

Result and profitability improved



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

Dear Shareholders,
Ladies and Gentlemen,

The first half of 2018 was challenging yet successful. Though our sales growth was slowed by additional price reduction measures for medications, which were significantly higher than originally announced by the authorities, we were still able to considerably improve our result and profitability (see page 5).

Growth through expansion of offering and acquisitions

Our pharmacy network reached the 500 points of sale barrier for the first time in May 2018. Since July 2018, the pharmacy with the highest sales figures in Switzerland, the Bahnhof Apotheke in Zurich main station, has also been fully part of this network.

We also expanded the range in our online shops, which now comprises 16,000 products, more than half as many again as at the end of 2017. Acquired at the beginning of 2018, the company Careproduct also strengthens our knowledge and market position with respect to online sales. In addition, its specific offering also expands the pharmacies' portfolio.

Generic substitution: an active contribution to reducing healthcare costs evolution

The range of services offered in our pharmacies is constantly expanding. Both the Amavita and Sun Store pharmacy formats have introduced the Generics Check, advising customers about which of their medications can be replaced with generics. Galenica makes an active contribution to reducing healthcare costs evolution through generic substitution. On a comparable basis, sales of generics thus rose again in the first half of 2018 (+8.3%). The substitution rate for medications for which a generic is available and for which substitution is also possible increased from 68% to 70%.

Sustainable innovations expand market presence ...

Customers nowadays expect access to healthcare advice and products at all times, wherever they are. In addition to existing points of contact, such as in pharmacies or online, demand for in-home care is also growing. Besides personal home visits, Mediservice offers an increasing number of services in distance healthcare, such as video nursing, which provides services from a central location via a screen to chronically ill patients at home.

... and increase drug and patient safety

Galexis commissioned a new, optimised refrigerated box that guarantees the required temperature of transported goods for 30 hours instead of four, making a further important contribution to drug safety.

An important contribution to patient safety is the E-medication solution Documedis® from HCI Solutions, which was confirmed as a Class I medical device by the Swiss Agency for Therapeutic Products Swissmedic.

The new photovoltaic system on the roof of the Alloga building in Burgdorf should also be noted as an innovation. With a surface area of some 10,000 m², it will be one of the largest systems in the region and demonstrates the Galenica Group's commitment to sustainable energy generation.

Investing in improving efficiency

Over the course of 2018, Medifilm will roll out a new generation of blistering machines that will double the number of blistered units per hour. The machines are also more precise than the current equipment and can produce sachets labelled in three languages. Initiated in 2017, the project to switch to a new ERP (Enterprise Resource Planning) system is advancing according to plan, and a start with initial pilot customers is scheduled in early 2019.

New member of the Board of Directors

The first Annual General Meeting of Galenica Ltd. following the IPO in 2017 took place on 9 May 2018. Shareholders approved all the proposals put forward by the Board of Directors and elected Bertrand Jungo as a new member of the Board. Bertrand Jungo is CEO of media marketing company Admeira and was previously CEO of department store group Manor for 11 years. His expertise boosts retail and digitisation know-how at the highest level of management in our company.

Positive outlook

Due to the aforementioned price reduction measures, we expect sales for 2018 to be at the lower end of the sales forecast range of +2% to +3% communicated in March 2018. Thanks to improved profitability, we expect EBIT to be at least at the same level as in 2017, which, excluding the one-off effects in 2017, corresponds to an operational increase of at least 5%. Consequently, the outlook for dividend payments remains unchanged, and we aim to propose a dividend of at least at the same level as the prior year at our second Annual General Meeting in 2019.

We would like to thank our employees for their tireless commitment and you, our shareholders, for your trust.

Bern, 7 August 2018



Jörg Kneubühler
Chairman
of the Board of Directors



Jean-Claude Cléménçon
CEO

Key figures for the Galenica Group, first half of 2018

The Galenica Group increased consolidated net sales by 0.9% to CHF 1,566.1 million in the first half of 2018. Sales growth was slowed by additional price reduction measures for medications, which were significantly higher than originally announced by the authorities. The impact of the pleasing expansion effect of the Retail Business sector, consolidated at Group level, was also lower than expected because all pharmacies acquired were already supplied by Galexis before acquisition.

Excluding one-off effects from the prior-year period (CHF 7.0 million) that did not recur in the period under review (sale of rights of the medical practice software Triamed® and a non-operational building in Schönbühl), and excluding the effects of IAS 19, EBIT rose by 7.5%, and return on sales (ROS) improved from 4.5% to 4.8%. Taking into account one-off effects, earnings before interest and taxes (EBIT) declined by 2.0% to CHF 70.1 million, and excluding the effects of IAS 19, by 2.3% to CHF 74.9 million.

Excluding the one-off effects from 2017 (CHF 6.3 million) and the effects of IAS 19, net profit increased by 8.2%. Taking into account one-off effects, net profit declined by 2.4% to CHF 56.5 million, and excluding the effects of IAS 19 by 2.7% to CHF 60.4 million.

Investments totalled CHF 21.4 million (prior-year period: CHF 33.5 million including acquisition of the Merfen® and Vita-Merfen® brands) and were made, among other projects, in the new ERP system in the Services Business sector and the renovation and construction of pharmacies.