

Successful in a challenging environment



Jörg Kneubühler, Chairman of the Board of Directors, Jean-Claude Cléménçon, CEO

Dear Shareholders,
Ladies and Gentlemen,

2018 was a challenging year for the Swiss healthcare market. The higher than originally announced drug price reductions by the authorities, ongoing shopping tourism and the growing importance of online sales in retail had a major influence. These were accompanied by discussions at political level, the implementation of which will occupy us in the future (more on this on page 30).

Thanks to our focused corporate strategy, targeted acquisitions, the launch of new products, services and innovations as well as measures to improve efficiency, we even surpassed our announced results for 2018. Accordingly, the Board of Directors will propose a 3 % higher dividend than the prior year of CHF 1.70 per share to the 2019 Annual General Meeting (previous year: CHF 1.65).

Growth through new locations and online

Galenica focuses on profitable growth, achieved both organically and through acquisitions. For example, we expanded our pharmacy network with own and partner pharmacies in the year under review to more than 500 locations for the first time. These now include the “Bahnhof Apotheke” pharmacy in Zurich main station, which we acquired in full in the second half of 2018. Our pharmacies not only establish closeness to customers but also offer business partners an attractive distribution network throughout Switzerland.

Key figures 2018

- Net sales: CHF 3,165.0 million
- EBIT: CHF 154.1 million¹⁾
- Net profit: CHF 124.7 million¹⁾
- Investments: CHF 50.0 million
- Employees: 6,580 (5,106 full-time equivalents)

¹⁾ Adjusted

At the same time, we have increased our business activities in the area of e-commerce, for example by significantly expanding the online offering of all three pharmacy formats. We have also acquired a stake in Puresense, one of the leading online shops for natural cosmetics in Switzerland. This move not only strengthens Galenicare's presence in the growing market for natural cosmetics; Puresense's knowledge will also support us in the further development of e-commerce activities.

Innovations in all areas

Mediservice further strengthened its leading position as a specialty pharmacy for the care and support of patients with chronic or rare diseases through its new distance healthcare offering. Under this therapy support service, chronically ill patients are alternatively provided not only with personal home visits but also with care from specially trained professionals via telephone, video-phone or e-mail.

The registration of our e-Medication solution Documedis® as a Class I medical device was confirmed by the Swiss Agency for Therapeutic Products, Swissmedic, at the start of 2018; Documedis® is already used in various hospitals and care homes and is fully integrated into our Triapharm® pharmacy software.

9.1 %

EBIT growth
(on a comparable basis)

Key figures for the Galenica Group, 2018

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 Group pension fund results in a one-off, non-cash effect on EBIT of CHF -41.0 million in the 2018 financial statements. Accordingly, reported EBIT is CHF 113.0 million. Although all pension plans of the Galenica Pension Fund are pure defined contribution plans, under international accounting standard IAS 19, they must be taken into account in the consolidated financial statements as defined benefit plans, which resulted in this effect.

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 aforementioned 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 effect 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.

The change of name from Vifor Consumer Healthcare to Verfora as of 1 June 2018 went successfully, and the new brand immediately met with a positive response on the market. With its logo featuring a dynamic “V”, the new brand presence of Verfora sends out a positive signal for the specialist retail trade and forms an umbrella for the comprehensive brand portfolio of the Products & Brands Business sector.

Galenica is committed to protection against counterfeit drugs. As part of a joint project with Galexis, Alloga has integrated the new EU legislation to combat counterfeit drugs, the Falsified Medicines Directive (FMD), into its internal quality management and IT systems. You can find more information on this in the feature on page 32.

Efficiency through standardised, end-to-end processes

We are continually working throughout the Group on simplifying and standardising routine processes. The Retail Business sector launched a project in 2018 to improve process management and better match staff resources in pharmacies to the relevant customer traffic.

With targeted measures such as the Generics Check, our pharmacies have increased the generics substitution rate from 68% to 70% and thereby contributed to reducing healthcare costs evolution.

Galenicare and HCI Solutions have together further developed the e-medioplan module for the new Amavita app; this is a digitised medication plan for patients who depend on several medications at once. Sun Store and Coop Vitality will also offer the module in their apps in 2019. In addition, Galenicare and Verfora worked together closely and successfully on the launch of many new products and on the expansion of partnerships with companies such as Spagyros.

And finally, 2018 saw the elaboration of a new, uniform pension fund solution for all Galenica Group employees, which was introduced in January 2019.

“It is important to be in tune with customers both offline and online today. Doing so enables us to serve customers where it is most convenient for them.”

Outlook

We want to continue to develop along the three axes of expansion, innovation and efficiency in 2019.

In the Retail Business sector, we will strengthen our pharmacy network further. Customers are advised in-store, and we also want to promote this competence in future. It also includes the further development of the online shops and Click & Collect. It is important to be in tune with customers both offline and online today. Doing so enables us to serve customers where it is most convenient for them. In Products & Brands, we want to maintain our leading position in the Swiss consumer healthcare market and further develop the portfolio through innovations and new product representations. Early in 2019 we launched our new own skincare brand Dermafora® and took over distribution of both Vicks®, the well-known brand for cold, flu and cough medications, and Metamucil®.

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. In addition, Medifilm will introduce the new generation of blistering machines in 2019 and will be able to double output.

Change to the Corporate Executive Committee

As part of early succession planning, the Galenica Group Board of Directors appointed Thomas Szuran as the new Head Products & Brands Business sector and a member of the Corporate Executive Committee. Thomas Szuran took up his new role on 14 January 2019.

The success of our company is thanks to the considerable commitment of the entire Galenica team. We would therefore like to say a big thank-you to all Galenica Group employees on behalf of the Board of Directors and Corporate Executive Committee. We would also like to thank our shareholders, business partners and customers for their trust and support, which we also received in 2018.

Bern, 12 March 2019



Jörg Kneubühler
Chairman
of the Board of Directors



Jean-Claude Cléménçon
CEO

Annual General Meeting of 2 May 2019: change to the Board of Directors of the Galenica Group

After successfully leading the Galenica Group to independence following the IPO two years ago, 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 next Annual General Meeting, but will continue to support the Board of Directors in an advisory capacity for one year.

Jörg Kneubühler has played a major role in ensuring the successful development of the Galenica Group. The Board of Directors would like to thank him in particular for his valuable contribution to the IPO and the successful positioning of Galenica as an independent company, and wishes him all the best and much satisfaction for the future.

Daniela Bosshardt-Hengartner proposed as the new Chairwoman of the Board of Directors

The Board of Directors will propose Daniela Bosshardt-Hengartner, the current Deputy Chairwoman of the Board of Directors, to shareholders for election as the new Chair-

woman. She has a Federal Diploma in Pharmacy from the Federal Institute of Technology (ETH) Zurich, and has sound financial expertise and a wealth of experience as a management consultant. Combined with her many years of service as a member of the Board of Directors of Galenica and other companies, she has the desired and necessary skills and experience, making her an ideal fit for the role of Chairwoman of the Board of Directors.

Election of Markus R. Neuhaus

The Board of Directors will also propose Markus R. Neuhaus to shareholders for election as a new member of the Board at the next Annual General Meeting. Markus R. Neuhaus, who holds a PhD in law and is a certified tax expert, will be an excellent addition to the Board of Directors of the Galenica Group thanks to his extensive expertise in finance and economics. He also has many years of consulting experience in the areas of corporate strategy and governance as well as an extensive network in the worlds of business and politics in Switzerland.