

PRESS RELEASE

Date 7 August 2018
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Subject Galenica Group half-year results 2018

Galenica: result and profitability improved significantly

Price reduction measures affect sales

The Galenica Group posted solid growth in the first half of 2018, in what continued to be a very challenging market environment. Consolidated net sales increased by 0.9% to CHF 1,566.1 million. Sales growth was slowed by additional price reduction measures for medications, which were significantly higher than originally announced by the authorities.

Pleasing EBIT growth with improved profitability

Excluding the one-off effects from the prior-year period and the effects of IAS 19, EBIT rose by 7.5%, and return on sales (ROS) improved from 4.5% to 4.8%. Taking into account one-off effects, earnings before interest and taxes (EBIT) declined by 2.0% to CHF 70.1 million, and excluding the effects of IAS 19 by 2.3% to CHF 74.9 million.

Excluding the one-off effects from 2017 and the effects of IAS 19, net profit increased by 8.2%. Taking into account one-off effects, net profit declined by 2.4% to CHF 56.5 million, and excluding the effects of IAS 19 by 2.7% to CHF 60.4 million.

Positive outlook

The Swiss healthcare market continues to be characterised by drug price reductions, ongoing shopping tourism and a general lack of momentum in Swiss retail.

Due to the impact of the significantly higher than originally announced price reduction measures for medications, Galenica expects sales for full-year 2018 to be at the lower end of the sales forecast range of +2% to +3% communicated in March 2018.

Thanks to improved profitability, Galenica expects EBIT (excluding the effects of IAS 19) to be at least at the same level as in 2017. 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.

Expansion of offering and launch of new products and services

The Retail Business sector further strengthened its pharmacy network, reaching the 500 points of sale barrier for the first time in May 2018. The online offering was also further expanded and new services introduced in pharmacies.

The new brand image of Verfora (previously Vifor Consumer Health) was launched as planned in June 2018. Verfora invested in its programme of education and training at points of sale in the first half of 2018 and launched new Perskindol® and Anti-Brumm® products.

The companies in the Services Business sector were able to gain new customers and again made significant contributions to drug and patient safety through innovations such as the new Galaxis refrigerated box.

Key figures for the Galenica Group, first half of 2018

(in million CHF)	1 st half year 2018	1 st half year 2017	Change
Net sales ¹⁾			
Health & Beauty segment	745.7	727.5	+2.5%
- Retail	695.8	678.1	+2.6%
- Products & Brands	48.7	48.7	-
Services segment	1,177.1	1,166.9	+0.9%
Corporate and eliminations	(356.7)	(342.0)	
Galenica Group	1,566.1	1,552.4	+0.9%
EBIT adjusted ²⁾			
Health & Beauty segment	54.3	49.5	+9.5%
Services segment	22.3	28.7 ³⁾	-22.1%
Corporate and eliminations	(1.7)	(1.6)	
Galenica Group	74.9	76.6 ³⁾	-2.3%
Net profit adjusted ²⁾	60.4	62.1 ⁴⁾	-2.7%

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

2) Excluding the effects of IAS 19

3) Including one-off effects of CHF 7.0 million

4) Including one-off effects of CHF 6.3 million

Galenica Group

Solid growth in a challenging market environment

The Galenica Group increased consolidated net sales by 0.9% to CHF 1,566.1 million in the first half of 2018. Sales growth was slowed by additional price reduction measures for medications, which were significantly higher than originally announced by the authorities. The impact of the pleasing expansion effect of the Retail Business sector, consolidated at Group level, was also lower than expected because all pharmacies acquired were already supplied by Galexis before acquisition.

Excluding one-off effects from the prior-year period (CHF 7.0 million) that did not recur in the period under review (sale of rights of the medical practice software Triamed[®] and a non-operational building in Schönbühl), and excluding the effects of IAS 19, EBIT rose by 7.5%, and return on sales (ROS) improved from 4.5% to 4.8%. Taking into account one-off effects, earnings before interest and taxes (EBIT) declined by 2.0% to CHF 70.1 million, and excluding the effects of IAS 19 by 2.3% to CHF 74.9 million.

Excluding the one-off effects from 2017 (CHF 6.3 million) and the effects of IAS 19, net profit increased by 8.2%. Taking into account one-off effects, net profit declined by 2.4% to CHF 56.5 million, and excluding the effects of IAS 19 by 2.7% to CHF 60.4 million.

Investments totalled CHF 21.4 million (prior-year period: CHF 33.5 million including acquisition of the Merfen[®] and Vita-Merfen[®] brands) and were made, among other projects, in the new ERP system in the Services Business sector and the renovation and construction of pharmacies.

Positive outlook

Due to the impact of the significantly higher than originally announced price reduction measures for medications, Galenica expects sales for full-year 2018 to be at the lower end of the sales forecast range of +2% to +3% communicated in March 2018.

Thanks to improved profitability, Galenica expects EBIT (excluding the effects of IAS 19) to be at least at the same level as in 2017. 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.

Health & Beauty segment

In the first half of 2018, the Health & Beauty segment increased net sales by 2.5% to CHF 745.7 million, CHF 695.8 million of which was accounted for by the Retail Business sector and CHF 48.7 million by the Products & Brands Business sector. The operating result (EBIT) improved by 9.5% to CHF 54.3 million, while return on sales (ROS) rose markedly by 0.5 percentage points compared to the prior-year period to 7.3% (first half of 2017: 6.8%). This is an impressive result that demonstrates the further improvement in efficiency. Various measures and projects that were launched in recent years are now having a full effect on profitability. These include, for example, the switch to direct invoicing to health insurers, the consolidation of the central functions in the Retail Business sector and the continuing strengthening and optimisation of the pharmacy network.

Investments in the Health & Beauty segment in the first half of 2018 totalled CHF 5.4 million.

Retail

The Retail Business sector increased net sales in the first half of 2018 by 2.6% compared to the prior-year period to CHF 695.8 million (excluding Coop Vitality). By way of comparison, medication sales (Rx and OTC products) in the Swiss pharmacy market as a whole grew by 2.9% in the same period (IQVIA, first half of 2018, Swissmedic therapeutic products lists A, B, C, D). By contrast, sales of other products (non-medications) declined by 2.2% (IQVIA, personal, patient care and nutrition).

Nine pharmacies joined the own-pharmacy network in the first half of 2018, including seven acquisitions and two new openings. At the same time, three locations were removed as part of optimisation measures, meaning that Galenica managed 343 own pharmacies as of the end of June 2018.

The expansion accounted for 1.0% net of the sales growth. On a comparable basis, sales increased by a total of 1.6%. Together with the Amavita and Winconcept partner pharmacies, the Galenica pharmacy network comprised 500 points of sale throughout Switzerland as of mid-2018.

The sales performance of the Retail Business sector was slowed by the effect of federal price reduction measures as well as the market-wide decline in beauty products. Generic substitution, which is actively promoted by Galenica, also affected sales because of the lower drug prices. By contrast, the Retail Business sector posted good sales for the cold medicines due to the strong flu season.

Expansion of online offerings...

The online ordering and pick up service Click & Collect introduced at Amavita, Sun Store and Coop Vitality in 2017 was progressively expanded with around 16,000 products available at the end of June 2018, more than half as many again as at the end of 2017. At the same time, the Retail Business sector strengthened its market position with respect to online sales and expanded its customer offering through the acquisition of Careproduct.

... and services

Winconcept, the Galenica service provider for independent pharmacies, not only launched a new website in the period under review, but also revised its customer magazine, which affiliated partner pharmacies can now personalise in order to strengthen their brand presence.

In the first half of 2018, Mediservice further strengthened its leading position as a service platform for the care and support of patients with chronic or rare illnesses, and with video nursing, it now also offers services in distance healthcare.

Substitution with generics

Amavita and Sun Store have introduced the Generics Check, whereby customers are personally advised about which of their medications can be replaced with generics. Galenica makes an active contribution to reducing healthcare costs evolution through generic substitution. On a comparable basis, sales of generics thus rose again in the first half of 2018 (+8.3%). The substitution rate for medications for which a generic is available and for which substitution is also possible increased from 68% to 70%.

Products & Brands

In the first half of 2018, the Products & Brands Business sector generated total sales of CHF 48.7 million, the same level as the prior year.

In the Swiss market, Products & Brands increased sales by a pleasing 3.7% to CHF 37.3 million. By comparison, the OTC market grew by 1.2% (IQVIA, first half of 2018) due to a strong flu season. The sales performance in Products & Brands was driven by the strong growth of OTC products, particularly Algifor® and Merfen®. Due to the change of name of Vifor Consumer Health to Verfora, which was implemented as planned in June, and in order to avoid packaging relabelling costs, wholesalers were supplied with large quantities of the products concerned in the second quarter of 2018. It is therefore expected that order volumes will be lower in the second half of the year. These additional sales of OTC products were offset by lower sales of beauty products, however: the launch of new beauty brands and associated build-up of inventory led to one-off sales in the first half of 2017 that were not repeated in the first half of 2018.

In contrast to the performance in the Swiss market, export sales declined by 10.8% to CHF 11.3 million, which was attributable in particular to sales generated from the launch of Anti-Brumm® Sun in Germany and Austria in the first half of 2017.

Strong OTC sales

Due to the strong flu season, particularly marked in February and March 2018, as well as supply issues from competitors, the systemic pain relief market leader Algifor® performed very well and clearly exceeded OTC market growth. Algifor® Dolo Forte Liquid, a more concentrated liquid formula, was launched in the Swiss market. Triofan® maintained its strong market position as the number one nasal decongestant in Switzerland. Acquired by Galenica in 2017, the iconic Swiss wound treatment brand Merfen® performed well in the first half of 2018, giving Verfora leadership in the important “wound disinfection” Consumer Healthcare category.

Further development of the portfolio

Significant investments were made in the first half-year 2018 to continue the company’s leading programme of education and training at points of sale, for instance with respect to the A-Derma skincare product line or the Adler Schüssler mineral salts. Verfora also introduced two new Perskindol® products: a convenient roll-on applicator and a bandage with a cooling effect. Furthermore, in May 2018, a child-friendly and highly effective Anti-Brumm® Kids formula was launched.

Services segment

The Services segment generated net sales of CHF 1,177.1 million in the first half of 2018, an increase of 0.9% compared to the prior-year period. This was achieved in an overall market whose growth (+3.6%, IQVIA, first half of 2018) was driven especially by the sales performance of hospitals (+6.5%, IQVIA, first half of 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: +2.4%, IQVIA, first half of 2018). At the same time, the federal price reduction measures, which were significantly higher than announced, and strong growth in generics also had an impact on the sales of Services.

The operating result (EBIT) declined by 22.1% to CHF 22.3 million due to one-off effects from the prior-year period totalling CHF 7.0 million that did not recur in the period under review (sale of rights of the medical practice software Triamed® and a non-operational building in Schönbühl). Excluding these one-off effects, EBIT rose by 2.8%.

Return on sales (ROS) was maintained at a high level of 1.9%. Investments in the first half of 2018 amounted to CHF 16.1 million and were used in particular to finance the new ERP software that is being rolled out progressively at Alloga and Galexis.

New customers count on competence

Galexis gained a new partner in the first half of 2018: The Japanese company Shiseido, which produces cosmetics for the specialist retail trade, is banking on Galexis expertise to handle inventory management, shipment preparation and dispatch for Switzerland. In Ticino, demand for logistics services from Unione Farmaceutica Distribuzione has also increased sharply, with the company growing faster than the market in the first half of 2018.

Innovations for drug and patient safety

Alloga put a third cold room into operation at its Burgdorf site in the first half of 2018, expanding internal capacity for the refrigerated storage of medications by around one third.

At the same time, Galexis commissioned a new, optimised refrigerated box that guarantees the required temperature of transported goods for 30 hours instead of four.

The registration of E-medication solution Documedis® from HCI Solutions as a Class I medical device was confirmed by the Swiss Agency for Therapeutic Products, Swissmedic, in the first half of 2018. This means that hospitals in particular can now also use Documedis® as an officially recognised tool for the medication process.

These are all innovations through which the Galenica companies make significant contributions to drug and patient safety.

Investments in improving efficiency and sustainability

Initiated in 2017, the project to switch to a new ERP (enterprise resource planning) system is advancing according to plan, and a start with initial pilot customers is scheduled in early 2019.

Over the course of 2018, Medifilm will roll out a new generation of blistering machines that will double the number of blistered units per hour. They are more precise than the current equipment and can produce sachets labelled in three languages.

The photovoltaic system on the roof of the Alloga building in Burgdorf is designed to provide an average of one megawatt of electricity and will go into operation by the end of 2018. With a surface area of some 10,000m², it will be one of the largest systems in the region and demonstrates the Galenica Group's commitment to sustainable energy generation.

For further details, please see the Galenica Group half-year report 2018. The PDF version is available on the Galenica website:

[Download half-year report 2018](#)

Live conference call and webcast

Galenica will host a conference call and webcast today, Tuesday, 7 August 2018 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](#).

To actively participate in the conference call (the call will be held in English), please dial

- Switzerland: +41 44 580 65 22
- Other European countries: +69 20 174 42 10
- USA: + 18 77423 0830

The pass code for the live call is 76816083#

The webcast will be available from 6:00 p.m. CEST on 7 August 2018 for a period of three months at www.galenica.com in the [Investors section](#).

Date 7 August 2018
Page 7/7
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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 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.