

Reliable and dynamic partner in the Swiss healthcare market



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

Dear Shareholders,
Ladies and Gentlemen,

Galenica can look back on a successful first six months of 2019. We have created added value for our stakeholders. This was achieved thanks to consistent implementation of our strategy, with dynamic further expansion of our pharmacy network, significant acquisitions and ongoing measures to increase efficiency within the Group as a whole. Galenica ensures via various sales channels that medications reach the right place or patient at the right time and in the right quantity. At the same time, we are developing successively new, complementary services and solutions to meet the increasingly diverse needs of our patients, customers and business partners. This is done in close collaboration and conjunction with all players in the healthcare market.

The combination of these activities is crucial to the long-term success of the Galenica Group because market conditions continue to be challenging. Further federal price reduction measures for medications in 2018 continued to

have a negativ impact of the Galenica Group's figures in the first half of 2019. This trend is set to continue. We will continue to be challenged in the future to offset falling medication prices and margins with additional services and efficiency savings.

Our efforts are supported by official and political decisions, which recognise and aim to strengthen expertise in the healthcare market. The revised Therapeutic Products Act entered into force at the start of 2019. The decisions associated with this regarding which medicines can still only be dispensed by doctors and the specialist trade – pharmacies and drugstores – are a clear commitment to patient safety and trust in the competence of the specialist trade, which they strengthen. We also consider the decision by the Federal Council to extend the tariff agreement for service-based remuneration for pharmacists (SBR IV) to the end of 2021 at the request of the negotiating partner to be positive, as this gives more time to work out the details.

Expansion in home care

On 1 May 2019, we acquired a majority stake in the Bichsel Group. The company, which is domiciled in Interlaken, specialises in the manufacture of individual medicines and medical devices as well as home care services in the field of home nutrition and home dialysis. We have thus further strengthened our leading position in the attractive and growing market of home care for patients. Mediservice also contributed to this expansion through its acquisition of Curarex Swiss, a Swiss organisation specialising in the provision of home-based therapy support for patients with advanced Parkinson's disease.

The future is “Omni-Channel”

Through our own and partner pharmacies, we not only ensure customer and patient proximity, but also offer our business partners an attractive distribution network, which

is the largest in Switzerland. We further optimised and expanded our pharmacy network in the period under review. In the meantime, it has gathered 508 own and partner pharmacies.

At the same time, we are endeavouring to reach patients and customers everywhere they want to be reached. This includes digital channels. We are further expanding our e-commerce business activities and services such as Click & Collect accordingly. A third channel is patient home care and the expansion and further development of both personal and digital care services. The further development and expansion of the various channels brings our vision of being able to offer customers omni-channel in the near future a step closer. By this, we mean skilful and comprehensive networking of various information, ordering, delivery and collection options combined with on-site services

Key figures for the Galenica Group, first half of 2019

Significantly stronger growth than the market

The Galenica Group increased consolidated net sales by 2.2% to CHF 1,600.4 million in the first half of 2019. Although sales growth continued to be affected by the ongoing effects of the federal price reduction measures from 2018, Galenica posted significantly stronger growth than the market (0.9%, IQVIA, Pharmaceutical Market Switzerland, first half of 2019), thanks, among other things, to strong expansion. All Business sectors contributed to this development.

Improvement of profitability and earnings

The operating result (EBIT) increased by 18.1% to CHF 82.8 million. EBIT increased by CHF 1.4 million due to the impact of the new lease accounting standard (IFRS 16) and by CHF 0.3 million due to the impact of IAS 19 (Pension Fund). On a comparable basis, that is excluding these effects, adjusted¹⁾ EBIT increased by 8.3% to CHF 81.1 million. Adjusted¹⁾ return on sales (ROS) improved from 4.8% to 5.1%, and adjusted¹⁾ net profit rose by 7.6% to CHF 65.0 million.

Investments totalled CHF 24.7 million (first half of 2018: CHF 21.4 million), and were made, among other things, in the Services Business sector to introduce the new ERP system and to modernise the distribution centre in Lausanne-Ecublens, and in the Retail Business sector for the rebuilding and renovation of pharmacies.

2019 forecast slightly raised

Due to the good half-year results, the sales and earnings forecast for the current financial year 2019 as a whole has been raised slightly: Galenica expects consolidated net sales for the Group as a whole to grow by between +1% and +3%, with sales growth of between +4% and +6% in the Health & Beauty segment and at the prior-year level up to +2% in the Services segment. The adjusted operating result (EBIT; excluding the effects of IAS 19 and IFRS 16) should increase by +5% to +7%. Due to the adoption of the new lease accounting standard IFRS 16, Galenica expects an additional increase in EBIT of CHF 2 million to 3 million. Proposal of a dividend of at least the same level as the prior year (CHF 1.70 per share) to the 2020 Annual General Meeting is planned.

¹⁾ Refer to chapter alternative performance measures from page 17

at the pharmacy, via online channels or at home. In doing so, we are applying the progress in digitalisation at all levels of trade, with the focus consistently on patients and their changing needs and habits.

Verfora: a strong partner for specialist trade

Following the change of name in mid-2018, Verfora continued to focus in the first half of 2019 on positioning itself as a strong, competent and reliable partner for pharmacies and drugstores. An extensive advertising campaign to boost specialist trade and the launch of the new own derma-cosmetic brand Dermafora® contributed to this.

Investments in the Services segment for greater efficiency

Alloga initiated the switch to the new enterprise resource planning (ERP) system as planned in the period under review. A first pharma customer was introduced in June 2019.

The Galaxis distribution centre in Lausanne-Ecublens will be extensively renovated and modernised so that it is prepared for a higher level of automation for future volumes and to ensure that operations remain GDP (Good Distribution Practice) compliant. By investing some CHF 30 million in this project, the Galenica Group is also making an important contribution to the availability of medications across Switzerland and to security of supply to patients. The relevant building application was approved in July 2019. Construction work is scheduled to begin in the third quarter of 2019.

New composition of the Board of Directors

At the second Annual General Meeting of Galenica Ltd. in May 2019, the shareholders approved all the proposals submitted by the Board of Directors. Former Board member Daniela Bosshardt-Hengartner was elected as the new Chairwoman and Markus R. Neuhaus was elected as a new member of the Board.

Outlook

The newly acquired Bichsel Group will be integrated gradually into the Retail Business sector; the companies will continue to operate in the market under their existing names. At the same time, we will purposefully continue to pursue the development and expansion of our three business-to-consumer channels: pharmacies, online and home care.

Verfora will again prove itself to be a strong partner for specialist retailers in the second half, and continually expand and optimise both its own product portfolio and the partner and licensed products offering. Digital communication channels will increasingly be used in sales activities, which will also support specialist trade.

The Retail and Products & Brands Business sectors will be able to depend on professional support from Services companies, just like all our other customers and partners, pharmacists, drugstores, doctors, hospitals and care homes. Through investments such as that in the new ERP system and the modernisation of the distribution centre in Lausanne-Ecublens, we are not only equipping the Services Business sector for the future but also strengthening it in terms of improving efficiency. Both of these projects will continue to have top priority in the second half of 2019. HCI Solutions will further establish the e-medication solution Documedis® in the market and also incorporate it into the local systems of service providers (e.g. hospitals, doctors). There are also plans to incorporate the digital e-mediplan into the Group's own Triapharm® pharmacy software. In this way we want to make a significant contribution to transparency in the medication process for the benefit of customers and in the overall cooperation with all service providers.

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

Bern, 6 August 2019



Daniela Bosshardt-Hengartner
Chairwoman
of the Board of Directors



Jean-Claude Cléménçon
CEO