

Health & Beauty Segment



Always focused on the customer

The Health & Beauty segment comprises the Retail and Products & Brands Business sectors. In the Retail Business sector, Galenica operates the largest pharmacy network in Switzerland, giving it an excellent distribution network that offers unique potential for the sale of own, exclusive and partner brands. In the Products & Brands Business sector, Galenica develops and markets its own brands and products as well as exclusive brands and products of its business partners.

Net sales and operating result

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.

The operating result (EBIT) of the Health & Beauty segment 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%). 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 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.

Key figures 2018

- Net sales: CHF 1,524.8 million
- EBIT: CHF 110.4 million
- ROS: 7.2%
- Investments: CHF 14.1 million
- Employees: 4,872
(3,685 full-time equivalents)

“The complementary medicine offering in pharmacies was further expanded with the range of Swiss company Spagyros.”

The Retail and Products & Brands Business sectors stepped up their collaboration further in the year under review, also with the aim of getting even closer to the customer. For example, Verfora in close collaboration with Galenicare continued to expand the range of complementary medicines in its pharmacies: following the successful new partnership with Adler Pharma with its Schüssler mineral salts, which started in 2017, Galenica has acquired a small minority stake in the Swiss company Spagyros in 2018, and began to increase sales through specialist staff in the pharmacies that receive ongoing intensive training to provide the relevant advice.

Collaboration within Retail was also improved, among other things in the course of the acquisition of Careproduct. The pharmacy formats can now also procure their customers medical aids such as walking frames that they themselves do not have in stock via Careproduct and have these delivered directly to customers' homes.

1,524.8

Net sales
in million CHF

Galenica Group CHF 3,165.0 million

110.4

EBIT
in million CHF

Galenica Group CHF 154.1 million (adjusted)



Retail Business sector

Strengthening of the pharmacy network

Net sales development

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).

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.

Strategic priorities

- Focus on customer service: tailored offerings, new services, innovative own brands and a compelling presence for all pharmacy formats.
- Create a lean, flexible organisation: take advantage of synergies in procurement, product range management and all services to compensate for the ongoing price reductions mandated by the authorities.
- Promote growth: organically and inorganically by expanding the network through the acquisition of own and independent partner pharmacies.

“Following the pilot with Amavita, there are plans to also add the e-mediplan module to Sun Store and Coop Vitality smartphone apps in 2019.”

“In September, Galenicare acquired a minority stake in the Swiss online shop for natural cosmetics Puresense.”

Expansion of the online offering...

The online ordering and pick-up service Click & Collect, launched in 2017 for all three pharmacy formats, was expanded in the year under review in close collaboration with HCI Solutions: as of the end of 2018, some 40,000 products were available compared with 10,000 at the end of 2017. The aim is to further expand the range of the online shops. At the same time, this expansion of online activities fits into the Omni-Channel strategy and Galenicare's efforts to be as close to the customer as possible. For example, the e-mediplan module was added to the new Amavita smartphone app in 2018 (see textbox on page 28 in the Services section).

... and the online formats

Galenica expanded its e-commerce activities in 2018 with a minority stake in online shop Puresense. Puresense 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. This interest not only strengthens Galenicare's presence in the growing market for natural cosmetics; Puresense's knowledge will also support the further development of e-commerce activities. Advisory skills are also important at Puresense. Many customers want information about the products and offerings before buying. Puresense reliably provides the desired information and is therefore also a good fit for the high service level throughout the Galenica Group in this respect.

At the beginning of 2018, Galenica took over Careproduct, a company supplying walking frames, wheelchairs, incontinence products and other medical aids both online and offline. The integration is going successfully and according to plan. The Retail Business sector also expanded its online customer offering in a specific area through this acquisition.

Focus on closeness to customers

The aim is to emphasise the competencies of the pharmacies as well as possible. In line with this principle, the Retail Business sector invested significantly in the further strengthening and optimisation of own stationary 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; Biel/Bienne, Rorschach, Matran, Flims and Feuerthalen were the first to get the new look in 2018. The “Bahnhof Apotheke” pharmacy in Zurich main station, which is the pharmacy with the highest sales figures in Switzerland, was acquired in full in the second half of 2018. The integration has gone according to plan so far. Galenica has thus expanded its network with a successful and strategically important location.

Companies and formats

- Amavita pharmacies, www.amavita.com
- Aprioris Ltd., www.aprioris.ch
- Careproduct Ltd., www.careproduct.ch
- Coop Vitality Ltd.¹⁾, www.coopvitality.ch
- Galenicare Management Ltd., www.galenicare.com
- Mediservice Ltd., www.mediservice.ch
- Sun Store pharmacies, www.sunstore.ch
- Winconcept Ltd., www.winconcept.ch

¹⁾ Consolidated at equity level

1,430.5 Net sales
in million CHF

Galenica Group CHF 3,165.0 million



4,739 Number
of employees

Galenica Group 6,580

Awards for health promotion projects

Amavita demonstrated its closeness to customers with the first Amavita Awards, which promote projects in the area of healthcare, health promotion and prevention. Two projects to support people with cancer received awards in 2018: the jury prize went to a children's book written by a mother on battling cancer, and the people's choice prize was given to an association promoting physical activity for those affected, both during and after cancer. The first edition of the Amavita Awards was held in 2018 in French-speaking Switzerland. Due to the considerable success, invitations for entries for the Amavita Awards 2019 will be extended to the whole of Switzerland.

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.

Galenica gained further valuable knowledge from the Aprioris walk-in clinic pilot project in 2018, including in the areas of duty of documentation and collaboration with partners. Under this pilot project, Aprioris offers immediate medical assistance from a care expert in the Amavita pharmacy in Adliswil near Zurich and in the Sun Store Métropole pharmacy in Lausanne. While patient satisfaction with the service was very high, customer frequency was below expectations. Galenica will define further steps in due course.

Meanwhile, the Health Maintenance Organisation Insurance Plus (HMO Plus) pilot project, which has previously only been offered in Zurich, is now being extended to other regions. In Zurich, it is an integrated care model from health insurer CSS, the physician network Medix and Galenica. CSS customers insured under the alternative

insurance model HMO Plus can go to a Medix doctor or one of the participating Amavita and Coop Vitality pharmacies as the first point of contact in the event of a health problem.

Winconcept with personalised customer magazine

Winconcept, the Galenica Group's service provider for owner-run pharmacies and drugstores, registered a further increase in users of its in-house quality management system Process One in 2018. Process One is offered to both Winconcept partners and third-party pharmacies. The new company website and the customised websites for Winconcept partners were well received. Since 2018, affiliated partner pharmacies have been able to increase personalisation of the customer magazine and thereby strengthen their brand presence in their region.

Winconcept now also offers the Diabetes Check as well as the A-Derma product range from Pierre Fabre, which is exclusively distributed in Switzerland by the Products & Brands Business sector and was previously only available in Amavita, Sun Store and Coop Vitality pharmacies.

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⁾ (joint venture with Coop)	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

“Several hundred patients are now already using the new distance healthcare offering from Mediservice.”

Mediservice as a centre of competence

In light of increasingly complex new medications for applications in the areas of oncology, immunology and haematology, Mediservice's competences and services were again in strong demand in 2018. Specialty pharmacy Mediservice is now not only a complement to in-patient points of treatment such as hospitals and clinics but has also established itself as a comprehensive service platform for the care and support of patients with chronic or rare diseases such as cancer and multiple sclerosis. Mediservice introduced new distance healthcare services for chronically ill patients via telephone, videophone or e-mail in the year under review (see textbox on the right).

Outlook

Innovations with added value for customers and pharmacies

Galenica is seeking to build on its leading position in the Swiss pharmacy market. One way it intends to do this is by launching new, innovative services and products that add value for customers. The Derma-Center, which was opened at the Amavita pharmacy in the Metro shopping centre in Geneva in 2017 in collaboration with L'Oréal Cosmétique Active, will therefore also be introduced at further locations in an adapted form from 2019 based on feedback from customers. Furthermore, the collaboration with Verfora will be strengthened, including through the introduction of exclusive new brands such as the new own skincare product range 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.

Galenicare will also expand the online offering in 2019, thereby further strengthening the proven Omni-Channel strategy, with the aim of making shopping as easy and convenient for customers as possible. Finally, the Primary Care project will be implemented together with HCI Solutions. This will enable pharmacists from all formats to meet the extended requirements concerning documentation of their advice to patients well and efficiently.

High-quality patient care

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

Mediservice customers are mainly chronically or severely ill people who rely on special care with regard to their medication. The aim of the video therapy support is to make patients' lives in their own homes easy and comfortable for as long as possible. In doing so, Mediservice contributes to improving efficiency in healthcare by avoiding unnecessary hospitalisations and out-patient consultations.

Treatment of chronically ill patients beyond in- and out-patient care at hospitals and medical institutions is becoming increasingly important. Several hundred primarily incurable long-term patients throughout Switzerland are now already using this distance healthcare offering. Mediservice also gives top priority to data protection. The exchange of data between patients, treating physicians and Mediservice is encrypted and complies with Swiss data protection legislation and guidelines.





Products & Brands Business sector

Dynamic developments

Net sales development

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 consumer healthcare market growth (1.2%, IQVIA, Consumer Health 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 Health 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.

Verfora: new name, same strategy

With the division of the former Galenica Group in 2017, Galenica and Vifor Pharma agreed that Vifor Consumer Health would change its name to clearly signal its independence to the market. The company was therefore rebranded Verfora as of 1 June 2018. With the new identity, Verfora positions itself distinctively as a strong specialist trade partner for pharmacies and drugstores with its well-known brands and products. The introduction of the new packaging with the Verfora branding proceeded as planned and was supported by a national TV campaign starting in November 2018. Verfora remains a strong partner for all pharmacies and drugstores, standing for an attractive product portfolio and dedication to training and customer support.

Strategic priorities

- Sustain leadership of the top OTC categories, with focus on pain, coughs, rhinitis, colds, minerals and supplements, and wound treatment.
- Consolidate and further grow share of the consumer healthcare market in pharmacies and drugstores throughout Switzerland, building on the solid partnerships and added-value services offered by Verfora.
- Expand the branded business into new areas and develop related skills.

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.

Enhanced health and beauty product portfolio

Verfora further enhanced its health and beauty product portfolio with both Swiss and international brands. Pharmacies and drugstores are a trusted source of advice for these products. In the year under review, a new dark spot corrector by Lierac was successfully introduced, as well as the product RE30 by Phyto for treating grey hair.

The portfolio of the Adler Schüssler mineral salts was enhanced with three unique new “Komplexmittel” products, combining six Schüssler mineral salts in one tablet. In addition, Verfora took over the marketing and national distribution of the successful Oenobiol® range of nutritional beauty supplements in 2018. The A-Derma skincare line has continued to be a great success since its exclusive Swiss launch in 2016, as have the exclusive Lierac and Phyto brands.

“By the third quarter of 2018, Verfora was number one in the Swiss consumer healthcare market for the first time.”

Companies

- G-Pharma Ltd.
- Verfora Ltd.

91.7

Net sales
in million CHF

Galenica Group CHF 3,165.0 million



133

Number
of employees

Galenica Group 6,580

“2019 will see the launch of several new products and innovations, including the new own derma-cosmetic brand Dermafora®.”

New partnership with Spagyros

Responding to the growing demand for complementary medicines, Verfora entered into a strategic partnership with the Swiss company Spagyros in 2018. In this context, Galenica has also acquired a small minority stake. Since its foundation in 1985, the company has striven to produce the highest quality remedies. Spagyros is a GMP-certified pharmaceutical company that manufactures all its medicines entirely by hand in Switzerland. With Spagyros, Verfora has established a new quality of partnership that ensures long-term access to a first-class range of complementary medical advice. It includes a close internal collaboration with Galenica's Retail Business sector to ensure the education and training of employees at the point of sale.

Outlook

Dermafora®: new own derma-cosmetics range from 2019

Verfora will further strengthen its market position with its new and distinct identity. Further investment is planned into new exclusive partnerships, product improvements and employee training. Several new product launches are planned in 2019. Most notably Verfora can enhance its presence in the beauty market by introducing the new own derma-cosmetic brand Dermafora®, which has been available from Amavita, Sun Store and Coop Vitality pharmacies since early 2019. Furthermore, Verfora took on responsibility for 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. This collaboration with an international pharmaceutical company shows once again that Verfora has positioned itself in the Swiss market as an attractive partner for international brand owners. Verfora will also be introducing a new Triomer® spray version against colds in 2019.



