

Reckitt Benckiser

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Reckitt Benckiser: Investors tread carefully after Indivior bombshell

The spectacular collapse of shares in Indivior PLC (LON:INDV) provided the 'rubber-necking' moment of the day in the Square Mile after it was slapped with 28 charges in the US, including healthcare fraud, wire fraud and mail fraud.

The Virginia Federal Grand Jury indictment wiped 84%, or £575mln from the value of the maker of a Suboxone film, which is used to wean addicts from opioid drugs such as heroin.

The litigation relates to a long-running Department of Justice investigation, which claimed Indivior engaged in a fraudulent marketing scheme to boost prescriptions of its blockbuster treatment.

According to the indictment, Indivior marketed its star drug as safer and less abusable than other treatments, allegedly deceiving healthcare providers and allowing the company to rake in billions of dollars in extra sales.

While all eyes were, rightly, on the unfolding carnage being wrought to the Indivior share price, a wall of worry was growing around Reckitt Benckiser (LON:RB.), the maker of slightly more innocuous healthcare products such as Strepsils, Gaviscon and Clearasil.

Its shares fell 4.9% in the wake of Indivior announcement. But as Reckitt is worth more than £40bn, that was a net loss to investors, including large pensions and savings funds, of £2.2bn.

But why has the City taken fright?

Well, until it was listed as a separate company back in 2014, Indivior, or the assets that became Indivior, were owned by Reckitt.

And, according to Wednesday's bombshell release, the US allegations are "based on actions that occurred almost exclusively prior to Indivior becoming an independent company in its demerger from Reckitt Benckiser".

It's worth noting the household products giant previously set aside £305mln (US\$400mln) to cover potential Suboxone liabilities.

"We've got no idea how this will play out," said candid Canadian outfit RBC Capital, reiterating its 'underperform' rating on Reckitt shares.

"Indivior 'believes the allegations are unsupported by the facts and the law' and states that it could take 12 months or more for the case to be heard."

Brokers concerned

RBC said its negative take on Reckitt shares reflected more its expectations of a "margin rebase" rather than the litigation threat, though as UBS pointed out in its note earlier Reckitt is "not off the hook".

Price: 6262p

Market Cap: £44334.28M

1 Year Share Price Graph



Share Information

Code: RB.

Listing: LSE

52 week High Low
7,174.00p 5,559.00p

Sector: Capital Goods

Website: www.reckitt.com

Company Synopsis:

Reckitt Benckiser is a manufacturer and marketer of branded products in household cleaning and health and personal care, selling a range through over 60 operating companies into around 180 countries. Its product groups include Fabric Care, Surface Care, Dishwashing, Home Care, Health & Personal Care, making up core business together with Other Household and Food.

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The company has already acknowledged the final cost could be higher than it set aside, particularly as experts are suggesting a fine of up to £2.2bn (US\$3bn) could be meted out.

UBS, meanwhile, pointed to a line in Reckitt's annual report that highlighted the risk any "potential criminal indictment of the group or employees, with reputational impact, distraction and potential debarment which could theoretically extend to IFCN [child nutrition] business".

"We stay neutral on RB and perceive increasing downside risk in light of this news," said the Swiss bank in a note to clients.

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