

PRESS RELEASE

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Contact Investor Relations: Felix Burkhard, CFO, Galenica Group
Media Relations: Christina Hertig, Head Corporate Communications, Galenica Group
Subject 2020 half year results of the Galenica Group

Galenica: strong sales growth and solid result despite COVID-19

Strong sales growth

The Galenica Group generated consolidated net sales of CHF 1,690.4 million in the first half of 2020.

The growth of 5.6% was driven in particular by the Services Business sector, at +7.9%, but positive contributions were also made by the Retail and Products & Brands Business sectors, up 2.9% and 1.0% respectively. This was achieved despite lower sales triggered by the nationwide lockdown, which had a particularly adverse effect on pharmacies in high-frequency locations, as well as the temporary closure of perfumery departments mandated by the authorities.

By way of comparison, the Swiss pharmaceutical market as a whole increased by 2.9% in the first half of 2020 (IQVIA, Pharmaceutical Market Switzerland, first half of 2020).

Solid result

Galenica posted a solid result in spite of the additional expenses associated with COVID-19. The operating result (EBIT) of CHF 82.3 million reached practically the same level as the previous year's period (CHF 82.8 million). On a comparable basis, that is excluding the effects of accounting standards IFRS 16 (Leases) and IAS 19 (Employee Benefits), the adjusted operating result improved by 3.0% year-on-year to CHF 83.6 million.

Adjusted return on sales (ROS) decreased slightly to 4.9% (prior year period: 5.1%), driven by strong sales growth recorded in the Services Business sector with lower margins and COVID-19 impacts.

Net profit improved by 2.2%, from CHF 64.9 million to CHF 66.3 million.

Cautious outlook

Based on developments since mid-May 2020, Galenica expects that the situation at high-frequency locations such as airports and train stations will only slowly return to normal in the months ahead. At the same time, Galenica expects the positive development in the Services Business sector to continue, while the recent acquisitions made in the Products & Brands Business sector and the expansion planned in Retail will also support sales in the second half of the year. Based on these considerations, Galenica is raising its sales forecast for the financial year 2020 to +2% to +5%.

In view of the results achieved in the first half of the year and the ongoing COVID-19 impacts, the Group now expects an adjusted operating result (EBIT, excluding the effects of IFRS 16 and IAS 19) approximately on prior year level.

Meanwhile, Galenica reaffirms its intention to propose a dividend to the 2021 Annual General Meeting that is at least equal to the prior year level.

Key figures for the Galenica Group, first half of 2020

(in CHF million)	First half of 2020	First half of 2019	Change
Net sales			
Health & Beauty segment	803.4	781.4	2.8%
- Retail	747.4	726.1	2.9%
- Products & Brands	54.6	54.1	1.0%
Services segment	1,286.7	1,192.4	7.9%
Corporate and eliminations	(399.7)	(373.4)	
Galenica Group	1,690.4	1,600.4	5.6%
EBIT adjusted¹⁾			
Health & Beauty segment	61.7	60.3	2.5%
Services segment	22.6	22.6	-0.3%
Corporate and eliminations	(0.7)	(1.8)	
Galenica Group	83.6	81.1	3.0%
Net profit adjusted¹⁾	68.4	65.0	5.3%

¹⁾ Excluding the effects of IAS 19 and IFRS 16. Details on the adjusted key figures are provided in the [half year report 2020](#) of the Galenica Group from page 27 onwards.

Galenica Group

Looking back on COVID-19

The COVID-19 pandemic clearly showed the key role that the Galenica Group, with its systemically important companies, plays in the Swiss healthcare market and for the nationwide supply of medications. It also boosted the use of digital channels and confirmed the Galenica Group in its omni-channel strategy.

Above-average sales in March; systemically important companies for the Swiss healthcare system

At the beginning of March, the points of sale of all pharmacy formats and online shops posted above-average sales and strong demand for healthcare advice. The logistics companies Alloga, Galexis and Unione Farmaceutica Distribuzione (UFD) handled never-before-seen volumes over a period of several weeks. The Bichsel Group significantly ramped up its in-house production capacity for infusion and rinsing solutions as well as disinfectants to meet the increased demand from hospitals in particular. Due to these in-house production laboratories, the Federal Office for National Economic Supply (FONES) classified the Bichsel Group as a systemically important company.

High additional expenses to protect employees and customers

In parallel with its strong sales, the Galenica Group has also invested heavily in the protection of employees and customers. Handling the massive volume increases required additional staff and a high degree of coordination.

In April, following the national lockdown and due to many customers and patients having stocked up in March, customer traffic and sales in pharmacies declined rapidly and the situation for logistics companies in the Services segment returned to normal. From May, there was a gradual normalisation for the businesses.

Operating business successfully further expanded

Despite the strong additional workload of the corona pandemic, the operating business was further developed successfully. For example, a pilot was launched for the mail-order pharmacy at Coop Vitality, while the online shops operated by the pharmacies were further expanded and supplemented with a home delivery service. At the same time, the pharmacy network was extended by six new locations. Verfora also strengthened its position in the period under review thanks to new distribution partnerships with Angelini Pharma for the brands Bucco Tantum® and Thermacare® as well as with the Institut Allergosan for Omni-Biotic®. Finally, with the acquisition of the Hedoga Group, Verfora was able to secure the rights to strong brands and marketing authorisations with potential that are an ideal complement to the current portfolio.

Strong sales growth

The Galenica Group generated consolidated net sales of CHF 1,690.4 million in the first half of 2020. The growth of 5.6% was driven in particular by the Services Business sector, at +7.9%, but positive contributions were also made by the Retail and Products & Brands Business sectors, up 2.9% and 1.0% respectively. This was achieved despite sales losses due to the nationwide lockdown, which had a particularly adverse effect on pharmacies in high-frequency locations, as well as the temporary closure of perfumery departments mandated by the authorities. By way of comparison, the Swiss pharmaceutical market as a whole increased by 2.9% in the first half of 2020 (IQVIA, Pharmaceutical Market Switzerland, first half of 2020).

Solid result

Galenica posted a solid result in spite of the additional expenses associated with COVID-19. The operating result (EBIT) of CHF 82.3 million reached practically the same level as the previous year's period (CHF 82.8 million). On a comparable basis, that is excluding the effects of accounting standards IFRS 16 (Leases) and IAS 19 (Employee Benefits), the adjusted operating result improved by 3.0% year-on-year to CHF 83.6 million.

Adjusted return on sales (ROS) decreased slightly to 4.9% (prior year period: 5.1%), driven by strong sales growth recorded in the Services Business sector with lower margins and COVID-19 impacts. Net profit improved by 2.2%, from CHF 64.9 million to CHF 66.3 million.

Adjusted net profit, that is excluding the effects of accounting standards IFRS 16 (Leases) and IAS 19 (Employee Benefits), grew by 5.3%, from CHF 65.0 million to CHF 68.4 million.

Investments in the period under review amounted to CHF 26.7 million (prior year period: CHF 24.7 million) and were used primarily for the rollout of the new ERP system at Alloga and Galexis as well as the renovation and modernisation of the Galexis distribution centre in Lausanne-Ecublens. There were some delays to these projects due to COVID-19, which will result in postponed investments.

Unchanged solid balance sheet

The balance sheet of the Galenica Group remains very solid. Adjusted net debt, i.e. excluding lease liabilities, was reduced by around CHF 10 million compared to 30 June 2019 and amounted to CHF 406.2 million as of the end of June 2020, equivalent to 1.9x adjusted EBITDA (30 June 2019: 2.0x).

Cautious outlook

Based on developments since mid-May 2020, Galenica expects that the situation at high-frequency locations such as airports and train stations will only slowly return to normal in the months ahead. At the same time, Galenica expects the positive development in the Services Business sector to continue, while the recent acquisitions made in the Products & Brands Business sector and the expansion planned in Retail will also support sales in the second half of the year. Based on these considerations, Galenica is raising its sales forecast for financial year 2020 to +2% to +5% (previously +1% to +3%).

In view of the results achieved in the first half of the year and the ongoing COVID-19 impacts, the Group now expects an adjusted operating result (EBIT, excluding the effects of IFRS 16 and IAS 19) approximately on prior year level (previously +3% to +6%).

Meanwhile, Galenica reaffirms its intention to propose a dividend to the 2021 Annual General Meeting that is at least equal to the prior year level.

Health & Beauty segment

The Health & Beauty segment generated net sales of CHF 803.4 million (+2.8%) in the first half of 2020, of which CHF 747.4 million was accounted for by the Retail Business sector and CHF 54.6 million by the Products & Brands Business sector.

In spite of the negative impact of COVID-19, the Health & Beauty segment was able to increase its adjusted operating result (EBIT), i.e. excluding the effects of the lease accounting standard IFRS 16, by 2.5% to CHF 61.7 million, and keep its adjusted return on sales (ROS) stable at 7.7%. This result was achieved in particular thanks to encouraging expansion activities – in both the Retail and Products & Brands Business sectors. EBIT was negatively impacted above all by the drop in sales at pharmacies in high-frequency locations and for beauty products, as well as by the temporary closure of perfumery departments mandated by the authorities. At the same time, additional costs were incurred by pharmacies, for example to roll out protection measures for employees and customers and to maintain operations.

Investments in the Health & Beauty segment totalled CHF 11.1 million (first half of 2019: CHF 8.6 million). This figure was slightly higher than in the previous year due to investments in ERP system replacements.

Retail

The Retail Business sector increased net sales in the first half of 2020 by 2.9% to CHF 747.4 million (excluding Coop Vitality). The positive sales performance is attributable to the acquisition of the Bichsel Group on 1 May 2019 and the expansion of the pharmacy network.

The expansion – including the Bichsel Group – accounted for 4.3% of the sales growth. Organic growth, excluding expansion effects, was –1.4%.

Excluding the effect of the government-mandated price reduction measures for medications of –1.9%, organic growth would have amounted to +0.5%.

In addition, sales performance in the first half of 2020 was impaired by a one-time effect. Various intra-Group commodity transactions were discontinued as of the start of 2020 as part of a process optimisation programme, which reduced the sales of the Retail Business sector by 1.3% year-on-year. Excluding price reductions and this one-time effect, organic growth would have amounted to a pleasing 1.8%.

Finally, generic substitution, which is actively promoted by Galenica, also curbed sales because of the lower medication prices. The generic substitution rate was increased again in the period under review, from 70% to 72%.

Although the Amavita and Sun Store pharmacies achieved a massive increase in sales in March, the sales losses in the following months caused by COVID-19 measures were higher, so that COVID-19 had a negative impact of an estimated 1% on overall sales growth. The reasons were the nationwide lockdown with the temporary, officially ordered closure of perfumery departments and the slump in customer frequency, particularly in pharmacies in shopping centres, train stations and airports. Since many doctors' practices did not operate at full capacity for several weeks, fewer prescription drugs were dispensed in pharmacies.

This decline in sales was more than offset by a good three-fold increase in online sales generated by the e-shops of Amavita and Sun Store and the pleasing growth of the Mediservice specialty pharmacy (+3.2%).

By comparison, medication sales (prescription (Rx) and OTC products) in the Swiss pharmacy market posted growth of 2.8% over the same period (IQVIA, Pharmaceutical Market Switzerland, first half of 2020). Sales of other products (non-medications) increased by 0.8% over the same period (IQVIA, Personal, Patient Care and Nutrition, first half of 2020).

The number of own pharmacies as of the end of June 2020 totalled 358 locations (+2 net compared to the end of 2019). A total of six new pharmacies were added, consisting of five acquisitions and a new opening. As part of the continuous optimisation of the pharmacy network, however, the period under review also saw four restructurings. There were 156 partner pharmacies as of the end of June 2020 (-1 compared to the end of 2019).

Boost for the Omni-channel concept

The good network of local pharmacies combined with online and home care offerings as well as home delivery meant that it was possible to ensure supply for customers both in the pharmacies and via online shops, even during the pandemic. The online world was linked even more closely with the offline world, for example by combining the home delivery service with the Click & Collect offer. This offering was highly appreciated, in particular by customers belonging to a COVID-19 risk group. The specialty pharmacy Mediservice also experienced a rise in demand for its services during COVID-19. While the number of home visits had to be reduced substantially, as an alternative, treatment instructions and explanations could be successfully given via video thanks to the professional nursing staff's many years of experience.

Products & Brands

The Products & Brands Business sector, which mainly comprises the business activities of Verfora, reported a slight increase in net sales of +1.0% to CHF 54.6 million. The sales growth was mainly driven by the export business.

Given the challenging environment resulting from COVID-19, sales in the Swiss market declined by 2.6% to CHF 41.3 million. By comparison, the Swiss consumer healthcare market increased by 3.9% in the year under review (IQVIA, Consumer Health Market Switzerland, first half of 2020).

Sales in Switzerland were positively supported by expansion activities, which contributed 2.6% to the sales development. These included, in particular, the successful start to taking over distribution of the Omni-Biotic® brand from Institut Allergosan.

Due to COVID-19, demand for individual products – in particular disinfectant products from Septo Clean® – jumped almost overnight in March 2020. Algifor® also recorded an initial high increase in sales; however, demand declined sharply in the second quarter 2020.

Overall, however, the sales of Verfora were negatively affected by COVID-19. The various beauty products in particular suffered from the lockdown. But also products such as Itinerol® and Anti-Brumm®, which are typically part of a travel first aid kit, were bought less. Sales of products such as Perskindol® were also negatively impacted by lower frequencies in pharmacies.

Export sales totalled CHF 13.3 million, +14.0% more than in the first half of 2019 – primarily due to inventory purchases of Perskindol® triggered in view of the introduction of the new Medical Device Regulation in the EU.

Strong expansion activity

In early 2020, Verfora took over the distribution of the Bucco Tantum® brand from Italian pharma company Angelini Pharma, thereby strengthening the Products & Brands Business sector's presence in the cold medication segment. From 1 July 2020, Verfora has also taken over distribution of the well-known Thermacare® brand for Switzerland and Liechtenstein.

In addition, thanks to the new partnership with the Austrian Institut Allergosan and its excellent probiotic and prebiotic products under the Omni-Biotic® brand name, Verfora has been able to close a gap in its portfolio and enter the fastest-growing segment of the consumer healthcare market today. On 1 July 2020, Galenica acquired the Hedoga Group with its well-known brands Osa®, Osanit® and Carmol®. Verfora has thus secured the rights to strong brands and marketing authorisations with potential that are an ideal complement to the current portfolio. In addition, Verfora's export business will also be strengthened in selected markets, particularly in Europe.

Services segment

The Services segment generated net sales of CHF 1,286.7 million in the first half of 2020, a strong increase of 7.9% compared to the prior year period. Services thus clearly exceeded the market development of 2.9% (IQVIA, Pharmaceutical Market Switzerland, first half of 2020).

COVID-19 generated an extremely strong demand for medicines in March 2020, which subsequently weakened again. Overall, additional sales contributed an estimated 3% to the increase in sales. In connection with the new Ordinance on Integrity and Transparency in the Field of Therapeutic Products (OITTP), agreements with suppliers as well as invoicing models were revised in line with the new transparency obligations, which increased sales of the Services segment by 1.9%. Even excluding this technical one-time effect, the Services Business sector posted strong growth of 6.0%. This one-time effect has no impact on the Group's consolidated sales and EBIT. The government-mandated price reduction measures continued to have an adverse effect on sales performance, at 1.8%. Excluding these influences, net sales would have risen by as much as 9.7%.

Due to COVID-19, the first half of 2020 saw the postponement of numerous surgeries and procedures in hospitals and by specialist physicians that were not immediately necessary. In contrast to recent years, hospitals (+3.5%, IQVIA, Pharmaceutical Market Switzerland, first half of 2020) and doctors (+2.1%, IQVIA, Pharmaceutical Market Switzerland, first half of 2020) did not develop more strongly than the overall market (+2.9%, IQVIA, Pharmaceutical Market Switzerland, first half of 2020).

The adjusted operating result (EBIT), i.e. excluding the effects of the lease accounting standard IFRS 16, remained on a par with the level of the previous year's period at CHF 22.6 million. In spite of the positive effect on sales, COVID-19 generated considerable additional expenses, such as protective measures for employees and additional staff resources, which in turn had negative impact on EBIT. In addition, due to the constantly increasing risks in connection with cybercrime, further measures were implemented to protect the IT infrastructure and networks. Finally, EBIT was also burdened in the first half of 2020 by the construction work commenced at the Lausanne-Ecublens distribution centre in autumn 2019.

Adjusted return on sales (ROS) decreased slightly from 1.9% to 1.8%. While sales generated by doctors in particular posted gains and additional market share was captured especially among specialists, this was largely achieved with high-priced medications offering low margins.

Investments in the first half of 2020 totalled CHF 15.8 million (first half of 2019: CHF 16.3 million). They related in particular to the new ERP (enterprise resource planning) software, which is gradually being rolled out at Alloga and Galexis, and to the modernisation and renovation work at the Galexis distribution centre in Lausanne-Ecublens. There were some delays to these projects due to COVID-19, which will result in postponed investments and costs.

Supply ensured during the pandemic despite record-high volumes of goods

On certain days in March, volumes at Galexis were 60% higher than in the previous year – unprecedented figures. To best manage these volume peaks and ensure the security of supply of medications to the population, operations at the distribution centre in Lausanne-Ecublens were ramped up again for a short period, among other things, even though work on the renovation and modernisation had already started.

The nationwide “e-box” logistics solution from UFD recorded significantly higher volumes year-on-year due to the substantial number of orders in the Galenica Group online shops. The Quatron software solution launched by HCI Solutions in 2019, which gives independent pharmacists the tools they need to set up a customised online shop in a short space of time, also recorded strong demand in the first half of 2020.

Outlook for the second half of 2020

Expand digital market presence

The coronavirus pandemic boosted the use of the digital channels and confirmed Galenica in its omni-channel strategy. Continued focus will be placed on digital channels and their interconnectivity, and the digital market presence will be consistently expanded.

After conducting an initial pilot in spring 2020 with Coop Vitality, a broad launch of the new mail-order pharmacy is also planned for Amavita in the second half of the year. Through this service, pharmacies can also send prescription medicines to their customers at home. The expansion and further development of the pharmacy network will also remain a key strategic driver. Three new pharmacies have already been integrated as of 1 July 2020, including the well-known Adler pharmacy in Winterthur, which very successfully operates its own online shop and has a mail order licence.

Verfora will focus its attention in the second half of the year on integrating the new distribution products and in particular the Hedoga Group. Furthermore, Vita-Merfen®, the well-known and popular ointment for disinfection and wound healing, will be relaunched on the market.

Alloga will focus on continued ERP implementation as well as extending existing partnerships and acquiring new customers until the end of the year. Based on the experiences gained at Alloga, implementation of the new ERP system is also being started at Galexis. At the same time, construction work at the Galexis distribution centre in Lausanne-Ecublens is being continued, and the capacity of the distribution centre in Niederbipp is being expanded in view of the constantly increasing volume of online orders.

For further details, please see the Galenica Group half year report 2020. The PDF version is available on the Galenica website at: [Download half year report 2020](#)

Succession arrangements, Head Services Business sector

As part of the succession arrangements for the Head of the Services Business sector, the Board of Directors of the Galenica Group has appointed Andreas Koch, Head of Galexis, as Head Services Business sector and member of the Corporate Executive Committee. Andreas Koch will take up his new position on 1 September 2020 while continuing to head Galexis.

After 14 years of service, Christoph Amstutz (1963), Head Services Business sector since 2015 and member of the Corporate Executive Committee since 2017, has decided to gradually withdraw from the operational business to allow him to focus more on his activities outside the Galenica Group. He is therefore resigning from his position as Head Services Business sector at the end of August 2020 and

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will step down from the Group's Corporate Executive Committee. Until the end of 2020, he will support Andreas Koch during the induction to his new role and will continue to hold individual mandates for Galenica until he takes early retirement at the end of 2021. The Board of Directors would like to thank Christoph Amstutz for his longstanding commitment and wishes him continued success and fulfilment in his future activities.

Andreas Koch (1971) studied Business Administration at the University of Mannheim and completed a further training course in Executive Development at IMD in Lausanne in 2015. From 2000 to 2009, he worked as a consultant and manager at various companies in supply chain management. He joined the Galenica Group in 2009 and headed up the supply chain management of Galexis as a member of the Executive Committee. He also performed this role at Alloga from 2011. In 2015, he took over as Head of Alloga, and he has been Head of Galexis since 2019.

Andreas Koch is a logistics specialist with a solid track record who has many years of experience in the prewholesale and wholesale business as well as extensive knowledge of the Swiss healthcare market. As a team-oriented and solution-driven leader, his experience shows that he can successfully manage highly complex projects and the most difficult situations, including the recent challenges of COVID-19. With his proven expertise, complemented by his strong affinity for technological and digital change, Andreas Koch and his team will further develop the activities of the Services Business sector in line with the Group's strategic priorities.

Live conference call and webcast

Galenica will host a conference call and webcast today, Tuesday, 4 August 2020, at 2.00 p.m. CEST.

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

The number and password for active participation in the conference call (conference language: English) can be obtained via [this link](#).

The webcast will be available from 4 August 2020 for a period of three months at www.galenica.com, in the "Investors" section.

For further information, please contact:

Christina Hertig, Head Corporate Communications
Tel. +41 58 852 85 17
E-mail: media@galenica.com

Felix Burkhard, CFO
Tel. +41 58 852 85 29
E-mail: investors@galenica.com

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 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.