

Health & Beauty Segment



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, with over 500 own and partner pharmacies. It includes the Amavita and Sun Store pharmacy chains, the Coop Vitality pharmacies, which are operated as a joint venture, and the pharmacy network of independent Winconcept partners. In addition, with Mediservice, the Bichsel Group and Curarex Swiss, Galenica provides a unique and specialised range of home care services. The

products and services of Retail are offered in pharmacies as well as online and to patients at home (home care).

The Products & Brands Business sector markets and distributes both own and partner products and brands for the retail segment in the Swiss healthcare market and offers various services. These include marketing and sales support as well as product approval, quality control, supply chain management and training.

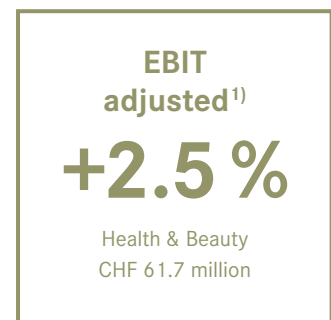
Net sales and operating result

The Health & Beauty segment generated net sales of CHF 803.4 million (+2.8%) in the first half of 2020, of which CHF 747.4 million was accounted for by the Retail Business sector and CHF 54.6 million by the Products & Brands Business sector.

In spite of the negative impact of COVID-19, the Health & Beauty segment was able to increase its adjusted¹⁾ operating result (EBIT), i.e. excluding the effects of the lease accounting standard IFRS 16, by 2.5% to CHF 61.7 million, and keep its adjusted¹⁾ return on sales (ROS) stable at 7.7%. This result was achieved in particular thanks to encouraging expansion activities – in both the Retail and Products & Brands Business sectors.

EBIT was negatively impacted above all by the drop in sales at pharmacies in high-frequency locations and for beauty products, as well as by the temporary closure of perfumery departments mandated by the authorities. At the same time, additional costs were incurred by pharmacies, for example to roll out protection measures for employees and customers and to maintain operations.

Investments in the Health & Beauty segment totalled CHF 11.1 million (first half of 2019: CHF 8.6 million). This figure was slightly higher than in the previous year due to investments in ERP system replacements.



¹⁾ See Alternative performance measures section from page 27



Retail Business sector



Advice and support in a challenging environment

Net sales development

The Retail Business sector increased net sales in the first half of 2020 by 2.9% to CHF 747.4 million (excluding Coop Vitality). The positive sales performance is attributable to the acquisition of the Bichsel Group on 1 May 2019 and the expansion of the pharmacy network.

The expansion – including the Bichsel Group – accounted for 4.3% of the sales growth. Organic growth, excluding expansion effects, was –1.4%.

Excluding the effect of the government-mandated price reduction measures for medications of –1.9%, organic growth would have amounted to +0.5%.

In addition, sales performance in the first half of 2020 was impaired by a one-time effect. Various intra-Group commodity transactions were discontinued as of the start of 2020 as part of a process optimisation programme, which reduced the sales of the Retail Business sector by 1.3% year-on-year. Excluding price reductions and this one-time effect, organic growth would have amounted to a pleasing 1.8%.

Finally, generic substitution, which is actively promoted by Galenica, also curbed sales because of the lower medication prices. The generic substitution rate was increased again in the period under review, from 70% to 72%.

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E-SHOP SALES
TRIPLED IN THE FIRST
HALF OF 2020.

Although the Amavita and Sun Store pharmacies achieved a massive increase in sales in March, the sales losses in the following months caused by COVID-19 measures were higher, so that COVID-19 had a negative impact of an estimated 1% on overall sales growth. The reasons were the nationwide lockdown with the temporary, officially ordered closure of perfumery departments and the slump in customer frequency, particularly in pharmacies in shopping centres, train stations and airports. Since many doctors' practices did not operate at full capacity for several weeks, fewer prescription drugs were dispensed in pharmacies.

This decline in sales was more than offset by a good three-fold increase in online sales generated by the e-shops of Amavita and Sun Store and the pleasing growth of the Mediservice specialty pharmacy (+3.2%).

By comparison, medication sales (prescription (Rx) and OTC products) in the Swiss pharmacy market posted growth of 2.8% over the same period (IQVIA, Pharmaceutical Market Switzerland, first half of 2020).

The number of own pharmacies as of the end of June 2020 totalled 358 locations (+2 net compared to the end of 2019). A total of six new pharmacies were added, consisting of five acquisitions and a new opening. As part of the continuous optimisation of the pharmacy network, however, the period under review also saw four restructurings. There were 156 partner pharmacies as of the end of June 2020 (-1 compared to the end of 2019).

Boost for the omni-channel concept

The integrated Click & Collect ordering and pick-up service in the Amavita, Sun Store and Coop Vitality online shops was expanded in the first half of 2020 with the option for customers to have OTC medications ordered via Click & Collect delivered to their home using the existing delivery service. To ensure patients are advised, employees in the respective pharmacy contact the customer by telephone before delivery. Because this new home delivery service was in high demand during the period under review, particularly by COVID-19 risk groups, it was temporarily strengthened by employees, such as perfumery employees, who were unable to perform their usual duties during lockdown.

As part of the further development of Omni-channel, online domain was also strengthened with additional improvements to the customer management system (CRM) and online marketing.

Bahnhof Apotheke Zürich pharmacy now Amavita Bahnhof Apotheke

Due to the refurbishment of Zurich main station, the former Bahnhof Apotheke Zürich pharmacy moved into a modern temporary location and is now called Amavita Bahnhof Apotheke. The pharmacy is expected to remain in the temporary location until 2023, when refurbishment work in the station is complete.



GENERIC SUBSTITUTION
WAS FURTHER
INCREASED TO 72%.

Pharmacists' competencies expanded

The revision of the Therapeutic Products Act and Therapeutic Products Ordinance, which came into effect in 2019, means that pharmacists are able to sell additional Rx medications without a prescription. Pharmacists have been given training in connection with these increased demands.

Increasing digitalisation at Mediservice

The specialty pharmacy Mediservice, which specialises in the care of people suffering from chronic and rare diseases, also recorded higher demand for its services in the course of COVID-19, both from doctors and in terms of delivery of medications and video therapy support. While the number of home visits had to be reduced substantially, as an alternative, treatment instructions and explanations could be successfully given via video thanks to the professional nursing staff's many years of experience. Mediservice has done everything necessary to ensure the supply to patients at all times, even during COVID-19.

Patients can now communicate even better with Mediservice via the redesigned digital customer account. This is now available in a responsive website design.



WITH THE CORONA PANDEMIC, PHARMACIES HAVE PROVEN TO BE THE FIRST POINT OF CONTACT FOR HEALTHCARE ADVICE.

Own pharmacies and shareholdings

	30.6.2020	31.12.2019	Change
Amavita pharmacies ¹⁾	175	171	+4
Sun Store pharmacies ¹⁾	93	94	-1
Coop Vitality pharmacies (joint venture with Coop) ²⁾	85	84	+1
Mediservice specialty pharmacy ¹⁾	1	1	—
Majority holdings in other pharmacies ¹⁾	4	6	-2
Minority holdings in other pharmacies ²⁾	—	—	—
Total own points of sale	358	356	+2

¹⁾ Fully consolidated

²⁾ Consolidated at equity

Independent partners

	30.6.2020	31.12.2019	Change
Amavita partnerships	7	7	—
Winconcept partner pharmacies	149	150	-1
Total independent partners	156	157	-1

Bichsel Group a systemically important company

The integration of the Bichsel Group into the Retail Business sector proceeded according to plan in the first half of 2020 through a number of subprojects. Operational management was transferred from the Bichsel family to a new management team, comprising experienced employees already in place.

In order to meet the increased demand from customers, especially hospitals, due to COVID-19, the Bichsel Group has significantly increased production capacity of its in-house laboratories for infusion and rinsing solutions, and other sterile liquid pharmaceuticals such as disinfectants. Production employees were also supported temporarily by deployed army medics. In this way, the Bichsel Group made a considerable contribution to security of supply in this challenging time and was classified as a systemically important company by the Federal Office for National Economic Supply (FONES).

The home care unit was able to seamlessly ensure care for its patients, even during the COVID-19 pandemic and without any loss of quality.

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BICHSEL WAS CLASSIFIED BY THE FEDERAL OFFICE FOR NATIONAL ECONOMIC SUPPLY AS A SYSTEMICALLY IMPORTANT COMPANY.



Outlook for the second half of 2020

The focus will continue to be on the expansion and further development of the pharmacy network and online offerings. After conducting an initial pilot in spring 2020 with Coop Vitality, a broad-based launch of the new mail-order pharmacy is also planned for Amavita in the second half. Through this service, pharmacies can also send prescription medicines to their customers at home. Thanks to its location in the Galexis distribution centre in Niederbipp, it benefits from direct access to the full range of products and well-established, efficient processes.

A further focus is the continuous expansion of pharmacists' competencies in primary care, so that the range of services can continue to be expanded.

Mediservice is planning to roll out the new ERP software and expand the electronic customer account with additional information and content for patients.

At the Bichsel Group, projects are pending for the expansion of production capacities and the digitalisation of suitable areas of production and procurement. With regard to the federal strategy for a greater focus on outpatient treatments, the existing home care portfolio (sip feeds, tube feeds or antibiotics and pain infusions) will be further strengthened and expanded.



THE FOCUS WILL CONTINUE TO BE ON THE EXPANSION AND FURTHER DEVELOPMENT OF THE PHARMACY NETWORK AND ONLINE OFFERINGS.

COVID-19 challenges

- COVID-19 has clearly highlighted the systemic importance of pharmacies. Pharmacies were able to prove themselves as the first point of contact for healthcare advice.
- Employees in the Retail Business sector worked tremendously hard during the intense COVID-19 phase. In-pharmacy advice and medication dispensing were ensured at all times. Galenicare invested a great deal in protective measures for employees and customers.
- Despite the unplanned challenges brought about by COVID-19, further progress was achieved in various areas of digitalisation, in particular in the online shops, the CRM and the newly planned mail-order pharmacy.



Products & Brands

Business sector



Growth driven by probiotics and acquisitions

Net sales development

The Products & Brands Business sector, which mainly comprises the business activities of Verfora, reported a slight increase in net sales of +1.0% to CHF 54.6 million. The sales growth was mainly driven by the export business.

Given the challenging environment resulting from COVID-19, sales in the Swiss market declined by 2.6% to CHF 41.3 million.

Sales in Switzerland were positively supported by expansion activities, which contributed 2.6% to the sales development. These included, in particular, the successful start to taking over distribution of the Omni-Biotic® brand from Institut Allergosan.

Due to COVID-19, demand for individual products – in particular disinfectant products from Septo Clean® – jumped almost overnight in March 2020. Algifor® also recorded an initial high increase in sales; however, demand declined sharply in the second quarter 2020.

Overall, however, the sales of Verfora were negatively affected by COVID-19. The various beauty products in particular suffered from the lockdown. But also products such as Itinerol® and Anti-Brumm®, which are typically part of a travel first aid kit, were bought less. Sales of products such as Perskindol® were also negatively impacted by lower frequencies in pharmacies.

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Export sales totalled CHF 13.3 million, +14.0% more than in the first half of 2019 – primarily due to inventory purchases of Perskindol® triggered in view of the introduction of the new Medical Device Regulation in the EU.

Reliable and innovative, even in challenging times

Verfora once again proved itself to be a reliable partner for all pharmacies and drugstores in the first half of 2020 and also lived up to its claim to be an innovative partner for retail. This was demonstrated by the successful launch of new products, such as Warm-up gel from Perskindol® and Anti-Brumm® Naturel roll-on.

As a further innovation, Verfora launched the first multivitamin and mineral hot drink Veractiv® in capsule form in March. However, the planned in-store product testing sessions had to be cancelled due to COVID-19.

Expansion of the derma-cosmetics offering

The own derma-cosmetics line Dermafora®, launched in 2019, celebrated its first birthday in February 2020. It recorded a successful starting year. The portfolio was expanded in May with the launch of an anti-aging serum. Verfora's derma-cosmetics offering was also expanded with the launch of the partner brand Uriage. The various products of this French brand are based on thermal water from the Alpine spa resort of Uriage-les-Bains.

In early 2020, Verfora took over distribution of the Bucco Tantum® brand from Italian pharma company Angelini Pharma, thereby strengthening the Products & Brands Business sector's presence in the cold medication segment.

Entry into the probiotics market

Through its new partnership with Austria-based Institut Allergosan, Verfora closed a significant gap in its portfolio. Institut Allergosan has been one of the world's leading centres of competence in the field of microbiome research for over 25 years and develops excellent pro- and prebiotics based on its knowledge. This is currently the fastest-growing segment in the consumer health-care market and has been covered by Verfora since the first half of 2020 through its distribution of the Omni-Biotic® brand.



VERFORA POSTED STRONG EXPANSION IN SPITE OF THE CHALLENGES POSED BY COVID-19, TAKING OVER DISTRIBUTION ACTIVITIES FROM ANGELINI PHARMA AND INSTITUT ALLERGOSAN AND ACQUIRING THE HEDOGA GROUP.

Outlook for the second half of 2020

Verfora wants to remain a strong partner for the specialist retail trade. To this end, sales-promoting services are being expanded and new products launched. In the second half of the year, a new personal care product range from Dermafora® is set to be launched, and Perskindol® Dolo will be positioned as a phytotherapeutic treatment alternative for arthritis and osteoarthritis.

On 1 July 2020, Galenica acquired the Hedoga Group with its well-known brands Osa®, Osanit® and Carmol®. Verfora has thus secured the rights to strong brands and marketing authorisations with potential that are an ideal complement to the current portfolio. Accordingly, Verfora can consolidate its leading position in the Swiss consumer healthcare (CHC) market and strengthen its positioning as the most important partner for pharmacies and drugstores for over-the-counter medicines and health products. In addition, Verfora's export business will also be strengthened in selected markets, particularly in Europe.

The Hedoga Group's top-selling brands are Osa® and Osanit® as well as Carmol®. The Osa® and Osanit® brands include classic and homeopathic remedies used mainly to treat teething pain in children. With these new products in its portfolio, Verfora is taking a leading position in this market segment. Carmol® is a medicinal product to treat digestive disorders and improve feelings of discomfort. With Carmol®, Verfora is entering into the lemon balm spirit market and becoming the clear number one in Switzerland in this segment.

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VERFORA WANTS TO REMAIN A STRONG PARTNER FOR THE SPECIALIST RETAIL TRADE. TO THIS END, SALES-PROMOTING SERVICES ARE BEING EXPANDED AND NEW PRODUCTS LAUNCHED.



Also from 1 July 2020, Verfora has taken over distribution of the well-known Thermacare® brand for Switzerland and Liechtenstein. This strengthens the partnership between Angelini Pharma and Verfora, which already included distribution of the Angelini Pharma brand Bucco Tantum® by Verfora from the start of 2020.

At the end of the year, Verfora will relaunch Vita-Merfen®, the well-known and popular ointment for disinfection and wound healing. The ointment was taken off the market by its former brand owner in 2015. In 2017, Verfora acquired the Merfen® and Vita-Merfen® brands and has since been working with full commitment towards the ointment's relaunch.



VERFORA WILL
RELAUNCH VITA-MERFEN®
ON THE MARKET
AT THE END OF 2020.

COVID-19 challenges

- Despite COVID-19, Verfora has successfully launched new products such as the Warm-up gel from Perskindol® and the Anti-Brumm® Naturel roll-on.
- Despite the unplanned challenges brought about by COVID-19, Verfora continued its acquisition activities, taking over distribution of the Bucco Tantum® and Thermacare® brands from Angelini Pharma as well as probiotic Omni-Biotic® from Institut Allergosan.
- At the same time, the acquisition of the Hedoga Group enabled Verfora to further expand its market leadership in the Swiss consumer healthcare market and strengthen its positioning as the most important partner for pharmacies and drugstores for over-the-counter medicines and health products.

