

PRESS RELEASE

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 Subject 2018 sales of the Galenica Group

Solid sales growth and confirmation of 2018 earnings guidance

Galenica increased its consolidated net sales by 0.8% to CHF 3,165.5 million in 2018. This solid performance in the current market environment was achieved thanks to organic growth in all Business sectors and the expansion of the pharmacy network. The Retail Business sector performed particularly well, with an increase in sales of 3.1%. Growth was hampered by additional and higher than originally announced price reduction measures for medications by the authorities.

The company also achieved sustainable improvements in profitability in 2018. The management of the Galenica Group is therefore confident of achieving the announced EBIT growth (excluding the effects of IAS 19) for financial year 2018. Consequently, the outlook regarding proposal of a dividend of at least at the same level as the prior year to the Annual General Meeting in 2019 is unchanged.

Net sales Galenica Group 2018:

(in million CHF)	2018	2017 ¹⁾	Change
Health & Beauty segment	1,524.8	1,478.8	+3.1%
- Retail	1,430.5	1,387.3	+3.1%
- Products & Brands	91.7	89.3	+2.7%
Services segment	2,370.3	2,362.4	+0.3%
Corporate and eliminations	(729.6)	(-700.0)	+0.8%
Galenica Group	3,165.5	3,141.2	

¹⁾ Sales figures for 2017 have been restated in line with the new IFRS 15 accounting standards, which came into effect on 1 January 2018.

GALENICA GROUP

Solid sales growth in a challenging market environment

Despite the higher than originally announced price reduction measures, the Swiss pharmaceutical market grew by 2.2% (IQVIA, pharmaceutical market Switzerland 2018). Galenica estimates that the market would have grown by around 5% without the government-mandated price reductions, although volumes only increased slightly (+0.8%, IQVIA, pharmaceutical market Switzerland 2018). This is a clear indication that market growth was driven by increasing sales of high-priced medications, particularly in the hospital channel. However, the market for beauty and care products in pharmacies and drugstores continued to decline over the same period.

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In this challenging market environment, the Galenica Group increased its consolidated net sales by 0.8% to CHF 3,165.5 million in 2018. Both organic growth in all Business sectors and the expansion of the pharmacy network contributed to this solid performance in the current market environment. The Retail Business sector performed particularly well, with an increase in sales of +3.1%. However, growth was hampered significantly by additional and higher than originally announced price reduction measures for medications by the authorities.

This effect was heightened in the second half of 2018 due to the staggered and additional price reductions, in particular for high-priced medications. Ongoing shopping tourism and the growing importance of online sales in retail also had a major influence.

Sustainable improvements in profitability

The improved profitability reported in the first half of 2018 continues to have a lasting effect. Despite weaker sales growth, Galenica therefore remains confident of achieving an EBIT (excluding the effects of IAS 19) in 2018 of at least at the same level as in the previous year. Excluding the one-off effects of CHF 7.0 million in 2017, this corresponds to an operational increase of at least 5%. Consequently, the outlook regarding proposal of a dividend of at least at the same level as the prior year to the Annual General Meeting in 2019 is unchanged.

Reorganisation of the Galenica Pension Fund

The reorganisation of the Galenica Pension Fund has been successfully implemented with effect from 1 January 2019. All insured members and pension recipients of the Galenica Group are now integrated into the Galenicare Pension Fund, which will be renamed the Galenica Pension Fund during the course of 2019. The legally required step for Galenica and Vifor Pharma, which have been separate companies since April 2017, to each have their own independent pension fund was therefore completed.

Thanks to lower insurance premiums, the new Galenica Pension Fund will be able to increase benefits for part-time workers and long-term employees without any additional costs for the employer.

One-off, non-cash effect of IAS 19 on 2018 earnings

Although the new Galenica Pension Fund is also legally independent and autonomous of the Galenica Group and all pension plans are pure defined contribution solutions, under the international accounting standard IAS 19, they must be taken into account in the consolidated financial statements as defined benefit plans. The reorganisation of the Galenica Pension Fund as of 1 January 2019 will therefore have a one-off, negative effect of between CHF 40 million and CHF 45 million at EBIT level and between CHF 30 million and CHF 35 million at net profit level in the 2018 financial statements. This one-off effect under IAS 19 will be solely of a technical nature and with no effect on cash and does not affect the earnings and dividend forecasts of the Galenica Group.

New Head Products & Brands

As announced in September 2018, as part of early succession planning, the Galenica Group Board of Directors appointed Thomas Szuran as the new Head Products & Brands Business sector and a member of the Corporate Executive Committee. Thomas Szuran took up his new role on 14 January 2019.

HEALTH & BEAUTY SEGMENT

The Health & Beauty segment increased net sales in 2018 by 3.1% to CHF 1,524.8 million, CHF 1,430.5 million of which was accounted for by the Retail Business sector and CHF 91.7 million by the Products & Brands Business sector. In addition to organic growth, this performance was primarily attributable to the expansion of the pharmacy network.

RETAIL

The Retail Business sector increased net sales in 2018 by 3.1% year-on-year to CHF 1,430.5 million (excluding Coop Vitality). The expansion of the pharmacy network accounted for 2.6% of growth. On a comparable basis, net sales for 2018 increased by 0.5%. The government-mandated price reduction measures for medications had a negative impact of 1.6% on growth. Excluding these price reductions, organic growth (excluding expansion effects) would have amounted to a pleasing 2.1%.

By way of comparison, medication sales (Rx and OTC products) in the Swiss pharmacy market as a whole grew by 1.0% (IQVIA, pharmaceutical market Switzerland 2018). By contrast, sales of other products (non-medications) declined by 0.9% (IQVIA, Personal, Patient Care and Nutrition, until September 2018).

Strengthening of the pharmacy network

Thirteen pharmacies joined the own-pharmacy network in 2018, including ten acquisitions, one of which was the Bahnhof Apotheke pharmacy at Zurich main station, which was acquired in full in the second half of 2018; there were also three new openings. At the same time, five locations were removed as part of optimisation measures, meaning that the number of own pharmacies in 2018 increased by a net total of eight to 345 locations (previous year: 337). Together with the Amavita and Winconcept partner pharmacies, the Galenica pharmacy network comprised more than 500 points of sale throughout Switzerland for the first time as of the end of 2018.

The Retail Business sector invested significantly in the further strengthening and optimisation of own points of sale in 2018. This included the new, modern store layout for Coop Vitality, which will be rolled out gradually at all locations over the next few years.

Expansion of online business activities

The online ordering and pick up service Click & Collect launched in 2017 for all three pharmacy formats was expanded in 2018: as of the end of 2018, some 40,000 products were available (compared with 10,000 at the end of 2017).

Galenica also invested in other e-commerce activities in 2018, acquiring Careproduct, a company supplying walking frames and other medical aids both online and offline, and a minority stake in online shop Puresense, which offers more than 3,000 products from leading manufacturers in the area of near-natural and certified natural cosmetics, making it one of the leading online shops in Switzerland in this segment.

Specialty pharmacy Mediservice also further strengthened its leading position as a service platform for the care and support of patients with chronic or rare illnesses in 2018, in particular through the introduction of its new distance healthcare offering. Under this therapy support service, chronically ill patients are provided with care from specially trained professionals via telephone, videophone or e-mail.

Contributions to reducing healthcare costs evolution

Galenica makes an active contribution to reducing healthcare costs evolution through generic substitution. On a comparable basis, sales of generics thus rose again in 2018 (+8.1%). The substitution rate for medications for which a generic is available and for which substitution is also possible increased from 68% to 70%. A pleasingly high percentage, taking into account the fact that prescribers often favour the original product for certain pathologies such as mental illnesses.

Own pharmacies and shareholdings

	31.12.2018	31.12.2017	Change
Amavita pharmacies ¹⁾	163	157	+6
Sun Store pharmacies ¹⁾	97	97	–
Coop Vitality pharmacies ²⁾	78	75	+3
Mediservice specialty pharmacy ¹⁾	1	1	–
Majority holdings in other pharmacies ¹⁾	5	5	–
Minority holdings in other pharmacies ²⁾	1	2	–1
Total own points of sale	345	337	+8

¹⁾ Fully consolidated ²⁾ Consolidated at equity level

Independent partners

	31.12.2018	31.12.2017	Change
Amavita partnerships	7	8	–1
Winconcept partner pharmacies	149	152	–3
Total independent partners	156	160	–4

PRODUCTS & BRANDS

Despite challenging market conditions, the Products & Brands Business sector, mainly comprising the business activities of Verfora, achieved net sales totalling CHF 91.7 million (+2.7%) in 2018. Due in part to the strong flu and hay fever season in the first half of 2018 and supply constraints of other products in the market, Algifor® and Triofan® performed very well. Consequently, Products & Brands exceeded OTC market growth (0.3%, IQVIA, pharmaceutical market Switzerland 2018, Swissmedic OTC therapeutic product lists C and D), increasing its net sales in Switzerland by 3.8% to CHF 73.7 million. Thus, and for the first time, Verfora became the number one company in the total Swiss consumer healthcare market by the third quarter of 2018 (IQVIA, Consumer Health Market Switzerland, until September 2018). Export sales declined by 1.6% to CHF 18.0 million, due in particular to the additional sales generated in 2017 by the launch of Anti-Brumm Sun® in Germany and Austria.

Verfora: new name, same strategy

Vifor Consumer Health was rebranded Verfora as of 1 June 2018. With the new identity, Verfora positions itself distinctively as continuing to be a strong specialist trade partner for pharmacies and drug-stores with its well-known brands and products, standing for an attractive product portfolio and dedicated to training and customer support.

Strong OTC sales

The systemic pain relief market leader Algifor® performed very well, clearly exceeding OTC market growth. This was mainly due to the strong flu season at the beginning of 2018, as well as supply constraints of other products in the market. Algifor® Dolo forte sachets and Algifor® Dolo forte suspension, a more concentrated liquid formula, were both launched in the Swiss market.

Triofan® maintained its strong market position as the number one nasal decongestant in Switzerland and outperformed in the hay fever market. The iconic Swiss wound treatment brand Merfen® performed well in 2018, giving Verfora leadership in the important wound disinfection consumer healthcare category.

Several new Perskindol® products were introduced in 2018, including a thermo hot roll-on and gel, a classic roll-on and a cooling bandage. In addition, a child-friendly and highly effective Anti-Brumm® Kids formula was launched and well appreciated by parents.

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Enhanced complementary medicine offering

Responding to the growing demand for complementary medicines, Verfora entered into a strategic partnership with the Swiss company Spagyros in 2018. Spagyros is a GMP-certified pharmaceutical company that manufactures all its medicines entirely by hand in Switzerland.

Dermafora®: new own derma-cosmetics range from 2019

Verfora further enhanced its health and beauty product portfolio in 2018; a new dark spot corrector by Lierac was successfully introduced, as well as the product RE30 by Phyto for treating grey hair. Several new product launches are also planned in 2019, including the new own derma-cosmetic brand Dermafora®, which has been available from Amavita, Sun Store and Coop Vitality pharmacies since early 2019. These skincare products are based on plants used traditionally in Swiss medicines in combination with the latest skincare findings.

SERVICES SEGMENT

The Services segment generated net sales of CHF 2,370.3 million (+0.3%) in 2018. Excluding the effect of the price reduction measures for medications by the authorities (-2.4%), sales growth amounted to 2.7%. This was achieved in an overall market whose growth (+2.2%, IQVIA, pharmaceutical market Switzerland 2018) was driven especially by the sales performance of hospitals (hospitals: +5.5%, IQVIA, pharmaceutical market Switzerland 2018) as well as by high-priced special medications that are for the most part not supplied via wholesale but directly to specialist doctors (doctors: +1.9%, IQVIA, pharmaceutical market Switzerland 2018).

New partners and services

Pre-wholesaler Alloga put a third cold room into operation in Burgdorf in 2018, expanding internal capacity for the refrigerated storage of medications by one third. Vaccine transport logistics were also structured more efficiently so that larger quantities of vaccines can be transported in shorter times, thereby ensuring better availability of the vaccines during the flu season. In addition, the company attracted further well-known pharma partners as new customers and gained major hospitals for the introduction of electronic invoicing.

Galexis was also able to gain new partners, which are banking on the company's efficiency and expertise in Switzerland. Galexis also launched its new own brand range Felan in autumn 2018. The Felan range comprises cost-effective pharmaceutical and OTC products for independent pharmacies, where the packaging can be personalised with the logo of the relevant pharmacy.

Modernisation of Lausanne-Ecublens distribution centre

The project to renovate and modernise the Galexis distribution centre at the Ecublens site advanced and a building application can be submitted at the end of January 2019. Construction work is scheduled to begin in the third quarter of 2019 and the project should be completed in the course of 2021. Galenica is investing some CHF 30 million in the modernisation of the building and in facilities with a higher degree of automation. This has the potential to reduce the number of full-time positions by around 45 in Lausanne-Ecublens. In addition, certain orders will be taken from the Galexis distribution centre in Niederbipp, which will in turn require additional members of staff. The plan is to stagger the job cuts in parallel to the construction phases, with most of the downsizing absorbed through voluntary departures and retirement. A consultation process will be held to review measures aimed at avoiding employee terminations and mitigating the consequences of any necessary layoffs.

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HCI Solutions supports online expansion

HCI Solutions has become the central master data specialist within the Galenica Group. In this role, it supported the further development of the online shops and Click & Collect in 2018. The registration of e-medication solution Documedis® as a Class I medical device was confirmed by the Swiss Agency for Therapeutic Products, Swissmedic, in 2018. Documedis® is used in various hospitals and care homes throughout Switzerland and is now also fully integrated in the Triapharm® pharmacy software and therefore used at all Amavita, Sun Store and Coop Vitality points of sale. In addition, the e-mediplan module was added to the new Amavita smartphone app at the end of October 2018.

Dates for the diary:

12 March 2019: Publication of the results of the 2018 financial year for the Galenica Group
2 May 2019: Annual General Meeting of Galenica Ltd. (Kursaal, Bern)
25 June 2019: Investors' Day
6 August 2019: Publication of the half year report 2019 of the Galenica Group

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Galenica is the leading fully integrated healthcare provider in Switzerland. With 500 own, joint venture and independent partner pharmacies, Galenica operates the largest network of pharmacies in Switzerland. In addition, Galenica further develops and offers well known own brands and products, exclusive brands and products from business partners as well as a variety of on-site health services and tests for customers. Galenica is also the leading provider of pre-wholesale and wholesale distribution services as well as database services in the Swiss healthcare market. Galenica is listed on the Swiss Stock Exchange (SIX Swiss Exchange, GALE, security number 36,067,446).

Additional information concerning Galenica can be found at www.galenica.com.