

Consolidated interim financial statements 2018 (en anglais)

Consolidated interim financial statements 2018

- 16 Consolidated statement
of income
- 17 Consolidated statement
of comprehensive income
- 18 Consolidated statement
of financial position
- 19 Consolidated statement
of cash flows
- 20 Consolidated statement
of changes in equity
- 21 Notes to the consolidated
interim financial statements
of the Galenica Group

Consolidated statement of income

Consolidated statement of income

in thousand CHF	1.1.–30.6.2018	Restated 1.1.–30.6.2017
Net sales	1,566,133	1,552,447
Other income	7,404	13,007
Operating income	1,573,537	1,565,454
Cost of goods	(1,178,227)	(1,177,035)
Personnel costs	(217,117)	(212,655)
Other operating costs	(91,198)	(85,888)
Share of profit of associates and joint ventures	2,411	2,037
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	89,406	91,913
Depreciation and amortisation	(19,303)	(20,398)
Earnings before interest and taxes (EBIT)	70,103	71,515
Financial income	399	488
Financial expenses	(1,658)	(1,445)
Earnings before taxes (EBT)	68,844	70,558
Income tax	(12,366)	(12,691)
Net profit	56,478	57,867
Attributable to:		
– Shareholders of Galenica Ltd.	56,424	57,850
– Non-controlling interests	54	17
in CHF		
Earnings per share	1.15	1.16
Diluted earnings per share	1.15	1.16

Unaudited figures

Consolidated statement of comprehensive income

in thousand CHF	1.1.–30.6.2018	1.1.–30.6.2017
Net profit	56,478	57,867
Translation differences	–	1
Items that may be reclassified subsequently to profit or loss	–	1
Remeasurements of net defined benefit liability/(asset)	(2,218)	35,706
Income tax from remeasurements of net defined benefit liability/(asset)	466	(7,855)
Share of other comprehensive income from joint ventures	(674)	565
Items that will not be reclassified to profit or loss	(2,426)	28,416
Other comprehensive income	(2,426)	28,417
Comprehensive income	54,052	86,284
Attributable to:		
– Shareholders of Galenica Ltd.	53,998	86,267
– Non-controlling interests	54	17

Unaudited figures

Consolidated statement of financial position

Consolidated statement of financial position

Assets

in thousand CHF	30.6.2018		31.12.2017	
Cash and cash equivalents		67,802		96,287
Trade and other receivables		426,812		386,754
Inventories		261,380		274,217
Prepaid expenses and accrued income		30,524		30,959
Current assets	43%	786,518	44%	788,217
Property, plant and equipment		249,350		251,413
Intangible assets		720,488		693,091
Investments in associates and joint ventures		46,472		46,477
Financial assets		15,525		12,580
Deferred tax assets		7,743		6,404
Non-current assets	57%	1,039,578	56%	1,009,965
Assets	100%	1,826,096	100%	1,798,182

Liabilities and shareholders' equity

in thousand CHF	30.6.2018		31.12.2017	
Financial liabilities		42,570		24,509
Trade and other payables		312,784		293,260
Tax payables		11,224		10,066
Accrued expenses and deferred income		132,375		128,054
Provisions		1,819		2,172
Current liabilities	27%	500,772	25%	458,061
Financial liabilities		381,726		381,781
Deferred tax liabilities		65,119		61,522
Employee benefit liabilities		36,868		29,860
Provisions		4,682		5,443
Non-current liabilities	27%	488,395	27%	478,606
Liabilities	54%	989,167	52%	936,667
Share capital		5,000		5,000
Reserves		827,787		852,280
Equity attributable to shareholders of Galenica Ltd.		832,787		857,280
Non-controlling interests		4,142		4,235
Shareholders' equity	46%	836,929	48%	861,515
Liabilities and shareholders' equity	100%	1,826,096	100%	1,798,182

2018 figures are unaudited

Consolidated statement of cash flows

in thousand CHF	1.1.-30.6.2018	1.1.-30.6.2017
Net profit	56,478	57,867
Income tax	12,366	12,691
Depreciation and amortisation	19,303	20,398
(Gain)/loss on disposal of non-current assets	(117)	(44)
(Gain)/loss on disposal of assets held for sale	–	(5,164)
(Gain)/loss on disposal of subsidiaries	–	(2,890)
Increase/(decrease) in provisions and employee benefit liabilities	3,552	2,660
Net financial result	1,259	957
Share of profit of associates and joint ventures	(2,411)	(2,037)
Other non-cash items	2,251	1,874
Change in trade and other receivables	(41,950)	(32,243)
Change in inventories	14,711	5,153
Change in trade and other payables	16,524	(6,703)
Change in other net current assets	5,290	25,093
Interest received	279	333
Interest paid	(650)	(903)
Other financial receipts/(payments)	(270)	(82)
Dividends received	3,381	2,548
Income tax paid	(8,417)	(7,949)
Cash flow from operating activities	81,579	71,559
Investments in property, plant and equipment	(10,787)	(14,045)
Investments in intangible assets	(8,128)	(19,428)
Investments in associates and joint ventures	(1,005)	–
Investments in financial assets and securities	(7,670)	(1,948)
Proceeds from property, plant and equipment and intangible assets	285	515
Proceeds from financial assets and securities	5,916	43
Proceeds from assets held for sale	–	39,625
Purchase of subsidiaries (net cash flow)	(21,025)	(31,204)
Sale of subsidiaries (net cash flow)	–	3,220
Cash flow from investing activities	(42,414)	(23,222)
Dividends paid	(81,145)	–
Purchase of treasury shares	(176)	–
Proceeds from sale of treasury shares	25	–
Proceeds/(repayment) from financial liabilities (net) – Vifor Pharma Group	–	3,865
Repayment loan to Vifor Pharma Group	–	(360,000)
Proceeds from financial liabilities	17,724	771,620
Repayment of financial liabilities	(4,061)	(363,473)
Purchase of non-controlling interests	(17)	(118)
Cash flow from financing activities	(67,650)	51,894
Effects of exchange rate changes on cash and cash equivalents	–	1
Increase/(decrease) in cash and cash equivalents	(28,485)	100,232
Cash and cash equivalents as at 1 January	96,287	9,019
Cash and cash equivalents as at 30 June	67,802	109,251

Unaudited figures

Consolidated statement of changes in equity

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 31 December 2016	–	–	329,621	329,621	4,584	334,205
Net profit			57,850	57,850	17	57,867
Other comprehensive income			28,417	28,417		28,417
Comprehensive income			86,267	86,267	17	86,284
Transactions on treasury shares		(41,186)		(41,186)		(41,186)
Share-based payments			1,888	1,888		1,888
Incorporation of new parent company	5,000		403,919	408,919		408,919
Change in non-controlling interests			84	84	(202)	(118)
Balance as at 30 June 2017	5,000	(41,186)	821,779	785,593	4,399	789,992
Balance as at 31 December 2017	5,000	(38,720)	891,000	857,280	4,235	861,515
Change in accounting standards ¹⁾			(731)	(731)	(3)	(734)
Balance as at 1 January 2018	5,000	(38,720)	890,269	856,549	4,232	860,781
Net profit			56,424	56,424	54	56,478
Other comprehensive income			(2,426)	(2,426)		(2,426)
Comprehensive income			53,998	53,998	54	54,052
Dividends			(81,029)	(81,029)	(116)	(81,145)
Transactions on treasury shares		3,836	(2,838)	998		998
Share-based payments			2,260	2,260		2,260
Change in non-controlling interests			11	11	(28)	(17)
Balance as at 30 June 2018	5,000	(34,884)	862,671	832,787	4,142	836,929

¹⁾ Adjusted due to restatement IFRS 9 (refer to page 22)
Unaudited figures

On 9 May 2018, the Annual General Meeting approved a dividend payment to be made from capital contribution reserves of CHF 81.0 million, corresponding to CHF 1.65 per registered share, for the financial year 2017 (previous year: none). The dividend was paid out to the shareholders on 16 May 2018.

Notes to the consolidated interim financial statements of the Galenica Group

1. Significant transactions and general information

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 2018 on 6 August 2018 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 2018, 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 2017 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 2017 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.

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. Any adjustments resulting from changes in estimates and assumptions are made during the reporting period in which the original estimates and assumptions changed.

Seasonal influences on operations

Sales in the business sectors in which Galenica operates are not significantly influenced by seasonal or cyclical fluctuations during the financial year.

Income tax

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

Notes to the consolidated interim financial statements of the Galenica Group

Amendments to IFRS

As at 1 January 2018 Galenica adopted the following new International Financial Reporting Standards relevant for the Group.

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

Galenica applies IFRS 9 and IFRS 15 in 2018 for the first time. Galenica recorded the impact of IFRS 9 as at 1 January 2018. The effect of initially applying IFRS 9 was recorded in retained earnings. Prior year numbers have been restated for the impact of IFRS 15. Galenica has not early adopted any other standard or interpretation that has been issued but is not yet effective.

IFRS 9 replaces IAS 39 Financial Instruments and introduces new rules for classification and measurement, particularly for financial assets, for impairment of such assets and for hedge accounting. The adoption of IFRS 9 has introduced new rules to account for impairment losses on receivables. IFRS 9 requires that a forward-looking expected credit loss (ECL) model is applied rather than the incurred loss approach of IAS 39. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that Galenica expects to receive. Galenica has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The cumulative effect recorded as at 1 January 2018 was a decrease to retained earnings of CHF 0.7 million.

IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations and it applies to all revenue arising from contracts with customers that are in scope of the standard. Galenica has analysed the standard and concluded that it does not have an impact on the timing and amounts recognised but that certain reclassifications and thus amendments in the presentation of the consolidated statement of income are required as stated below.

The impacts of the adoption of IFRS 15 are as follows:

Consideration paid or payable to a customer: Galenica has historically presented on a gross basis certain payments made by suppliers and to customers that following the new guidance in IFRS 15 do not represent consideration for distinct goods or services provided by suppliers and by Galenica and are now recognised as a reduction of cost of goods and revenue. Such payments include advertising arrangements, marketing support, reimbursements for training and slotting fees.

Galenica has applied the full retrospective method upon adoption of IFRS 15 and thus has restated the consolidated interim statement of income for the period ending 30 June 2017.

in thousand CHF	1.1.–30.6.2017 as reported	Restatement IFRS 15	1.1.–30.6.2017 restated
Net sales	1,587,488	(35,041)	1,552,447
Other income	30,611	(17,604)	13,007
Operating income	1,618,099	(52,645)	1,565,454
Cost of goods	(1,211,925)	34,890	(1,177,035)
Personnel costs	(212,655)	–	(212,655)
Other operating costs	(103,643)	17,755	(85,888)
Share of profit of associates and joint ventures	2,037	–	2,037
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	91,913	–	91,913

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.

3. Operating segment information

Operating segment information first half of 2018

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	745,665	1,177,118	8,684	(365,334)	1,566,133
Intersegmental net sales	(38,505)	(318,790)	(8,039)	365,334	–
Third party net sales	707,160	858,328	645	–	1,566,133
Share of profit of associates and joint ventures	2,524	–	–	(113)	2,411
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	63,362	32,758	(121)	(6,593)	89,406
Depreciation and amortisation	(9,092)	(10,413)	(17)	219	(19,303)
Earnings before interest and taxes (EBIT)	54,270	22,345	(138)	(6,374)	70,103
Interest income					394
Interest expense					(1,369)
Other financial result (net)					(284)
Earnings before taxes (EBT)					68,844
Income tax					(12,366)
Net profit					56,478
Assets	1,151,996	829,783	955,037	(1,110,720)¹⁾	1,826,096
Investments in associates and joint ventures	47,899	–	–	(1,427)	46,472
Liabilities	965,280	552,980	538,813	(1,067,906)²⁾	989,167
Investments in property, plant and equipment	5,211	7,720	–	(97)	12,834
Investments in intangible assets	167	8,409	6	(27)	8,555
Employees as at 30 June (FTE)	3,492	1,365	34		4,891

¹⁾ Of which elimination of intercompany positions CHF –1,102.0 million and other unallocated amounts CHF –8.7 million

²⁾ Of which elimination of intercompany positions CHF –1,102.0 million and other unallocated amounts CHF 34.1 million

Notes to the consolidated interim financial statements of the Galenica Group

Operating segment information first half of 2017

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales ¹⁾	727,537	1,166,948	7,173	(349,211)	1,552,447
Intersegmental net sales ¹⁾	(34,447)	(308,236)	(6,528)	349,211	–
Third party net sales¹⁾	693,090	858,712	645	–	1,552,447
Share of profit of associates and joint ventures	2,290	–	–	(253)	2,037
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	60,212	38,676	117	(7,092)	91,913
Depreciation and amortisation	(10,666)	(9,982)	(18)	268	(20,398)
Earnings before interest and taxes (EBIT)	49,546	28,694	99	(6,824)	71,515
Interest income					364
Interest expense					(1,085)
Other financial result (net)					(236)
Earnings before taxes (EBT)					70,558
Income tax					(12,691)
Net profit					57,867
Assets²⁾	1,074,233	751,654	911,191	(938,896)³⁾	1,798,182
Investments in associates and joint ventures ²⁾	47,117	–	–	(640)	46,477
Liabilities²⁾	915,376	454,788	471,454	(904,951)⁴⁾	936,667
Investments in property, plant and equipment	7,240	6,894	–	(37)	14,097
Investments in intangible assets	15,167	4,239	22	–	19,428
Employees as at 30 June (FTE)	3,480	1,333	31		4,844

¹⁾ Restatement upon adoption of IFRS 15 (refer to page 22)

²⁾ Figures as at 31 December 2017

³⁾ Of which elimination of intercompany positions CHF –932.3 million and other unallocated amounts CHF –6.6 million

⁴⁾ Of which elimination of intercompany positions CHF –932.3 million and other unallocated amounts CHF 27.3 million

4. Business combinations

In the first half of 2018, the scope of consolidation has changed as a result of the following transactions:

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

The purchase consideration amounted to CHF 24.1 million, of which CHF 20.4 million was settled in cash and CHF 2.4 million was offset against loans receivable. The deferred purchase price consideration of CHF 1.3 million falls due in the second half of 2018. The fair value of the provisional net assets amounts to CHF 6.3 million at the acquisition date. The goodwill of CHF 17.9 million was allocated to the Retail Business sector and corresponds to the added value of the pharmacies based on their locations. Transaction costs were insignificant.

Acquisition of Careproduct AG. On 3 January 2018 Galenicare Holding acquired 100% of the shares in the Swiss company Careproduct AG. The company offers efficient solutions to support and increase the mobility in everyday life of older and disabled people. Careproduct supplies walking frames, wheelchairs, incontinence products and other aids both online and offline.

The purchase consideration amounting to CHF 4.0 million was settled in cash. The fair value of the net assets amounts to CHF 0.4 million at the acquisition date. The goodwill of CHF 3.5 million was allocated to the Retail Business sector and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition, the growth in market share particularly in the online distribution. Transaction costs were insignificant.

Business combinations

in thousand CHF	Fair value Total
Cash and cash equivalents	3,389
Trade receivables	2,397
Inventories	1,874
Property, plant and equipment	1,421
Intangible assets	582
Other current and non-current assets	459
Trade payables	(1,203)
Financial liabilities	(1,665)
Other current and non-current liabilities	(543)
Fair value of net assets	6,711
Goodwill	21,423
Purchase consideration	28,134
Cash acquired	(3,389)
Offset against loans receivable	(2,400)
Deferred consideration	(1,320)
Net cash flow from current business combinations	21,025

Pro forma figures for acquisitions made in the first half of 2018

Since their inclusion in Galenica's scope of consolidation, the businesses acquired contributed net sales of CHF 8.5 million and an operating result (EBIT) of CHF 0.2 million to the Group's results. If these acquisitions had occurred on 1 January 2018, they would have contributed additional net sales of CHF 4.4 million and increased EBIT by CHF 0.2 million.

5. Net sales

Galenica separates revenue recognised from contracts with customers into the business sectors.

Net sales first half of 2018

in thousand CHF	Product & Brands	Health & Beauty		Services	Corporate	Eliminations	Group
		Retail	Services				
Sale of goods	47,816	668,113	1,129,999	–	(343,840)	1,502,088	
Sale of services	837	27,736	47,119	8,684	(20,331)	64,045	
Net sales	48,653	695,849	1,177,118	8,684	(364,171)	1,566,133	
Intersegmental net sales	(24,351)	(12,991)	(318,790)	(8,039)	364,171	–	
Third party net sales	24,302	682,858	858,328	645	–	1,566,133	

Net sales first half of 2017

in thousand CHF	Product & Brands	Health & Beauty		Services	Corporate	Eliminations	Group
		Retail	Services				
Sale of goods	47,696	652,209	1,121,752	–	(331,310)	1,490,347	
Sale of services	986	25,886	45,196	7,173	(17,141)	62,100	
Net sales	48,682	678,095	1,166,948	7,173	(348,451)	1,552,447	
Intersegmental net sales	(22,414)	(11,273)	(308,236)	(6,528)	348,451	–	
Third party net sales	26,268	666,822	858,712	645	–	1,552,447	

6. Financial assets and financial liabilities measured at fair value

Fair value

in thousand CHF	30.6.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial liabilities	381,726	381,934	381,781	385,684

With the exception of non-current financial liabilities the carrying amounts of all financial assets and financial liabilities approximate to the fair value. The listed bonds with a carrying amount of CHF 380.0 million have a fair value of CHF 380.9 million as at 30 June 2018 (level 1).

7. Contingent liabilities and commitments

Galenica has signed purchase agreements to acquire pharmacies in the next few years. The unrecognised commitments are expected to involve payments of CHF 5.5 million at the most. The purchase rights have an estimated volume of CHF 6.0 million. These purchase rights or obligations fall due in 2020.

8. Subsequent events

The following business combination occurred between 30 June 2018 and the date the consolidated interim financial statements were released for publication.

Acquisition of a pharmacy. Galenicare Holding acquired 100% of the interests in a pharmacy in Switzerland. The net assets of this acquisition will be consolidated for financial year 2018 from the date control was obtained. The purchase consideration was CHF 3.3 million, the fair value of the provisional net assets resulting from this addition was estimated at CHF 1.3 million at the acquisition date. Since the transaction was concluded shortly before the consolidated interim financial statements were issued, it was not possible to disclose the additional information required by IFRS.

Acquisition of Ingrid Barrage AG. On 2 July 2018 Galenicare Holding acquired the remaining 51% of the shares in the Swiss company Ingrid Barrage AG and thus controls the company since the acquisition date. The company operates a pharmacy located at Zurich mainstation and has been renamed to Bahnhof Apotheke Zurich AG immediately after the acquisition date. The purchase consideration to be paid is based on a formula consisting of the relative share of equity in addition of a contingent consideration payment. The purchase consideration cannot yet be assessed with sufficient accuracy and will be determined at a later point in time. The acquired net assets assumed and the acquisition-date fair value of the equity interest in the acquiree held immediately before the acquisition date will also be determined at a later point in time. Transaction costs were insignificant.

There were no further significant events after the reporting date.