

Pleasing business development despite a challenging market



Daniela Bosshardt, Chairwoman of the Board of Directors, Jean-Claude Cléménçon, CEO

Dear Shareholders,
Ladies and Gentlemen,

The Swiss healthcare market was again marked by a number of significant challenges in 2019, including those of a regulatory nature such as the drug price reductions mandated by the government in 2018 and 2019. The current discussions on various regulatory frameworks will continue to shape the market environment in the future (see the “Political environment” section from page 32 for more information). Galenica, too, was unable to completely escape their influence in the year under review.

Thanks to targeted expansion activity and acquisitions, the introduction of new products and services, and measures to increase efficiency across the Group, we nevertheless made good progress in 2019 and significantly improved the result. Accordingly, the Board of Directors will propose a dividend of CHF 1.80, a 5.9% increase on the previous year, to the 2020 Annual General Meeting (previous year: CHF 1.70).

Growth area of home care

We strengthened our position in the attractive, growing market of patient home care in 2019, in particular by acquiring the Bichsel Group, a specialised Swiss company with a strong focus on home care services in the field of home nutrition and home dialysis as well manufacture of individual medicines and medical devices. The acquisition of Curarex Swiss, a company specialising in therapy support for patients with advanced Parkinson’s disease, also

Key figures 2019

- Net sales: CHF 3,301.0 million
 - EBIT adjusted¹⁾: CHF 166.9 million
 - Net profit comparable²⁾: CHF 134.2 million
 - Investments: CHF 53.0 million
 - Employees: 7,071 (5,449 full-time equivalents)
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¹⁾ See chapter Alternative performance measures from page 92 onwards in the Annual report 2019 (full version)

²⁾ Adjusted net profit (details of the adjusted key figures in the full version of the Annual report 2019 from page 92 onwards) and excluding one-off effects from changes in the provisions for deferred taxes due to the Swiss Tax Reform

contributed to this expansion. The added value that home care services can bring is described in the “Better day-to-day quality of life thanks to home care” coverage from page 37.

Above-average growth of the pharmacy network

At the same time, we also expanded our Switzerland-wide pharmacy network at an above-average rate in 2019. Including the independent Winconcept and Amavita partner pharmacies, 513 pharmacies were affiliated to our pharmacy network as of the end of 2019. Simultaneously, we further expanded our business activities in the area of e-commerce, with the online offering of Amavita, Sun Store and Coop Vitality now comprising more than 60,000 articles. The offer is enjoying increasing popularity with customers.

We achieved growth in our other Business sectors too: in Products & Brands, for example, we expanded our partnership with Procter & Gamble, while in Services we gained new customers, who particularly appreciate the unique size of our product range and the reliability of our logistics companies.

Verfora as a strong specialist trade partner

Following the renaming of Vifor Consumer Health to Verfora in 2018, product packaging was redesigned and even received the “European Launch of the Year Award”. This was accompanied by the launch of an advertising campaign, which was successfully continued in 2019. With the new identity, Verfora has clearly positioned itself as a strong specialist trade partner for pharmacies and drugstores with its well-known brands and products. This enabled Verfora not only to maintain its leading position in the overall Swiss consumer healthcare market, which it achieved for the first time in 2018, but also to strengthen it further in the year under review.

8.3 %

EBIT growth
(on a comparable basis)

Key figures for the Galenica Group 2019

The Galenica Group increased consolidated **net sales** by 4.3% to CHF 3,301.0 million in 2019. Galenica clearly outperformed the market in all Business sectors despite the fact that sales continued to be negatively impacted by the federal price reduction measures implemented in 2018 and 2019 (market: +2.8%, IQVIA, Pharmaceutical Market Switzerland 2019).

The **operating result (EBIT)** was increased by 50.0% to CHF 169.5 million. It was impacted by CHF +2.7 million due to the effects of the new lease accounting standard IFRS 16 and by CHF -0.1 million as a result of IAS 19 (Employee Benefits). On a comparable basis, that is excluding these effects, the adjusted¹⁾ operating result was CHF 166.9 million (8.3% more than in the previous year). Adjusted¹⁾ return on sales (ROS) was increased from 4.9% in 2018 to 5.1%.

Net profit declined year-on-year by 15.1% to CHF 125.3 million due to one-off effects. Excluding the one-off effects of changes in the provisions for deferred taxes of CHF +56.2 million in 2018 and CHF -8.4 million in 2019 due to the Swiss Tax Reform, and excluding the effects of the new lease accounting standard IFRS 16 and of IAS 19 (Employee Benefits), net profit would have improved on a comparable basis by 7.7% to CHF 134.2 million.

Investments in the 2019 financial year totalled CHF 53.0 million and were mainly made in the introduction of the new ERP system at Alloga, the renovation and modernisation of the Galexis distribution centre in Lausanne-Ecublens and the further development of the pharmacy network in the Retail Business sector.

Despite brisk acquisition activity, including the acquisition of the Bichsel Group, adjusted¹⁾ **net debt** of CHF 326.1 million remained unchanged compared to the previous year at 1.5 × adjusted¹⁾ EBITDA.

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

Closeness to customers and innovation

Customers and their changing needs and requirements are at the heart of everything we do. This means that we invest not only in new products and services, but also in the systematic training, further education and advisory expertise of all employees. Further pharmacists were therefore trained in flu and TBE (tick-borne encephalitis) vaccinations in 2019, and 100 pharmacists obtained the certificate of competence in medical history. This enables them to diagnose minor ailments and dispense a corresponding prescription medicine.

Innovations include the new Dermafora® derma-cosmetics line launched by Verfora in early 2019 or the expansion of the Felan own-brand range from Galexis, comprising cost-effective OTC and non-pharmaceutical products for independent pharmacists. Added to this are new digital services,

such as the launch and further development of the Amavita, Sun Store and Coop Vitality smartphone apps. Finally, HCI Solutions is making a significant contribution to the electronic patient record (EPR), which is to be introduced in all hospitals by autumn 2020, by digitising the medication plan.

Internal efficiency increased

Throughout the Group, we work continuously to simplify and standardise routine processes. Orders for the top-selling products in pharmacies are now triggered automatically, for example, which reduces the workload for employees. In 2019, the first pharmacies were also equipped with scanners so that prescriptions can be read digitally in store rather than as part of a time-consuming process at a central location. This new feature not only results in increased efficiency, but also greater safety and better customer service.

Change to the Board of Directors and Corporate Executive Committee

Having been associated with Galenica for more than 40 years, Fritz Hirsbrunner has decided not to stand for re-election at the Annual General Meeting on 19 May 2020. He joined the former Galenica Group in 1977 and until 2014 held various positions in finance, including member of the Corporate Executive Committee as CFO during 20 years and as Deputy CEO for three years (2009–2011), before withdrawing from operations activities and becoming a member of the Board of Directors of the Galenica Group in 2012. The Board of Directors would like to thank Fritz Hirsbrunner for his valuable contribution. As a longstanding teammate, he has played a significant role in the company's successful growth. The Galenica Group owes the targeted implementation of many ground-breaking strategic steps to his solid, loyal and consistent support.

The Board of Directors will propose Pascale Bruderer to shareholders for election as a new member of the Board of Directors at the Annual General Meeting on 19 May 2020. Pascale Bruderer was a member of the National Council from 2002 to 2011 – as President of the National Council in 2009/2010 – and a member of the Council of States from 2011 for the Social Democratic Party of Switzerland (SP) before withdrawing from politics in December 2019. Through her longstanding membership of the Social Security and Health Committee, she focused her political priorities on

areas including healthcare policy, thus bringing important additional knowledge in this area to the Board of Directors. Pascale Bruderer is also a member of the Board of Directors of the Mobiliar Association and Bernexpo Ltd., and has been nominated for election to the Board of Directors of TX Group.

After 25 years with the company, Jean-Claude Cléménçon has decided to take early retirement in 2020. The Board of Directors would like to thank Jean-Claude Cléménçon for his exceptional commitment and outstanding services, which have contributed significantly to the successful positioning of the Galenica Group.

On 1 April 2020, Marc Werner will succeed Jean-Claude Cléménçon as CEO. In Marc Werner, previously Head of the Sales & Services Business sector and a member of the Swisscom Group Executive Board, an entrepreneurial and experienced executive is taking over the management of the Galenica Group. Marc Werner has a high degree of digital affinity as well as a strong focus on market developments, trends and customer needs. This additional knowledge will be increasingly important for the further implementation of the existing strategy in the future. For this, Marc Werner can also count on the proven management team with extensive experience at Galenica and in the healthcare market.

At the same time, efforts were concentrated on the introduction of the new ERP system at Alloga, and work began as planned on modernising the Galaxis distribution centre in Lausanne-Ecublens. Both projects will contribute to enhanced efficiency in the medium term.

Sustainability and contribution to cost containment in the healthcare sector

Galenica pays particular attention to sustainable development. Our role as an employer, the long-term wellbeing of our customers and patients, and our impact on the environment are central to this. Our ambition is to make continuous progress in this area. We firmly believe that Galenica has an important role to play in shaping a future-oriented Swiss healthcare system.

For example, with generic substitution, one of several contributions our Group makes to contain healthcare costs. Despite supply constraints, the substitution rate for medications for which a generic is available and for which substitution is possible was maintained at a high 70% in 2019, compared with 57% for the market as a whole. In this way, the Galenica Group pharmacies (including Coop Vitality) again made a contribution of more than CHF 60 million¹⁾ to reducing healthcare costs for patients and health insurers.

For customers of the “Prima Pharma” basic health insurance model introduced by health insurer Groupe Mutuel at the start of 2020, the Amavita, Sun Store and Coop Vitality pharmacies are the first point of contact for an initial medical assessment. Galenica also aims to contribute to containing rising healthcare costs through this type of collaboration (see box on page 19).

Outlook

We want to continue to use the changes in the market as an opportunity and respond to them with agile, customer-oriented and cross-company networked solutions. In the Retail Business sector, we want to further strengthen our pharmacy network and expand the range of products available online in a targeted manner – with our own online shops as well as with platforms from third-party providers. In addition, preparations began in the year under review for the Amavita, Sun Store and Coop Vitality pharmacies to be able to also offer their customers the services of a mail order pharmacy, probably in the second half of 2020.

In the Services Business sector, the implementation of the new ERP system at Alloga and the modernisation of the Galaxis distribution centre in Lausanne-Ecublens will remain a priority. Additionally, shipping capacities should be expanded to meet increased customer demand.

Thanks to shareholders, business partners, customers and employees

We would like to express our thanks for the trust and support placed in us once again in the year under review. In particular, we would like to thank our employees, whose personal dedication and daily commitment made it possible to implement our strategy and achieve our goals. Only together we are stronger.

Bern, 10 March 2020



Daniela Bosshardt
Chairwoman of the
Board of Directors



Jean-Claude Cléménçon
CEO

¹⁾ Calculated using average price differential between original and generic of 29.9%, according to the study “Effizienzbeitrag der Generika” (Efficiency contribution of generics), 2019 edition, bwa Consulting Bern