



# Health & Beauty Segment

## Pleasing growth in sales and profitability

The Health & Beauty segment comprises the Retail and Products & Brands Business sectors. In the Retail Business sector, Galenica operates the largest pharmacy network in Switzerland, giving it an excellent distribution network that offers unique potential for the sale of own, exclusive and partner brands. Retail's products and services are offered in pharmacies, online and to patients at home (home care). In the Products & Brands Business sector, Galenica develops and markets its own consumer brands and products as well as exclusive brands and products of its business partners.

## Net sales and operating result

The Health & Beauty segment increased net sales in the first half of 2019 by 4.8% to CHF 781.4 million, CHF 726.1 million of which was accounted for by the Retail Business sector and CHF 54.1 million by the Products & Brands Business sector. The sales growth was due primarily to the acquisition of the "Bahnhof Apotheke Zurich" in July 2018, to the strong expansion of the pharmacy network in the first half of 2019 and to the acquisition of the Bichsel Group in May 2019.

The adjusted<sup>1)</sup> operating result (EBIT), that is excluding the effect of the new lease accounting standard IFRS 16, increased by 11.0% to CHF 60.3 million. The first-time adoption of IFRS 16 additionally increased EBIT by CHF 1.3 million to CHF 61.6 million.

Adjusted<sup>1)</sup> return on sales (ROS) improved 0.4 percentage points to 7.7% (first half of 2018: 7.3%). This very good development is testament, on the one hand, to the effectiveness of the ongoing efficiency improvements in the segment, which include, for example, the intensive collaboration between the the Retail and Products & Brands Business sectors, and on the other hand, to the expansion of the business activities, such as the continuing development of the pharmacy network and of the product portfolio.

Investments in the Health & Beauty segment totalled CHF 8.6 million (first half of 2018: CHF 5.4 million) and were principally used for the rebuilding and renovation of pharmacies as well as for IT projects.

Alongside the improvements in efficiency mentioned, the acquisition of the Bichsel Group was an important milestone for the Retail Business sector. It strengthened Galenica's leading position in the attractive market of home care for

# 781.4

Net sales  
in million CHF

Galenica Group CHF 1,600.4 million

# 60.3

EBIT adjusted<sup>1)</sup>  
in million CHF

Galenica Group CHF 81.1 million



# 5,130

Number  
of employees

Galenica Group 6,918

<sup>1)</sup> Refer to chapter alternative performance measures from page 17

patients. Mediservice also made an acquisition in the first half of 2019: Curarex Swiss, an organisation specialising in in-home medicinal care of Parkinson's patients. The online offering was also consistently further expanded both as regards the product range and the pharmacy app options.

The business activities of Products & Brands focused, among other things, on the launch of the new derma-cosmetics range Dermafora® as well as successfully taking over distribution of the well-known Vicks® and Metamucil® products. The further positioning of Verfora as a strong, reliable partner for specialist trade was also a priority.

## Retail Business sector

### Strong reinforcements in home care

#### Net sales development

The Retail Business sector increased net sales in the first half of 2019 by 4.3% to CHF 726.1 million (excluding Coop Vitality).

The number of own pharmacies as of the end of June 2019 was 353 locations (+8 compared to the end of 2018). The increase in the number of pharmacies accounted for 5.1% of the sales increase. On a comparable basis, the sales performance was slightly negative at -0.7%, as it was not possible to fully offset the effects of the federal price reduction measures introduced in 2018. The government-mandated price reduction measures for medications had a negative impact of 1.9% on sales growth. Excluding these price reductions, organic growth (excluding expansion effects) would have amounted to a pleasing 1.2%. Generic substitution, which is actively promoted by Galenica, also curbed sales because of the lower medication prices.

By way of comparison, medication sales (Rx and OTC products) in the Swiss pharmacy market as a whole declined by 2.1% over the same period (IQVIA, Pharmaceutical Market Switzerland, first half of 2019). Sales of other products (non-medications) declined only slightly by 0.4% (IQVIA, Personal, Patient Care and Nutrition, first half of 2019).

### Strong expansion of the pharmacy network

Retail was again extremely active in terms of further optimisation of the pharmacy network in the period under review: 13 pharmacies were added compared to the end of 2018, comprising 4 new openings and 9 acquisitions. The latter included the ideally located pharmacy in Interlaken from the acquisition of the Bichsel Group on 1 May 2019. The pharmacy is one of the major manufacturers of magistral prescriptions (medicines manufactured for specific patients) in Switzerland and will continue to be run under the same name. At the same time, 5 locations were closed down as part of optimisation measures. Together with the independent Amavita and Winconcept partner pharmacies, the Galenica pharmacy network comprised 508 points of sale throughout Switzerland as of the end of the first half of 2019 (see table, page 11).

### Expansion in home care services

On 1 May 2019, the Galenica Group acquired a majority stake in the Bichsel Group, a specialised Swiss company with a strong focus on the manufacture of individual medicines and medical devices as well as home care services in the field of home dialysis and home nutrition. The companies of the Bichsel Group are integrated into the Retail Business sector and continue to operate on the market under the same known name. This transaction strengthened Galenica's leading position in the attractive and growing market of home care for patients.



#### New offering for Parkinson's patients

Specialty pharmacy Mediservice, which specialises in home care of chronically ill patients, also further expanded its neurology offering in April 2019 with the acquisition of Curarex Swiss: a Swiss organisation specialising in the provision of home-based therapy support for patients with advanced Parkinson's disease and enabling them to live independent day-to-day lives. Curarex Swiss will continue to be run as an independent unit with its proven team, under the direction of Mediservice.

#### Investments into closeness to customers in practice

As part of closeness to customers in practice, investments were also made in the individual pharmacy formats in the first half of 2019. For example, Amavita developed a new slogan, "Amavita, my pharmacy" for its market presence and launched the magazine "My skin" to position itself more strongly as a competent skin expert. Winconcept, the Galenica Group's service provider for independent pharmacies and drugstores, presented a new, fresh logo to the market in the first half of 2019. The "Process One" quality management system, offered by Winconcept, enjoys continuing popularity.

A further Derma-Center, the first of which was opened at the Amavita pharmacy in the Metro shopping centre in Geneva in 2017 in collaboration with L'Oréal Cosmétique Active, was opened in an adapted form based on feedback from customers at the Amavita branch in Lausanne-Ecublens in the period under review. A further Derma-Center is scheduled to be opened in German-speaking Switzerland in the second half of 2019.

#### New ownership for Aprioris

Galenica launched the Aprioris walk-in clinic in 2017 as a pilot project to break new ground in emergency medical assistance. The evaluation of the pilot has shown that the concept would only be successful in the long term if it were based on extensive interprofessional collaboration and were able to depend on close collaboration and support from other involved players in the healthcare market. To make it possible to establish such partnerships outside of the Galenica Group, Galenica transferred the majority shareholding in Aprioris to an independent company in May 2019. Galenica continues to have a minority stake and will support the company wherever possible and reasonable, for example with the continued operation of the location in the Amavita pharmacy in Adliswil, near Zurich.

### Expansion of the online range

The range in the Amavita, Sun Store and Coop Vitality online shops with the integrated online ordering and pick-up service “Click & Collect” was further expanded in the period under review: as of the end of June 2019, over 40,000 products were available. The collaboration with online shop Puresense for near-natural or certified natural cosmetics, which began with a minority stake in 2018, was launched successfully. Since early 2019, the online shops have also been specifically advertised at the pharmacy points of sales, and customers made aware of the complementary range available online. In this way, Galenicare is accommodating changing customer needs while also supporting its business partners in meeting these changes in the market appropriately.

### Collaboration across the Group

A great deal of the progress achieved in the first half of 2019 is based on the close, trusting collaboration within the Group. This includes, for example, the successful collaboration with the Products & Brands Business sector on the launch of the new own derma-cosmetic brand Dermafora® as well as on the distribution of complementary medical products from Spagyros and numerous international brands such as Lierac and Adler’s Schüssler mineral salts. With the Services Business sector, orders and deliveries for own pharmacy formats were again better coordinated with the requirements of Galexis customers in the first half of 2019 to avoid bottlenecks and overcapacity at Galexis.

With HCI Solutions, the “Primary Care” project was driven forward. This project enables pharmacists from own formats to meet the extended requirements concerning documentation of their advice to patients well and efficiently and complete the necessary training modules for this. In addition, the e-mediplan module, which was previously only included in the Amavita smartphone app, was also incorporated into the Sun Store and Coop Vitality apps in the period under review. E-mediplan offers a range of practical functions including automatic reminders to take medication and a full overview of an individual’s stock of medications.

### Own pharmacies and shareholdings

	30.6.2019	31.12.2018	Change
Amavita pharmacies <sup>1)</sup>	169	163	+6
Sun Store pharmacies <sup>1)</sup>	96	97	-1
Coop Vitality pharmacies <sup>2)</sup> (joint venture with Coop)	80	78	+2
Mediservice specialty pharmacy <sup>1)</sup>	1	1	–
Majority holdings in other pharmacies <sup>1)</sup>	7	5	+2
Minority holdings in other pharmacies <sup>2)</sup>	–	1	-1
<b>Total own points of sale</b>	<b>353</b>	<b>345</b>	<b>+8</b>

<sup>1)</sup> Fully consolidated

<sup>2)</sup> Consolidated at equity

### Independent partners

	30.6.2019	31.12.2018	Change
Amavita partnerships	7	7	–
Winconcept partner pharmacies	148	149	-1
<b>Total independent partners</b>	<b>155</b>	<b>156</b>	<b>-1</b>



# Products & Brands Business sector

## Top position in the Swiss consumer healthcare market expanded

### Net sales development

The Products & Brands Business sector, which mainly comprises the business activities of Verfora, posted net sales of CHF 54.1 million, a pleasing rise of 11.1% compared to the prior-year period. This performance was attributable, among other things, to the strong market position of Algifor® and Trioфан®, which improved further in the period under review, and to the responsibility for the distribution in Switzerland of the well-known Vicks® products (for colds, flu and coughs), and of Metamucil®, which was successfully taken over from Procter & Gamble in early 2019. The advertising campaign launched in autumn 2018, including TV ads to position Verfora, also had a positive impact on sales growth for the products featured. The flu season was average compared to previous years, and the 2019 hay fever season was milder than the prior year.

Products & Brands increased net sales in the Swiss market by 13.6% to CHF 42.4 million, thereby exceeding growth of 0.1% in the Swiss consumer healthcare market (IQVIA, Consumer Health Market Switzerland, first half of 2019). Thus Verfora, which became the number one company in the total Swiss consumer healthcare market in the third quarter of 2018, was able to successfully further expand this position in the period under review (IQVIA, Consumer Health Market Switzerland, first half of 2019).

Export sales were CHF 11.7 million, 3.0% more than in the first half of 2018 – primarily due to strong sales of Perskindol® in Asia and Anti-Brumm® in Europe.

### Verfora established in the market

Verfora was able to position itself as a strong, reliable partner for all pharmacies and drugstores in the first half of 2019. This was achieved not only due to the well-known Verfora brands and products but also the successful interplay between sales advice and specialist training at the points of sale. As part of the renaming of Vifor Consumer Health to Verfora in June 2018, packaging was redesigned and a new advertising image launched in the second half of 2018. This advertising campaign was successfully further rolled out in the period under review, focusing on TV ads and presence at points of sale. The focus will be more heavily on the Internet as a further medium in the second half of 2019.

### Successful launch of Dermafora®

The launch of the new own derma-cosmetic brand Dermafora®, which has been available in Amavita and Sun Store pharmacies since the beginning of 2019 as well as in selected Coop Vitality pharmacies since the second quarter of 2019, was particularly important for Verfora in the period under review. The launch of Dermafora® and the related training for employees were designed and implemented in close collaboration and consultation with the Retail Business sector; the upcoming measures to further establish the brand in the market will also be carried out together.





#### Good demand for complementary medicine

The good collaboration with Retail also proved its worth with the strategic partnership that began in 2018 between Verfora and Spagyros, a Swiss GMP-certified manufacturer of complementary medicinal products. The Adler Schüssler mineral salts portfolio, which is distributed by Products & Brands, also performed positively. Thanks to targeted training and continuing education on the Spagyros and Adler product ranges, employees in the specialist trade have the expertise to offer their customers comprehensive advisory services regarding the complementary medicine portfolio, which is already in good demand.

#### Good performances for Algifor® and Triofan®

The systemic pain relief medication Algifor® performed nicely in the first half of 2019, again exceeding OTC market growth; the market share gained in 2018 due to supply constraints of other products in the market was maintained and expanded further. Triofan® maintained its strong market position as the number one nasal decongestant in Switzerland. Overall, Verfora was able to build on its strong position in the market for nasal products, with the launch of a new Triomer® spray for colds also contributing.

#### Specialist trade first

Pharmacies and drugstores continue to be a trusted source of advice on health and beauty products. Verfora is continuing to focus on this sales channel and is consistently expanding its product portfolio accordingly. In parallel, the digital presence is being future-proofed. One particular concern here is to become significantly more visible to consumer on relevant health topics on the Internet. The aim is to provide customers and consumers with better, more comprehensive information on the Verfora portfolio and further increase recognition of own and third-party brands.