adcock ingram

# Group annual results and cash dividend declaration

for the year ended 30 June 2021

# COMMENTARY

## Adcock Ingram Holdings Limited

Incorporated in the Republic of South Africa
(Registration number 2007/016236/06)
Share code: AIP ISIN: ZAE000123436
("**Adcock Ingram**" or "**the Company**" or "**the Group**")

## Salient features

Turnover increased 6% to **R7,777** million

Gross profit declined 2% to **R2,683 million**

Trading profit decreased 3% to **R915 million**

HEPS decreased 3% to **404.7 cents**

Final dividend declared: **90 cents per share**

B-BBEE level: 3

## Introduction

The Group delivered a resilient performance in the year under review, despite the difficult operating environment, characterised by the continuing adverse impact of COVID-19, the tough economic environment and high levels of unemployment impacting consumer spending.

The Group's activities are regarded as essential services and all business units continued operating throughout all levels of lockdowns, while maintaining rigorous monitoring and evaluation of COVID-19 protocols to safeguard our employees and customers. This ensured continuity in producing and supplying medicines, including life-saving products such as intravenous fluids, renal dialysis fluids and ARVs, as well as other acute medicines and hygiene products used to minimise the impact of COVID-19.

As the disease spread, the prevalence of infections amongst employees has unfortunately increased, putting certain of the operations at risk of not being able to operate on an uninterrupted basis. All factories and warehouses had to close for certain periods to allow for additional sanitising procedures and testing of employees, but never for more than a few days at a time at most. In addition, global supply constraints, particularly on medicines and active pharmaceutical ingredients from Asia needed to be overcome at various points in the year. We have proven that we can continue to protect our people in the work environment, and maintain financial stability for the Group to continue all of its operations. The business adopted new operational strategies based on the changes in the market, providing a solid foundation for the continuity of operations.

The Group experienced good demand for immune-boosting products, certain small-volume parenterals and acute renal dialysis products.

Demand was poor for cough, colds and flu medicine (due to the absence of a flu season in South Africa). Low levels of patients consulting doctors and postponement of elective surgeries affected the performance of certain, mainly acute, prescription medicines and ophthalmic surgical products and instruments. Lockdown restrictions also had an impact on many hospital products (due to reduced number of trauma and medical admissions), as well as on shoe care and sun care products.

Nonetheless, with the exception of the OTC business unit, which is the largest cough, colds and flu company in South Africa, all business units posted solid trading performances, achieving good growth in turnover, with disciplined cost control and yielding healthy growth in trading profit. Adcock Ingram's strong and adaptable people, and diverse portfolios have proved beneficial in this unprecedented operating environment. In addition, these results could not have been achieved without the support of our customers, partners and suppliers.

### Revenue and profits

Revenue during the year under review increased by 6% to R7,777 million (2020: R7,347 million), driven by an increase in mix of 3.8%, which includes the Plush portfolio for the full year, compared to just one month in the prior year, and the on-boarding of the Roche Renal portfolio in the second half of the financial year. An average price increase of 4.6% was realised, showing that the strategy of increasing our non price-regulated basket of products is effective. Organic volumes declined by 2.5%, as a result of the COVID-19 challenges referred to earlier on.

# COMMENTARY (Continued)

The gross margin decreased from 37.3% to 34.5%, impacted by an average increase of 9.4% in US Dollar and Euro forward exchange contracts rates, which directly impacts on the imported component of goods. Other contributing factors include lower factory recoveries at the Clayville factory following the decrease in demand for OTC products; and a relatively unfavourable sales mix with a higher proportion of ARV tender sales.

Operating expense discipline has been outstanding, ending 1.5% lower than the prior year, despite the inclusion of Plush for the full year, and 5.6% lower on a like-for-like basis, as the cost-saving initiatives implemented in the latter part of the prior financial year at the start of the COVID-19 pandemic, were realised.

Trading profit decreased by 3% to R914.6 million (2020: R944.3 million).

### Non-trading expenses

Non-trading expenses of R64.9 million include retrenchment costs of R32.6 million, the Group having further reduced its headcount towards the end of the 2020 calendar year, in response to the weak economic environment and continued COVID-19 uncertainty. Share-based expenses of R18.0 million, intangible asset impairments of R13.0 million and corporate activity costs of R1.3 million make up the balance.

### Net finance costs

Net finance costs of R43.7 million (2020: R33.5 million) were incurred during the year, including IFRS 16 (Leases) finance costs of R28.5 million (2020: R29.7 million).

### Headline earnings

Headline earnings from operations for the year decreased by 5.4% to R671.3 million (2020: R709.5 million). This translates into headline earnings per share of 404.7 cents (June 2020: 417.5 cents), a decrease of 3.1%, which is better than the headline earnings decline due to share repurchases by the Group.

### Cash flows

Cash generated from operations amounted to R711.1 million (2020: R1,081 million) after working capital increased by R511.9 million (2020: R164.7 million). Inventories increased by R64.8 million due to the investment in ARVs following the uptick in demand for the State tender, and higher safety inventory held to address global supply constraints consequent to COVID-19. Trade receivables increased by R152.7 million, due to higher sales in the later part of the reporting period, compared to the previous year. The debtors' book remains very well controlled and the average days outstanding are 60 days (2020: 66 days). Trade and other payables decreased by R294.3 million since June 2020, following the settlement in June and July 2020 of replenishment purchases from suppliers, after the significant spike in demand for a number of products in March and April 2020.

The Group had net cash resources of R48.2 million (2020: R316.8 million) at the end of the year, after acquiring 5.7 million of the Company's shares, and the acquisition of a portfolio of generic products from Aspen Pharmacare, as well as the remaining 51% share of Novartis Ophthalmics.

### Dividend distribution

The Board has declared a final dividend of 90 cents per share for the year ended 30 June 2021 out of income reserves.

## Business overview

**Consumer** turnover improved by 42.0% to R1,267 million (2020: R892 million), substantially aided by the acquisition of Plush which contributed an additional R212 million, and the inclusion of the Epi-max brand effective 1 January 2021, which contributed R90 million after being transferred from the Prescription division. On a like-for-like basis sales improved 8.4% with all of the core brands achieving growth over the prior year. There was significant demand for our immune-boosting products, Gummy Vites and Viral Guard, due to COVID-19, which offset the negative impact of lower demand for shoe care, sun care and personal care products. The launch of Bioplus Vit-ality, a range of vitamins and minerals, pushed that brand's overall sales over R200 million. Gross margin ended below the prior year, adversely affected by the weak Rand. Nonetheless, trading profit ended on an impressive R235.4 million, 51.7% (13.5% like-for-like) ahead of the prior year of R155.1 million.

**OTC**, which focuses on products in the pain, coughs, colds and flu, and anti-histamine therapeutic categories through the pharmacy channel, turnover declined by 15.5% to R1,735 million (2020: R2,054 million), adversely impacted by the absence of cold and flu activity in South Africa in winter 2020 and 2021. Historically, these medicines comprise 40% of this business unit's turnover. Gross margin ended lower compared to the prior year, adversely impacted by the weak Rand and lower factory recoveries due to the decrease in production levels following the decline in demand. As a result, trading profit decreased by 31.3% to R292.3 million (2020: R425.7 million). The Division recently concluded an agreement with Mundipharma to perform the sales, marketing and distribution activities of their hygiene and personal care portfolio in South Africa, which includes Betadine and Teejel, effective 1 July 2021.

**Prescription** turnover improved by 9.5% to R3,021 million (2020: R2,759 million), including volume growth of 5.4%, largely due to the ARV portfolio growing by 45.2% to R588 million, benefiting from demand on the State tender. There were lower volumes in the Branded prescription portfolio which was impacted by COVID-19, through lower levels of patients consulting doctors, lower dispensary traffic in pharmacies, as well as the postponement of elective surgeries. This impacted the pain, dermatology, urology, surgical and instrumentation and ophthalmology portfolios. The sales mix, excluding the move of Epi-max to Consumer, contributed 2.7%, with the launch of Ynez and Zoely as the Division entered the oral contraceptive market, the onboarding of Evorel (hormone replacement therapy) in a partnership with Theramex and the launch of first to market biosimilars, Remsima (Infliximab) and Blitzima (Rituximab). The gross margin ended lower compared to the prior year, adversely affected by the weak Rand and an unfavourable sales mix, with a higher proportion of ARV tender sales. With excellent cost control and cost-saving initiatives implemented in the latter part of the prior financial year realised, trading profit of R223.8 million is 2.8% ahead of the prior year's R217.7 million.

**Hospital** turnover improved by 7.7% to R1,752 million (2020: R1,628 million) with the Renal segment benefiting from the on-boarding of the Roche renal portfolio and acute renal dialysis treatments consequent to COVID-19. The Renal performance compensated for the decline in demand for products used in elective surgeries, and lower levels of trauma and medical cases, which were reduced as a result of the COVID-19 pandemic. The gross margin declined as a result of a weaker exchange rate and the inclusion of the Roche portfolio. Excellent cost control, coupled with the impact of COVID-19 on normal operating activities (a reduction in certain selling and marketing activities in the trade), resulted in trading profit improving by 14.9% to R161.4 million (June 2020: R140.5 million).

## COVID-19

The Board recognises the unprecedented socio- and economic challenges that have negatively impacted the lives and livelihoods of millions of South Africans due to the impact of the COVID-19 pandemic. COVID-19 was prevalent throughout the full financial year, compared to only three months in the previous financial year.

Although, the national COVID-19 vaccination programme is under way, it will still be some time before all eligible South African residents receive the vaccine. Until such time that the majority of adult South African residents are vaccinated, the risk of potentially deadly waves of infections remains high and are likely to continue to surface.

At the date of approval of this report, the COVID-19 infection status within the Company is as follows:

- 635 confirmed cases.
- 616 cases fully recovered and returned to work, in accordance with strict protocols.
- 8 active cases.
- Tragically 11 deceased colleagues.

We express our deepest sympathies and condolences to the family members and loved ones of each of our employees who succumbed to the virus, as well as to our fellow colleagues in the Adcock Ingram family who have lost friends.

Adcock Ingram extends its wholehearted gratitude to the many frontline healthcare workers, across all disciplines, who continue to bravely serve our communities during this pandemic.

# COMMENTARY (Continued)

## Changes to the Board and in directors' functions

On 22 February 2021, Mr Lindsay Ralphs resigned as a non-executive director, as the Chairman of the Board of Directors, as the Chairman of the Acquisitions and Nominations Committees and as a member of the Human Resources and Remuneration Committee.

Ms Nompumelelo "Mpumi" Madisa was appointed as the non-executive Chairperson of the Board.

On 12 March 2021, Ms Lulama Boyce resigned as a member of the Audit Committee.

On 7 May 2021, the following changes were made to the Board subcommittees:

- Ms Lulama Boyce resigned as the chairperson and member of the Human Resources and Remuneration Committee, and as a member of the Nominations Committee.
- Ms Mpumi Madisa was appointed as the chairperson of the Nominations Committee and of the Acquisitions Committee, and as a member of the Human Resources and Remuneration Committee.
- Prof Matthias Haus was appointed as the chairperson of the Human Resources and Remuneration Committee
- Dr Claudia Manning was appointed as a member of the Audit Committee.
- Ms Debbie Ransby was appointed as a member of the Acquisitions Committee.
- Dr Sibongile Gumbi was appointed as a member of the Human Resources and Remuneration Committee.
- Prof Mike Sathekge was appointed as a member of the Nominations Committee.

## Prospects

As the effects of the COVID-19 pandemic persist, coupled with the recent civil unrest in the country, the economic outlook for our market remains uncertain and we face the reality of living with COVID-19 restrictions until the vaccines have been widely administered.

Although we remain cautious about the effects of COVID-19, the Group has proved its resilience through its diversified portfolio of products and generated solid cash inflows despite the impact of the lockdowns and we are confident of continued value creation for our shareholders.

We are supporting our customers where possible to restore their operations following the recent civil unrest in KwaZulu-Natal and Gauteng, so that they are able to continue delivering essential medicine to the people of South Africa.

The Group remains committed to expanding its product portfolio in each of its business units.

## Dividend distribution

The Board has declared a final gross dividend out of income reserves of 90 cents per share in respect of the year ended 30 June 2021. The South African dividend tax ("DT") rate is 20% and the net dividend payable to shareholders who are not exempt from DT is 72 cents per share. Adcock Ingram currently has 175 758 861 ordinary shares in issue and qualifying for ordinary dividends. The income tax reference number is 9528/919/15/3.

The salient dates for the distribution are detailed below:

| | |
|---|---|
| Last date to trade *cum* distribution | Tuesday, 14 September 2021 |
| Shares trade *ex* distribution | Wednesday, 15 September 2021 |
| Record date | Friday, 17 September 2021 |
| Payment date | Monday, 20 September 2021 |

Share certificates may not be dematerialised or rematerialised between Wednesday, 15 September 2021 and Friday, 17 September 2021, both dates inclusive.

N Madisa
*Chairperson*

AG Hall
*Chief Executive Officer*

24 August 2021

# SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Notes | Audited 2021 R'000 | Change % | Audited 2020 R'000 |
|---|---|---|---|---|
| **Revenue** | 4.1 | **7 776 854** | 6 | 7 346 558 |
| Cost of sales | | **(5 094 079)** | | (4 607 502) |
| **Gross profit** | | **2 682 775** | (2) | 2 739 056 |
| Selling, distribution and marketing expenses | | **(1 212 482)** | (4) | (1 263 723) |
| Fixed and administrative expenses | | **(555 683)** | 5 | (531 053) |
| **Trading profit** | | **914 610** | (3) | 944 280 |
| Non-trading expenses | 3 | **(64 855)** | | (82 099) |
| **Operating profit** | | **849 755** | (1) | 862 181 |
| Finance income | | **4 315** | | 5 278 |
| Finance costs | | **(47 982)** | | (38 764) |
| Dividend income | | **2 473** | | 3 825 |
| Equity-accounted earnings | | **97 315** | | 97 489 |
| **Profit before tax** | | **905 876** | (3) | 930 009 |
| Tax | | **(243 764)** | | (247 815) |
| **Profit for the year** | | **662 112** | (3) | 682 194 |
| Exchange differences on translation of foreign operations | | **(61 412)** | | 40 619 |
| Subsidiaries | | **(6 099)** | | 4 801 |
| Joint venture | | **(55 313)** | | 35 818 |
| Movement in cash flow hedge accounting reserve, net of tax | | **(88 486)** | | 77 681 |
| Fair value of investment* | | **97** | | 43 |
| Actuarial (loss)/profit on post-employment medical liability* | | **(482)** | | 622 |
| **Total comprehensive income, net of tax** | | **511 829** | | 801 159 |
| **Profit attributable to:** | | | | |
| Owners of the parent | | **657 463** | | 676 366 |
| Non-controlling interests | | **4 649** | | 5 828 |
| | | **662 112** | | 682 194 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent | | **507 180** | | 795 331 |
| Non-controlling interests | | **4 649** | | 5 828 |
| | | **511 829** | | 801 159 |
| Basic earnings per ordinary share (cents) | | **396.3** | – | 398.0 |
| Diluted basic earnings per ordinary share (cents) | | **396.1** | – | 398.0 |
| Headline earnings per ordinary share (cents) | | **404.7** | (3) | 417.5 |
| Diluted headline earnings per ordinary share (cents) | | **404.5** | (3) | 417.5 |

* *Remeasurement of investment and post-employment medical liability will not be reclassified to profit and loss. All other items in other comprehensive income may be reclassified to profit and loss.*

# SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued share capital R'000 | Share premium R'000 | Non-distributable reserves R'000 | Retained income R'000 | Total attributable to holders of the parent R'000 | Non-controlling interests R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 July 2019** | 17 142 | 664 014 | 196 348 | 3 417 928 | 4 295 432 | 2 762 | 4 298 194 |
| Share issue | 2 | 777 | | | 779 | | 779 |
| Movement in treasury shares* | 3 | 2 205 | | | 2 208 | | 2 208 |
| Share-based payment expenses* | | | (2 133) | | (2 133) | | (2 133) |
| Treasury shares purchased | (401) | (156 642) | | | (157 043) | | (157 043) |
| Loss of control of owner-driver subsidiaries | | | | | | 842 | 842 |
| Total comprehensive income | | | 63 114 | 676 366 | 739 480 | 5 828 | 745 308 |
| Profit for the year | | | | 676 366 | 676 366 | 5 828 | 682 194 |
| Other comprehensive income | | | 118 965 | | 118 955 | | 118 955 |
| Reclassified to cost of inventory – not included in other comprehensive income | | | (55 851) | | (55 841) | | (55 841) |
| Dividends | | | | (342 941) | (342 941) | (6 713) | (349 654) |
| **Balance at 30 June 2020** | **16 746** | **510 354** | **257 329** | **3 751 353** | **4 535 782** | **2 719** | **4 538 501** |
| Share-based payment expenses* | | | **16 856** | | **16 856** | | **16 856** |
| Treasury shares purchased | **(570)** | **(255 179)** | | | **(255 749)** | | **(255 749)** |
| Acquisition of non-controlling interests | | | | **(58 850)** | **(58 850)** | **176** | **(58 674)** |
| Total comprehensive income | | | **(80 005)** | **657 463** | **577 458** | **4 649** | **582 107** |
| Profit for the year | | | | **657 463** | **657 463** | **4 649** | **662 112** |
| Other comprehensive income | | | **(150 283)** | | **(150 283)** | | **(150 283)** |
| Reclassified to cost of inventory – not included in other comprehensive income | | | **70 278** | | **70 278** | | **70 278** |
| Dividends | | | | **(133 149)** | **(133 149)** | **(6 784)** | **(139 933)** |
| **Balance at 30 June 2021** | **16 176** | **255 175** | **194 180** | **4 216 817** | **4 682 348** | **760** | **4 683 108** |

* *Relate to equity and BMT option schemes.*

# SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|
| **ASSETS** | | |
| Property, plant and equipment | **1 495 159** | 1 528 541 |
| Right-of-use assets | **223 039** | 264 274 |
| Intangible assets | **1 053 718** | 928 518 |
| Deferred tax assets | **4 944** | 6 385 |
| Other financial assets | **26 092** | 26 570 |
| Investment in joint ventures | **489 962** | 545 178 |
| Loans receivable | **9 798** | 17 861 |
| **Non-current assets** | **3 302 712** | 3 317 327 |
| Inventories | **1 865 512** | 1 909 767 |
| Receivables and other current assets | **1 764 737** | 1 625 246 |
| Cash and cash equivalents | **62 117** | 316 825 |
| Tax receivable | **45 340** | 12 585 |
| **Current assets** | **3 737 706** | 3 864 423 |
| **Total assets** | **7 040 418** | 7 181 750 |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| Issued share capital | **16 176** | 16 746 |
| Share premium | **255 175** | 510 354 |
| Non-distributable reserves | **194 180** | 257 329 |
| Retained income | **4 216 817** | 3 751 353 |
| Total shareholders' funds | **4 682 348** | 4 535 782 |
| Non-controlling interests | **760** | 2 719 |
| **Total equity** | **4 683 108** | 4 538 501 |
| Long-term portion of lease liability | **247 234** | 281 295 |
| Post-retirement medical liability | **15 537** | 14 852 |
| Deferred tax liabilities | **125 226** | 153 507 |
| **Non-current liabilities** | **387 997** | 449 654 |
| Trade and other payables | **1 741 185** | 2 014 408 |
| Bank overdraft | **13 881** | – |
| Short-term portion of lease liability | **34 448** | 28 986 |
| Cash-settled options | **20 548** | 21 097 |
| Provisions | **159 251** | 129 104 |
| **Current liabilities** | **1 969 313** | 2 193 595 |
| **Total equity and liabilities** | **7 040 418** | 7 181 750 |

# SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Operating profit** | **849 755** | 862 181 |
| Other adjustments and non-cash items | **373 183** | 383 376 |
| **Operating profit before working capital changes** | **1 222 938** | 1 245 557 |
| Working capital movements | **(511 852)** | (164 655) |
| **Cash generated from operations** | **711 086** | 1 080 902 |
| Finance income received | **4 334** | 5 394 |
| Finance costs paid | **(47 834)** | (38 479) |
| Dividend income received | **98 572** | 99 474 |
| Dividends paid | **(139 933)** | (349 654) |
| Tax paid | **(296 886)** | (271 757) |
| **Cash generated from operating activities** | **329 339** | 525 880 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment – Replacement | **(95 817)** | (129 453) |
| – Expansion | **(16 497)** | (24 086) |
| Purchase of intangible assets | **(147 614)** | (2 578) |
| Proceeds on loan receivable | **8 063** | 2 310 |
| Proceeds of sale of interest in BMT | **968** | 1 085 |
| Additional share purchase in Group Risk Holdings Proprietary Limited | **(366)** | – |
| Acquisition of business (Plush) | **–** | (308 979) |
| Cash foregone on loss of control of owner-driver subsidiaries | **–** | (13 866) |
| Proceeds on sale of investment | **–** | 6 125 |
| Proceeds on disposal of property, plant and equipment | **–** | 836 |
| **Net cash outflow from investing activities** | **(251 263)** | (468 606) |
| **Cash flows from financing activities** | | |
| Share repurchase | **(255 749)** | (157 043) |
| Acquisition of non-controlling interests in Novartis Ophthalmics (Pty) Limited | **(58 674)** | – |
| Repayment of lease liabilities | **(28 961)** | (21 270) |
| Treasury shares bought for equity option scheme | **(256)** | (7 363) |
| Settlement of Mpho ea Bophelo equity options | **–** | (6 081) |
| Proceeds from issue of share capital | **–** | 779 |
| **Net cash outflow from financing activities** | **(343 640)** | (190 978) |
| Net decrease in cash and cash equivalents | **(265 564)** | (133 704) |
| Net foreign exchange difference on cash and cash equivalents | **(3 025)** | 2 277 |
| Cash and cash equivalents at beginning of year | **316 825** | 448 252 |
| **Cash and cash equivalents at end of year** | **48 236** | 316 825 |

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

### 1.1 Introduction

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Listings Requirements for preliminary reports, and the requirements of the Companies Act applicable to summary consolidated financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: Interim Financial Reporting. These summary results for the year ended 30 June 2021, extracted from the audited consolidated financial statements, which the Board of Directors take full responsibility for, have been prepared by Ms Dorette Neethling, Chief Financial Officer. Both these summary results and the consolidated financial statements were audited by the independent external auditors, PricewaterhouseCoopers Inc. and copies of their unqualified audit opinion are available for inspection at the Company's registered office.

### 1.2 Changes in accounting policies

The accounting policies adopted are in terms of IFRS and are consistent with those of the previous financial year except for the adoption of the following new and amended standards and interpretations during the period.

a) *IAS 1 and IAS 8: Definition of material – Amendments*

b) *IFRS 3: Business Combinations – Amendments*

c) *IFRS 9, IAS 39 and IFRS 7: Financial Instruments – Amendments*

d) *IAS 16: Property, Plant and Equipment – Amendment*

e) *IAS 37: Provisions, Contingent Liabilities and Contingent Assets – Amendment*

None of these had a significant impact on the financial performance or position of the Group.

d) *The conceptual framework for financial reporting*

A revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the International Accounting Standards Board (IASB) in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

## 2. ACQUISITION OF ADDITIONAL SHARES IN NOVARTIS OPHTHALMICS (PTY) LIMITED

On 3 June 2021, Adcock Ingram Limited, a wholly-owned subsidiary of Adcock Ingram Holdings Limited, acquired the remaining 51% stake in Novartis Ophthalmics (Pty) Limited, for R58.7 million. This resulted in R58.9 million being accounted for in retained earnings within equity.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|
| **3. NON-TRADING EXPENSES** | | |
| Retrenchment costs | **32 615** | 33 507 |
| Share-based payment expenses | **17 953** | 936 |
| Impairments | **13 000*** | 16 196 |
| Transaction costs | **1 287** | 1 924 |
| Fair value adjustment of long-term receivable | **–** | 2 027 |
| *Ex-gratia* B-BBEE expense | **–** | 10 000 |
| Deficit on loss of control of subsidiary | **–** | 19 274 |
| Profit on cancellation of BBE scheme | **–** | (2 114) |
| Lease cancellation fee | **–** | 349 |
| | **64 855** | 82 099 |

** The outlook on revenue and profitability has declined resulting in a partial impairment of Vita-thion.*

## 4. SEGMENT REPORTING

**Consumer** – competes in the Fast Moving Consumer Goods (FMCG) space;

**Over the Counter (OTC)** – focuses primarily on brands sold predominantly in pharmacy, where the pharmacist plays a role in the product choice;

**Prescription** – markets products prescribed by medical practitioners and includes specialised instruments and surgical products;

**Hospital** – supplier of hospital and critical care products, including intravenous solutions, blood collection products and renal dialysis systems; and

**Other** – shared services – other support services, including the research and development services in India, as well as the investment in the joint venture and cash and bank overdraft balances which are managed on a central basis in southern Africa.

| | Change % | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|---|
| **4.1 Revenue** | | | |
| Consumer | 42 | **1 267 287** | 892 392 |
| OTC | (16) | **1 735 239** | 2 054 114* |
| Prescription | 10 | **3 021 520** | 2 758 538 |
| Hospital | 8 | **1 752 229** | 1 627 518 |
| Other – shared services | | **579** | 13 996* |
| | 6 | **7 776 854** | 7 346 558 |

** The Group has disclosed the research and development services in India, after eliminating intercompany sales in the "Other – shared services" segment as it is managed as a shared service. Rest of Africa, after eliminating intercompany sales, have been included within OTC, as it is managed by the OTC management team. As such, the comparatives have been restated.*

## 4.2 Revenue by channel

| | Wholesaler | Corporate Pharmacy | Retail/ FMCG | Hospital (including SANBS) | Inde-pendent Pharmacy | Total Private | Public | Export and foreign | Total |
|---|---|---|---|---|---|---|---|---|---|
| **30 June 2021** | | | | | | | | | |
| OTC | **962 774** | **454 896** | **71 767** | **–** | **125 664** | **1 615 101** | **76 494** | **43 644** | **1 735 239** |
| Prescription | **1 262 049** | **798 612** | **252 034** | **29 409** | **111 091** | **2 453 195** | **538 222** | **30 103** | **3 021 520** |
| Hospital | **403 315** | **15 831** | **58 938** | **721 409** | **15 587** | **1 215 080** | **490 240** | **46 909** | **1 752 229** |
| Consumer | **143 762** | **307 616** | **785 314** | **–** | **19 698** | **1 256 390** | **–** | **10 897** | **1 267 287** |
| Other – shared services | **–** | **–** | **111** | **–** | **–** | **111** | **–** | **468** | **579** |
| | **2 771 900** | **1 576 955** | **1 168 164** | **750 818** | **272 040** | **6 539 877** | **1 104 956** | **132 021** | **7 776 854** |
| % Split | 35.6% | 20.3% | 15.0% | 9.7% | 3.5% | 84.1% | 14.2% | 1.7% | 100.0% |

Revenue in terms of IFRS 15 and segmental revenue (note 4.1) are considered to be the same.

| | Change % | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|---|
| **4.3 Trading profit** | | | |
| Consumer | 52 | **235 380** | 155 134 |
| OTC | (31) | **292 327** | 425 747 |
| Prescription | 3 | **223 826** | 217 652 |
| Hospital | 15 | **161 385** | 140 453 |
| Other – shared services | | **1 692** | 5 294 |
| Trading profit | (3) | **914 610** | 944 280 |
| **4.4 Total assets** | | | |
| Consumer | | **1 183 276** | 719 751 |
| OTC | | **1 784 018** | 1 784 172 |
| Prescription | | **1 958 535** | 2 241 489 |
| Hospital | | **1 419 328** | 1 359 322 |
| Other – shared services | | **695 261** | 1 077 016 |
| | | **7 040 418** | 7 181 750 |

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|---|
| **5.** | **INVENTORY** | | |
| | Inventories written down and recognised as an expense in cost of sales that forms part of trading profit | **76 581** | 95 424 |
| **6.** | **CAPITAL COMMITMENTS** | | |
| | – Contracted for | **56 568** | 50 485 |
| | – Approved but not contracted | **54 181** | 75 647 |
| | | **110 749** | 126 132 |
| **7.** | **HEADLINE EARNINGS** | | |
| | Headline earnings is determined as follows: | | |
| | Profit attributable to owners of Adcock Ingram | **657 463** | 676 366 |
| | **Adjusted for:** | | |
| | Impairment of intangible assets | **13 000** | 16 196 |
| | Loss/(Profit) on disposal/scrapping of property, plant and equipment | **1 325** | (922) |
| | Tax effect on loss/(profit) on disposal of property, plant and equipment | **(619)** | 266 |
| | Loss of control of owner-driver subsidiaries | **–** | 19 274 |
| | Profit on sale of investment following the cancellation of B-BBEE scheme | **–** | (2 114) |
| | Tax effect on profit on sale of investment following the scheme cancellation of the B-BBEE scheme | **–** | 273 |
| | Adjustments relating to equity accounted joint ventures and associate | **113** | 182 |
| | **Headline earnings** | **671 282** | 709 521 |
| **8.** | **SHARE CAPITAL** | | |
| | Number of shares in issue | **175 759** | 175 759 |
| | Number of ordinary shares held by the Group companies | **(14 001)** | (8 300) |
| | **Net shares in issue** | **161 758** | 167 459 |
| | Headline earnings and basic earnings per share are based on: | | |
| | Weighted average number of ordinary shares outstanding | **165 888** | 169 928 |
| | Diluted weighted average number of shares outstanding | **165 971** | 169 946 |

## 9. FAIR VALUE HIERARCHY

The Group classifies all financial instruments and its fair value hierarchy as follows:

| Financial instruments | Classification per IFRS 9 | Statement of financial position line item | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|---|---|
| **At fair-value level 2[1]** | | | | |
| Foreign exchange contracts – derivative asset | Hedging derivative | Trade and other receivables | **228** | 12 410 |
| Foreign exchange contracts –derivative liability | Hedging derivative | Trade and other payables | **13 689** | 471 |
| **At fair-value level 3[2]** | | | | |
| Black Managers Share Trust | Fair value through profit and loss | Other financial assets | **23 898** | 24 866 |
| Investment | Fair value through OCI | Other financial assets | **2 194** | 1 704 |
| **At amortised cost** | | | | |
| Trade and sundry receivables[3] | At amortised cost | Trade and other receivables | **1 687 358** | 1 519 264 |
| Cash and cash equivalents[3] | At amortised cost | Cash and cash equivalents | **62 117** | 316 825 |
| Trade and other payables[3] | At amortised cost | Trade and other payables | **1 696 402** | 1 997 320 |
| Bank overdraft[3] | At amortised cost | Trade and other payables | **13 881** | – |

### Valuation techniques

(1) *Level 2. Fair value based on the ruling market rate at year-end. The fair value of the forward exchange contract is calculated as the difference in the forward exchange rate as per the contract and the forward exchange rate of a similar contract with similar terms and maturities concluded as at the valuation date multiplied by the foreign currency monetary units as per the FEC contract.*

(2) *Level 3. The value of the investment in Group Risk Holdings Proprietary Limited is based on Adcock Ingram's proportionate share of the net asset value of the Company. The value of the investment in the Black Managers Share Trust is based on the expected capital contribution to be received from the scheme beneficiaries.*

(3) *The carrying value approximates fair value due to the short-term nature.*

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. RELATED PARTIES

The following services have been obtained from subsidiaries of The Bidvest Group Limited, the controlling shareholder of the Company. All of the services are in the ordinary course of business and on an aggregated basis these arrangements/agreements are less than 10% of the Company's market capitalisation, which is within the ordinary course of business exclusion pursuant to Section 9 of the JSE Listings Requirements.

### 10.1 The following services are obtained with no contract in place for these services, as they are obtained on an *ad hoc* basis, with price and quality dictating the purchase:

| Company | Description | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|---|
| First Garment Rental (Pty) Ltd | Factory laundry | **2 442** | 2 267 |
| HRG Rennies Travel (Pty) Ltd | Travel | **1 642** | 6 935 |
| Bidvest Office (Pty) Ltd t/a Hortors SA Diaries | Diaries | **1 622** | 1 606 |
| Bidvest Office (Pty) Ltd t/a Bidvest Waltons | Office stationery | **1 289** | 1 413 |
| Bidvest Afcom (Pty) Ltd | Consumables (tape) | **260** | 1 984 |
| Bidvest G Fox (Pty) Ltd | Protective wear | **537** | 537 |
| Steiner Hygiene (Pty) Ltd | Cleaning consumables | **441** | 133 |
| Bidvest Material Handling (Pty) Ltd | Maintenance | **395** | 25 |
| Bidvest Office (Pty) Ltd t/a Cecil Nurse | Furniture | **350** | 2 307 |
| Bidvest Paperplus (Pty) Ltd t/a Lithotech Blesston | Consumables | **254** | 1 262 |
| Bidvest McCarthy Ltd t/a Bidvest Car Rental | Vehicle rental | **146** | 1 801 |
| Bidvest Paperplus (Pty) Ltd t/a Rotolabel Johannesburg | Packaging | **8** | 61 |
| Bidvest Services Holdings (Pty) Ltd t/a BidAir Cargo | Freight forwarding | **–** | 1 146 |
| | | **9 386** | 21 477 |

### 10.2 The following services are obtained where no contract is in place, but a 12-month price agreement has been agreed:

| Company | Description | Audited 2021 R'000 | Audited 2020 R'000 |
|---|---|---|---|
| Pureau Fresh Water Company (Pty) Ltd | Refreshments | **789** | 983 |
| Bidvest Car Rental (Pty) Ltd t/a Budget Car & Van Rental | Car hire | **402** | 788 |
| Bidvest Bank Limited | Forex | **–** | 203 |
| | | **1 191** | 1 974 |

### 10.3 12-month contracts are in place for the following services:

| Company | Description | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| Safcor Freight (Pty) Ltd t/a Bidvest International Logistics | Freight forwarding | **44 793** | 61 955 |
| Bidvest Protea Coin (Pty) Ltd | Guarding | **16 967** | 20 486 |
| Bidvest Facilities Management (Pty) Ltd | Facilities Management | **7 411** | 8 907 |
| Bidvest Prestige Cleaning t/a Bidvest Managed Solutions (Pty) Ltd | Cleaning | **6 922** | 6 043 |
| Bidvest Managed Solutions (Pty) Ltd | Cleaning/Gardening | **4 879** | 4 186 |
| | | **80 972** | 101 577 |

### 10.4 The following directors fees have been paid following the authority granted at the Annual General Meetings, held in November 2019 and November 2020:

| | | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| Bidvest Branded Products | Directors' fees | **427** | 330 |
| Bidvest Corporate Services | Directors' fees | **1 474** | 1 542 |
| | | **1 901** | 1 872 |

## 11. SUBSEQUENT EVENTS

### 11.1 Aspen Pharmacare

On 30 July 2021, Adcock Ingram acquired a portfolio of 14 Prescription, OTC and Hospital brands from Aspen Pharmacare for R180 million, with historic annualised revenue of approximately R80 million. The terms include a two-year manufacturing and supply agreement for products manufactured by Aspen Pharmacare, to accommodate technology transfer to Adcock Ingram's facilities.

### 11.2 Civil unrest

During July 2021, the country experienced well publicised civil unrest, mainly in KwaZulu-Natal (KZN) and Gauteng, including wide-spread destruction of property and the tragic loss of lives. Fortunately, the Group did not experience any significant destruction of assets and employees remained safe. Nonetheless, no selling and distribution activities, other than for life-saving products, could take place within or from KZN, including through the port of Durban, during that period.

Subsequent to the unrest, the Group resumed normal operations in KZN and the supply chain is intact and operational. However, certain product shortages are being experienced as a result of operational difficulties at the Durban port. We do not foresee that these shortages will have a material impact on the financial performance of the Group and expect them to be resolved by mid-September.

# CORPORATE INFORMATION

## Adcock Ingram Holdings Limited

Incorporated in the Republic of South Africa
(Registration number 2007/016236/06)
Share code: AIP ISIN: ZAE000123436
("**Adcock Ingram**" or "**the Company**" or "**the Group**")

## Directors

Ms L Boyce (Non-executive Director)
Dr S Gumbi (Independent Non-executive Director)
Mr A Hall (Chief Executive Officer)
Prof M Haus (Lead Independent Non-executive Director)
Ms B Letsoalo (Executive Director: Human Capital and Transformation)
Ms N Madisa (Non-executive Director and Chairperson)
Dr C Manning (Independent Non-executive Director)
Prof Michael Sathekge (Independent Non-executive Director)
Ms D Neethling (Chief Financial Officer)
Ms D Ransby (Independent Non-executive Director)
Mr K Wakeford (Non-executive Director)

## Company secretary

Mr Mahlatse "Lucky" Phalafala

## Registered office

1 New Road, Midrand, 1682

## Postal address

Private Bag X69, Bryanston, 2021

## Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank
Johannesburg, 2196
Private Bag X9000
Saxonwold, 2132

## Auditors

PricewaterhouseCoopers Inc.
4 Lisbon Lane, Waterfall City
Waterfall, 2090

## Sponsor

Rand Merchant Bank (A division of FirstRand Bank Limited)
1 Merchant Place, corner Fredman Drive and Rivonia Road
Sandton, 2196

## Bankers

Nedbank Limited
135 Rivonia Road, Sandown
Sandton, 2146

Rand Merchant Bank
1 Merchant Place, corner Fredman Drive and Rivonia Road
Sandton, 2196

Investec Bank Limited
100 Grayston Drive
Sandton, 2196