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Consolidated statement of income

in thousand CHF	1.1.-30.6.2020	1.1.-30.6.2019
Net sales	1,690,420	1,600,422
Other income	6,003	8,125
Operating income	1,696,423	1,608,547
Cost of goods	(1,257,451)	(1,189,316)
Personnel costs	(243,125)	(227,183)
Other operating costs	(68,146)	(69,433)
Share of profit from associates and joint ventures	1,589	4,073
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	129,290	126,688
Depreciation and amortisation	(47,008)	(43,889)
Earnings before interest and taxes (EBIT)	82,282	82,799
Financial income	399	402
Financial expenses	(2,730)	(3,138)
Earnings before taxes (EBT)	79,951	80,063
Income taxes	(13,602)	(15,136)
Net profit	66,349	64,927
Attributable to:		
- Shareholders of Galenica Ltd.	66,168	64,813
- Non-controlling interests	181	114
in CHF		
Earnings per share	1.34	1.32
Diluted earnings per share	1.34	1.31
Unaudited figures		

Consolidated statement of comprehensive income

in thousand CHF	1.1.-30.6.2020	1.1.-30.6.2019
Net profit	66,349	64,927
Translation differences	(1)	1
Items that may be reclassified subsequently to profit or loss	(1)	1
Remeasurements of net defined benefit liability	(36,650)	4,724
Income taxes from remeasurement of net defined benefit liability	6,964	(1,489)
Share of other comprehensive income from joint ventures	(1,713)	(183)
Items that will not be reclassified to profit or loss	(31,399)	3,052
Other comprehensive income	(31,400)	3,053
Comprehensive income	34,949	67,980
Attributable to:		
- Shareholders of Galenica Ltd.	34,762	67,866
- Non-controlling interests	187	114

Unaudited figures

Consolidated statement of financial position

Assets

in thousand CHF	30.6.2020		31.12.2019	
Cash and cash equivalents		104,868		90,532
Trade and other receivables		457,076		421,518
Inventories		292,241		277,804
Prepaid expenses and accrued income		40,444		32,995
Current assets	39.0%	894,629	37.2%	822,849
Property, plant and equipment		266,090		267,558
Right-of-use assets		216,579		224,934
Intangible assets		859,680		846,226
Investments in associates and joint ventures		19,474		21,482
Financial assets		19,389		16,454
Deferred tax assets		17,717		10,076
Non-current assets	61.0%	1,398,929	62.8%	1,386,730
Assets	100.0%	2,293,558	100.0%	2,209,579

Liabilities and shareholders' equity

in thousand CHF	30.6.2020		31.12.2019	
Financial liabilities		136,261		44,630
Lease liabilities		47,700		47,796
Trade and other payables		298,987		323,921
Tax payables		9,063		13,798
Accrued expenses and deferred income		155,901		119,535
Provisions		4,236		3,727
Current liabilities	28.4%	652,148	25.1%	553,407
Financial liabilities		381,741		380,870
Lease liabilities		175,338		182,772
Deferred tax liabilities		42,406		37,019
Employee benefit liabilities		92,839		53,031
Provisions		1,268		2,940
Non-current liabilities	30.3%	693,592	29.7%	656,632
Liabilities	58.7%	1,345,740	54.8%	1,210,039
Share capital		5,000		5,000
Reserves		936,926		988,497
Equity attributable to shareholders of Galenica Ltd.		941,926		993,497
Non-controlling interests		5,892		6,043
Shareholders' equity	41.3%	947,818	45.2%	999,540
Liabilities and shareholders' equity	100.0%	2,293,558	100.0%	2,209,579

2020 figures are unaudited

Consolidated statement of cash flows

in thousand CHF	1.1.-30.6.2020	1.1.-30.6.2019
Net profit	66,349	64,927
Income taxes	13,602	15,136
Depreciation and amortisation	47,008	43,889
(Gain)/loss on disposal of non-current assets	(36)	(135)
Increase/(decrease) in provisions and employee benefit liabilities	1,970	799
Net financial result	2,331	2,736
Share of profit from associates and joint ventures	(1,589)	(4,073)
Other non-cash items	2,125	2,059
Interest received	357	394
Interest paid	(1,788)	(2,074)
Other financial receipts/(payments)	(114)	(53)
Dividends received	3,087	4,165
Income taxes paid	(14,576)	(11,754)
Cash flow from operating activities before working capital changes	118,726	116,016
Change in trade and other receivables	(41,351)	(72,826)
Change in inventories	(13,651)	4,617
Change in trade and other payables	(27,179)	(12,833)
Change in other net current assets	28,320	39,891
Working capital changes	(53,861)	(41,151)
Cash flow from operating activities	64,865	74,865
Investments in property, plant and equipment	(15,582)	(13,099)
Investments in intangible assets	(10,122)	(11,144)
Investments in associates and joint ventures	(343)	–
Investments in financial assets	(3,421)	(3,620)
Proceeds from property, plant and equipment and intangible assets	179	232
Proceeds from financial assets	7,235	2,991
Purchase of subsidiaries (net cash flow)	(2,416)	(54,616)
Cash flow from investing activities	(24,470)	(79,256)
Dividends paid	(89,216)	(83,826)
Purchase of treasury shares	(60)	(55)
Proceeds from sale of treasury shares	50	46
Proceeds from financial liabilities	126,311	94,735
Repayment of financial liabilities	(38,550)	(32,900)
Payment of lease liabilities	(24,439)	(23,404)
Purchase of non-controlling interests	(155)	–
Cash flow from financing activities	(26,059)	(45,404)
Effects of exchange rate changes on cash and cash equivalents	–	–
Increase/(decrease) in cash and cash equivalents	14,336	(49,795)
Cash and cash equivalents as at 1 January	90,532	104,970
Cash and cash equivalents as at 30 June	104,868	55,175

Unaudited figures

Consolidated statement of changes in equity

in thousand CHF	Share capital	Treasury shares	Retained earnings	Equity attributable to shareholders of Galenica Ltd.	Non-controlling interests	Equity
Balance as at 1 January 2019	5,000	(32,199)	951,851	924,652	4,125	928,777
Net profit			64,813	64,813	114	64,927
Other comprehensive income			3,053	3,053		3,053
Comprehensive income			67,866	67,866	114	67,980
Dividends			(83,758)	(83,758)	(68)	(83,826)
Transactions on treasury shares		3,613	(3,296)	317		317
Share-based payments			2,072	2,072		2,072
Addition to scope of consolidation					2,525	2,525
Balance as at 30 June 2019	5,000	(28,586)	934,735	911,149	6,696	917,845
Balance as at 1 January 2020	5,000	(25,964)	1,014,461	993,497	6,043	999,540
Net profit			66,168	66,168	181	66,349
Other comprehensive income			(31,406)	(31,406)	6	(31,400)
Comprehensive income			34,762	34,762	187	34,949
Dividends			(88,963)	(88,963)	(63)	(89,026)
Transactions on treasury shares		3,288	(2,989)	299		299
Share-based payments			2,212	2,212		2,212
Change in non-controlling interests			119	119	(275)	(156)
Balance as at 30 June 2020	5,000	(22,676)	959,602	941,926	5,892	947,818

Unaudited figures

On 19 May 2020, the Annual General Meeting approved a dividend payment of CHF 89.0 million for the financial year 2019 (previous year: CHF 83.8 million), corresponding to CHF 1.80 per registered share (previous year: CHF 1.70). For this purpose, CHF 0.90 was taken from the reserves from capital contributions (previous year: CHF 1.70) and CHF 0.90 from retained earnings (previous year: none). The dividend was paid out to the shareholders on 26 May 2020.

Notes to the consolidated interim financial statements of the Galenica Group

1. Group organisation

General information

Galenica is a fully-integrated healthcare provider in Switzerland. Galenica operates a network of pharmacies, develops and offers own brands and products, exclusive brands and products from business partners as well as a variety of on-site health services and tests for customers. Galenica is also a provider of pre-wholesale and wholesale distribution and database services in the Swiss healthcare market.

The parent company is Galenica Ltd., a Swiss company limited by shares with its head office in Bern. The registered office is at Untermattweg 8, 3027 Bern, Switzerland. Shares in Galenica Ltd. are traded on the SIX Swiss Exchange under securities no. 36067446 (ISIN CH0360674466).

The Board of Directors released the consolidated interim financial statements 2020 on 3 August 2020 for publication.

2. Accounting principles

Basis of preparation

The unaudited consolidated interim financial statements of Galenica are based on the financial statements of the individual companies of Galenica as at 30 June 2020, prepared in accordance with uniform principles. Except for the amendments to International Financial Reporting Standards (IFRS) as detailed below, the consolidated interim financial statements have been prepared using the same accounting principles as the consolidated financial statements for the year ending 31 December 2019 and comply with IAS 34 – Interim Financial Reporting. The consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ending 31 December 2019 as they update previously reported information.

Galenica's consolidated interim financial statements are prepared in Swiss francs (CHF) and, unless otherwise indicated, figures are rounded to the nearest CHF 1,000. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. Totals are calculated using the underlying amount rather than the presented rounded number.

Foreign currencies are not of relevance for the consolidated interim financial statements.

Estimation uncertainty and assumptions

The preparation of the Group's consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and the disclosure of contingent liabilities as at the reporting date. Although these estimates and assumptions are made on the basis of all available information and with the greatest of care, the actual results may differ.

Seasonal influences on operations

Sales in the business sectors in which Galenica operates are usually not significantly influenced by seasonal or cyclical fluctuations during the financial year. In 2020, the COVID-19 pandemic led to a unique situation which is further explained in note 3.

Income taxes

Current income taxes are based on an estimate of the expected income tax rate for the full year.

Scope of consolidation

The consolidated interim financial statements of Galenica comprise those of Galenica Ltd. and all its subsidiaries, including associate companies and joint ventures.

Subsidiaries, associates and joint ventures acquired during the reporting period are included in the interim financial statements as at the date when control, significant influence or joint control was obtained. Companies sold during the reporting period are included up to the date when control, significant influence or joint control was lost.

Details of changes in the scope of consolidation in the reporting period are included in note 4, Business combinations.

Amendments to IFRS

As at 1 January 2020 Galenica adopted the following new International Financial Reporting Standards:

- Amendments to IFRS 3 – Definition of a Business (1 January 2020)
- Amendments to IAS 1 and IAS 8 – Definition of Material (1 January 2020)
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Interest Rate Benchmark Reform (1 January 2020)

These changes have no or no material impact on the financial position, financial performance and cash flows of Galenica nor on disclosures in these consolidated interim financial statements. Galenica has not early adopted any other standard or interpretation that has been issued but is not yet effective.

3. Significant event

COVID-19 pandemic

The first six months have been impacted by the coronavirus (COVID-19) in particular when the Federal Government decided the lockdown in mid-March. The lockdown was associated with exceptionally high sales particularly at the start of March by pharmacies and other group companies. Our logistic and distribution companies that supply the entire healthcare market recorded sales which exceeded what was believed to be the capacity limits. In April, during the national lockdown and due to many customers and patients having stocked up their inventory in March, customer traffic and sales in pharmacies declined rapidly and the situation for logistics companies in the Services segment returned to normal. From May, there was a gradual normalisation of the businesses. Overall, COVID-19 reduced sales growth in the Retail Business sector by an estimated 1%. In the Services Business sector additional sales contributed by an estimated 3% to the sales increase.

COVID-19 also caused additional costs. Galenica invested a great deal in protecting employees and customers. Handling the massive volume increases required additional staff and a high degree of coordination.

4. Operating segment information

Operating segment information first half of 2020

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	803,377	1,286,657	8,852	(408,466)	1,690,420
Intersegmental net sales	(32,584)	(367,675)	(8,207)	408,466	–
Net sales to third parties	770,793	918,982	645	–	1,690,420
Other income	1,793	4,408	448	(646)	6,003
Share of profit from associates and joint ventures	1,684	–	–	(95)	1,589
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	97,976	34,558	(319)	(2,925)¹⁾	129,290
Depreciation and amortisation	(35,165)	(11,946)	(11)	114	(47,008)
Earnings before interest and taxes (EBIT)	62,811	22,612	(330)	(2,811)¹⁾	82,282
Interest income					394
Interest expense					(2,559)
Other net financial result					(166)
Earnings before taxes (EBT)					79,951
Income taxes					(13,602)
Net profit					66,349
Assets	1,554,220	902,131	1,041,314	(1,204,107)²⁾	2,293,558
Investments in associates and joint ventures	25,015	–	–	(5,541)	19,474
Liabilities	1,140,433	631,414	684,487	(1,110,594)³⁾	1,345,740
Investments in property, plant and equipment	7,355	9,003	–	(134)	16,224
Investments in intangible assets	3,732	6,776	–	(80)	10,428
Employees as at 30 June (FTE)	3,884	1,462	33	–	5,379

¹⁾ Including the effects of IAS 19 from defined benefit plans and long-service awards of CHF -2.4 million

²⁾ Of which elimination of intercompany positions of CHF -1,200.8 million and other unallocated amounts of CHF -3.3 million

³⁾ Of which elimination of intercompany positions of CHF -1,200.8 million and other unallocated amounts of CHF 90.2 million

The Board of Directors of Galenica Ltd. acting as chief operating decision maker (CODM) allocates resources and monitors performance of the Group's operating segments Health & Beauty and Services on the basis of information prepared in accordance with IFRS with exception of defined benefit plans and long-service awards, which are recognised at Group level.

In the Health & Beauty segment with its large network of pharmacies the accounting for leases is of particular importance. The Group continues to prepare information as if its leases were accounted for as operating leases (e.g. in line with Galenica's accounting policies prior to the adoption of IFRS 16). Those figures are relevant for management incentive and remuneration plans. However, Galenica has determined that the figures including the effects of IFRS 16 are used by the CODM for monitoring and resource allocation decisions and therefore presents its segment reporting as above.

Operating segment information first half of 2019

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	781,393	1,192,369	9,136	(382,476)	1,600,422
Intersegmental net sales	(43,978)	(330,007)	(8,491)	382,476	–
Net sales to third parties	737,415	862,362	645	–	1,600,422
Other income	3,810	4,623	316	(624)	8,125
Share of profit from associates and joint ventures	4,261	–	–	(188)	4,073
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	94,211	34,082	(186)	(1,419)²⁾	126,688
Depreciation and amortisation	(32,636)	(11,384)	(33)	164	(43,889)
Earnings before interest and taxes (EBIT)	61,575	22,698	(219)	(1,255)²⁾	82,799
Interest income					402
Interest expense					(2,923)
Other net financial result					(215)
Earnings before taxes (EBT)					80,063
Income taxes					(15,136)
Net profit					64,927
Assets¹⁾	1,515,577	837,523	986,135	(1,129,656)³⁾	2,209,579
Investments in associates and joint ventures ¹⁾	25,215	–	–	(3,733)	21,482
Liabilities¹⁾	1,133,723	545,373	600,885	(1,069,942)⁴⁾	1,210,039
Investments in property, plant and equipment	7,205	7,085	–	(123)	14,167
Investments in intangible assets	1,400	9,182	–	(5)	10,577
Employees as at 30 June (FTE)	3,875	1,415	34	–	5,324

¹⁾ Figures as at 31 December 2019

²⁾ Including the effects of IAS 19 from defined benefit plans and long-service awards of CHF 0.3 million

³⁾ Of which elimination of intercompany positions of CHF –1,120.1 million and other unallocated amounts of CHF –9.5 million

⁴⁾ Of which elimination of intercompany positions of CHF –1,120.1 million and other unallocated amounts of CHF 50.2 million

5. Business combinations

In the first half of 2020, the scope of consolidation has changed as a result of the following transactions:

Acquisition of pharmacies. Galenica acquired 100% of the interests in pharmacies in various locations in Switzerland. Upon acquisition, most of these pharmacies were merged with Galenicare Ltd.

The purchase consideration amounted to CHF 9.6 million, of which CHF 3.9 million was settled in cash and CHF 2.5 million was offset against trade receivables. The deferred purchase price consideration of CHF 3.2 million falls due in the second half of 2020. The fair value of the provisional net assets amounts to CHF 3.1 million at the acquisition date. The goodwill of CHF 6.5 million was allocated to the Retail and Services business sectors and corresponds to the added value of the pharmacies based on their locations. Transaction costs were insignificant.

Business combinations

in thousand CHF	Fair value
Cash and cash equivalents	1,464
Trade receivables	2,034
Inventories	786
Property, plant and equipment	761
Right-of-use assets	1,188
Other current and non-current assets	575
Trade payables	(1,026)
Financial liabilities	(713)
Lease liabilities	(1,188)
Other current and non-current liabilities	(754)
Fair value of net assets	3,127
Goodwill	6,461
Purchase consideration	9,588
Cash acquired	(1,464)
Offset against trade receivables	(2,500)
Deferred consideration	(3,208)
Net cash flow from current business combinations	2,416

Pro forma figures for acquisitions made in the first half of 2020

Since their inclusion in Galenica's scope of consolidation, the businesses acquired contributed net sales of CHF 3.0 million and an operating result (EBIT) of CHF 0.1 million to the Group's results. If these acquisitions had occurred on 1 January 2020, they would have contributed additional net sales of CHF 3.7 million and increased EBIT by CHF 0.1 million.

6. Net sales

Net sales first half of 2020

in thousand CHF	Health & Beauty		Services	Corporate	Eliminations	Group
	Products & Brands	Retail				
Sale of goods	53,854	709,748	1,226,591	–	(372,284)	1,617,909
Sale of services	765	37,633	60,066	8,852	(34,805)	72,511
Net sales	54,619	747,381	1,286,657	8,852	(407,089)	1,690,420
Intersegmental net sales	(26,651)	(4,556)	(367,675)	(8,207)	407,089	–
Net sales to third parties	27,968	742,825	918,982	645	–	1,690,420
– of which sale of goods to third parties	27,204	708,858	881,847	–	–	1,617,909
– of which sale of services to third parties	764	33,967	37,135	645	–	72,511

Net sales first half of 2019

in thousand CHF	Health & Beauty		Services	Corporate	Eliminations	Group
	Products & Brands	Retail				
Sale of goods	53,267	695,906	1,142,064	–	(358,992)	1,532,245
Sale of services	792	30,199	50,305	9,136	(22,255)	68,177
Net sales	54,059	726,105	1,192,369	9,136	(381,247)	1,600,422
Intersegmental net sales	(28,868)	(13,881)	(330,007)	(8,491)	381,247	–
Net sales to third parties	25,191	712,224	862,362	645	–	1,600,422
– of which sale of goods to third parties	24,399	682,505	825,341	–	–	1,532,245
– of which sale of services to third parties	792	29,719	37,021	645	–	68,177

7. Financial assets and financial liabilities measured at fair value

Fair value

in thousand CHF	30.6.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial liabilities	1,269	1,269	342	342
Bonds (fair value level 1)	380,472	383,060	380,528	393,330
Non-current financial liabilities	381,741	384,329	380,870	393,672

With the exception of non-current financial liabilities the carrying amounts of all financial instruments approximate to the fair value or fair value disclosure is not required (lease liabilities).

8. Contingent liabilities and commitments

Galenica signed purchase agreements to acquire pharmacies and other business in the next few years. The purchase prices will be fixed at the time of transfer of ownership on the basis of net asset value and discounted cash flow. The unrecognised commitments are expected to involve payments of CHF 13.7 million at the most. The purchase rights have an estimated volume of CHF 15.9 million. These purchase rights or obligations fall due between 2020 and 2023.

9. Subsequent events

The following business combinations occurred between 30 June 2020 and 3 August 2020, the date that the consolidated interim financial statements were released for publication.

Acquisition of pharmacies. Galenica acquired 100% of the interests in pharmacies at various locations in Switzerland. The net assets of these acquisitions will be consolidated for financial year 2020 beginning on the date control was obtained. The purchase consideration was CHF 27.5 million, the fair value of the provisional net assets resulting from these additions was estimated at CHF 7.5 million at the acquisition date. Since the transactions were concluded shortly before the consolidated interim financial statements were issued, it was not possible to disclose the additional information required by IFRS.

Acquisition of Hedoga AG. On 1 July 2020, Galenica acquired 100% of the shares of the Swiss based Hedoga AG. Hedoga AG is the parent company of the Hedoga Group with its two operating companies Iromedica AG (Swiss-based) and Dr. Schmidgall GmbH (Austria-based). The main activity of the Group is to market over-the-counter (OTC) medicines, medical devices, food supplements and cosmetics.

The purchase consideration amounted to EUR 28.7 million (including a cash position of EUR 4.3 million) and was fully settled in cash. Due to the fact that the acquisition took place only a short time before the release of the interim consolidated financial statements, the fair value of the provisional net assets at the acquisition date cannot yet be assessed with sufficient reliability. Transaction costs of CHF 0.5 million are recognised in other operating costs.

There were no further significant events after the reporting date.

