

After China fiasco, problems for GSK mount

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Reuters

LONDON: GlaxoSmithKline may have closed one chapter in a saga of corruption allegations by accepting a \$489 million fine in China, but the drugmaker has its work cut out to win back sceptical investors.

That means continued pressure on chief executive Andrew Witty, seen not so long ago as one of the sector's star managers, who is under fire for allowing the erosion of GSK's all-important US business just as much as for the woes in China.

"I think GSK is a buy when the CEO of that business goes," said John Bennett, a director of European equities at Henderson Global Investors, which has a holding in the drugmaker.

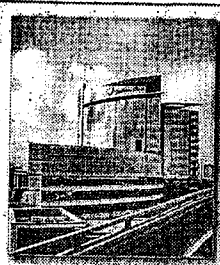
Other disgruntled shareholders believe an accelerated change of chairman would be an important signal that the company is acting to address their concerns and working to improve financial returns.

The current chairman, one-time Vodafone chief Chris Gent, is due to step down by the end of 2015 but some argue the handover should now be brought forward.

"A new chairman must be overdue. Someone needs to look at the strategic direction of the business with a fresh pair of eyes," said one top-50 shareholder.

Commenting on plans to find a successor, a GSK spokesman said: "Succession planning for the chairman is well under way."

Replacing the chairman early rather than ditching



Tough times

■ GSK unveiled a far-reaching asset swap deal with Novartis in April

■ Shareholders believe an accelerated change of chairman would be an important signal

■ The company is acting to address their concerns and working to improve financial returns

CEO Witty, who has been in the job since 2008, is seen as a potential compromise to reassure disenchanted investors.

The root of investor unhappiness is not hard to find. While the European healthcare sector has been a roll so far this year, rising more than 20 per cent on optimism over new drugs, GSK shares have lost 10 per cent as forecasts for its sales and earnings have fallen.

GSK unveiled a far-reaching asset swap deal with Novartis in April that will refocus its business by building up its strengths in vaccines and consumer health, in exchange for exiting the hot area of cancer medicine.

In the long term, that transaction should deliver sustainable growth from more stable and lower-risk businesses.

Company