

Services Segment



In the year under review, the Services segment comprised 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 health-

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

Net sales and operating result

The Services segment generated net sales of CHF 2,631.7 million in 2020, representing a strong increase of 7.8% compared to the previous year. Services therefore clearly exceeded the growth of the overall market of +2.9% (IQVIA, Pharmaceutical Market Switzerland, 2020).

COVID-19 triggered at times extremely high demand for medications and consumables, particularly in March 2020, which then weakened before rising again in the autumn. Overall, these additional sales contributed an estimated 1.4% to annual sales.

At the same time, new customers were acquired. Sales to doctors saw especially dynamic growth, and market share was increased with specialist physicians in particular.

Agreements with suppliers and invoicing models were revised in connection with the new transparency obligations of the new Ordinance on Integrity and Transparency in the Context of Therapeutic Products (OITTP). This technical effect increased 2020 sales in the Services segment by 2.3%. Excluding this technical one-time effect, Services recorded strong growth of 5.5%. This one-time effect has no impact on the Group's consolidated sales.

The negative impact on sales development due to the federally mandated price reduction measures continued in 2020, depressing sales by -1.8%. Excluding this effect, net sales in the Services segment would have risen by 9.6%.

The adjusted¹⁾ operating result (EBIT), i.e. excluding the effects of the lease accounting standard IFRS 16, was increased by 1.6% to CHF 45.4 million. However, adjusted¹⁾ return on sales (ROS) decreased slightly from 1.8% to 1.7%. The positive effects of COVID-19 on sales were offset by considerable additional costs. COVID-19 did not have a significant impact on EBIT in the Services segment overall. The extra costs generated by the coronavirus included protective measures for employees and additional staff resources to manage the high additional volume and to compensate for risk groups who were unable to come to work during the lockdown. EBIT was also affected by additional expenses in distribution in 2020 due to the renovation of the Galexis distribution centre in Lausanne-Ecublens. Although sales to doctors in particular saw dynamic growth and Galenica also gained market share with specialist physicians, this was largely in the area of high-priced medications with a low margin.

Investments totalled CHF 32.3 million in the year under review (previous year: CHF 31.0 million) and were largely used for the modernisation and renovation of the Galexis distribution centre in Lausanne-Ecublens as well as for the gradual roll-out and implementation of the new enterprise resource planning (ERP) software at Alloga and Galexis. Due to the steadily rising risks in connection with cybercrime, additional measures to protect the IT infrastructure and networks were also implemented in 2020.

The temporary record-high goods volumes due to COVID-19 were handled well thanks to the high degree of flexibility and considerable commitment of employees. In addition, Alloga successfully brought the new ERP system into operation with pilot partners. Galexis supported its customers in establishing group practices and medical centres. Galexis also worked with the Retail Business sector on the construction and launch of the new mail-order pharmacy at the Niederbipp site (see info box on page 26).

Net sales
2,631.7
in million CHF
Galenica Group
CHF 3,479.8 million

**EBIT
adjusted¹⁾**
45.4
in million CHF
Galenica Group
CHF 168.6 million

Key figures 2020

- Net sales:
CHF 2,631.7 million
- EBIT adjusted¹⁾:
CHF 45.4 million
- ROS adjusted¹⁾: 1.7%
- Investments:
CHF 32.3 million
- Employees: 1,783
(1,477 full-time equivalents)

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

Services Business sector



Dynamic trends

Greater warehousing capacity at Alloga

Pre-wholesaler Alloga migrated four more pilot partners to the new enterprise resource planning (ERP) software in summer 2020. This successfully completed the pilot phase; the full roll-out should be completed by 2023.

Alloga also reported exceptionally high volume swings due to COVID-19, which made ensuring on-time processing of orders challenging during the first wave of COVID-19 in the spring. Alloga's partners subsequently increased their buffer stocks at the warehouse, resulting in a need to increase warehousing capacity.

At the same time, in anticipation of a COVID-19 vaccine becoming available at some point, deep-freeze logistics were expanded (see info box on page 26).

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
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Galexis manages pandemic inventories for pharmacies, doctors and hospitals

The first half of the year under review at wholesaler Galexis was characterised by COVID-19-related extra shifts and, in some instances, Sunday work. It was necessary to temporarily strengthen logistics with administrative staff to handle the high volumes. Galexis benefited in the second half from demand for higher warehousing capacity from customers who had increased their inventories.

Due to COVID-19, the authorities have indicated that doctors and pharmacies must also have compulsory pandemic inventories of products available, including gloves, disinfectant and masks. As of 2020, Galexis has offered to manage these inventories, resulting in synergy gains and economies of scale for customers.

At the same time, work on rolling out the new ERP system is continuing at Galexis as well. The planning phase was completed in 2020. Implementation will start in 2021, with the order management system being migrated first followed by the warehouse management systems.

During the ongoing renovation and modernisation work in Lausanne-Ecublens, operations were ramped up again for a short period to ensure the security of supply of medications to the population during the first wave of COVID-19. For this reason – and due to unexpected necessary soil remediation work – the building work has been put back by six months. Completion of the work is scheduled for the second quarter of 2022.

Galexis launched a new offering tailored to the needs of specialist doctors such as oncologists, rheumatologists and gastroenterologists in the year under review. These doctors prescribe more high-priced special medications, which need to be transported and stored in an unbroken cold chain. Galexis takes on the logistics for these refrigerated products and provides the doctors with specially equipped refrigerators.

The Galexis strategy initiated in 2020 to assist its customers in establishing group practices and medical centres has already resulted in several successfully implemented projects. Physician wholesaler Pharmapool also had a stable financial year in 2020. The Felan own brand range for independent pharmacists, comprising cost-effective, customised pharma and OTC products, was successfully expanded in the year under review with a nutritional supplement line.

UFD grows throughout Switzerland thanks to “e-box”

Unione Farmaceutica Distribuzione (UFD) ensured the security of medication supplies in Ticino at all times both before and during the lockdown in the spring. A corresponding emergency plan, which was agreed with the cantonal authorities and included the deployment of people required to perform civil defence service, limited interruptions for customers to a minimum. The plan also included early protective measures for employees. In addition, and thanks to the proven quality of services in Ticino, UFD gained further pharmacy customers in 2020.

Net sales
2,631.7

in million CHF

Galenica Group
CHF 3,479.8 million

**Number
of employees**

1,783

Galenica Group
7,205

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ALLOGA, GALEXIS AND UFD WERE ABLE TO HANDLE THE HIGH ORDER VOLUMES DUE TO COVID-19 WITHOUT MAJOR DELIVERY DELAYS THANKS TO THE CONSIDERABLE COMMITMENT OF ALL EMPLOYEES.

UFD's Switzerland-wide "e-box" logistics solution saw considerably higher volumes compared to 2019 due to increased order numbers in the Galenica Group pharmacy online shops. To meet this continuing higher demand, UFD will open a second distribution centre in Oensingen in 2021. This step will not only improve capacity and delivery performance but also reduce delivery times to end customers thanks to the proximity of the new location to the Galaxis distribution centre in Niederbipp. Moreover, it will strengthen the Galenica Group's online business, as UFD supports the logistics processes for pharmacy online shops with the "e-box", from processing the customer's order to handing over the package to the transport company.

Medifilm increases internal efficiency

Thanks to prudent inventory management, Medifilm was able to deliver orders in full and on schedule at all times, despite shortages of certain medications. As of the end of 2020, nearly 11,000 patients were benefiting from Medifilm's services.

Simplified terms and conditions enabled Medifilm's business partners to directly influence prices through their individual order behaviour. The terms and conditions depend on factors including how time-consuming the blistering work is at Medifilm for the requested medications. Thanks to its in-house system, Medifilm is able to improve operational efficiency, for example by optimising the purchasing, storage and unpacking of medications before blistering.

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AS OF THE END OF 2020,
NEARLY 11,000 PATIENTS
WERE BENEFITING FROM
MEDIFILM'S SERVICES.



COVID-19 presents major challenges for logistics

The temporary record-high goods volumes due to COVID-19 – up as much as 60% – were handled well thanks to the high degree of flexibility and considerable commitment of employees at the logistics companies. Alloga's partners increased their buffer stocks at the warehouse in response to the first COVID-19 wave in the spring, resulting in a need to increase warehousing capacity.

At the same time, in anticipation of a COVID-19 vaccine becoming available at some point, deep-freeze logistics were expanded. The first deliveries of the COVID-19 vaccine Comirnaty® from Pfizer/BioNTech were received by Alloga at the end of 2020. In order for the designated

vaccine centres to be able to commence vaccination in January 2021 as planned, the ampoules – which are stored in ultra-deep freezers at minus 70°C – were picked and distributed directly to the vaccine centres in temperature-controlled boxes together with the requisite vaccination equipment (syringes, cannulas and swabs).

In connection with COVID-19, the authorities have indicated that pharmacies and doctors must also have compulsory pandemic inventories of products available, including gloves, disinfectant and masks. Galaxis is now offering to manage these inventories on behalf of its customers.

HCI Solutions contributes to digitalisation of the healthcare system

HCI Solutions founded joint venture Pharma-Info Ltd. together with partner IFAK Data Ltd. at the end of September. This new company, in which HCI Solutions holds a minority stake, has taken over six service offerings for pharmacies from Swiss pharmacy association Pharmasuisse.

Software solution “Quatron”, which was launched in 2019 to enable independent pharmacists to easily set up an individualised online shop, saw strong demand in 2020, also due to COVID-19.

To ensure pharmacists can send the results of the corona rapid antigen tests introduced at the end of 2020 to the Federal Office of Public Health (FOPH) quickly and easily, HCI Solutions has implemented a corresponding digital interface to the FOPH in the Documedis® e-medication solution. Documedis® is now integrated into almost all e-health platforms of the various cantonal and interregional healthcare networks. These networks are now in the process of setting up so-called reference communities. Once these are certified by the federal government, they can offer an electronic patient record under federal legislation.

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HCI SOLUTIONS HAS IMPLEMENTED A DIGITAL INTERFACE TO THE FEDERAL OFFICE OF PUBLIC HEALTH (FOPH) IN DOCUMEDIS® SO THAT PHARMACISTS CAN REPORT THE RESULTS OF RAPID CORONA TESTS QUICKLY AND EASILY.

Key figures wholesale/pre-wholesale 2020

	Wholesale: Galexis, Unione Farmaceutica Distribuzione	Pre-wholesale: Alloga
Storage		
- Number of prepared boxes	> 10,400,000	–
- Number of delivered order lines	> 41,600,000	> 1,633,000
- Number of prepared packages	> 121,500,000	> 87,381,000
Distribution		
- Annual tonnage	> 14,400	> 7,500
- Number of packages	> 152,000	> 493,000
- Number of pallets	–	> 68,800
Structure		
- Number of items in stock	> 48,500	> 11,000
- Number of suppliers/partners	> 1,100	> 90
- Number of points of sale supplied	> 8,300	> 11,300
Technology		
- Degree of automation in Niederbipp	62%	–
- Degree of automation in Lausanne-Ecublens	41%	–
- Degree of automation in Barbengo-Lugano	37%	–
- Degree of automation in Burgdorf	–	31%