



Modernisation of distribution centre Lausanne-Ecublens

“Galexis is working hard to limit the disadvantages of this project. With the ‘even better for the future’ approach it is only normal for me that we should not question everything.”

Michaël Haroun, pharmacist at the pharmacy des Bergières Lausanne

Services Segment

Investing in the future

The Services segment comprises logistics services for the Swiss healthcare market from Alloga (pre-wholesale), Galexis, Unione Farmaceutica Distribuzione and Pharmapool (wholesale), as well as Medifilm, which is active in drug blister packaging. These are complemented by services from HCI Solutions, which provides master data for the Swiss healthcare market and offers management software solutions for pharmacies. HCI Solutions also develops tools to securely manage, communicate and distribute sensitive health data and improve patient safety.

Net sales and operating result

The Services segment generated net sales of CHF 2,441.0 million in 2019, an increase of 2.9% compared to the previous year. The good sales performance is particularly pleasing given that the federal price reduction measures mandated in 2018 and 2019 continued to impact negatively on sales in the Services segment in the year under review. Excluding the effect of these price reductions for medications by the authorities (-2.3%), sales development for the segment would have amounted to 5.2%.

This was achieved in an overall market whose growth of 2.8% (IQVIA, Pharmaceutical Market Switzerland 2019) was driven especially by the positive sales performance of hospitals of 6.1% (IQVIA, Pharmaceutical Market Switzerland 2019) and high-priced special medications. The latter are usually not supplied via wholesale but directly to hospitals and specialist doctors (doctors: +5.5%, IQVIA, Pharmaceutical Market Switzerland 2019).

The adjusted¹⁾ operating result (EBIT), i.e. excluding the effects of the new lease accounting standard IFRS 16, was CHF 44.7 million (+1.1%). However, the first-time adoption of IFRS 16 in financial year 2019 had with CHF 0.1 million no significant effect on the EBIT of CHF 44.8 million (2018: CHF 44.2 million) of the Services segment.

Adjusted¹⁾ return on sales (ROS) was 1.8% (previous year: 1.9%). Investments by Services in financial year 2019 totalled CHF 31.0 million (previous year: CHF 36.1 million) and were used in particular for the gradual roll-out and implementation of the new enterprise resource planning (ERP) software at Alloga and for the modernisation and renovation of the Galexis distribution centre in Lausanne-Ecublens.

Key figures 2019

- Net sales: CHF 2,441.0 million
- EBIT adjusted¹⁾: CHF 44.7 million
- ROS adjusted¹⁾: 1.8%
- Investments: CHF 31.0 million
- Employees: 1,758 (1,440 full-time equivalents)

2,441.0

Net sales
in million CHF

Galenica Group CHF 3,301.0 million

44.7

EBIT adjusted¹⁾
in million CHF

Galenica Group CHF 166.9 million

¹⁾ See chapter Alternative performance measures from page 92 onwards in the 2019 Annual report (full version)



Pedroni group: New customers at UFD

“UFD is a local, reliable and flexible partner, both in terms of the quality of deliveries and the development of synergies with our Group at cantonal and national level.”

Pedroni family, customer

Services

Business sector

On track in all areas

Focus on ERP replacement at Alloga

Pre-wholesaler Alloga focused on the gradual roll-out of the new ERP (enterprise resource planning) software in the year under review, and successfully migrated the first pilot partner. This project, which is strategically and operatively important for the entire Galenica Group, will see additional pilot partners switch to the new system at Alloga by mid-2020.

At the same time, Alloga was able to gain new partners in 2019. Notably, the Swiss branch of a major pharma company transferred its distribution to Alloga. In addition, partners are making increasing use of Alloga's uninterrupted, temperature-controlled refrigerated logistics, which have been the subject of targeted expansion in recent years.

The switch to e-invoicing in turn has a positive impact on the efficient structuring of processes for major customers such as hospitals, wholesalers and medical centres, resulting in a lower rate of errors and lower paper consumption.

The almost 4,700 solar modules that make up the photovoltaic system on the roof of Alloga in Burgdorf generated around 1,300 megawatt hours of electricity in 2019, covering the calculated consumption of Alloga's entire annual electricity needs. The system was installed together with Solarstadt Burgdorf Ltd. and was put into operation in 2018.

Strategic priorities

- Reinforce customer competitiveness with high-quality services and innovative, tailored offerings.
 - Bundle the competences in the domain of pre-wholesale and wholesale for customers and suppliers.
 - Develop trend-setting e-health offerings for the Swiss healthcare market.
 - Improve efficiency by further optimising processes.
 - Promote growth: organically and with expansion of the customer portfolio through pharmacies and physicians, drugstores and hospitals, and by taking over direct deliveries from the manufacturer.
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Galexis: modernisation work has begun in Lausanne-Ecublens

Despite a challenging market environment, Galexis recorded stronger growth than the market in 2019 and was able to win market share. This was due to the further expansion of Galenica's own pharmacy network as well as gaining new customers (e.g. medical centres) and winning back former customers. In light of increasing regulatory requirements and cost pressure, two partners handed over distribution of their products to Galexis in 2019.

Galexis also launched new products and services. The company revised and expanded its existing quality management system for doctors so that they are able to meet growing official requirements better and more quickly. All medical practices with a practice pharmacy must have this kind of quality management system. Galexis' customers benefit from helpful checklists as well as easy access to all important articles of law and cantonal requirements for managing a practice pharmacy. The e-Galexis online and information system for customers and industry partners was revised in 2019 and now boasts a fresh look and simplified structure. Galexis also opened the new "Fokus Medtech" online shop, where medical practices and pharmacies can order furnishings for examination rooms (e.g. examination tables or infusion stands) and laboratory (e.g. medicine refrigerators or microscopes) and medical technology products (e.g. sphygmomanometers or stethoscopes) at attractive prices.

The modernisation and renovation project at the distribution centre in Lausanne-Ecublens, which is strategically and operationally important for the Galenica Group, proceeded on schedule in the year under review. The renovation works began in September 2019. The building will be modernised and the logistics infrastructure brought up to the state of the art for a total of CHF 30 million by the end of 2021. All of the work is being carried out while operations are ongoing to ensure supply of customers throughout the renovation.

Companies

- Alloga Ltd., www.alloga.ch
- Galexis Ltd., www.galexis.com
- HCI Solutions Ltd., www.hcisolutions.ch
- Medifilm Ltd., www.medifilm.ch
- Pharmapool Ltd., www.pharmapool.ch
- Unione Farmaceutica Distribuzione Ltd., www.ufd.swiss

Continuing positive developments in Ticino

Unione Farmaceutica Distribuzione (UFD) once again had a very successful financial year in 2019. This was due to new customers as well as an increase in demand for the "e-box", a logistics solution for online shops that has been offered throughout Switzerland since 2017. With the "e-box", UFD takes over all logistics processes for associated online shops – from processing customer orders to handing over the package to the courier.

To ensure the quality of logistics services even with rising order volumes, UFD modernised the material handling system for outgoing goods at the distribution centre in Barbengo-Lugano in summer 2019. More boxes of goods can be transported with the new roller conveyor, the workstations for sorting bulky goods are more ergonomic and the new material handling system is easier to maintain.

2,441.0

Net sales

in million CHF

Galenica Group CHF 3,301.0 million



1,758

Number
of employees

Galenica Group 7,071

Services Segment – Services Business sector

Medifilm: new customers thanks to modernised software

As of the end of 2019, Medifilm served more than 10,000 patients, thus increasingly easing the burden of hospital and care home staff responsible for administering medications by hand. In doing so, Medifilm is also making a significant contribution to correct administration and taking of medications, and thus to patient treatment compliance.

Medifilm's software was expanded in the year under review to the effect that it can now also manage medications that are not included in the medifilm, such as eye drops or ointments. This additional information is also printed on the medifilm. This new offering has led to the fact that care homes for people with a disability have also been among Medifilm's customers since 2019.

Moreover, Medifilm further streamlined internal processes, for example for deblistering (unpacking) retail medication packs, and created additional medication storage capacity. In doing so, the company can ensure the supply of blistered medications to customers, even if the original retail packs are unavailable for a certain period.

Progress at HCI Solutions

HCI Solutions has become the central master data specialist within the Galenica Group. For example, since 2019, sets of images have been created for more than 60,000 items based on a uniform standard and made available to all HCI Solutions customers as a web index.

Numerous so-called reference communities are set to commence operation in Switzerland in 2020 in connection with the electronic patient record (EPR). They are currently being

certified by the Federation and can then offer an electronic patient record under federal legislation. These reference communities are being set up by cantonal and interregional healthcare networks such as Cara (cantons of Fribourg, Geneva, Jura, Vaud and Valais) and Axsana (Zurich, Bern, Northwest Switzerland, Central Switzerland, St. Gallen and Schaffhausen). Following negotiations and discussions by HCI Solutions in 2019, the e-medication solution Documedis® will be incorporated into almost all e-health platforms of these healthcare networks.

Outlook

ERP replacement, site modernisation and electronic patient record (EPR) launch

The focus at Alloga in 2020 is on the further implementation of the new ERP system. The pilot projects with various customers will run until summer 2020 and form the basis for the subsequent roll-out.

Galexis will focus on the modernisation and renovation of the Lausanne-Ecublens distribution centre in 2020. Simultaneously, work will begin on the ERP roll-out. The structural changes in the physician market, where there are increasing numbers of group practices and medical centres rather than solo practices, is a trend that Galexis wants to actively support and shape, as well as actively assisting its customers in establishing group practices and medical centres. Shipping capacities will also be increased in Niederbipp.

Online shop and OTC own brand for independent retailers

Services not only further improved internal collaboration with the Retail and Products & Brands Business sectors in 2019 but also launched innovations for independent retailers in a targeted manner. For example, HCI Solutions launched the online shop Quatron in the second half of 2019, via which independent pharmacies can offer the general range from the HCI Solutions web index as well as own products or house specialities. The software includes all relevant tools and functions such as navigational elements, product categories, basket functions and

navigation, so that the shop can be set up in a short amount of time. At the same time, the Felan own-brand range of cost-effective OTC products launched in autumn 2018 by Galexis was expanded with non-pharma products including pregnancy tests, plasters, thermometers and cold/warm compresses in 2019. The logo of the relevant pharmacy can be included on the packaging and enables pharmacists to build up an individual, affordable own-brand range, position themselves and increase customer loyalty.

Medifilm

“By outsourcing time-consuming and demanding set-up work, we save enormous amounts of time. We would always choose to work with Medifilm.”

Sonja Leuenberger, Manager Kastels / am Weinberg Care Homes

Medifilm is working on introducing the next generation of blistering machines in the second half of 2020. To better support pharmacies in optimising their costs, Medifilm has revised its offering and introduced new effort-based terms and conditions with effect from 1 January 2020. Medifilm also wants to address pharmacies' individual patients as a target group and has consequently developed a new communication strategy and a new visual identity, including a new logo. The new logo will be introduced in the first quarter of 2020. Preparations for a new website and a communication campaign to the market and costumers are underway.

HCI Solutions will support the introduction of Documedis® in reference communities and assist them once they are certified by the Federation so that they can offer the electronic patient record.

Key figures wholesale/pre-wholesale 2019

	Wholesale: Galexis, Unione Farmaceutica Distribuzione	Pre-wholesale: Alloga
Storage		
- Number of prepared boxes	> 9,994,000	—
- Number of delivered order lines	> 41,495,000	> 1,683,000
- Number of prepared packages	> 121,905,000	> 86,998,000
Distribution		
- Annual tonnage	> 13,700	> 7,700
- Number of packages	> 129,800	> 551,100
- Number of pallets	—	> 69,800
Structure		
- Number of items in stock	> 50,200	> 10,000
- Number of suppliers/partners	> 950	> 75
- Number of points of sale supplied	> 7,600	> 11,800
Technology		
- Degree of automation in Niederbipp	65%	—
- Degree of automation in Lausanne-Ecublens	31%	—
- Degree of automation in Barbengo-Lugano	43%	—
- Degree of automation in Burgdorf	—	31%