

Health & Beauty Segment



In the year under review, the Health & Beauty segment comprised the Retail and Products & Brands Business sectors. Retail operates the largest pharmacy network in Switzerland, with over 500 own and partner pharmacies. In addition, together with Mediservice, the Bichsel Group and Curarex Swiss, Galenica provides a unique and specialised range of home care services.

Retail's products and services are offered in pharmacies, as well as online and to patients at home (home care). The Products & Brands Business sector markets and distributes both own consumer products and brands and partner products and brands for the retail segment of the Swiss healthcare market.

As of 1 January 2021, Galenica has introduced a new organisational structure (see page 28).

Net sales and operating result

The Health & Beauty segment recorded net sales of CHF 1,671.4 million in 2020 (+3.1%), CHF 1,556.1 million of which was accounted for by the Retail Business sector and CHF 111.7 million by the Products & Brands Business sector. The growth was driven in particular by strong dynamic expansion activities such as acquisitions in the pharmacy network and product portfolio.

In spite of the persistent negative impact of COVID-19, the Health & Beauty segment managed to increase its adjusted¹⁾ operating result (EBIT), i.e. excluding the effects of the lease accounting standard IFRS 16, by 0.2% to CHF 123.9 million in the year under review. However, adjusted¹⁾ return on sales (ROS) decreased from 7.6% to 7.4%.

This result was achieved in particular thanks to the significant expansion activities in both Business sectors of the segment. Meanwhile, EBIT was dented by COVID-19 on multiple fronts: Pharmacies in high-frequency locations saw declining sales in the first six months and to a lesser extent also in the last six months of the year, while sales of beauty products likewise contracted as the authorities mandated the temporary closure of perfumery departments in the first half of the year, which some cantons reinforced in autumn 2020. The situation was compounded at pharmacies by the additional outlay required for construction and organisational measures to protect employees and customers and to continue day-to-day operations.

Hygiene and social distancing measures resulted in lower demand for Verfora products for colds. Given the uncertainties surrounding the active substance ibuprofen in connection with COVID-19, sales of Algifor[®] also took a hit. Although these uncertainties were ultimately allayed, demand for Algifor[®] remained muted.

Investments in the Health & Beauty segment totalled CHF 25.1 million (previous year: CHF 22.5 million). These were used in particular for pharmacy renovations, the ERP rollout at Mediservice and a new filling facility at Bichsel, as well as for the further development and implementation of the omni-channel strategy.

One of the main areas of focus of the Retail Business sector in the year under review was the continued expansion of the pharmacy network, which at the end of 2020 comprised a total of 522 own points of sale and partner locations, nine more than at end-2019. In addition, Retail strengthened the links between the online and offline worlds, for example by combining the Click & Collect offering with the home delivery service. The new mail-order pharmacy has been launched in phases and since January 2021 covers all three pharmacy formats. It sends prescription medications to customers of the Amavita, Sun Store and Coop Vitality pharmacies at home (see info box on page 16).

The Products & Brands Business sector grew in 2020 mainly thanks to new licensing and distribution agreements. Distribution of the Bucco Tantum[®] brand was taken over from Angelini Pharma, strengthening the cold medication segment. In addition, Verfora has been distributing Thermacare[®] in Switzerland since 2020. The partnership with Institut Allergosan opened the door to the probiotic and prebiotic products segment. And on 1 July 2020, the Hedoga Group with its well-known brands Osa[®], Osanit[®] and Carmol[®] was acquired (for more information, see the info box on page 20). Finally, in October 2020, Vita-Merfen[®] wound ointment was successfully relaunched on the Swiss market.

Net sales
1,671.4

in million CHF

Galenica Group
CHF 3,479.8 million

EBIT
adjusted¹⁾
123.9

in million CHF

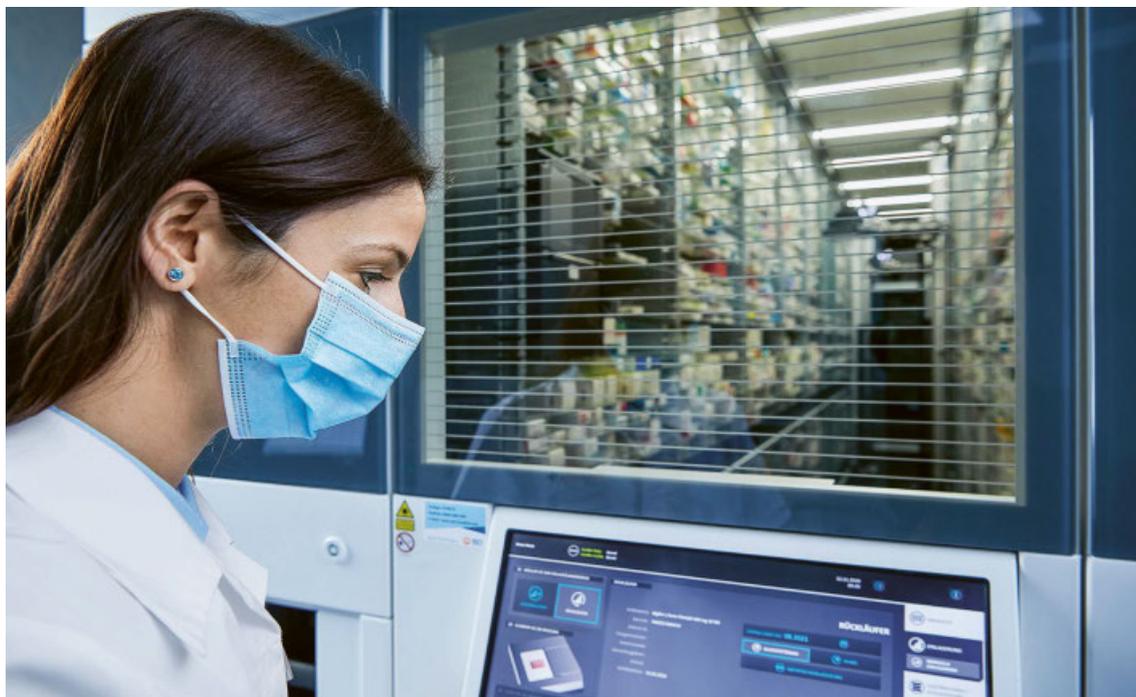
Galenica Group
CHF 168.6 million

Key figures 2020

- Net sales:
CHF 1,671.4 million
 - EBIT adjusted¹⁾:
CHF 123.9 million
 - ROS adjusted¹⁾: 7.4 %
 - Investments:
CHF 25.1 million
 - Employees: 5,382
(4,025 full-time equivalents)
-

¹⁾ See section "Alternative performance measures" from page 86 onwards in the Annual report 2020 (full version)

Retail Business sector



Strong growth in spite of major challenges

Net sales development

The Retail Business sector increased net sales in 2020 by 2.7% to CHF 1,556.1 million (excluding Coop Vitality). The positive sales performance is primarily attributable to the acquisition of the Bichsel Group in 2019 and the significant expansion of the pharmacy network. The expansion (including the Bichsel Group) accounted for +3.2% of the net sales growth. On a comparable basis (excluding expansion effects,) net sales decreased by -0.5%.

Sales were adversely impacted by a one-time effect in 2020, which saw various intra-Group goods transactions discontinued at the beginning of 2020 as part of ongoing process optimisations. This negatively affected sales in the Retail Business sector by 1.7% compared to the previous year. Excluding this one-time effect, organic growth would have amounted to +1.2%. This one-time effect has no impact on the Group's consolidated sales.

The decline in sales in pharmacies at high-frequency locations in railway stations and airports due to COVID-19 had a negative impact of 1.9% on the development of sales in the Retail Business sector in 2020.

Lower sales of OTC medicines and beauty products were offset by additional sales in prevention, nutrition and hygiene products.

Companies and formats

- Amavita pharmacies, www.amavita.ch
 - Bichsel Group, www.bichsel.ch
 - Careproduct Ltd., www.careproduct.ch
 - Coop Vitality Ltd., www.coopvitality.ch¹⁾
 - Curarex Swiss Ltd., www.curarex.ch
 - Galenicare Management Ltd., www.galenicare.com
 - Mediservice Ltd., www.mediservice.ch
 - Sun Store pharmacies, www.sunstore.ch
 - Winconcept Ltd., www.winconcept.ch
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¹⁾ Joint venture with Coop

On the other hand, the three-fold increase in sales by the Amavita and Sun Store online shops coupled with the pleasing 5.7% growth by the Mediservice specialty pharmacy were able to practically compensate for the COVID-19-related decline in sales of 1.7% by the end of the year.

Government-mandated drug price reductions negatively impacted sales growth by 1.6% in 2020.

Finally, the generic substitution deliberately promoted by Galenica also had a dampening effect on sales due to lower drug prices. The already high generic substitution rate was increased from around 70% to 72% as of the end of 2020. The Galenica Group pharmacies therefore contributed more than CHF 63 million to reducing healthcare costs in 2020.

By comparison, medication sales (prescription [Rx] and OTC products) in the Swiss pharmacy market as a whole grew by 2.4% (IQVIA, Pharmaceutical Market Switzerland, 2020), while sales of other products (non-medications) were at +2.1% over the same period (IQVIA, Personal, Patient Care and Nutrition, 2020).

Dynamic expansion and further development of all sales channels

With a total of 17 new pharmacies, the bricks and mortar pharmacy network continued its extremely dynamic development. The newly acquired pharmacies include the well-known Adler Apotheke in Winterthur, which operates a successful own online shop and has mail-order business authorisation. At the same time, there were seven store closures as part of optimisation measures. At the end of 2020, the Galenica pharmacy network comprised 522 pharmacies, of which 366 own pharmacies (+10) and 156 partner pharmacies (-1).

In addition, the Retail Business sector further linked the online and offline worlds, for example by combining the Click & Collect offering with the home delivery service. Furthermore, the new mail-order pharmacy of Coop Vitality was launched in spring 2020, with Amavita following in the second half and Sun Store in January 2021. Amavita, Sun Store and Coop Vitality pharmacies can send prescription medications to their customers at home via the mail-order pharmacy.

Pharmacies as the first point of contact for health advice

The pharmacies clearly demonstrated how intrinsic they are to the Swiss healthcare system as the COVID-19 pandemic took hold, becoming the first point of contact for health advice throughout Switzerland during the lockdown. Since the fourth quarter of 2020, the first pharmacies have – subject to compliance with extensive requirements – been offering the newly approved rapid antigen tests and also PCR tests. At the same time, pharmacies have been preparing to offer COVID-19 vaccinations in the future.

The pharmacy formats also launched new products and services in the year under review, including an offering developed in collaboration with Mobiliar Versicherung. People who want to conclude a life insurance policy with Mobiliar can complete the required health test at all three pharmacy formats. The collaboration with health insurer Groupe Mutuel was also kicked off in the year under review in the form of the new Prima Pharma offering. Customers of health insurer Groupe Mutuel will

Net sales
1,556.1
in million CHF
Galenica Group
CHF 3,479.8 million

Number of employees
5,199
Galenica Group
7,205

additionally be given the option of receiving the Suncard free of charge in the first year, which they can use to take advantage of special offers in Sun Store pharmacies.

Careproduct overcomes challenges

Careproduct, the provider of mobility aids such as wheelchairs as well as incontinence products, which was acquired by the Galenica Group in 2018, succeeded in overcoming the challenges posed by COVID-19 in the year under review. Medical disposables and incontinence products were ordered more often during lockdown. Alongside this, the range was expanded with products including bandages and ergonomic pillows.

Mediservice records growth in sales and customers

The specialty pharmacy Mediservice, which specialises in the care of people suffering from chronic and rare diseases, experienced greater demand for its services in the wake of COVID-19, such as direct home delivery of medications or therapy support at home. Demand for these services increased in particular among patient groups at increased risk, who require regular lifelong medications, or who are reliant in daily life on support with medication and during therapy. The same was true among patients who, due to COVID-19, were unable to be treated by their doctors at hospitals or medical practices. As an alternative, they were able to be treated via video at home by specialist nursing staff from Mediservice, always in close consultation with the relevant doctors.

Moreover, in 2020 Mediservice further expanded its existing collaborations with doctors and hospitals with integrated and optimal care for chronic patients. Through collaborations like these, in addition to increasing patient satisfaction, Mediservice also plays an active role in increasing efficiency and reducing costs in the healthcare system.

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THE ONLINE AND
OFFLINE WORLDS
WILL BE LINKED
EVEN MORE CLOSELY
FOR CUSTOMERS
IN 2021.

Omni-channel strategy further implemented with mail-order pharmacy

The services of a mail-order pharmacy have been offered to customers by the Amavita and Coop Vitality pharmacies since 2020 and by the Sun Store pharmacies since January 2021. This allows patients to have their prescription medications delivered directly to their home and has taken Galenica an important step closer to integrating its physical points of sale with its webshops.

The mail-order pharmacy is housed at the Galexis distribution centre in Niederbipp. It therefore benefits from direct access to the full product range and well-coordinated, highly efficient processes of Galexis. The service was initially rolled out to patients who have repeat prescriptions. It has now been expanded to include single-prescription orders. Customers order via the online shops of Amavita, Sun Store or Coop Vitality and submit the original prescription to the mail-order pharmacy. As soon as this has been validated, i.e. checked by the pharmacist, the order is placed.

Bichsel Group as a systemically important pillar

In the first half of the year in particular, the Bichsel Group recorded significantly higher demand for infusion and injection solutions, emergency medications and disinfectants due to COVID-19. Orders skyrocketed, especially from hospitals; the Bichsel Group was able to manage these thanks to expanded production capacities at its in-house manufacturing facilities. The Bichsel Group thus made a vital contribution to security of supply during this challenging time and was accordingly classified as a systematically important company by the Federal Office for National Economic Supply (FONES).

The home care unit was also able to ensure care for its patients during the COVID-19 pandemic seamlessly and without any loss of quality. In the area of clinical nutrition, the company additionally attracted new partners such as Tertianum, the largest operator of residential and care homes in Switzerland. The Bichsel Group offering for at-home patients and care home residents includes nutrition drinks, enteral and parenteral nutrition, and antibiotic and pain infusions.

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THE BICHSEL GROUP
MADE A VITAL CONTRIBUTION
TO SECURITY OF SUPPLY DURING
THE COVID-19 PANDEMIC.

Own pharmacies and shareholdings

	31.12.2020	31.12.2019	Change
Amavita pharmacies ¹⁾	179	171	+8
Sun Store pharmacies ¹⁾	94	94	–
Coop Vitality pharmacies ²⁾ (joint venture with Coop)	87	84	+3
Mediservice specialty pharmacy ¹⁾	1	1	–
Majority holdings in other pharmacies ¹⁾	5	6	–1
Total own points of sale	366	356	+10

Independent partners

	31.12.2020	31.12.2019	Change
Amavita partners	5	7	–2
Winconcept partner pharmacies	151	150	+1
Total independent partners	156	157	–1

¹⁾ Fully consolidated

²⁾ Consolidated at equity

Products & Brands Business sector



Important acquisitions and new licences

Net sales development

The Products & Brands Business sector, which mainly comprises the business activities of Verfora, realised net sales of CHF 111.7 million in 2020. The year-on-year sales growth of 9.4% could be achieved thanks to new distribution agreements and the strong expansion of the product portfolio, with an expansion effect of +17.3%.

Sales in the core market Switzerland increased by 6.3% to CHF 87.3 million thanks to the expansion activities. Due to COVID-19-related declines in sales of Algifor® (ibuprofen) as well as cold and travel-related products, sales fell 7.2% on a comparable basis (excluding expansion effect). Additional sales of hygiene and prevention products were only partially able to compensate for these losses.

By comparison, the performance of the overall Swiss consumer healthcare market was +3.5% (IQVIA, Consumer Health Market Switzerland, 2020).

Demand for Itinerol®, Triofan® and Anti-Brumm®, which are typically part of a travel first aid kit, also decreased due to less travel. Negative reports on ibuprofen in connection with COVID-19 also had an impact on the growth of Verfora's biggest brand, Algifor®. By contrast, other products such as disinfectant products from Septo Clean® posted significantly higher temporary sales due to COVID-19.

Companies

- G-Pharma AG
 - Verfora AG, www.verfora.ch
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Export sales totalled CHF 24.4 million, +22.3% year-on-year – primarily as a result of the acquisition of the Hedoga Group.

Vita-Merfen® available again

Vita-Merfen®, the well-known ointment for disinfection and wound healing, has been available again in Swiss pharmacies and drugstores since the fourth quarter of 2020. The product was taken off the market by its former brand owner in 2015 due to production difficulties. Verfora acquired the Merfen® and Vita-Merfen® brands in 2017. While Merfen® for wound disinfection has always been available in the specialist retail trade, Verfora has been working intensively on the relaunch of Vita-Merfen® for the past four years. Marketing authorisation was received from Swissmedic, the Swiss licensing and regulatory body for medicinal products, in the first quarter of 2020.

Continuous further development

Verfora was also a strong partner for the specialist retail trade in the year under review. Therefore, new products were launched, including Anti-Brumm® Naturel roll-on, the first multivitamin and mineral hot drink Veractiv® as well as a warm-up gel from Perskindol® and the innovation Perskindol® Dolo as a phytotherapeutic alternative treatment for arthritis and osteoarthritis.

The company's own derma-cosmetics line Dermafora®, introduced in 2019, was also expanded in 2020 with the launch of a new body care range and an anti-ageing booster.

Closer collaboration with Angelini Pharma

Verfora took over Swiss distribution of the key Bucco Tantum® brand from Angelini Pharma at the start of 2020, strengthening its presence in the cold medication segment. Stronger collaboration was developed with Angelini from 1 July 2020, when Italian pharma company entrusted Verfora with distribution of Thermacare® in Switzerland. Thermacare® products generate heat to help the body rebuild damaged tissue and speed up the healing process.

Net sales

111.7

in million CHF

Galenica Group
CHF 3,479.8 million

Number of employees

183

Galenica Group
7,205



New collaboration with Institut Allergosan

Verfora entered a partnership with Austria's Institut Allergosan in early 2020, and took over distribution of the Omni Biotic® brand in Switzerland, thereby entering the important market for probiotic and prebiotic products. This is one of the fastest-growing segments in the Swiss consumer healthcare market. Institut Allergosan has been one of the world's leading centres of expertise in the field of microbiome research for over 25 years and develops probiotics and prebiotics based on this. The brand was launched in Switzerland several years ago and can now be developed more quickly with the help of Verfora and in close collaboration with Retail.

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VERFORA WAS A
STRONG PARTNER
FOR THE SPECIALISED
TRADE ALSO IN 2020.

Acquisition of the Hedoga Group creates significant growth

On 1 July 2020, Galenica acquired the Hedoga Group along with its well-known brands Osa®, Osanit® and Carmol®. This consolidated Verfora's leading position in the Swiss consumer healthcare market and strengthened its positioning as a strong partner for pharmacies and drugstores for over-the-counter medicines and health products. The move also bolstered Verfora's export business in selected markets, particularly in Europe. Osa® and Osanit® include traditional and homeopathic remedies used mainly to treat teething pain in children. Carmol® is a medicinal product (lemon balm spirit) to treat digestive disorders and relieve feelings of discomfort. Hedoga is a Swiss company operating in Switzerland and Austria.



