

Alternative performance measures

Definitions of alternative performance measures

The annual report, the half year report and other communication to investors contain certain financial performance measures, which are not defined by IFRS. In addition to information based on IFRS, management uses these alternative performance measures to assess the financial and operational performance of the Group. Management believes that these non-IFRS financial performance measures provide useful information regarding Galenica's financial and operational performance. Alternative performance measures are used in Galenica's value-based management as the basis for management's incentive and remuneration schemes. Such measures may not be comparable to similar measures presented by other companies. The main alternative performance measures used by Galenica are explained and/or reconciled with the IFRS measures in this section.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. Totals are calculated using the underlying amount rather than the presented rounded number.

The alternative performance measures are unaudited.

IAS 19 – Employee benefits

The pension plans of Galenica are organised in legally independent pension funds and are based purely on the defined contribution principle as stated in the Swiss “BVG” law. Nevertheless, Galenica's pension plans are classified as defined benefit pension plans under IAS 19.

Galenica's results are influenced by external parameters that cannot be managed by the Group and the management is of the opinion that such an impact should be excluded when it comes to assess the performance of the Galenica Group. For this reason, Galenica also evaluates its performance by adjusting personnel costs as if those plans were defined contribution plans (adjustments for the effects of IAS 19). For these adjustments, the costs of defined benefit plans and long-service awards determined in accordance with IAS 19 are replaced by an expense based on the employer's contribution and long-service awards for the period of service.

IFRS 16 – Leases

Lessees have to account for most leases on balance sheet by recognising lease liabilities and corresponding right-of-use assets. The right-of-use assets are depreciated over the lease term and the lease liabilities generate interest expense in the statement of income. Variable lease payments, not dependent on an index or rate, such as sales-based rental expenses are accounted for as operating expenses when they are incurred. With its large network of retail pharmacies, IFRS 16 has a significant impact on Galenica's balance sheet and the presentation of lease related expenses in the consolidated statement of income.

Galenica has lease agreements with fixed and variable lease payments and these payments affect various line items in the statement of income making comparisons across individual pharmacies and points-of-sale difficult. For this reason management also monitors results by adjusting the statement of income and balance sheet as if lease agreements were still accounted for as operating leases, e.g. all lease expense is presented in other operating costs on a straight-line basis and the depreciation of the right-of-use assets and the interest expense on the lease liabilities are removed. Income taxes are also adjusted accordingly.

IFRS 16 adjusted measures are important for Galenica's value-based management and therefore for management's incentive and remuneration schemes. As the type and duration of rental agreements under IFRS 16 have a significant influence on the invested capital and accordingly on the return on invested capital (ROIC) and on the Galenica economic profit (GEP), the invested capital is stated after removing lease liabilities. This minimises the risk that management makes decisions that are not in the interest of Galenica due to potential incentives when concluding leases.

Organic growth of net sales

Organic growth of net sales shows the development of net sales for the operating segments Products & Care and Logistics & IT excluding the effects of acquisitions, new license agreements, openings and closures of pharmacies (effect of net expansion). It provides a “like-for-like” comparison with previous periods. In the business area Professionals (B2B), organic growth of net sales is calculated only including existing business activities with a full year period comparison. In the business area Retail (B2C), organic growth of net sales is calculated only including points of sales with a full year period comparison. In order to show the impact of mandatory price reductions of medications reimbursed by health insurers on net sales transparently, organic growth of net sales is also disclosed without the effect of price reductions.

The reporting of net sales has been adjusted to the changed organisational and management structure of Galenica as at 1 January 2021. For comparability, net sales for the previous period has been adjusted.

Organic growth of net sales first half of 2021

in thousand CHF	Retail (B2C)	Professionals (B2B)	Products & Care ¹⁾	Wholesale	Logistics & IT Services	Logistics & IT ¹⁾
Net sales	834,286	88,518	918,926	1,328,787	50,542	1,377,914
Change to previous period	14.4%	5.4%	13.6%	7.4%	4.4%	7.4%
Effect of net expansion	17,077 ²⁾	17,484 ³⁾	34,561	–	–	–
In % of net sales of previous period	2.3%	20.8%	4.3%	0.0%	0.0%	0.0%
Net sales excluding effect of net expansion	817,209	71,035	884,365	1,328,787	50,542	1,377,914
Organic growth of net sales	12.1%	-15.4%	9.3%	7.4%	4.4%	7.4%
Mandatory price reductions ⁴⁾	7,920			14,453		
In % of net sales of previous period	1.1%			1.2%		
Net sales excluding effect of net expansion and mandatory price reductions	825,129			1,343,239		
Organic growth of net sales excluding price reductions	13.2%			8.6%		

¹⁾ Including eliminations of intercompany net sales

²⁾ The effect of net expansion is calculated only including point of sales without a full year period comparison (acquisitions, openings and closure of pharmacies)

³⁾ The effect of net expansion is calculated only including business activities without a full year period comparison (acquisitions and new license agreements)

⁴⁾ Mandatory price reductions of medications reimbursed by health insurers of the specialities list (SL/LS) released by the Federal Office of Public Health (FOPH), calculated based on volumes of previous period

Organic growth of net sales first half of 2021 Products & Care

in thousand CHF	Local Pharmacies	Pharmacies at Home	Retail (B2C) ¹⁾	Products & Brands	Services for Professionals	Professionals (B2B) ¹⁾
Net sales	616,926	217,533	834,286	59,583	28,935	88,518
Change to previous period	9.6%	30.9%	14.4%	9.1%	-1.5%	5.4%
Effect of net expansion	16,085 ²⁾	992 ²⁾	17,077 ²⁾	17,484 ³⁾	-	17,484 ³⁾
In % of net sales of previous period	2.9%	0.6%	2.3%	32.0%	0.0%	20.8%
Net sales excluding effect of net expansion	600,841	216,541	817,209	42,099	28,935	71,035
Organic growth of net sales	6.7%	30.3%	12.1%	-22.9%	-1.5%	-15.4%
Mandatory price reductions ⁴⁾	4,893	3,027	7,920			
In % of net sales of previous period	0.9%	1.8%	1.1%			
Net sales excluding effect of net expansion and mandatory price reductions	605,734	219,568	825,129			
Organic growth of net sales excluding price reductions	7.6%	32.2%	13.2%			

¹⁾ Including eliminations of intercompany net sales

²⁾ The effect of net expansion is calculated only including point of sales without a full year period comparison (acquisitions, openings and closure of pharmacies)

³⁾ The effect of net expansion is calculated only including business activities without a full year period comparison (acquisitions and new license agreements)

⁴⁾ Mandatory price reductions of medications reimbursed by health insurers of the specialities list (SL/LS) released by the Federal Office of Public Health (FOPH), calculated based on volumes of previous period

Organic growth of net sales first half of 2020 (restated)

in thousand CHF	Retail (B2C)	Professionals (B2B)	Products & Care ¹⁾	Wholesale	Logistics & IT Services	Logistics & IT ¹⁾
Net sales	729,043	84,009	809,023	1,237,044	48,414	1,283,416
Change to previous period	1.6%	17.3%	2.6%	8.3%	2.9%	7.9%
Effect of net expansion	21,431 ²⁾	10,924 ³⁾	32,355	-	-	-
In % of net sales of previous period	3.0%	15.3%	4.1%	0.0%	0.0%	0.0%
Net sales excluding effect of net expansion	707,612	73,085	776,668	1,237,044	48,414	1,283,416
Organic growth of net sales	-1.4%	2.0%	-1.5%	8.3%	2.9%	7.9%
Mandatory price reductions ⁴⁾	13,614			21,765		
In % of net sales of previous period	1.9%			1.9%		
Net sales excluding effect of net expansion and mandatory price reductions	721,226			1,258,810		
Organic growth of net sales excluding price reductions	0.5%			10.2%		

¹⁾ Including eliminations of intercompany net sales

²⁾ The effect of net expansion is calculated only including point of sales without a full year period comparison (acquisitions, openings and closure of pharmacies)

³⁾ The effect of net expansion is calculated only including business activities without a full year period comparison (acquisitions and new license agreements)

⁴⁾ Mandatory price reductions of medications reimbursed by health insurers of the specialities list (SL/LS) released by the Federal Office of Public Health (FOPH), calculated based on volumes of previous period

Organic growth of net sales first half of 2020 Products & Care (restated)

in thousand CHF	Local Pharmacies	Pharmacies at Home	Retail (B2C) ¹⁾	Products & Brands	Services for Professionals	Professionals (B2B) ¹⁾
Net sales	563,009	166,131	729,043	54,619	29,390	84,009
Change to previous period	-0.9%	11.5%	1.6%	1.0%	68.0%	17.3%
Effect of net expansion	9,092 ²⁾	12,339 ²⁾	21,431²⁾	1,146 ³⁾	9,778 ³⁾	10,924³⁾
In % of net sales of previous period	1.6%	8.3%	3.0%	2.1%	55.9%	15.3%
Net sales excluding effect of net expansion	553,917	153,792	707,612	53,473	19,612	73,085
Organic growth of net sales	-2.5%	3.2%	-1.4%	-1.1%	12.1%	2.0%
Mandatory price reductions ⁴⁾	8,172	5,442	13,614			
In % of net sales of previous period	1.4%	3.7%	1.9%			
Net sales excluding effect of net expansion and mandatory price reductions	562,089	159,234	721,226			
Organic growth of net sales excluding price reductions	-1.1%	6.9%	0.5%			

¹⁾ Including eliminations of intercompany net sales

²⁾ The effect of net expansion is calculated only including point of sales without a full year period comparison (acquisitions, openings and closure of pharmacies)

³⁾ The effect of net expansion is calculated only including business activities without a full year period comparison (acquisitions and new license agreements)

⁴⁾ Mandatory price reductions of medications reimbursed by health insurers of the specialities list (SL/LS) released by the Federal Office of Public Health (FOPH), calculated based on volumes of previous period

Adjusted consolidated statement of income

Galenica's consolidated statement of income adjusted by IAS 19 effects related to employee benefits (defined benefit plans and long-service awards) and IFRS 16 lease effects allowing financial results to be assessed on a comparable basis.

Adjusted consolidated statement of income first half of 2021

in thousand CHF	As reported	Adjustments IAS 19	Adjustments IFRS 16	Adjusted
Net sales	1,857,103	-	-	1,857,103
Products & Care ¹⁾	918,926	-	-	918,926
Logistics & IT ¹⁾	1,377,914	-	-	1,377,914
Other income	6,111	-	-	6,111
Operating income	1,863,214	-	-	1,863,214
Cost of goods	-1,389,768	-	-	-1,389,768
Personnel costs	-256,389	3,702	-	-252,688
Other operating costs	-74,211	-	-25,799	-100,010
Share of profit from associates and joint ventures	3,748	170	67	3,985
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	146,592	3,872	-25,732	124,732
Products & Care ¹⁾	112,403	-	-24,478	87,925
Logistics & IT ¹⁾	39,343	-	-1,254	38,089
Depreciation and amortisation	-47,589	-	24,267	-23,322
Earnings before interest and taxes (EBIT)	99,003	3,872	-1,465	101,410
Return on sales (ROS) ²⁾	5.3%	0.2%	-0.1%	5.5%
Products & Care ¹⁾	77,654	-	-1,439	76,215
Return on sales (ROS) ²⁾	8.5%	0.0%	-0.2%	8.3%
Logistics & IT ¹⁾	26,354	-	-27	26,328
Return on sales (ROS) ²⁾	1.9%	0.0%	0.0%	1.9%
Net financial expenses	-2,337	8	1,143	-1,186
Earnings before taxes (EBT)	96,666	3,880	-322	100,224
Income taxes	-17,108	-647	65	-17,690
Net profit	79,559	3,233	-257	82,534
Attributable to:				
- Shareholders of Galenica Ltd.	79,304	3,238	-258	82,283
- Non-controlling interests	255	-5	1	251

¹⁾ Reported for each operating segment not taking into account Group Services and Eliminations

²⁾ Calculated as EBIT divided by net sales

in CHF	As reported	Adjustments IAS 19	Adjustments IFRS 16	Adjusted
Earnings per share	1.60	0.07	-0.01	1.66
Diluted earnings per share	1.60	0.07	-0.01	1.66

Adjusted consolidated statement of income first half of 2020

in thousand CHF	As reported	Adjustments IAS 19	Adjustments IFRS 16	Adjusted
Net sales	1,690,420	-	-	1,690,420
Products & Care ¹⁾	809,023	-	-	809,023
Logistics & IT ¹⁾	1,283,416	-	-	1,283,416
Other income	6,003	-	-	6,003
Operating income	1,696,423	-	-	1,696,423
Cost of goods	-1,257,451	-	-	-1,257,451
Personnel costs	-243,125	2,324	-	-240,801
Other operating costs	-68,146	-	-26,403	-94,549
Share of profit from associates and joint ventures	1,589	93	22	1,704
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	129,290	2,417	-26,381	105,326
Products & Care ¹⁾	98,586	-	-25,336	73,250
Logistics & IT ¹⁾	33,961	-	-1,045	32,916
Depreciation and amortisation	-47,008	-	25,264	-21,744
Earnings before interest and taxes (EBIT)	82,282	2,417	-1,117	83,582
Return on sales (ROS) ²⁾	4.9%	0.1%	-0.1%	4.9%
Products & Care ¹⁾	62,924	-	-1,086	61,838
Return on sales (ROS) ²⁾	7.8%	0.0%	-0.1%	7.6%
Logistics & IT ¹⁾	22,501	-	-31	22,470
Return on sales (ROS) ²⁾	1.8%	0.0%	0.0%	1.8%
Net financial expenses	-2,331	24	1,171	-1,136
Earnings before taxes (EBT)	79,951	2,441	54	82,446
Income taxes	-13,602	-423	19	-14,006
Net profit	66,349	2,018	73	68,440
Attributable to:				
- Shareholders of Galenica Ltd.	66,168	2,027	73	68,268
- Non-controlling interests	181	-9	-	172

¹⁾ Reported for each operating segment not taking into account Group Services and Eliminations

²⁾ Calculated as EBIT divided by net sales

in CHF	As reported	Adjustments IAS 19	Adjustments IFRS 16	Adjusted
Earnings per share	1.34	0.04	-	1.38
Diluted earnings per share	1.34	0.04	-	1.38

Free cash flow

The free cash flow shows Galenica's capacity to pay dividends and repay debt and repay equity. It provides information on the remaining cash and cash equivalents from the operating cash flow, reduced by all lease payments and after consideration of investment activities.

Free cash flow

in thousand CHF	1.1.-30.6.2021	1.1.-30.6.2020
Cash flow from operating activities before working capital changes	138,697	118,726
Payment of lease liabilities	-24,855	-24,439
Cash flow from operating activities before working capital changes adjusted	113,842	94,287
Working capital changes	-78	-53,861
Cash flow from operating activities adjusted	113,764	40,426
Cash flow from investing activities without M&A ¹⁾	-19,514	-22,054
Free cash flow before M&A	94,250	18,372
Cash flow from M&A ²⁾	-38,369	-2,416
Free cash flow	55,881	15,956

¹⁾ Cash flow from investing activities without purchase and sale of subsidiaries (net cash flow)

²⁾ Cash flow from purchase and sale of subsidiaries (net cash flow)

Cash conversion

	1.1.-30.6.2021	1.1.-30.6.2020
Cash conversion ¹⁾	80.2%	74.7%

¹⁾ Calculated as EBITDA adjusted less CAPEX (investments in property, plant and equipment and intangible assets) divided by EBITDA adjusted

Capital management

Galenica's capital is managed and monitored at Group level. The objective of capital management at Galenica is to ensure the continuity of operations, increase enterprise value on a sustainable basis, provide an adequate return to investors, provide the financial resources to enable investments in areas that deliver future benefits for patients and customers and further returns to investors.

Galenica defines the capital that it manages as invested interest-bearing liabilities and equity. Galenica uses a system of financial control based on various key performance indicators. Capital is monitored based on the gearing, for example, which expresses net debt as a percentage of shareholders' equity including non-controlling interests and is communicated regularly to management as part of internal reporting. The debt coverage expresses net debt as a multiple of earnings before interest, taxes, depreciation and amortisation (EBITDA). Debt coverage ratio provide information about the creditworthiness of the Group. Galenica has no covenants requiring a minimum level of debt coverage.

Total assets and shareholders' equity are adjusted for the cumulative effects of the IAS 19 and IFRS 16 adjustments and net debt is adjusted for lease liabilities.

Total assets

in thousand CHF	30.6.2021	30.6.2020
Total assets	2,513,598	2,293,558
Cumulative effects of IAS 19 adjustments	-46,662	-10,721
Cumulative effects of IFRS 16 adjustments	-220,242	-216,043
Total assets adjusted	2,246,694	2,066,794

Net debt

in thousand CHF	30.6.2021	30.6.2020
Current financial liabilities ¹⁾	139,373	132,193
Current lease liabilities	47,872	47,700
Non-current financial liabilities ¹⁾	380,611	380,744
Non-current lease liabilities	180,032	175,338
Cash and cash equivalents	-124,418	-104,868
Interest-bearing receivables	-331	-1,847
Net debt	623,139	629,260
Lease liabilities (current and non-current)	-227,903	-223,038
Net debt adjusted	395,236	406,222

¹⁾ Excluding non-interest-bearing financial liabilities

Shareholders' equity

in thousand CHF	30.6.2021	30.6.2020
Shareholders' equity	1,113,856	947,818
Cumulative effects of IAS 19 adjustments	-13,434	81,663
Cumulative effects of IFRS 16 adjustments	4,994	4,826
Shareholders' equity adjusted	1,105,416	1,034,307

Equity ratio

	30.6.2021	30.6.2020
Equity ratio ¹⁾	44.3%	41.3%
Equity ratio adjusted ²⁾	49.2%	50.0%

¹⁾ Calculated as shareholders' equity divided by total assets

²⁾ Calculated as shareholders' equity adjusted divided by total assets adjusted

Gearing

	30.6.2021	30.6.2020
Gearing ¹⁾	55.9%	66.4%
Gearing adjusted ²⁾	35.8%	39.3%

¹⁾ Calculated as net debt divided by shareholders' equity

²⁾ Calculated as net debt adjusted divided by shareholders' equity adjusted

Debt coverage

	30.6.2021	30.6.2020
Debt coverage ¹⁾	2.1 x	2.4 x
Debt coverage adjusted ²⁾	1.6 x	1.9 x

¹⁾ Calculated as net debt divided by two times EBITDA of the first half year

²⁾ Calculated as net debt adjusted divided by two times EBITDA adjusted of the first half year