

Financial Analysis of GlaxoSmithKline FINAL

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FINANCIAL MANAGEMENT



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Introduction

GlaxoSmithKline (GSK) is a multinational pharmaceutical firm headquartered in the United Kingdom. The corporation's beginnings can be traced back to the creation of several different

pharmaceutical enterprises. Glaxo Laboratories Ltd. was formed in 1929 by merging Joseph Nathan & Co. with the French Laboratories Glaxo. Meanwhile, Beecham's Pills, Ltd. continued to expand and expand its operations. Since then, GSK has focused on researching, developing, manufacturing, and marketing medicines, vaccines, and consumer healthcare products (GSK plc , 2023). The organisation has significantly improved medical care, including developing novel therapies for several conditions. GSK's operations are scattered across several continents, including North America, Europe, Asia, and others. It sells a wide range of prescription medications, vaccines, and other consumer healthcare products in markets all over the world (GSK, 2022).

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Business model

The word business model relates to a company's profit strategy. It specifies the products or services that the company intends to sell, its target market, and any estimated costs. GSK invests heavily in R&D to discover and develop novel medicines, vaccinations, and medical devices (Segers and Gaile, 2021). GSK has a diverse range of prescription medications, vaccines, and consumer healthcare goods. GSK has operations in several locations throughout the world, including Europe, Asia-Pacific, North America, and emerging markets (Kumar, 2012). It uses its global footprint to reach a diverse set of clients and address their healthcare needs. To stimulate innovation and enhance scientific knowledge, GSK regularly collaborates with academic institutions, research organizations, and other pharmaceutical firms.

Market Position

GlaxoSmithKline has grown to become one of the world's largest pharmaceutical companies, with a considerable market share in the global healthcare sector. GSK consistently ranks among the most profitable pharmaceutical businesses in terms of sales (Kumar and Kumar, 2019). Its significant market presence and investor confidence are reflected in its financial results and market capitalization. GSK has a strong presence in a variety of therapeutic areas (GSK, 2022). Notably, it is well-known for its experience in respiratory treatment, with medications such as Advair/Seretide as well as Ventolin. GSK is active in both the healthcare and retail healthcare industries. GSK provides prescription medications and vaccines through the pharmaceutical sector. GSK maintains a vigorous R&D pipeline, always working on innovative treatments, vaccinations, and solutions for healthcare (GSK plc , 2023). Its emphasis on research and development helps it maintain its market position by bringing innovative products to market and addressing unmet medical requirements.

Primary competitors

In the pharmaceutical industry, AstraZeneca PLC is a key competitor of GlaxoSmithKline (GSK). AstraZeneca is a multinational pharmaceutical firm based in the United Kingdom. It is used in a range of therapeutic areas, including cancer, cardiology, and pulmonary medicine. AstraZeneca is well-known for its innovative drugs and strong drug candidate pipeline. GSK and AstraZeneca are both big players in the worldwide market for pharmaceuticals, and they regularly compete in therapeutic areas that are comparable to each other (Leask and Parker, 2007). They both develop and commercialize prescription medicines and immunizations, and their goods portfolios overlap in some areas (Leask and Parker, 2007). GSK and AstraZeneca compete in areas that include respiratory medications, where both businesses have established products. Other prominent pharmaceutical companies that compete with GSK include Johnson and Johnson, Pfizer and Merck & Co, Novartis.

Financial Performance

Financial ratio analysis is a strategy for evaluating a company's financial health and performance by examining various ratios collected from its accounting records. Analysts and investors can evaluate a company's financial achievements, identify trends, advantages, and weaknesses, and make informed decisions about investments, financial standing, and overall financial condition by analyzing these ratios over time and comparing them to comparable industries or competitors (Olayinka, 2022). Financial ratios are effective tools for evaluating the financial performance and health of a business. They provide essential information on the operations of a firm, such as liquidity, profitability, efficiency, and solvency (Nur et al., 2023).

Financial ratios aid in measuring a company's success over time by allowing comparisons across different time frames as well as with industry benchmarks (Olayinka, 2022). They provide a statistical foundation for evaluating a company's efficiency, profitability, and overall resource efficacy. By studying ratios over multiple time periods, analysts can find patterns and trends in a company's financial performance (Olayinka, 2022). This allows you to assess whether the company's financial status is improving, worsening, or stable.

³¹ GSK Financial Ratios

Liquidity Ratios

Liquidity metrics are financial indicators that assess a company's ability to meet its short-term commitments in addition to its overall liquidity condition. These ratios reflect an organization's ability to manage its current liabilities as well as the availability of liquid assets to meet those obligations (Sihombing et al., 2022).

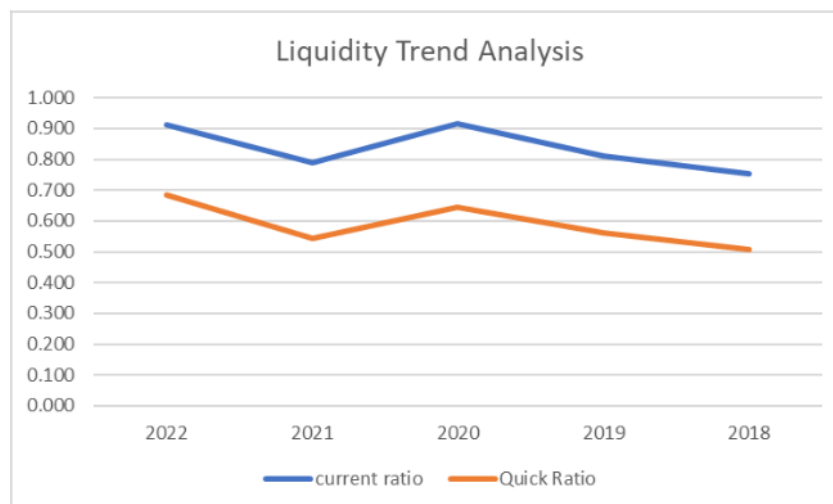
¹⁴ Liquidity Ratios	2022	2021	2020	2019	2018
current ratio	0.911	0.789	0.914	0.810	0.753
Quick Ratio	0.685	0.545	0.643	0.563	0.509

The current ratio is below one in all five-year assessments. It suggests that the business's liquid assets might be inadequate to cover its current liabilities. This could indicate a concern with future cash flow or inefficient present asset management. Due to a lack of current assets, the firm may struggle to pay off its current liabilities when they come due. This situation could lead to missed payments, late fees, damaged relationships with vendors, and possibly loan default. A current ratio that is low may necessitate additional borrowing to meet immediate obligations (Prasetyaningrum et al., 2022).

This could include obtaining new loans, credit lines, or pursuing equity investments. If the company's cash position is insufficient, acquiring external finance may be difficult or come with unfavourable terms (Prasetyaningrum et al., 2022). It also suggests problems with operations, which include slow turnover of merchandise, delaying receivables collections, or high short-term debt. These problems may be the result of inadequate handling of inventory, inefficient credit practises, or sales and manufacturing difficulties.

The quick ratio is likewise found to be less than one. It implies that the corporation may lack sufficient funds, cash equivalents, or extremely liquid assets to pay its urgent liabilities (Prasetyaningrum et al., 2022). A quick ratio of less than one implies that the company relies substantially on inventory to meet its immediate requirements. It might have to dispose of inventory rapidly or convert it to cash to meet present liabilities, and these could be difficult if inventory turnover is slow or if selling merchandise quickly is difficult. This could be an indication of ineffective handling of inventory. It could be an indication of surplus or outmoded inventory, that can stifle capital and impair liquidity. A lack of control over the amount of inventory, purchasing, or manufacturing processes could lead to a low level (Prasetyaningrum et al., 2022).

It suggests that a company is more likely to face a financial catastrophe, as the company may struggle to pay its current debts. It may have difficulties paying suppliers, managing payroll, or settling short-term obligations, which could lead to lender issues and potential defaults.



The graph shows an increasing trend in 2022 but it fell down in 2020 and started increasing in 2022 that shows the company already started recovering its liquidity condition. The reason for the increased current and quick ratio is that the company managed to hold more current asset relative to its current liabilities but still they are not sufficient as both the current and quick ratios are below 1 and the company needs improvement in this area. The current ratio is low as the company is seen to have higher level of short-term debt that is also the reason that the company's liquidity condition is below 1.

Profitability Analysis

Profitability Ratios	2022	2021	2020	2019	2018
Operating Margin	21.94%	18.18%	22.82%	20.62%	17.79%
Net Margin	51.00%	12.85%	16.86%	13.76%	11.75%
ROE	141.12%	29.13%	39.41%	38.76%	98.67%
ROA	24.87%	5.54%	7.15%	5.83%	6.24%

An operating margin between 15% to 25% is generally considered a healthy range for profitability, indicating that a company is efficiently generating profits from its core operations. Operating margins in this range suggest that the company is effectively managing its costs and generating

a reasonable profit from its day-to-day operations (Laulita and Yanni, 2022). It indicates good operational efficiency and the ability to control expenses while generating revenue. Operating margins within this range indicate a level of profitability that is sustainable over the long term. It suggests that the company has established a solid foundation for generating profits and has the potential to withstand economic downturns or industry challenges

In 2022, a company's net margin improved dramatically from 11 to 20%. A net margin of 11% to 20% is generally seen as a healthy and acceptable amount of profitability for a business. A net margin in this area shows long-term profitability that is durable and steady. It implies that the organization understands cost management and price strategies well enough to continuously earn profits. Companies with long-term net margins are better positioned to weather economic downturns and industry problems (Santos et al., 2022). Higher net margins within this range suggest that the organization has more capacity for expansion and new investment. It implies that the corporation has the ability to distribute resources in new research and development and innovations that will help prosper the company (Santos et al., 2022).

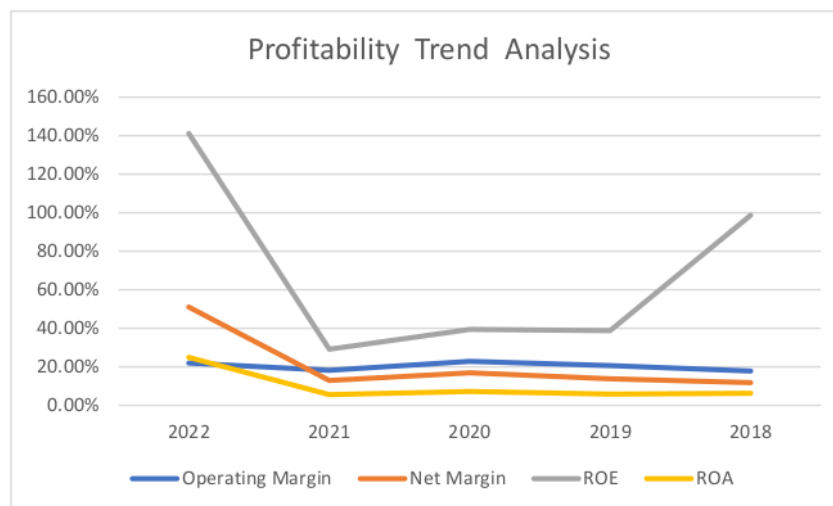
A variation can be seen in the ROE pattern. In 2022, the ROE is higher, indicating extraordinary success in that year. A shifting Return on Equity indicates variations in a company's profitability and the return on its investors' money over time. Variations in ROE can be driven by a range of factors, including changes in revenue, expenditures, asset utilization, and capital layout. Variations in ROE indicate that the organization's profitability varies over time. It suggests that the company's ability to generate profits and properly utilize its holder equity may change over time.

In order to comprehend the reasons for and consequences of the variations, it is critical to investigate the fundamental causes. Shifts in the company's capital structure, such as changes in debt levels or equity financing, can have an impact on fluctuating ROE. Changes in the debt-equity mix can have an impact on the cost of capital and, as a result, the ROE. It involves the strategies, actions, or activities adopted throughout time. Changes in choices regarding investments, handling costs, pricing tactics, or growth attempts can all have an impact on profitability and, as a result, ROE.

ROA fluctuations suggest that the organization's profitability relative to its assets is not continuous over time. It implies that the company's ability to earn profit from its asset base will fluctuate over time. Analyzing the underlying causes of the variations can reveal valuable information about the company's performance. Fluctuating ROA can represent changes in the company's capacity to use its assets efficiently. Changes in the handling of inventory, account receivable being gathered,

or fixed asset utilization can all have an impact on profitability and, as a result, ROA. ROA fluctuations can be caused by modifications to revenue and expense structures. A rise or a drop in sales, price, or production costs can have an effect on profitability as well as a result, ROA. Adjustments in the capital structure of an organisation, such as debt financing levels, can have an impact on the company's profitability as well as ROA. Changes in debt levels can affect net income and ROA by changing the cost of capital as well as interest payments.

Profitability Trend Analysis



All four profitability measures demonstrated a varying pattern, but the ROA and ROE demonstrated an extraordinary trend in 2022, indicating that the company had already demonstrated exceptional financial performance. A rising profitability trend suggests that an organization's profit continues to rise in all 4 years except in 2021. This encouraging trend shows that the business is getting more efficient in terms of profit generation and shareholder value creation. Increased profitability is frequently associated with increased sales. Higher sales as well as greater market share have contributed to increased profitability for a corporation where in 2021 that profitability was low in all four ratios because a significant decrease in net income due to higher expenses that has been incurred by the company (GSK plc, 2023).

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Gearing Ratio Analysis

Gearing Ratios	2022	2021	2020	2019	2018
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Equity Ratio	0.1762046	0.1903215	0.1813604	0.150379	0.0632384
Debt/Equity	1.5280242	1.3125208	1.5450744	1.8841789	5.6429739
Debt to Capital	0.8252539	0.793246	0.8034362	0.8365499	0.8967814

The equity ratio rose until 2021 before falling in 2022. An increasing equity ratio shows that a company's equity share of its capital structure is growing in relation to total assets. A rising equity ratio suggests a stronger financial situation because it indicates that a higher percentage of the business's financial assets are funded by equities as opposed to debt. A larger equity ratio might help a corporation lower its financial risk. The corporation is less susceptible to the commitments and limits connected with debt repayment by relying more on equity funding. This can improve the firm's stability, financial standing, and sustainability over time.

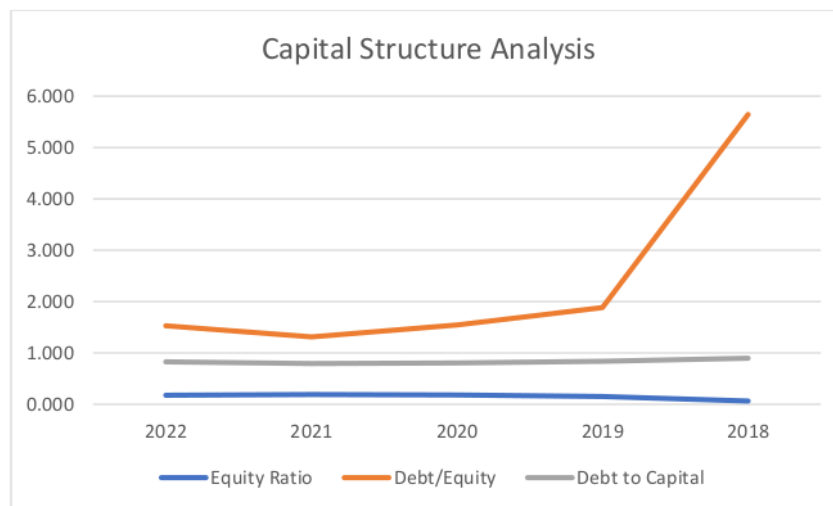
A higher equity ratio shows enhanced solvency because the company is better able to satisfy its long-term obligations with internally generated money. It improves the organization's capacity to pay back debt, dividend payments, or other commitments without relying too much on outside funding. A larger equity ratio might improve an organization's borrowing capability. Creditors and financiers frequently regard enterprises with a greater equity ratio to be less risky, that could end up in more favorable borrowing conditions, reduced interest rates, or improved access to credit facilities. Increased equity ratios can benefit shareholders by increasing their ownership position and ownership stake in the business. It means that a larger amount of the company's assets is owned by shareholders, which could lead to enhanced value to shareholders including returns on investment.

A debt-to-equity ratio of 1.3 to 1.8 indicates that an organization's debt-to-equity ratio is modest. It implies that the company has a healthy mix of debt and equity financing. This mixed capital structure can assist leverage the advantages of debt (such as tax breaks or cheaper cost of capital) while still holding a strong equity interest. A higher ratio indicates a higher level of financial risk because the company is more reliant on debt funding (Suhartono, 2022). A ratio within the stipulated range, on the other hand, shows a moderate level of financial risk and a decent ability to manage debt obligations.

A debt-to-equity ratio within this range suggests that the company has a certain level of financial flexibility. It has the capacity to access debt financing if needed while still maintaining a substantial equity portion, allowing for potential future investments, acquisitions, or growth opportunities (Suhartono, 2022).

The debt-to-capital ratio provides insights into the composition of a company's capital structure. It indicates the relative weight of debt in comparison to equity in financing the company's operations and investments. It seems that the company has a moderate-level mix of debt-to-equity ratio (Suhartono, 2022).

Trend Analysis



The gearing ratios are used to analyze the company capital structure. A fluctuating trend is seen in the debt and equity ratios from 2019 to 2020 it is seen that the company's equity ratio is increased while the debt ratio is decreased and when we see the company financial statements, it is observed that the company has repaid the debt that reduced the debt and increased the equity level and thus these fluctuation are caused due to capital structure decision that the management have taken in these five years (GSK plc , 2023).

Efficiency Ratios

Efficiency Ratios of efficiency are financial measurements that analyze a company's ability to profitably use its financial resources and assets. Ratios calculation can be seen in the attached Excel file.

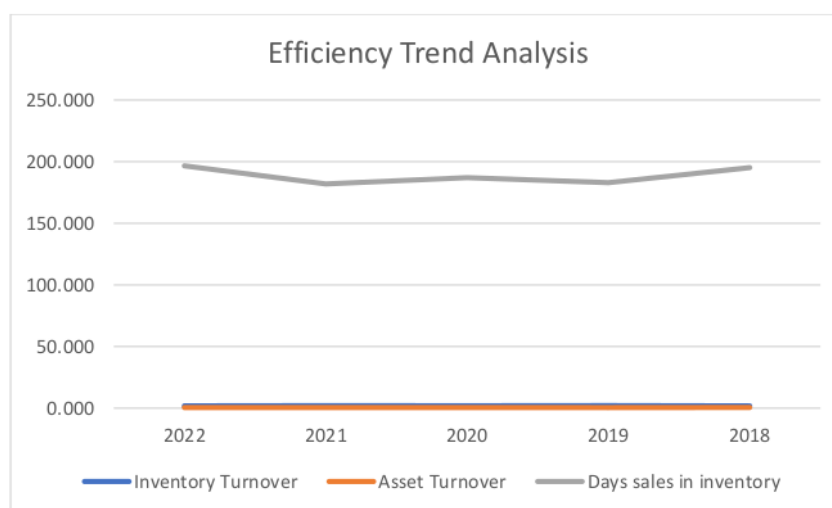
Efficiency Ratios	2022	2021	2020	2019	2018
Inventory Turnover	1.857	2.006	1.952	1.995	1.870
Asset Turnover	0.488	0.431	0.424	0.424	0.531
Days sales in inventor	196.597	181.918	186.991	182.977	195.170

While analyzing the inventory turnover ratio a range of 1.8 to 2 is seen. A 1.8 to 2 ratio range means that a business sells and replaces its stock 1.8 to 2 times on average within a certain period, often a year. This percentage indicates that the corporation manages its inventories rather well and efficiently. To completely measure the inventory administration efficiency, it is necessary to compare the organization's turnover rate for inventory to industry standards. Because different businesses have different turnover of stock norms as well as requirements, it is critical to consider industry-specific aspects (Alawneh, 2022).

An asset turnover ratio that ranges 0.42 to 0.53 indicates that the company generates sales revenue ranging from 42% to 53% of all assets on average during a certain time period, typically a year. This ratio suggests that the company's asset utilization and productivity are probably low (Alawneh, 2022). To assess asset utilization efficiency, compare the company's asset turnover ratio to industry benchmarks. Asset requirements and income production capabilities vary per industry. When compared to peers in the industry, the ratio provides a clearer picture of the firm's relative performance. It is crucial to evaluate the trend of the asset turnover ratio over time. If the ratio has consistently been low or falling, it may indicate problems in asset utilization that must be addressed (Alawneh, 2022). However, in case the ratio is improving it shows the improvement in the company's performance.

The ratio of asset turnover can also be influenced by asset mix. For example, if a major fraction of the company's assets is non-productive or underutilized, the overall asset turnover may be reduced. Analyzing the asset mix and finding potential inefficiencies or underutilized assets might aid in improving the ratio (Alawneh, 2022). Overall, a ratio of asset turnover between 0.42 to 0.53 indicates that the business might not have been successfully utilizing its assets to produce sales income.

Efficiency Trend Analysis



The efficacy of the company in term of their inventory is increased from 2018 to 2021 but fell down in 2022 and the main reason could be seen in the financial statements that the company sales got decreased in the 2022 due to decreased demand that has also affected the inventory levels and the company's efficiency in terms of inventory days also decreased (GSK plc , 2023).

Competitor Analysis

Financial ratios allow for comparison against competitors in the industry. Comparing a firm's ratios to comparable industries or significant competitors will offer information about its comparative success and assist identify areas where the company might want to make changes or where it excels its peers. For the competitive analysis, AstraZeneca's key competition is chosen.

Liquidity condition

Liquidity Ratios of AstraZeneca	2022	2021	2020	2019	2018
current ratio	0.859	1.16	0.962	0.859	0.957
Quick Ratio	0.68	0.76	0.76	0.68	0.78

The liquidity condition of the competitor is also low and it is below 1 and indicates the liquidity issues but the liquidity is better when we compare the current and quick ratio of both the companies, AstraZeneca holds a better condition whereas Glaxo Smith needs improvement in this area.

Profitability Comparison

Profitability Ratios AstraZeneca	2022	2021	2020	2019	2018
Operating Margin	8.470%	2.811%	19.390%	11.990%	15.330%
Net Margin	7.410%	2.993%	12.007%	5.470%	9.755%
ROE	8.860%	2.927%	20.100%	8.406%	14.590%
ROA	3.413%	1.091%	4.712%	1.991%	3.380%

The profitability of Glaxo Smith is seen to be higher when we compare both companies. It seems that either the GSK revenue is more or it is more efficient in controlling the cost which has improved the company profitability as compared to the competitor.

Gearing Ratios AstraZeneca

Gearing Ratios AstraZeneca	2022	2021	2020	2019	2018
Equity Ratio	1.35	0.63	0.49	0.44	0.50
Debt/Equity	0.7631	0.758	1.259	1.202	1.36
Debt to Capital	0.3826	0.4173	0.528	0.518	0.552

The AstraZeneca company appears to have less debt-financed and thus it holds less insolvency risk. A stronger financial position and a more stable economy are produced by lower debt levels. With fewer financial obligations, the corporation is less subject to variations in rates of interest or downturns in the economy. This stability lays the groundwork for sustained development and sustainability.

Efficiency Ratios AstraZeneca

Efficiency Ratios AstraZeneca	2022	2021	2020	2019	2018
Inventory Turnover	2.6369	1.3845	1.3168	1.5412	1.708
Asset Turnover	0.459	0.355	0.3989	0.3973	0.3642

(Macrotrends, 2023)

The AstraZeneca is seen to be more efficient as the inventory and ²² asset turnover ratio is higher. ²² The corporation is using its assets more effectively to produce revenue if the asset turnover ratio is higher. This suggests that the business is effectively allocating its resources and streamlining its processes. By maximizing asset utilization, the corporation can produce greater revenue without making major new investments (Gunawan et al., 2022)

Future Recommendation

The GSK is viewed as having a lower ³⁶ liquidity level. GSK might examine numerous techniques and ideas to increase liquidity, which ³⁶ refers to a company's capacity to satisfy short-term financial obligations. Effective cash flow management is essential for keeping your cash on hand. Continually monitor and forecast your financial inflows and outflows to spot any impending gaps or surpluses. To hasten cash collections, provide incentives to clients who pay early, negotiate fair payment conditions, and put effective accounts receivable management procedures into place (Ndebugri and Tweneboah, 2017). Enhancing liquidity can be accomplished through efficient working capital management, which refers to the difference between current funds and current liabilities. In order to protect cash, it can negotiate longer payment terms where practicable, take use of accessible payment options without endangering vendor relationships, and schedule payments more efficiently (Hanum et al., 2023). The company must create contingency plans to deal with unforeseen disasters or financial downturns that could have an impact on liquidity. This could entail opening up access to emergency financial sources, like credit lines or credit cards for businesses, to fill up short-term cash gaps. To avoid overstocking, analyze demand trends, streamline purchasing and manufacturing procedures, and use just-in-time management of stocks practices.

To boost output and cut waste, the business must determine where operational efficiency can be increased (AlBrakat et al., 2023). This can include applying lean management practices, pursuing technology and automation, optimizing manufacturing processes, and removing unavailability or bottlenecks.

A larger operating margin inside this category may indicate that the organization has room for expansion and investment in new prospects (Doyle, 2009). It suggests that the business has resources to devote to innovation, growth, and other important strategic goals.

⁷ The company must have an optimal capital structure. A ⁷ company's cost of capital the typical rate of return demanded by investors and lenders can be reduced with the use of an ideal capital

structure (Ghardallou, 2022). A corporation can obtain the lowest weighted average cost of capital by balancing loan and equity funding. This enables the organization to receive capital at a lesser cost, lowering overall finance costs and increasing profitability. Financial adaptability is a benefit of a company's ideal capital structure. It guarantees that the company has access to a wide range of financial sources, allowing it for responding to opportunities for investment, satisfy working capital requirements, and support strategic initiatives. A corporation can manage its financial responsibilities more effectively and prevent over-dependence on one financing provider by having a balanced capital structure (Ghardallou, 2022).

Investment Appraisal Methods

To evaluate capital investment choices, GlaxoSmithKline (GSK) employs a variety of investment assessment techniques. The following strategies that are frequently employed in investment appraisal are probably utilized in combination by GSK.

Net Present Value (NPV)

By adopting an appropriate discount rate to convert projected cash flows from the undertaking to their present value, GSK determine the net present value of possible investments. Projects with a positive net present value are often thought to be good investments (Velnampy, 2005). For investment proposals, GSK may compute the IRR to ascertain the anticipated rate of return. To determine the appealing factor of the investment, the IRR is compared to GSK's necessary rate of return or cost of capital (GlaxoSmithKline, 2022).

By discounting anticipated cash flows to their present value, NPV accounts for the time value of money. This takes into account the reality that money received in the future will be less valuable than money acquired today owing to things like inflation as well as potential costs (Velnampy, 2005). NPV provides a more accurate representation of the value of an investment by taking into account the timing of cash flows. NPV takes into account all aspects of an investment's life cycle, including both the costs of the initial capital expenditure and anticipated cash returns in the future. It offers a thorough evaluation of the project's financial viability by taking into consideration all pertinent expenses and advantages over the course of its lifetime (Velnampy, 2005). The goal of NPV is to maximize shareholder value. It assesses the value provided by an investment after taking into account the required rate of return or cost of capital.

A direct comparison of several investment options is possible because to NPV. Decision-makers are better able to assess and evaluate various projects' potential earnings and value generation

by computing the NPV for each alternative. This makes it easier to make well-informed decisions and aids in choosing the most profitable investing strategy. Risk can be incorporated into the analysis using NPV. Based on the investment's risk profile, it is possible to change the discount rate utilized in the NPV calculation. Because investors are taking on more risk when investing in higher-risk enterprises, these rates are often higher. By doing so, it is possible to make sure that all potential risks and uncertainties related to the investment are properly taken into account. By taking into account the whole life cycle of the investment, NPV fosters a long-term outlook.

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Weighted Average Cost of Capital

The WACC is an important factor to determine the NPV. The Value of WACC also helps in the risk assessment for the company. The weighted average cost of capital combines the costs of equity as well as debt and is calculated according to the weighted average of those costs in the capital structure of the organisation. The proportional risk involved with debt and equity financing is taken into consideration in this weighting. A higher equity allocation, which entails more risk, will end up resulting in a higher WACC. Due to the fact that WACC takes into account both the cost of stock and the cost of debt, it offers a comprehensive assessment of the organization's riskiness from the standpoint of its capital structure. A greater WACC shows that the business's structure of capital and related financing costs are subject to higher levels of risk. These higher levels of risk may be brought on by variables like stock market and sector fluctuation, economic viability, and operational issues.

Comparing the WACC of Glaxo Smith and AstraZeneca

The Wacc of the GSK is 6.68% (GSK, 2023) where the WACC of AZN is 4.87% (AstraZeneca, 2023) that indicates that the GSK stocks are more risky as compared to the AZN and thus are willing to provide more compensation to the shareholders of the company

Comparing the company to rivals with lower WACC could give the latter a competitive advantage. The increased finance costs may make it more difficult for the business to compete on price, fund R&D, or make strategic acquisitions. It can have an effect on the business's capacity to raise capital and finance expansion possibilities, which could influence on its standing in the market.

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Other Investment Appraisal Methods

Internal Rate of Return (IRR)

For investment projects, GSK may compute the IRR to ascertain the expected rate of return. In order to determine the investment's allure, the IRR is contrasted with GSK's necessary rate of return. The IRR is frequently used to judge a project's likelihood of success. Using the IRR in

conjunction with a needed rate of return or an organization's cost of capital, those making decisions can assess whether the investment is anticipated to produce returns that reach or beyond the intended threshold (Velnampy, 2005). A financially attractive investment is one where the IRR exceeds the needed rate of return. The IRR may be employed to rank and prioritize initiatives when a business has a lot of investment options but not a lot of resources. larger IRR ratings suggest initiatives with larger potential returns. The business can choose initiatives with higher IRRs and give priority to those that are anticipated to produce the most valuable results.

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Payback Period

The payback period calculates how long it will take for an investment to make a profit from anticipated cash flows and recoup its original price. GSK may employ this method to determine the rate of capital recovery. An investment's liquidity can be determined by looking at the payback period (Velnampy, 2005). A shorter payback period indicates that the investment creates cash inflows more quickly, enabling a speedier return on the initial investment. For businesses with a finite amount of money available or where a rapid capital recovery is a top objective, this might be very significant. An instrument for risk evaluation is the period of payback. Shorter payback times are regarded less risky since they provide a faster return on investment capital (Velnampy, 2005). Payback times that are shorter can reduce the danger of capital locked up in longer-term investments, which is advantageous when the marketplace is unclear or is changing quickly. A simple indicator that makes it easy to compare various investment options is the payback period.

Profitability Index

The profitability index can be used by GSK to evaluate investment prospects by contrasting the present value of anticipated cash streams to the original investment expenditure. A PI larger than one suggests that the investment has the potential to be profitable. The profitability index, which takes into account the relative value produced for each unit of investment, enables immediate comparison of investment initiatives (Velnampy, 2005). Making decisions is made easier by comparing and ranking investment opportunities by computing the PI for various projects. An investment with a higher PI may be more advantageous in terms of value generated per unit of cost. Making decisions is made easier with the help of the index of profitability. Since they are anticipated to provide value that exceeds the initial financial cost, ventures that have a PI above one are typically seen as being financially desirable. The profitability index can be used by decision-makers to identify initiatives that are predicted to give the greatest return on investment.

Conclusion

The paper is aimed at providing a financial analysis of the GSK company that is a leading pharmaceutical company listed on the London stock exchange. It is seen that the company's overall financial health is satisfactory but the company needs improvement in the area of liquidity and efficiency which makes the company less attractive compared to its competitor AstraZeneca. The company must work on Liquidity management strategies so that the company can continue to be the market leader as well as the company must expand and enter new markets to grow and attain sustainability.

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