

PRESS RELEASE

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Subject Annual results of the Galenica Group 2018

Galenica 2018: results guidance exceeded – dividend increased

Successful despite a challenging market environment

In a challenging market environment, the Galenica Group increased its consolidated net sales by 0.8% to CHF 3,165.0 million in 2018. Both organic growth in all Business sectors and the expansion of the pharmacy network contributed to this solid performance. However, growth was hampered significantly by additional and higher than originally announced price reduction measures for medications by the authorities.

EBIT increased and profitability sustainably improved

Thanks to targeted acquisitions, new products and sustainable measures to improve efficiency, Galenica was able to surpass its announced results for 2018: the operating result (EBIT) excluding the effects of IAS 19 rose by 3.9% to CHF 154.1 million. Excluding one-off effects from 2017 (CHF 7.0 million), EBIT even rose by 9.1% on a comparable basis. Return on sales (ROS) improved from 4.7% to 4.9%. The reported net profit of the Galenica Group is CHF 147.7 million, an increase of 24.2%. This includes two one-off, non-cash effects in connection with the new Galenica Pension Fund and the release of provisions for deferred taxes that are no longer required. Excluding these one-off effects, net profit would be CHF 124.7 million, corresponding to an increase of 0.2%. On a comparable basis, i.e. excluding the one-off effects in the previous year (CHF 10.6 million), the increase would even be 9.5%.

Accordingly, the Board of Directors of the Galenica Group will propose a 3% higher dividend than the prior year of CHF 1.70 per share to the Annual General Meeting on 2 May 2019 (previous year: CHF 1.65).

Outlook 2019

Despite the announced further significant price reductions on medications, Galenica expects consolidated net sales in 2019 to be at least at prior-year level, with sales growth of 1% to 3% in the Health & Beauty segment and sales at around prior-year-level in the Services segment. At the same time, Galenica aims to further increase its comparable operating result EBIT (excluding the effects of IAS 19 and IFRS 16) by between 2% and 5%, and expects to propose a dividend of at least at prior-year level to the 2020 Annual General Meeting.

Key figures for the Galenica Group 2018

(in million CHF)	2018	2017	Change
Net sales¹⁾			
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	2,372.3	2,362.4	+0.4%
Corporate and eliminations	(732.1)	(700.0)	
Galenica Group	3,165.0	3,141.2	+0.8%
EBIT adjusted			
Health & Beauty segment	110.4	99.7	+10.7%
Services segment ²⁾	44.2	50.6	-12.5%
Corporate and eliminations	(0.5)	(2.1)	
Galenica Group^{2) 3)}	154.1	148.2	+3.9%
Net profit adjusted^{3) 4) 5)}	124.7	124.4	+0.2%

1) 2017 adjusted due to restatement IFRS 15

2) 2017 including one-off effects of CHF 7.0 million

3) Excluding the effects of IAS 19

4) 2017 including one-off effects of CHF 10.6 million

5) 2018 excluding one-off effect of CHF 56.2 million from the release of provisions for deferred taxes

GALENICA GROUP

Successful despite a challenging market environment

In a challenging market environment, the Galenica Group increased its consolidated net sales by 0.8% to CHF 3,165.0 million in 2018. Both organic growth in all Business sectors and the expansion of the pharmacy network contributed to this solid performance. However, growth was hampered significantly by additional and higher than originally announced price reduction measures for medications by the authorities.

The operating result (EBIT) excluding the effects of IAS 19 rose by 3.9% to CHF 154.1 million. Excluding one-off effects from 2017 (CHF 7.0 million from the sale of rights of the medical practice software Triamed® and a non-operational building in Schönbühl), EBIT even rose by 9.1% on a comparable basis. Return on sales (ROS) improved from 4.7% to 4.9%.

The reorganisation of the Galenica Pension Fund has been successfully implemented with effect from 1 January 2019, resulting in a one-off, non-cash effect on EBIT of CHF -41.0 million in the 2018 financial statements. The reason for this is that all pension plans of the new Galenica Pension Fund must be taken into account in the consolidated financial statements as defined benefit plans under international accounting standard IAS 19, despite being pure defined contribution plans. Accordingly, reported EBIT is CHF 113.0 million.

The reported net profit of the Galenica Group is CHF 147.7 million, an increase of 24.2%. This includes two one-off, non-cash effects: on the one hand, the influence in connection with the new Galenica Pension Fund – amounting to CHF -33.2 million at net profit level – and, on the other hand, the release of provisions for deferred taxes that are no longer required of CHF 56.2 million. Excluding these one-off effects, net profit would be CHF 124.7 million, corresponding to an increase of 0.2%. On a comparable basis, i.e. excluding the one-off effects in the previous year (CHF 10.6 million), the increase would even be 9.5%.

Investments in tangible and intangible assets totalled CHF 50.0 million (previous year: CHF 55.8 million including acquisition of the Merfen® and Vita-Merfen® brands). They were made, among other projects, in the new ERP system in the Services Business sector and the renovation and construction of pharmacies.

Despite brisk acquisition activity and the payment of a dividend for the first time in financial year 2018, net debt in relation to EBITDA (excluding the effects of IAS 19) was reduced from 1.6 to 1.5.

Annual General Meeting of 2 May 2019

Increased dividend: At the Annual General Meeting on 2 May 2019, the Board of Directors of the Galenica Group will propose to shareholders a dividend of CHF 1.70 per share, 3% higher than in the previous year (previous year: CHF 1.65).

Change to the Board of Directors of the Galenica Group: After successfully leading the Galenica Group to independence following the IPO two years ago and after 17 years with the Group, Jörg Kneubühler has decided to devote his time to new projects. He will therefore not be standing for re-election as Chairman and member of the Board of Directors at the Annual General Meeting on 2 May 2019. The Board of Directors of the Galenica Group will propose Daniela Bosshardt-Hengartner to shareholders for election as the new Chairwoman. She has a Federal Diploma in Pharmacy from the Federal Institute of Technology (ETH) Zurich and is currently the Deputy Chairwoman of the Board of Directors, Chairwoman of the Remuneration Committee and a member of the Audit & Risk Committee.

The Board of Directors will also propose Markus R. Neuhaus to shareholders for election as a new member of the Board. He holds a PhD in law and is a certified tax expert. He will be an excellent addition to the Board of Directors of the Galenica Group thanks to his vast expertise in finance and economics as well as his extensive network.

HEALTH & BEAUTY SEGMENT

The Health & Beauty segment increased net sales in 2018 by 3.1% to CHF 1,524.8 million. In addition to organic growth, this performance was primarily attributable to the expansion of the pharmacy network. The operating result (EBIT) improved by 10.7% to CHF 110.4 million, while return on sales (ROS) rose markedly by 0.5 percentage points to 7.2% (previous year: 6.7%). Investments in the Health & Beauty segment totalled CHF 14.1 million (previous year: CHF 28.9 million including acquisition of the Merfen® and Vita-Merfen® brands) and were principally used for the development and launch of new products and services, and for the rebuilding and renovation of pharmacies.

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 0.6% (IQVIA, Personal, Patient Care and Nutrition 2018).

A net total of eight pharmacies joined the own-pharmacy network in 2018, 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. The number of own pharmacies thus increased to a total of 345 locations in 2018 (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.

Products & Brands

Despite challenging market conditions, the Products & Brands Business sector 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 consumer healthcare market growth (1.2%, IQVIA, consumer healthcare market Switzerland 2018), 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 healthcare market Switzerland 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.

SERVICES SEGMENT

The Services segment generated net sales of CHF 2,372.3 million (+0.4%) in 2018. Excluding the effect of the price reduction measures for medications by the authorities (-2.4%), sales growth amounted to 2.8%. 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).

The operating result (EBIT) declined by 12.5% to CHF 44.2 million due to one-off effects from the previous year totalling CHF 7.0 million (sale of rights of the medical practice software Triamed® and a non-operational building in Schönbühl) that did not recur in the period under review. Excluding these one-off effects, EBIT rose by 1.4% and return on sales (ROS) rose from 1.8% to 1.9%.

Investments totalled CHF 36.1 million (previous year: CHF 27.0 million) and were used in particular for the new enterprise resource planning (ERP) software that is being rolled out progressively at Alloga and Galaxis.

Further information can be found in the 2018 annual report of the Galenica Group. The PDF version is available on the Galenica website:

[Download annual report 2018](#)

OUTLOOK 2019

GALENICA GROUP

Despite the announced further significant price reductions on medications, Galenica expects consolidated net sales in 2019 to be at least at prior-year level. While the Health & Beauty segment is aiming for sales growth of 1% to 3%, the Services segment expects sales at around prior-year level. At the same time, Galenica aims to further increase its comparable operating result EBIT (excluding the effects of IAS 19 and IFRS 16) by between 2% and 5%. Galenica also expects that the implementation of the new IFRS 16 standard (leases) will increase EBIT by an additional CHF 2 million. Galenica intends to propose a dividend of at least at prior-year level to the 2020 Annual General Meeting.

Along the three axes of expansion, innovation and efficiency, the Galenica Group intends to develop further in 2019 and continue to drive forward the initiatives and projects it has launched.

RETAIL

Galenica is seeking to build on its leading position in the Swiss pharmacy market by constantly expanding and optimising the pharmacy network as well as launching new, innovative services and products that add value for customers. Galenicare will also continue to expand the online offering and intensify its promotion in 2019, thereby further implementing the Omni-Channel strategy with the aim of making shopping as easy and convenient for customers as possible.

At the same time, the collaboration with Verfora will be strengthened, including through the introduction of exclusive new brands such as Dermafora® and the expansion of the Spagyros and Adler Schüssler mineral salts complementary medicine portfolios in the Galenicare pharmacy formats or of selected own brands for Sun Store.

Mediservice will further consolidate its leading position as a service platform for the care and support of patients with chronic or rare diseases, including through its distance healthcare offering.

PRODUCTS & BRANDS

Verfora will further strengthen its market position with its new and distinct identity and build on its leading role in the Swiss consumer healthcare market. This includes new exclusive partnerships and the expansion of the product portfolio. Several new product launches are planned in 2019. The introduction of the new own derma-cosmetic brand Dermafora®, which has been available from Amavita, Sun Store and selected Coop Vitality pharmacies since early 2019, is of particular importance. Furthermore, Verfora took over the domestic distribution of the well-known Vicks® brand products for cold, flu and cough relief, and of Metamucil® from Procter & Gamble at the beginning of 2019.

SERVICES

In the Services Business sector, the new enterprise resource planning (ERP) solution is being implemented at Alloga, with the aim of further standardising processes and improving efficiency. A start with an initial pilot customer is scheduled in the first half of 2019.

The project to renovate and modernise the Galaxis distribution centre at the Ecublens site advanced, and a building application was 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.

Medifilm will introduce the new generation of blister machines in 2019, doubling its output.

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HCI Solutions will continually develop its products. Following the integration of the e-mediplan module into the Amavita smartphone app in 2018, there are plans to also offer e-mediplan on apps from Sun Store and Coop Vitality in 2019. HCI Solutions is also continuing to support the development of the online shops of the Galenicare pharmacy formats.

DATES FOR THE DIARY:

2 May 2019: Annual General Meeting of Galenica Ltd. (Kursaal, Bern)

25 June 2019: Investor Day

6 August 2019: Publication of the half year report 2019 of the Galenica Group

Live conference call and webcast

Galenica will host a conference call and webcast today, 12 March 2019 at 2.00 p.m. CET.

You can access the webcast directly via [this link](#) or via the company website www.galenica.com in the Investors section.

To participate in the conference call (held in English), please dial:

- Switzerland: +41 44 580 65 22
- Other European countries: +49 69 201 744 210
- USA: +18 77423 0830

The pass code for the live call is 35915113#.

The webcast will be available from 6.00 p.m. CET on 12 March 2019 for a period of three months at www.galenica.com in the [Investors section](#).

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Galenica is the leading fully integrated healthcare provider in Switzerland. With over 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.