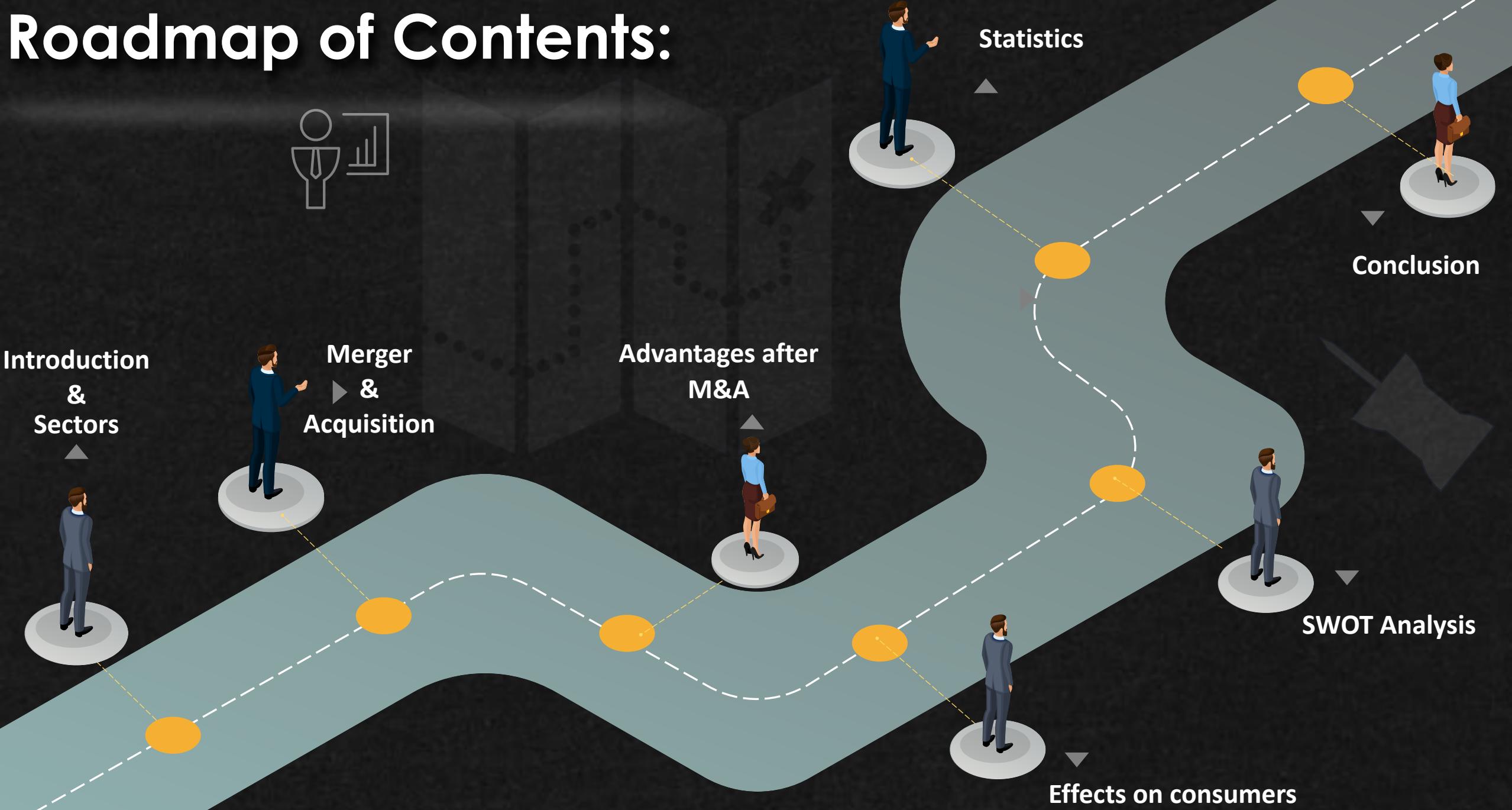
CASE STUDY

BY
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Nexium®
(24HR)

Roadmap of Contents:



HINDUSTAN UNILEVER LIMITED : India's largest Fast Moving Consumer Goods Company (FMCG)

- 10% CAGR over last 10 years
- 530 base points EBIT improvement
- Among the top 5 valuable companies in India
Market Cap = \$51Bn
- Owns 44 brands spanning 14 distinct categories
- Occupies over 21,000 employees (India)



GLAXO-SMITH-KLINE (GSK) : Top-notch spot in Health & Wellness

- #1 Player in India's Health Food Drinks (HFD)
- ₹42Bn Turnover with 20% EBIT margin
- Broad portfolio with 20+ different products
- Rising affluence due to 37% population in direct target audience
- Occupies 3800 employees (India)



GSK PLC
(UK)
Parent
Company



HORLICKS LTD.

UK
Horlicks



GSK
CONSUMER
INDIA LTD.
Merged entry
with HUL



GSK PTE LTD.
Singapore

100%

43.16 %

100%

29.29 %

Established as Hindustan
Vanaspathi
Manufacturing Company

TIMELINE

GSK India founded as a drug
manufacturing company



Enters Ayurvedic health & beauty centre category with the Ayush range and Ayush Therapy Centres.



Finally renamed as Hindustan Unilever Limited after many mergers.



Ranked 1st in the Forbes List of World and 3rd in Fortune List of India's most admirable companies



Acquisition of GSKCH to HUL completed on 17 April,2020



Completion of its transaction with Novartis Healthcare Pvt. Ltd.



Named as India's most respected Pharmaceutical Company in a survey conducted by BusinessWorld and IMRB



2004

Registered as a limited company. Animal health products introduced



1968



1931

2002

2007

2014

2020

1924

Consumer Goods

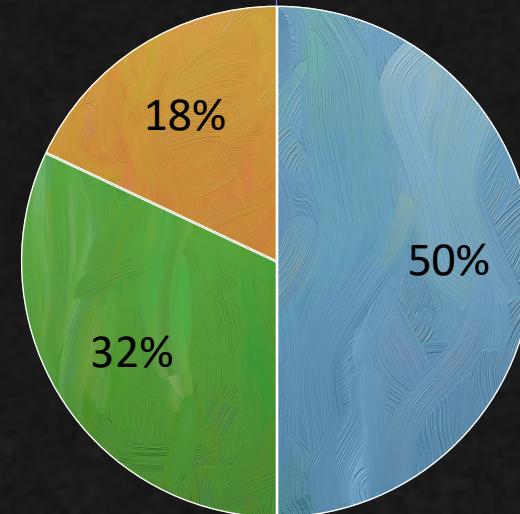


Consumer goods are products that are manufactured for use by individuals and sold through retail outlets.

Eg- Processed foods, household daily use products.



The Fast Moving Consumer Goods(FMCG) industry is the 4th largest sector in Indian economy.



- Household & Personal
- Healthcare
- Food & Beverage

In past 10 years, revenue of FMCG sector has been growing at 21.4%. (Projected to be 27.9% CAGR).

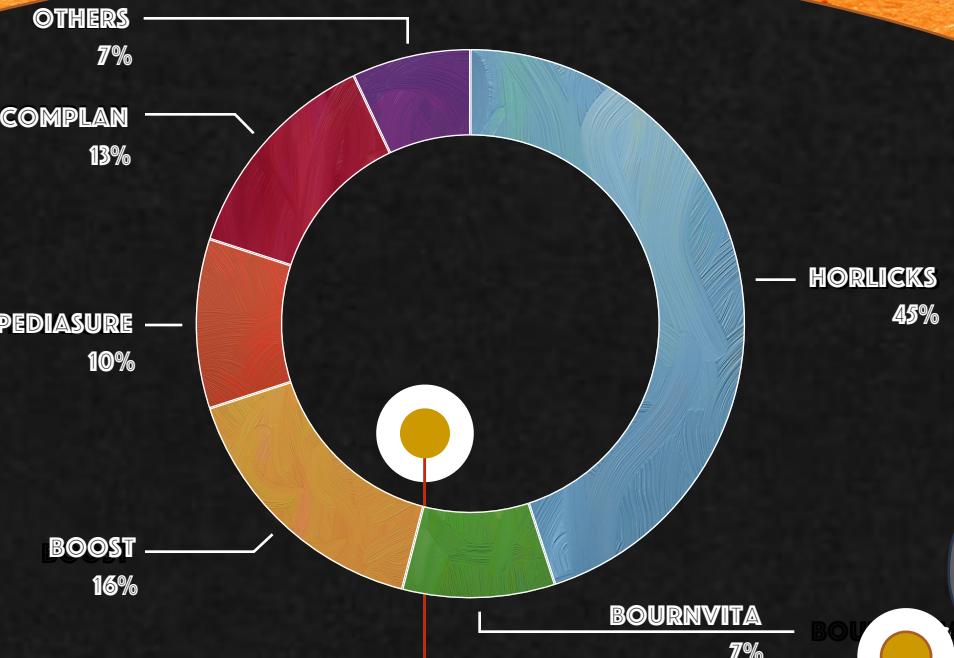
Rural revenue=45%
Urban revenue=55%



Top Competitors
ITC = 10%
Nestle = 3%
Patanjali = 4%
Dabur = 2%
Britannia = 3%
(HUL=12%)

The HD industry includes health beverages, energy drinks, probiotics, food powder, juices, tea, coffee etc.

The total beverage market in India is approximately Rs43,000 crores and is growing at 16%.



India is the world's largest health drink market by volume, accounting for 22% of sales.

GSK is the dominator of Indian beverage market with more than 60% under its control which now passed on to HUL.

Health drinks

&



Acquisition & Merger

01

Organic Growth

Growth of a business through internal processes relying on self-resources. It shows solitary success.

Inorganic Growth

Inorganic growth is growth from buying other businesses or opening new locations. Eg- Mergers and Acquisitions It shows strategic decision making.

02

MERGER

Merger is a voluntary fusion of 2 companies on broadly equal terms to a new legal entity. Entities are almost equal in various perspectives.

- Commonly done to gain market share, reduce cost of operation, expansion.

- After a merger, shares of the new company are distributed to existing shareholders of both firms.

03

ACQUISITION

Occurs when a company buys most of the(>50%) shares of another company, thus gaining effective control.

- A planned acquisition brings in rapid growth in a short period of time.

- The share distribution is decided while negotiations are being pulled off.

04

Why?

Companies choose to grow through M&A to improve market share, achieve synergies in various operations and to gain control of assets. It is less expensive, less risky and faster WRT sales and marketing.

HUL GSK Deal

Motives: HUL - Strengthen market in food and beverage segment and compete against rivals such as Nestle

Hindustan Unilever Limited acquired Horlicks brand from GSKPlc for Rs3045 crore(in an all equity acquisition) for the Indian market ,exercising its option from the original agreement made between its parent Unilever and GSK.

As per the latest deal announced in December 2018, the parent Unilever said HUL would have to pay royalty for Horlicks' use in India.



On 21st April 2020 ,the company had allotted 18.46 crore shares Equity Shares of Rs 1/- each to the shareholders who were holding the shares of GlaxoSmithKline who now became public shareholders of HUL

GSK - Funding of resources to areas felt more necessary by the company

Transaction value accretive for HUL shareholders, synergies between firms formed and completion done in 1.5 years

HUL would provide their extensive distribution channels under a consignment selling agreement(5 years) to GSK Pharmaceuticals in India for brands like Crocin, Sensodyne but not be in control of manufacturing.

ADVANTAGES AFTER THE ACQUISITION

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Leverage on the Mega-Trend of Health&Wellness

A large young and health-conscious population with persistent nutritional needs along with increasing incomes would undoubtedly reap margins continuously.

Dilution of Unilever power in HUL

The merger was followed by creation of new shares given to stakeholders and GSK which decreased hold of Unilever from 67.2% to 61.9%.

Economic gains

- Increase in free-float market capitalisation
- HUL's food and refreshments business exceeded ₹10000 Cr, compared to ₹9900 Cr of Britannia Ind Ltd.
- Operating profit = 23% (+1%)
- EPS* = 25 (+0.8)



Increased penetration for pharmaceuticals

HUL's extensive transportation is a part of the acquisition deal for 5 years which will popularise the products of GSK in more areas and meanwhile the focus of GSKPH would be on R&D which will lead to further profits.

Funding for other acquisitions

The finances from the transaction went to take full venture of Novartis, the OG maker of Sensodyne as well as TESARO Inc, the maker of cancer drug Zejula (niraparib).

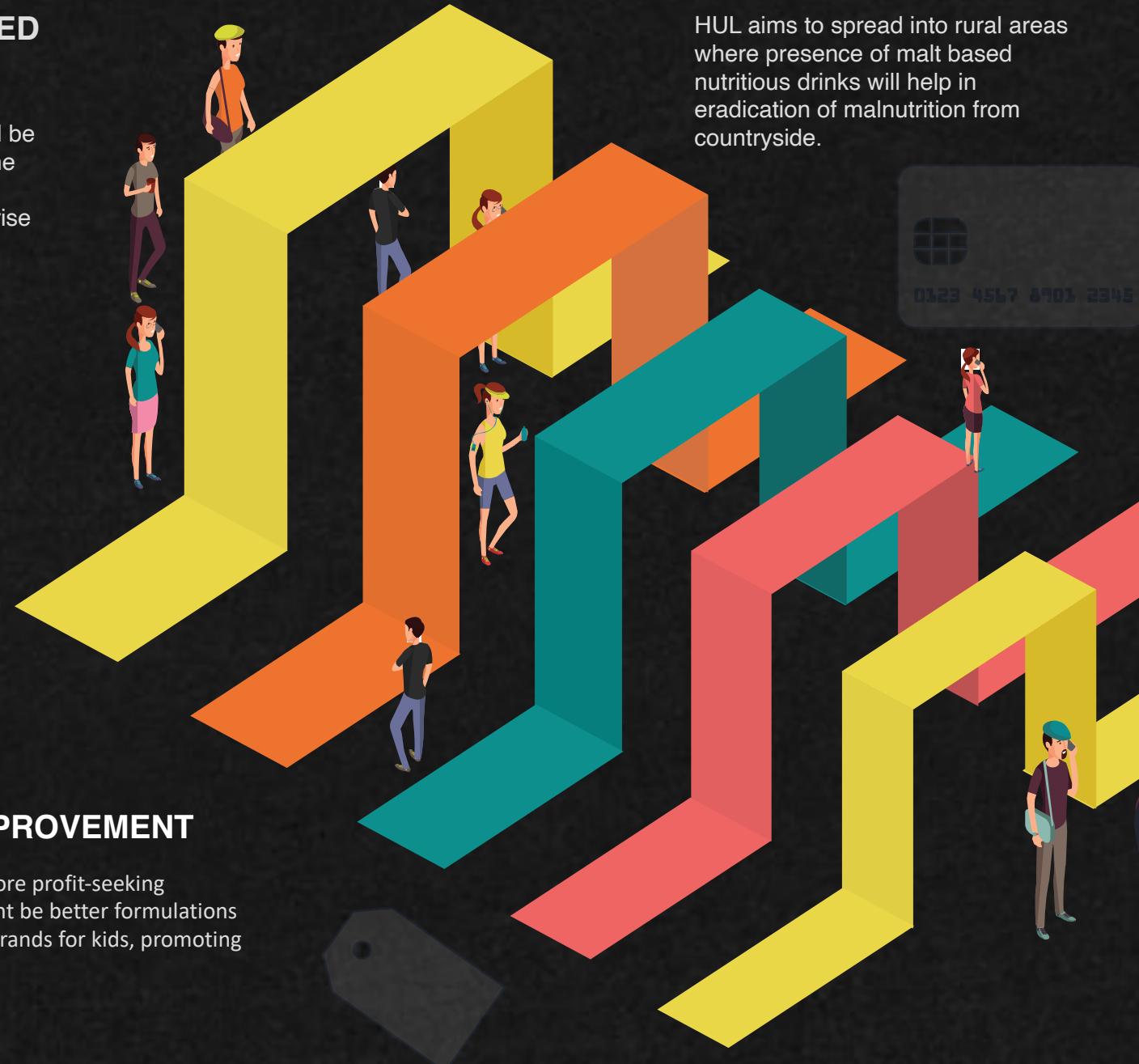
Shifting focus to innovation

Divestment of Horlicks would help GSK work on its core, i.e., innovation and help strengthen the R&D further and create a firm position in pharmaceuticals.



FLOW OF BRANDED PRODUCTS

International OHCs, OTCs like Sensodyne, Crocin will be more readily available in the markets hence healthcare standards will continue to rise even in urban areas.



IMPROVED NUTRITION

HUL aims to spread into rural areas where presence of malt based nutritious drinks will help in eradication of malnutrition from countryside.

PROFITS TO STAKEHOLDERS

Pre-existing shareholders got a better deal with 1 share in GSK giving them 4.39 shares in HUL, a company that continued to grow in the pandemic, hence providing security.

SCOPE OF IMPROVEMENT

With a change to a more profit-seeking leadership, there might be better formulations to the already loved brands for kids, promoting brand image further.

Effects on Consumers



STRENGTH

- **Advanced distribution system**

Villages closer to urban markets are targets. Leveraging rural wholesale markets to increase reach.

- **Awareness**

Brand propagation targeted by popular celebrities creates positive word of mouth.

- **Visibility**

Wide array of products aids HUL occupy large shelf space in markets which shows public acceptance.

S

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T



WEAKNESS

- **Declining Market Share**

Rivals focusing on single product and gobbling up shares.

Eg- Ghadi, Nirma v/s Wheel

- **Large number in various categories**

Often having a bit portfolio of brands will lead to mistaken positioning.



OPPORTUNITY

- **Expanding Market**

With good marketing strategies, HUL is reaching out to rural markets.

- **Coronavirus**

The pandemic has changed people's ways of living which now include more personal hygiene products which is why HUL reaped a 19% profit even after fall in economy.



THREAT

- **Competition in market**

With rise in local players, it is difficult for companies to stand out from others.

- **Price of commodities**

With fall in income due to pandemic, inflexible pricing will cause decrease in sales, margins and brand switching.

- **Buyers choice**

With brands claiming various benefits, people are curious to switch brands.



STRENGTH

- Strong R&D boosts portfolio expansion

GSKs focus has shifted towards Research & Development. This commitment drive strengthens its market position.

• Strong Sales and Distribution network

GSK succeeds forging a strong sales and distribution network ensuring products to masses, enhancing its ability to launch newer products ASAP.



WEAKNESS

- Healthcare fraud allegations affect brand image

Allegations of unlawfully promoting prescription drugs, false pricing, failure to report safety data, have all degraded the brand's image in market.

- Blockbuster products exposed to competition, reaching maturity

Multiple GSK products and vaccines are now exposed to competition from generic medicines and also some of the blockbuster products are reaching maturity.



OPPORTUNITY

- Strategic expansion through Acquisitions & Collaboration

Collaboration of ViiV, GSK's HIV company, Pfizer & Shionogi and acquired GlycoVaxyn. Such acquisitions and collaborations help the company to expand its portfolio and increase market share.

- Product launches strengthen business

New product launches such as Nucala, a treatment for refractory Eosinophilic Asthma enhance company's portfolio and strengthen the business.



THREAT

- Drug pricing controls

In India, a new pricing control policy has been proposed according to which prices of drugs may decrease.

- Intense competition in the industry

GSK's products in consumer care are subject to intense industry competition which not only limits market share but gives rise to price wars.

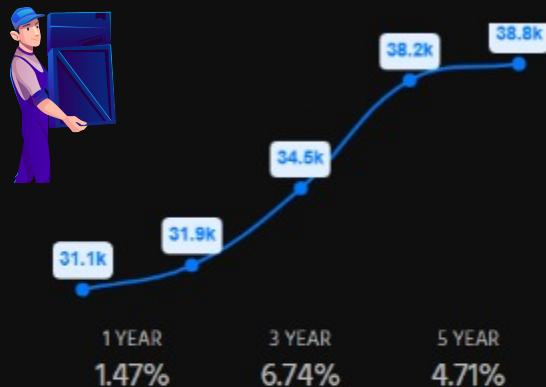
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Sales Growth (in Cr.) ⓘ



Profit Growth (in Cr.) ⓘ



ROE% ⓘ



ROCE % ⓘ



Debt/Equity ⓘ

0

Price to Cash Flow ⓘ

74.91

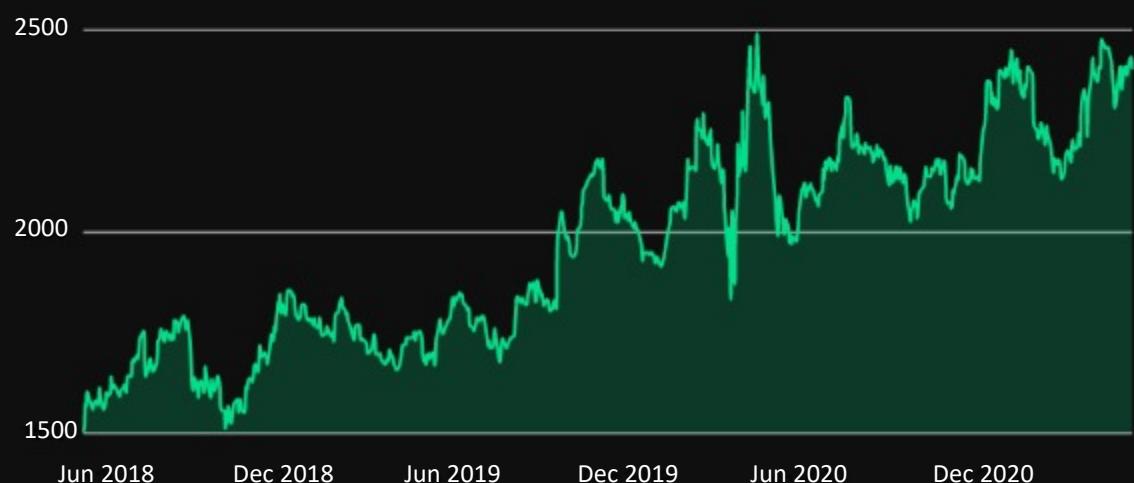
Interest Cover Ratio ⓘ

86.77

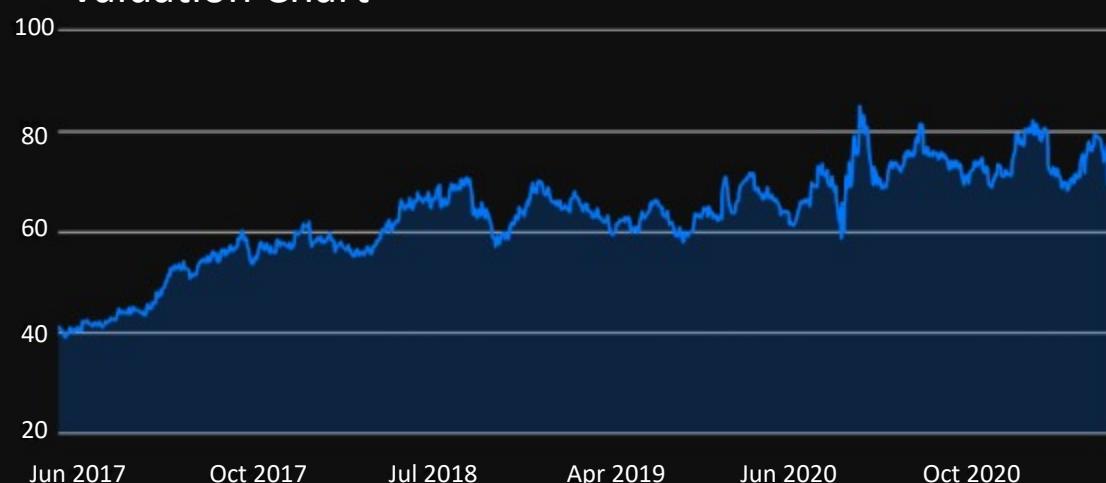
CFO/PAT (5 Yr. Avg.) ⓘ

1.05

Price Chart



Valuation Chart



Conclusion

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Type of M&A

After thorough discussion, we came to a conclusion that the acquisition of GSK by HUL is a mixed conglomerate, i.e., mergers involving firms that are looking for product extensions or market .

Success of M&A

Success can not be judged in such a small time period, especially for GSK due to the fact that its investments are long-term. HUL however instantly scored the Indian health drink department.

Conversion of dynamics

- HUL would now grow at an even faster rate in the Indian economy.
- New marketing strategies might help in growth of healthcare sector as a whole.