Half year report 2020

OF THE GALENICA GROUP

Galenica – the first choice for health, beauty and wellbeing

Content

Key figures

Net sales

in million CHF

Health & Beauty[1]	803.4
Services[1]	1,286.7

EBIT adjusted[2]

in million CHF

Health & Beauty[1)2]	61.7
Services[1)2]	22.6

Number of employees

as at 30 June 2020

Galenica Ltd.	36
Health & Beauty	5,220
Services	1,792

in million CHF	1.1.–30.6.2020	1.1.–30.6.2019	Change
Net sales	**1,690.4**	**1,600.4**	**+5.6 %**
Health & Beauty[1]	803.4	781.4	+2.8 %
Services[1]	1,286.7	1,192.4	+7.9 %
EBITDA	**129.3**	**126.7**	**+2.1 %**
EBITDA adjusted[2]	**105.3**	**101.8**	**+3.5 %**
Health & Beauty[1)2]	72.8	70.7	+3.0 %
Services[1)2]	33.4	33.0	+1.1 %
EBIT	**82.3**	**82.8**	**–0.6 %**
EBIT adjusted[2]	**83.6**	**81.1**	**+3.0 %**
in % of net sales	4.9 %	5.1 %	
Health & Beauty[1)2]	61.7	60.3	+2.5 %
in % of net sales	7.7 %	7.7 %	
Services[1)2]	22.6	22.6	–0.3 %
in % of net sales	1.8 %	1.9 %	
Net profit	**66.3**	**64.9**	**+2.2 %**
Net profit adjusted[2]	**68.4**	**65.0**	**+5.3 %**
Investment in property, plant and equipment and intangible assets	26.7	24.7	+7.7 %
Employees at reporting date (FTE)	5,379	5,324	+1.0 %

in million CHF	30.6.2020	30.6.2019	Change
Equity ratio	41.3 %	41.3 %	
Equity ratio adjusted[2]	50.0 %	49.8 %	
Capital contribution reserves	351.6	396.1	–11.2 %
Net debt adjusted[2]	406.2	416.5	–2.5 %

Share information

in CHF	30.6.2020	31.12.2019
Share price at reporting date	67.80	59.85
Market capitalisation at reporting date in million CHF	3,351.0	2,952.9
Shareholders’ equity per share at reporting date	19.07	20.16
Earnings per share 1.1.–30.6.	1.34	1.32
Earnings per share adjusted 1.1.–30.6.[2]	1.38	1.32

1) Reported for each Segment not taking into account Corporate and Eliminations
2) Excluding the effects of IAS 19 and IFRS 16 (see Alternative performance measures section from page 27 onwards)

Key figures for the Galenica Group, first half of 2020

Strong sales growth

The Galenica Group generated consolidated net sales of CHF 1,690.4 million in the first half of 2020. The growth of 5.6% was driven in particular by the Services Business sector, at +7.9%, but positive contributions were also made by the Retail and Products & Brands Business sectors, up 2.9% and 1.0% respectively. This was achieved despite sales losses due to the nationwide lockdown, which had a particularly adverse effect on pharmacies in high-frequency locations, as well as the temporary closure of perfumery departments mandated by the authorities. By way of comparison, the Swiss pharmaceutical market as a whole increased by 2.9% in the first half of 2020 (IQVIA, Pharmaceutical Market Switzerland, first half of 2020).

Solid result

Galenica posted a solid result in spite of the additional expenses associated with COVID-19. The operating result (EBIT) of CHF 82.3 million reached practically the same level as the previous year's period (CHF 82.8 million). On a comparable basis, that is excluding the effects of accounting standards IFRS 16 (Leases) and IAS 19 (Employee Benefits), the adjusted[1] operating result improved by 3.0% year-on-year to CHF 83.6 million.

Adjusted[1] return on sales (ROS) decreased slightly to 4.9% (prior year period: 5.1%), driven by strong sales growth recorded in the Services Business sector with lower margins and COVID-19 impacts.

Net profit improved by 2.2%, from CHF 64.9 million to CHF 66.3 million in the first half of 2020. Adjusted[1] net profit, that is excluding the effects of accounting standards IFRS 16 (Leases) and IAS 19 (Employee Benefits), grew by 5.3%, from CHF 65.0 million to CHF 68.4 million.

Investments in the period under review amounted to CHF 26.7 million (prior year period: CHF 24.7 million) and were used primarily for the rollout of the new ERP system at Alloga and Galexis as well as the renovation and modernisation of the Galexis distribution centre in Lausanne-Ecublens. There were some delays to these projects due to COVID-19, which will result in postponed investments.

Unchanged solid balance sheet

The balance sheet of the Galenica Group remains very solid. Adjusted[1] net debt, i.e. excluding lease liabilities, was reduced by around CHF 10 million compared to 30 June 2019 and amounted to CHF 406.2 million as of the end of June 2020, equivalent to 1.9× adjusted[1] EBITDA (30 June 2019: 2.0×).

Cautious outlook

Based on developments since mid-May 2020, Galenica expects that the situation at high-frequency locations such as airports and train stations will only slowly return to normal in the months ahead. At the same time, Galenica expects the positive development in the Services Business sector to continue, while the recent acquisitions made in the Products & Brands Business sector and the expansion planned in Retail will also support sales in the second half of the year. Based on these considerations, Galenica is raising its sales forecast for financial year 2020 to +2% to +5% (previously +1% to +3%).

In view of the results achieved in the first half of the year and the ongoing COVID-19 impacts, the Group now expects an adjusted[1] operating result (EBIT, excluding the effects of IFRS 16 and IAS 19) approximately on prior year level (previously +3% to +6%).

Meanwhile, Galenica reaffirms its intention to propose a dividend to the 2021 Annual General Meeting that is at least equal to the prior year level.

[1] See Alternative performance measures section from page 27

Systemically important companies in the Swiss healthcare market

Daniela Bosshardt,
Chairwoman of the Board of Directors,
and Marc Werner, CEO

Dear Shareholders,
Ladies and Gentlemen,

We have had an extraordinary and challenging six months. The coronavirus (COVID-19) and the associated measures implemented by the authorities to combat this pandemic meant that the entire Galenica Group was stretched to its limits in its core business from early March. Under these most difficult and unique circumstances, our employees made every effort to ensure the supply of medicines and healthcare products to the Swiss population. In doing so, the protection of patients and employees was always the top priority. The pandemic clearly showed the key role that the Galenica Group, with its systemically important companies, plays in the Swiss healthcare market.

> THE PANDEMIC CLEARLY SHOWED THE KEY ROLE THAT THE GALENICA GROUP, WITH ITS SYSTEMICALLY IMPORTANT COMPANIES, PLAYS IN THE SWISS HEALTHCARE MARKET.

At the start of March, the points of sale of all pharmacy formats and online shops posted higher-than-average sales and strong demand for healthcare advice. The logistics companies Alloga, Galexis and Unione Farmaceutica Distribuzione (UFD) handled never-before-seen volumes over a period of several weeks; and the Bichsel Group significantly ramped up its in-house production capacity for infusion and rincing solutions as well as disinfectants to meet the increased demand from hospitals in particular. Due to these in-house production laboratories, the Federal Office for National Economic Supply (FONES) classified the Bichsel Group as a systemically important company.

In parallel to our strong sales, we invested a great deal in protecting employees and customers. Handling the massive volume increases required additional staff and a high degree of coordination.

In April, following the national lockdown and due to many customers and patients having stocked up 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 for the businesses.

In light of the extraordinary situation that we had to manage, we achieved a solid result in the first half of 2020, with sales of CHF 1,690.4 million and an EBIT of CHF 82.3 million.

We continued to actively promote generic substitution to reduce costs in the Swiss healthcare system. The generic substitution rate was increased again in the period under review, from 70% to 72%.

Supply to all patients thanks to different supply channels

The good network of local pharmacies combined with online and home care offerings as well as home delivery meant that we were able to ensure supply for our customers both in the pharmacies and via our online shops, even during the pandemic. We took the opportunity to create stronger links between the online and offline worlds, for example by combining the home delivery service with our Click & Collect offering. This offering was highly appreciated, in particular by customers belonging to a COVID-19 risk group.

Strong expansion activity

Verfora also strengthened its position in the period under review thanks to new distribution partnerships with Angelini Pharma for the Bucco Tantum® and Thermacare® brands. In addition, thanks to the new partnership with the Austrian Institut Allergosan and its excellent probiotic and prebiotic products under the Omni-Biotic® brand name, Verfora has been able to close a gap in its portfolio and enter the fastest-growing segment of the consumer healthcare market today.

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 authorizations with potential that are an ideal complement to the current portfolio. The export business will also be expanded in a targeted manner.

In addition, Verfora will relaunch Vita-Merfen®, the well-known and popular ointment for disinfection and wound healing, by the end of 2020.

> GIVEN THE EXTRAORDINARY SITUATION PRESENTED BY COVID-19, GALENICA SUCCEEDED IN POSTING A SOLID RESULT.

Net sales
+5.6%
Galenica Group
CHF 1,690.4 million

EBIT adjusted[1)]
+3.0%
Galenica Group
CHF 83.6 million

Net profit adjusted[1)]
+5.3%
Galenica Group
CHF 68.4 million

1) See Alternative performance measures section from page 27

New ERP system rolled out

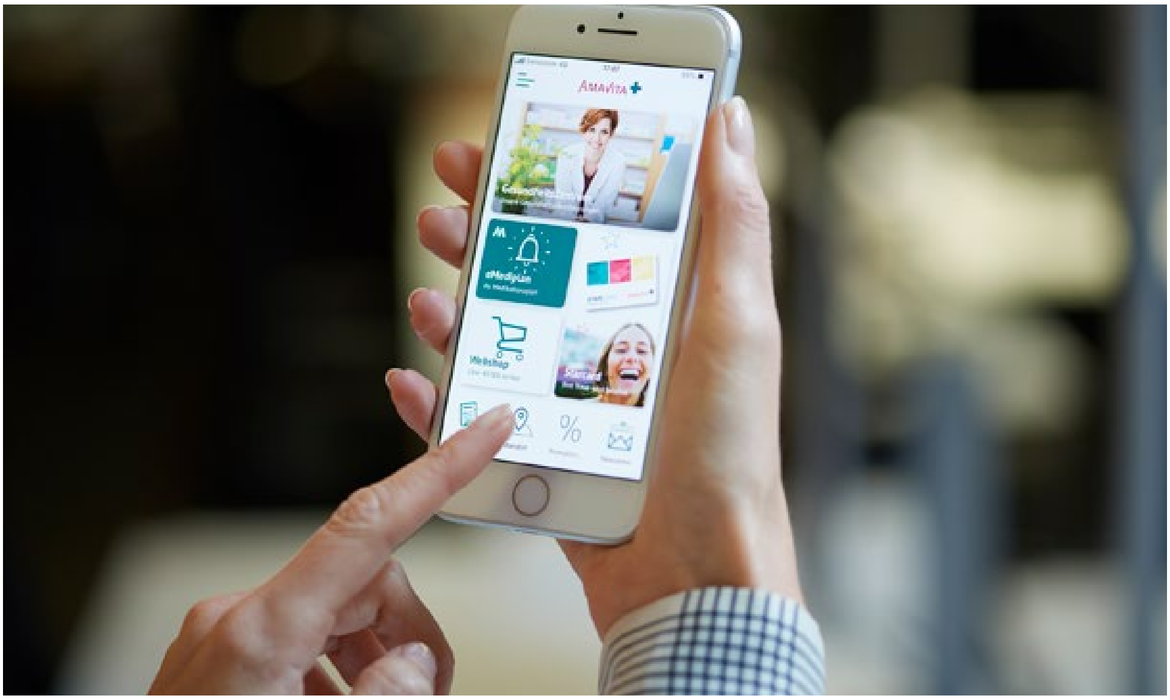
Despite COVID-19, Alloga made further progress with the switch to the new ERP (enterprise resource planning) system. At the end of the pilot phase, the new system went live with additional pilot partners on 1 June 2020. By contrast, the authorities' lockdown measures led to delays of several months in the construction work for the renovation and modernisation of the Galexis distribution centre in Lausanne-Ecublens.

Strong pharmacy network and further development of the omni-channel strategy

With a total of six new points of sale, we were also able to further expand the pharmacy network; in July 2020 already three new pharmacies were added. After conducting an initial pilot in spring 2020 with Coop Vitality, a broad launch of the new mail-order pharmacy is also planned for Amavita in the second half of the year. Through this service, pharmacies can also send prescription medicines to their customers at home.

The coronavirus pandemic boosted the use of the digital channels and confirmed our omni-channel strategy. We will continue to focus on the digital channels and their interconnectivity, and consistently expand the digital market presence.

> THE CORONAVIRUS PANDEMIC BOOSTED THE USE OF THE DIGITAL CHANNELS AND CONFIRMED OUR OMNI-CHANNEL STRATEGY.



Thanks to shareholders, business partners, customers and employees

We would like to thank our shareholders for their continued trust and look forward to welcoming them again personally at the next Annual General Meeting in May 2021. We wish to thank our business partners for the good cooperation, based on trust that has proven itself in exceptional circumstances such as COVID-19. Our thanks also go to our customers for the considerable understanding they demonstrated when confronted with delivery delays and limited availability of products. And we would like to express our sincere thanks to all our employees for their outstanding commitment and hard work.

> WE TOOK THE OPPORTUNITY TO CREATE STRONGER LINKS BETWEEN THE ONLINE AND OFFLINE WORLDS.

Bern, 4 August 2020

Daniela Bosshardt
Chairwoman of the
Board of Directors

Marc Werner
CEO

Change of CEO in the second quarter

As previously announced, Marc Werner succeeded Jean-Claude Clémençon as CEO of the Galenica Group on 1 April 2020. Marc Werner was previously Head of the Sales & Services Business segment and a member of the Group Executive Board at Swisscom. Jean-Claude Clémençon took early retirement in mid 2020.

Extraordinary Annual General Meeting

As a result of the measures ordered by the authorities in connection with COVID-19, the 3rd Annual General Meeting of Galenica Ltd. was held on 19 May 2020 without the physical attendance of shareholders. They had the option to exercise their rights in advance by issuing instructions to the independent proxy. All proposals were approved with well over 90% of votes in favour. The Annual General Meeting elected Pascale Bruderer as a new member of the Board of Directors. She replaces Fritz Hirsbrunner who, after more than 40 years with Galenica, decided not to stand for re-election.

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 adjusted[1)] 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 adjusted[1)] 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.

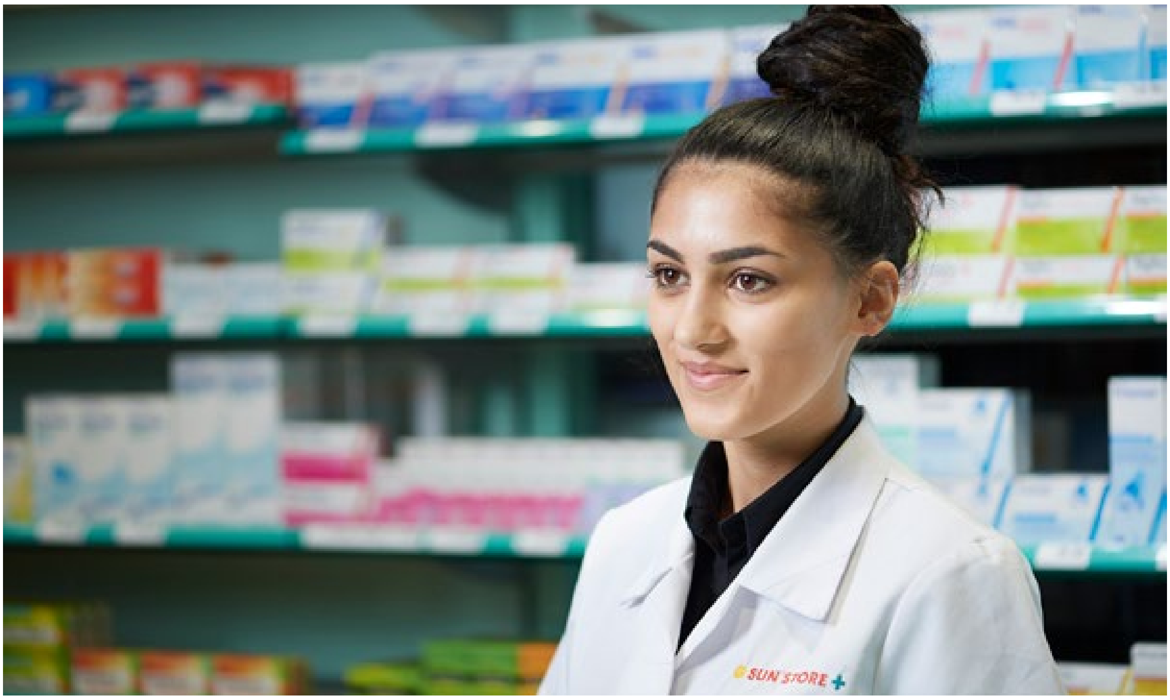
Net sales
+2.8 %
Health & Beauty
CHF 803.4 million

EBIT adjusted[1)]
+2.5 %
Health & Beauty
CHF 61.7 million

Number of employees
5,220
Galenica Group
7,048

[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 %.

> 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).

> GENERIC SUBSTITUTION WAS FURTHER INCREASED TO 72%.

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.

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 rincing 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.

> 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.

> DUE TO COVID-19, DEMAND FOR DISINFECTANT PRODUCTS JUMPED ALMOST OVERNIGHT IN MARCH 2020.

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 healthcare market and has been covered by Verfora since the first half of 2020 through its distribution of the Omni-Biotic® brand.

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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.

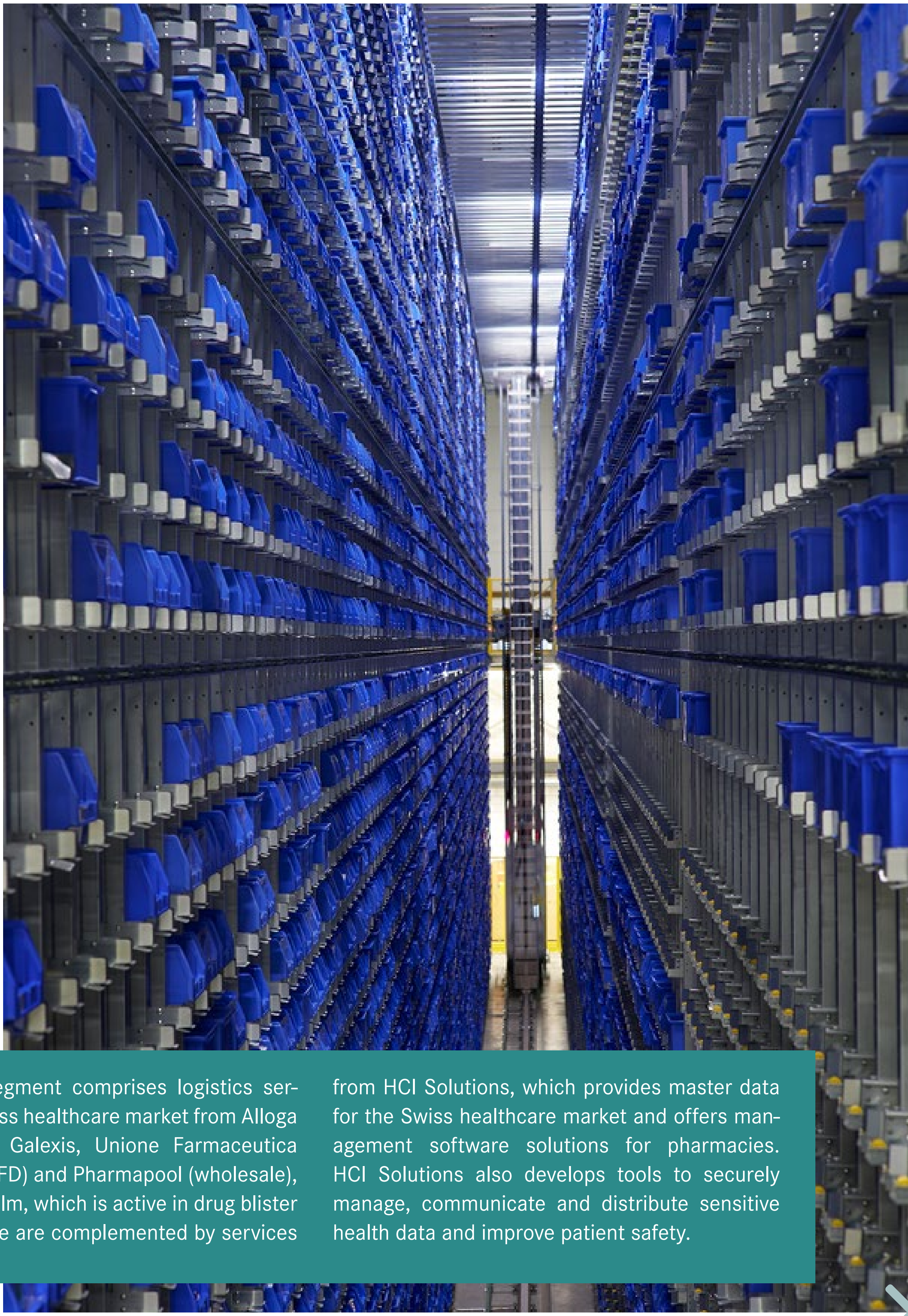
At the end of the year, Verfora will relaunch Vita-Merfen®, the well-known and popular ointment for disinfection and wound healing. The ointment was taken off the market by its former brand owner in 2015. In 2017, Verfora acquired the Merfen® and Vita-Merfen® brands and has since been working with full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

Segment Services



The Services segment comprises logistics services for the Swiss healthcare market from Alloga (pre-wholesale), Galexis, Unione Farmaceutica Distribuzione (UFD) and Pharmapool (wholesale), as well as Medifilm, which is active in drug blister packaging. These are complemented by services from HCI Solutions, which provides master data for the Swiss healthcare market and offers management software solutions for pharmacies. HCI Solutions also develops tools to securely manage, communicate and distribute sensitive health data and improve patient safety.

Net sales and operating result

The Services segment generated net sales of CHF 1,286.7 million in the first half of 2020, a strong increase of 7.9 % compared to the prior year period. Services thus clearly exceeded the market development of 2.9 % (IQVIA, Pharmaceutical Market Switzerland, first half of 2020).

COVID-19 generated an extremely strong demand for medicines in March 2020, which subsequently weakened again. Overall, additional sales contributed an estimated 3 % to the increase in sales.

In connection with the new Ordinance on Integrity and Transparency in the Field of Therapeutic Products (OITTP), agreements with suppliers as well as invoicing models were revised in line with the new transparency obligations, which increased sales of the Services segment by 1.9 %. Even excluding this technical one-time effect, the Services Business sector posted strong growth of 6.0 %. This one-time effect has no impact on the Group's consolidated sales and EBIT.

The government-mandated price reduction measures continued to have an adverse effect on sales performance, at 1.8 %. Excluding these influences, net sales would have risen by as much as 9.7 %.

Due to COVID-19, the first half of 2020 saw the postponement of numerous surgeries and procedures in hospitals and by specialist physicians that were not immediately necessary. In contrast to recent years, hospitals (+3.5 %, IQVIA, Pharmaceutical Market Switzerland, first half of 2020) and doctors (+2.1 %, IQVIA, Pharmaceutical Market Switzerland, first half of 2020) did not develop more strongly than the overall market (+2.9 %, IQVIA, Pharmaceutical Market Switzerland, first half of 2020).

The adjusted[1)] operating result (EBIT), i.e. excluding the effects of the lease accounting standard IFRS 16, remained on a par with the level of the previous year's period at CHF 22.6 million. In spite of the positive effect on sales, COVID-19 generated considerable additional expenses, such as protective measures for employees and additional staff resources, which in turn had negative impact on EBIT. In addition, due to the constantly increasing risks in connection with cybercrime, further measures were implemented to protect the IT infrastructure and networks. Finally, EBIT was also burdened in the first half of 2020 by the construction work commenced at the Lausanne-Ecublens distribution centre in autumn 2019.

Net sales

+7.9 %

Services
CHF 1,286.7 million

EBIT adjusted[1)]

–0.3 %

Services
CHF 22.6 million

Number of employees

1,792

Galenica Group
7,048

”

SERVICES CLEARLY EXCEEDED THE DEVELOPMENT POSTED BY THE MARKET, INCREASING SALES BY 7.9 %. HOWEVER, SUBSTANTIAL ADDITIONAL COSTS WERE INCURRED DUE TO COVID-19, WHICH HAD A NEGATIVE IMPACT ON EBIT.

1) See Alternative performance measures section from page 27

Adjusted[1)] return on sales (ROS) decreased slightly from 1.9% to 1.8%. While sales generated by doctors in particular posted gains and additional market share was captured especially among specialists, this was largely achieved with high-priced medications offering low margins.

Investments in the first half of 2020 totalled CHF 15.8 million (first half of 2019: CHF 16.3 million). They related in particular to the new ERP (enterprise resource planning) software, which is gradually being rolled out at Alloga and Galexis, and to the modernisation and renovation work at the Galexis distribution centre in Lausanne-Ecublens. There were some delays to these projects due to COVID-19, which will result in postponed investments and costs.

[1)] See Alternative performance measures section from page 27

Services Business sector

Supply ensured during the pandemic despite record-high volumes of goods

Pre-wholesaler Alloga reported exceptionally high volume swings in the period under review due to COVID-19. In addition, Alloga was able to secure several short-term special orders to maintain the basic supply of medication in Switzerland. For example, medications for intensive care were repackaged by order of the Federal Office of Public Health (FOPH) and the packaging was provided with instructions leaflets and box labels.

Thanks to the high degree of flexibility and considerable commitment of employees, Alloga was able to meet these special demands – always in compliance with regulatory requirements. Further progress was made with the switch to the new ERP (enterprise resource planning) system. At the end of the pilot phase, the new system went live with four additional pilot partners on 1 June 2020. The complete rollout to all Alloga industry partners is scheduled to take place by the end of 2022.

Galexis: Lausanne-Ecublens distribution centre more heavily used in the short term

In March, due to COVID-19, extra shifts, Sunday work and the strengthening of logistics by administrative staff were required at Galexis. On certain days, volumes were 60 % higher than in the previous year – unprecedented figures.

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GALENICA’S LOGISTICS COMPANIES WENT THE EXTRA MILE TO ENSURE THE BASIC SUPPLY OF MEDICATIONS TO SWITZERLAND DURING THE PANDEMIC.

To best manage these volume peaks and ensure the security of supply of medications to the population, operations at the distribution centre in Lausanne-Ecublens were ramped up again for a short period, even though work on the renovation and modernisation had already started.

In the Felan own brand range for independent pharmacists, comprising cost-effective pharma and OTC products, demand in the period under review was particularly strong for medicines containing the active ingredients paracetamol and ibuprofen as well as thermometers. A Felan range of nutritional supplements was launched in the first half of 2020.

UFD in the "eye of the storm"

Owing to the geographic proximity of Ticino to Italy, Unione Farmaceutica Distribuzione (UFD) was one of the first Galenica Group companies to introduce comprehensive COVID-19 protection measures for employees. The emergency plan, which also provided for the use of people required to perform civil protection duties and was coordinated with the cantonal authorities, minimised risks and interruptions for customers and ensured the supply of medications to the population of Ticino at all times.

The nationwide "e-box" logistics solution from UFD recorded significantly higher volumes year-on-year due to the substantial number of orders in the Galenica Group online shops.

Medifilm runs like clockwork

By the end of June 2020, Medifilm counted around 10,500 patients who benefited from its services. Medifilm is therefore making a significant contribution to the correct administration and taking of medications, and thus to easing the burden on carers. Thanks to its prudent warehousing, Medifilm was able to deliver orders in full and on time and at all times despite medication bottlenecks due to COVID-19.

As part of the new strategy of also addressing pharmacies' individual patients as new customers, Medifilm introduced a new visual identity, including a new logo, in the first half of 2020. The dispenser for storing Medifilm sachets has also been redeveloped and is now even more practical and customer-friendly.

Documedis® integrated into almost all e-health platforms

The e-medication solution Documedis® developed by HCI Solutions has now been incorporated into almost all e-health platforms of the cantonal and interregional healthcare networks. These networks are currently setting up so-called reference communities. Once these are certified by the federal governement, they can offer an electronic patient record under federal legislation.

Launched last year to rapidly develop an individualised online shop for independent pharmacists, the "Quatron" software solution recorded strong demand in the first half of 2020.

"

ON CERTAIN DAYS, VOLUMES AT GALEXIS WERE 60% HIGHER THAN IN THE PREVIOUS YEAR – UNPRECEDENTED FIGURES.

Outlook for the second half of 2020

Alloga will focus on continued ERP implementation as well as extending existing partnerships and acquiring new customers until the end of the year.

Based on the experiences gained at Alloga, the new ERP system is also being implemented at Galexis. At the same time, construction work at the Galexis distribution centre in Lausanne-Ecublens is being continued, and in view of the constantly increasing volume of online orders, the capacity of the distribution centre in Niederbipp is being expanded.

Finally, Medifilm is working on bringing the new generation of blister machines into operation.

COVID-19 challenges

- Despite the massive additional workload during the intensive COVID-19 phases and volumes, which clearly exceeded the capacity limits in the distribution centres on a daily basis, it was possible to ensure the basic supply of medications in Switzerland.

- Thanks to the great and flexible commitment of all employees, customers have hardly noticed the challenges that COVID-19 posed. Unavoidable delays in delivery and restrictions in product availability were accepted with great understanding.

- Despite the unplanned challenges that COVID-19 entailed, it was possible to successfully go live with the final pilot phase of the new ERP system at Alloga. Complete rollout should follow by the end of 2022.

Alternative performance measures and interim financial statements 2020

In addition to information based on IFRS, management uses alternative performance measures to assess the financial and operational performance of Galenica. Management believes that these non-IFRS financial performance measures provide useful information regarding Galenica's financial and operational performance.

The interim financial statements of Galenica are based on the financial statements of the individual companies of Galenica, prepared in accordance with uniform principles.

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

Alternative performance measures

Definitions of alternative performance measures

The annual report, the half year report and other communication to investors contain certain financial performance measures, which are not defined by IFRS. In addition to information based on IFRS, management uses these alternative performance measures to assess the financial and operational performance of the Group. Management believes that these non-IFRS financial performance measures provide useful information regarding Galenica's financial and operational performance. Alternative performance measures are used in Galenica's value-based management as the basis for management's incentive and remuneration schemes. Such measures may not be comparable to similar measures presented by other companies. The main alternative performance measures used by Galenica are explained and/or reconciled with the IFRS measures in this section.

The alternative performance measures are unaudited.

IAS 19 – Employee benefits

The pension plans of Galenica are organised in legally independent pension funds and are based purely on the defined contribution principle as stated in the Swiss "BVG" law. Nevertheless, Galenica's pension plans are classified as defined benefit pension plans under IAS 19.

Galenica's results are influenced by external parameters that cannot be managed by the Group and the management is of the opinion that such an impact should be excluded when it comes to assess the performance of the Galenica Group. For this reason, Galenica also evaluates its performance by adjusting personnel costs as if those plans were defined contribution plans (adjustments for the effects of IAS 19). For these adjustments, the costs of defined benefit plans and long-service awards determined in accordance with IAS 19 are replaced by an expense based on the employer's contribution and long-service awards for the period of service.

IFRS 16 – Leases

Since 1 January 2019 lessees have to account for most leases on balance sheet by recognising lease liabilities and corresponding right-of-use assets. The right-of-use assets are depreciated over the lease term and the lease liabilities generate interest expense in the statement of income. Variable lease payments, not dependent on an index or rate, such as sales-based rental expenses are accounted for as operating expenses when they are incurred. With its large network of retail pharmacies, IFRS 16 has a significant impact on Galenica's balance sheet and the presentation of lease related expenses in the consolidated statement of income.

Galenica has lease agreements with fixed and variable lease payments and these payments affect various line items in the statement of income making comparisons across individual pharmacies and points-of-sale difficult. For this reason management also monitors results by adjusting the statement of income and balance sheet as if lease agreements were still accounted for as operating leases, e.g. all lease expense is presented in other operating costs on a straight-line basis and the depreciation of the right-of-use assets and the interest expense on the lease liabilities are removed. Income taxes are also adjusted accordingly.

These adjustments allow management to evaluate results with periods prior to the introduction of IFRS 16. In addition, IFRS 16 adjusted measures are important for Galenica's value-based management and therefore for management's incentive and remuneration schemes. As the type and duration of rental agreements under IFRS 16 have a significant influence on the invested capital and accordingly on the return on invested capital (ROIC) and on the Galenica economic profit (GEP), the invested capital is stated after removing lease liabilities. This minimises the risk that management makes decisions that are not in the interest of Galenica due to potential incentives when concluding leases.

Organic growth of net sales

Organic growth of net sales shows the development of net sales for the two most important business sectors Retail and Services excluding the effects of acquisitions, openings and closings of pharmacies (effect of net expansion). It provides a "like-for-like" comparison with previous periods. In the Retail business sector, organic growth of net sales is calculated only including points of sale with a full year period comparison. In order to show the impact of mandatory price reductions of medications reimbursed by health insurers on net sales transparently, organic growth of net sales is also disclosed without the effect of price reductions.

Organic growth of net sales first half of 2020

in thousand CHF	Retail	Services
Net sales	747,381	1,286,657
Change to previous period	2.9 %	7.9 %
Effect of net expansion[1]	31,209	–
In % of net sales of previous period	4.3 %	–
Net sales excluding effect of net expansion	**716,172**	**1,286,657**
Organic growth of net sales	**(1.4 %)**	**7.9 %**
Mandatory price reductions[2]	13,614	21,765
In % of net sales of previous period	1.9 %	1.8 %
Net sales excluding effect of net expansion and mandatory price reductions	**729,786**	**1,308,422**
Organic growth of net sales excluding price reductions	**0.5 %**	**9.7 %**

[1] Growth in net sales of pharmacies without comparable periods 2019 and 2020 for the full year (acquisitions, openings and closings)
[2] Mandatory price reductions of medications reimbursed by health insurers of the specialities list (SL/LS) released by the Federal Office of Public Health (FOPH), calculated based on volumes of previous period

Organic growth of net sales first half of 2019

in thousand CHF	Retail	Services
Net sales	726,105	1,192,369
Change to previous period	4.3 %	1.3 %
Effect of net expansion[1]	35,323	–
In % of net sales of previous period	5.1 %	–
Net sales excluding effect of net expansion	**690,782**	**1,192,369**
Organic growth of net sales	**(0.7 %)**	**1.3 %**
Mandatory price reductions[2]	13,356	30,067
In % of net sales of previous period	1.9 %	2.6 %
Net sales excluding effect of net expansion and mandatory price reductions	**704,138**	**1,222,436**
Organic growth of net sales excluding price reductions	**1.2 %**	**3.9 %**

[1] Growth in net sales of pharmacies without comparable periods 2018 and 2019 for the full year (acquisitions, openings and closings)
[2] Mandatory price reductions of medications reimbursed by health insurers of the specialities list (SL/LS) released by the Federal Office of Public Health (FOPH), calculated based on volumes of previous period

Adjusted consolidated statement of income

Galenica's consolidated statement of income adjusted by IAS 19 effects related to employee benefits (defined benefit plans and long-service awards) and IFRS 16 lease effects allowing financial results to be assessed on a comparable basis.

Adjusted consolidated statement of income first half of 2020

		Adjustments		
in thousand CHF	As reported	IAS 19	IFRS 16	Adjusted
Net sales	**1,690,420**	**–**	**–**	**1,690,420**
Health & Beauty[1]	803,377	–	–	803,377
Services[1]	1,286,657	–	–	1,286,657
Other income	6,003	–	–	6,003
Operating income	**1,696,423**	**–**	**–**	**1,696,423**
Cost of goods	(1,257,451)	–	–	(1,257,451)
Personnel costs	(243,125)	2,324	–	(240,801)
Other operating costs	(68,146)	–	(26,403)	(94,549)
Share of profit from associates and joint ventures	1,589	93	22	1,704
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**129,290**	**2,417**	**(26,381)**	**105,326**
Health & Beauty[1]	97,976	–	(25,174)	72,802
Services[1]	34,558	–	(1,207)	33,351
Depreciation and amortisation	(47,008)	–	25,264	(21,744)
Earnings before interest and taxes (EBIT)	**82,282**	**2,417**	**(1,117)**	**83,582**
Return on sales (ROS)[2]	4.9%	0.1%	(0.1%)	4.9%
Health & Beauty[1] Return on sales (ROS)[2]	62,811 7.8%	– –	(1,070) (0.1%)	61,741 7.7%
Services[1] Return on sales (ROS)[2]	22,612 1.8%	– –	(47) –	22,565 1.8%
Net financial expenses	(2,331)	24	1,171	(1,136)
Earnings before taxes (EBT)	**79,951**	**2,441**	**54**	**82,446**
Income taxes	(13,602)	(423)	19	(14,006)
Net profit	**66,349**	**2,018**	**73**	**68,440**
Attributable to: – Shareholders of Galenica Ltd. – Non-controlling interests	 66,168 181	 2,027 (9)	 73 –	 68,268 172

[1] Reported for each Segment not taking into account Corporate and Eliminations
[2] Calculated as EBIT divided by net sales

		Adjustments		
in CHF	As reported	IAS 19	IFRS 16	Adjusted
Earnings per share	1.34	0.04	–	1.38
Diluted earnings per share	1.34	0.04	–	1.38

Adjusted consolidated statement of income first half of 2019

in thousand CHF	As reported	Adjustments IAS 19	Adjustments IFRS 16	Adjusted
Net sales	**1,600,422**	**–**	**–**	**1,600,422**
Health & Beauty[1]	781,393	–	–	781,393
Services[1]	1,192,369	–	–	1,192,369
Other income	8,125	–	–	8,125
Operating income	**1,608,547**	**–**	**–**	**1,608,547**
Cost of goods	(1,189,316)	–	–	(1,189,316)
Personnel costs	(227,183)	(286)	–	(227,469)
Other operating costs	(69,433)	–	(24,637)	(94,070)
Share of profit from associates and joint ventures	4,073	(12)	19	4,080
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**126,688**	**(298)**	**(24,618)**	**101,772**
Health & Beauty[1]	94,211	–	(23,516)	70,695
Services[1]	34,082	–	(1,102)	32,980
Depreciation and amortisation	(43,889)	–	23,229	(20,660)
Earnings before interest and taxes (EBIT)	**82,799**	**(298)**	**(1,389)**	**81,112**
Return on sales (ROS)[2]	5.2%	–	(0.1%)	5.1%
Health & Beauty[1]	61,575	–	(1,313)	60,262
Return on sales (ROS)[2]	7.9%	–	(0.2%)	7.7%
Services[1]	22,698	–	(75)	22,623
Return on sales (ROS)[2]	1.9%	–	–	1.9%
Net financial expenses	(2,736)	224	1,248	(1,264)
Earnings before taxes (EBT)	**80,063**	**(74)**	**(141)**	**79,848**
Income taxes	(15,136)	158	110	(14,868)
Net profit	**64,927**	**84**	**(31)**	**64,980**
Attributable to:				
– Shareholders of Galenica Ltd.	64,813	84	(31)	64,866
– Non-controlling interests	114	–	–	114

[1] Reported for each Segment not taking into account Corporate and Eliminations
[2] Return on sales (ROS) is calculated as EBIT divided by net sales

in CHF	As reported	Adjustments IAS 19	Adjustments IFRS 16	Adjusted
Earnings per share	1.32	–	–	1.32
Diluted earnings per share	1.32	–	–	1.32

Free cash flow

The free cash flow shows Galenica’s capacity to pay dividends and repay debt and repay equity. It provides information on the remaining cash and cash equivalents from the operating cash flow, reduced by all lease payments and after consideration of investment activities.

Free cash flow

in thousand CHF	1.1.–30.6.2020	1.1.–30.6.2019
Cash flow from operating activities before working capital changes	118,726	116,016
Payment of lease liabilities	(24,439)	(23,404)
Cash flow from operating activities before working capital changes adjusted	**94,287**	**92,612**
Working capital changes	(53,861)	(41,151)
Cash flow from operating activities adjusted	**40,426**	**51,461**
Cash flow from investing activities without M&A[1]	(22,054)	(24,640)
Free cash flow before M&A	**18,372**	**26,821**
Cash flow from M&A[2]	(2,416)	(54,616)
Free cash flow	**15,956**	**(27,795)**

[1] Cash flow from investing activities without purchase and sale of subsidiaries (net cash flow)
[2] Cash flow from purchase and sale of subsidiaries (net cash flow)

Cash conversion

	1.1.–30.6.2020	1.1.–30.6.2019
Cash conversion[1]	74.7 %	75.7 %

[1] Calculated as EBITDA adjusted less CAPEX (investments in property, plant and equipment and intangible assets) divided by EBITDA adjusted

Capital management

The capital of Galenica is managed and monitored at Group level. The objective of capital management at Galenica is to ensure the continuity of operations, increase enterprise value on a sustainable basis, provide an adequate return to investors, provide the financial resources to enable investments in areas that deliver future benefits for patients and customers and further returns to investors.

Galenica defines the capital that it manages as invested interest-bearing liabilities and equity. Galenica uses a system of financial control based on various key performance indicators. Capital is monitored based on the gearing, for example, which expresses net debt as a percentage of shareholders' equity including non-controlling interests and is communicated regularly to management as part of internal reporting. The debt coverage expresses net debt as a multiple of earnings before interest, taxes, depreciation and amortisation (EBITDA). Debt coverage ratio provide information about the creditworthiness of the Group. Galenica has no covenants requiring a minimum level of debt coverage.

Total assets and shareholders' equity are adjusted for the cumulative effects of the IAS 19 and IFRS 16 adjustments and net debt is adjusted for lease liabilities.

Total assets

in thousand CHF	30.6.2020	30.6.2019
Total assets	**2,293,558**	**2,221,320**
Cumulative effects of IAS 19 adjustments	(10,721)	(9,959)
Cumulative effects of IFRS 16 adjustments	(216,043)	(239,052)
Total assets adjusted	**2,066,794**	**1,972,309**

Net debt

in thousand CHF	30.6.2020	30.6.2019
Current financial liabilities[1)]	132,193	92,965
Current lease liabilities	47,700	42,832
Non-current financial liabilities[1)]	380,744	380,855
Non-current lease liabilities	175,338	202,510
Cash and cash equivalents	(104,868)	(55,175)
Interest-bearing receivables	(1,847)	(2,132)
Net debt	**629,260**	**661,855**
Lease liabilities (current and non-current)	(223,038)	(245,342)
Net debt adjusted	**406,222**	**416,513**

[1)] Excluding non-interest-bearing financial liabilities

Shareholders' equity

in thousand CHF	30.6.2020	30.6.2019
Shareholders' equity	**947,818**	**917,845**
Cumulative effects of IAS 19 adjustments	81,663	58,963
Cumulative effects of IFRS 16 adjustments	4,826	4,791
Shareholders' equity adjusted	**1,034,307**	**981,599**

Equity ratio

	30.6.2020	30.6.2019
Equity ratio[1]	41.3%	41.3%
Equity ratio adjusted[2]	50.0%	49.8%

[1] Calculated as shareholders' equity divided by total assets
[2] Calculated as shareholders' equity adjusted divided by total assets adjusted

Gearing

	30.6.2020	30.6.2019
Gearing[1]	66.4%	72.1%
Gearing adjusted[2]	39.3%	42.4%

[1] Calculated as net debt divided by shareholders' equity
[2] Calculated as net debt adjusted divided by shareholders' equity adjusted

Debt coverage

	30.6.2020	30.6.2019
Debt coverage[1]	2.4×	2.6×
Debt coverage adjusted[2]	1.9×	2.0×

[1] Calculated as net debt divided by two times EBITDA of the first half year
[2] Calculated as net debt adjusted divided by two times EBITDA adjusted of the first half year

Consolidated interim financial statements 2020

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 lead 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**
Assets[1]	**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
Liabilities[1]	**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	Products & Brands	Health & Beauty Retail	Services	Corporate	Eliminations	Group
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	Products & Brands	Health & Beauty Retail	Services	Corporate	Eliminations	Group
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

		30.6.2020		31.12.2019
in thousand CHF	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.

Impressum

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Galenica Ltd.
Corporate Communications
Untermattweg 8
P.O. Box
CH-3001 Bern
Phone +41 58 852 81 11
Fax +41 58 852 81 12
info@galenica.com
www.galenica.com

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