adcock ingram

20

Group Annual Results

for the year ended 30 June 2020

a dose of care

Commentary

Salient features

Turnover increased 4% to **R7,347 million**

Gross profit declined 2% to **R2,739 million**

Trading profit decreased 1% to **R944 million**

HEPS from continuing operations decreased 1% to **417.5 cents**

Cash on hand: **R317 million**

Introduction

On 11 March 2020, the World Health Organisation officially declared Covid-19, the disease caused by a novel coronavirus, a pandemic, resulting in the South African Government declaring a state of national disaster in terms of the Disaster Management Act on 15 March 2020. The Government took drastic measures in the form of a national lockdown to manage the spread of the disease, protect the people of our country, and reduce the impact of the virus on the society and the economy. The Group is regarded as an essential service provider, and therefore no restrictions were imposed on the operations during the lockdown, albeit that the effects of the pandemic were evident across the business units in varying degrees.

As the pandemic increased in both magnitude and duration, the Group has experienced conditions associated with a general economic downturn, including significant cost-push due to Rand weakness, global supply chain disruptions, and declines in demand for certain categories of medicine and products, and consumer discretionary spending.

Under such circumstances, the Board of Directors (Board) is pleased with the results delivered by the Group in a depressed and unpredictable market.

The Group acquired 100% of Plush Professional Leather Care (Pty) Ltd (Plush) on 27 May 2020 for R323 million, in line with its strategy to expand into less regulated segments of the market, including home care.

Financial performance

Revenue and profits

Revenue during the year under review increased by 3.8% to R7,347 million (2019: R7,078 million), driven by an average price realisation of 2.6% and a mix benefit of 4.2%, with organic volumes declining by 3.0%.

The gross margin decreased from 39.4% to 37.3%, adversely impacted by the unfavourable exchange rate and unanticipated Covid-19 expenditure.

Operating expenses decreased by 2.1%, an excellent achievement given that the inflation averaged close to 4% over the year and the Company granted a 5% salary increase in December 2019.

This resulted in a 1.2% decrease in trading profit to R944.3 million (2019: R955.4 million).

Non-trading expenses

Non-trading expenses of R82.1 million include retrenchment costs of R33.5 million, the Group having reduced its non-bargaining unit employee count by 64 people towards the end of the financial year, in response to the weak economic environment. The balance of non-trading expenses includes a loss on the deconsolidation of the owner-driver companies of R19.3 million, impairments of R16.2 million and an ex-gratia payment of R10.0 million made to the Group's former B-BBEE partner (Ad-izinyosi Proprietary Limited).

Net finance costs

Net finance costs of R33.5 million (2019: R11.6 million) were incurred during the year, including IFRS 16 (Leases) finance costs of R29.7 million (2019: nil).

Headline earnings

Headline earnings from continuing operations for the year increased by 1.2% to R709.5 million (2019: R701.0 million).

As a result of the R10 million ex-gratia payment to Ad-izinyosi and the lower number of treasury shares subsequent to unwinding of the B-BBEE Scheme, headline earnings per share from continuing operations decreased 1% to 417.5 cents (2019: 421.7 cents). The ex-gratia payment and the lower number of treasury shares, on a combined basis, adversely impacted HEPS by 18.1 cents.

Cash flows

Cash generated from operations amounted to R1,081 million (2019: R1,029 million) after working capital increased by R164.7 million (2019: R208.6 million), mainly arising from investment in active pharmaceutical ingredients related to the ARV tender, on-boarding of additional Leo Pharma dermatology brands, the launch of the Sports Science and Rehabilitation business in the Hospital Division, the take-on of Plush, and higher safety inventory held to address global supply constraints consequent to Covid-19.

Trade receivables remained well controlled and the average days outstanding are 66 days (2019: 64 days).

The Group had net cash resources of R316.8 million (2019: R448 million) at the end of the year.

Dividend

Adcock Ingram is in a healthy financial position and generated strong cash flows in 2020. As a result of the slow performance of the pharmaceutical market subsequent to March 2020, as well as the extraordinary levels of uncertainty in the economy and operating environment brought about by Covid-19, the Board of Directors resolved not to declare a final dividend, but adopt a prudent approach and preserve cash until the full impact of Covid-19 is better understood.

Business overview

OTC, which focuses on products in the pain, coughs, colds and flu, and anti-histamine therapeutic categories through the pharmacy channel, increased turnover by 1.8% to R2,018 million (2019: R1,983 million). Growth was adversely impacted in the fourth quarter of the financial year, by the virtual absence of a cold and flu season in South Africa, resulting in very few orders for replenishment of the winter basket. Nonetheless, a number of the top brands including Corenza C, Alcophyllex and Allergex showed double-digit growth. Gross margin ended lower compared to the prior year, adversely impacted by the weaker currency, additional costs related to Covid-19 and lower factory recoveries in the first half of the year. Excellent cost control, coupled with the impact of Covid-19 on normal operating activities, i.e. a reduction in certain selling and marketing activities in the trade, resulted in trading profit improving by 9.8% to R426.3 million (2019: R388.4 million). This was a commendable performance in the constrained environment.

Prescription turnover increased 0.7% to R2,759 million (2019: R2,740 million), with the volume decline of 7.1% being compensated for by the on-boarding of the Leo Pharma dermatology brands and new product launches in the Generics segment. Price realisation was marginally positive. The significant decrease in volume is attributable to the Covid-19 outbreak and subsequent lockdown. This resulted in lower levels of patients consulting doctors, lower dispensary traffic in pharmacies, as well as the postponement of elective surgeries. This impacted many of the acute medicines marketed by the Division, including the pain, dermatology, urology and ophthalmology portfolios. The Generics segment was impacted by stock supply challenges earlier in the year and continues to face pricing pressure. The ARV business was impacted by the loss of the Discovery formulary listing for Trivenz and the extremely slow roll out of DLT (Dolutegravir, Tenofovir, Lamivudine) combination drug by the State. A significant portion of the Genop business, that markets surgical products and medical equipment, primarily to ophthalmic surgeons and optometry practices, saw virtually no demand during lockdown. However, Epi-max, this business's anchor personal care brand, continues to grow. Gross margin ended lower compared to the prior year impacted by the weaker currency, unforeseen Covid-19 expenses and poor factory recoveries at the Wadeville facility. As a result, trading profit of R217.7 million was disappointing, ending well below the prior year of R310.0 million.

Consumer turnover improved by 13.4% to R892 million (2019: R787 million), delivering a strong performance throughout the year, but also benefitting from the unprecedented demand for Panado and immune-boosting consumer products amid the Covid-19 outbreak. Demand for personal care and energy products was generally weak during the Covid-19 pandemic. With good cost control, trading profit increased by 15.6% to R155.1 million (2019: R134.2 million), an excellent result in a very challenging environment. The performance includes the Plush results in June. Plush is a well-established company offering an extensive range of homecare, cleaning and leather care products, which are sold at most major retailers in South Africa. This company's shoe-care products also struggled under lockdown, particularly with the closure of schools and shoe retailers.

Hospital turnover improved by 11.9% to R1,628 million (2019: R1,455million) with robust sales from the Renal segment, strategic purchases of intravenous fluids prior to the Covid-19 pandemic and exceptional demand for Adco Hygiene products. These effects compensated for the decline in demand for products used in elective surgeries, and trauma and medical cases, all of which were significantly reduced during the Covid-19 pandemic. The new Sports Science and Rehabilitation business had shown good potential in the two-months subsequent to its launch in January 2020, but Covid-19 effectively brought this business to a standstill during lockdown, with many physiotherapy practices closed or seeing reduced numbers of patients. The gross margin improved, despite the weak Rand, benefitting from an advantageous sales mix in the private market. Trading profit improved by an impressive 25.2% to R140.5 million (2019: R112.2 million).

Rest of Africa turnover in the Group's Kenyan operations decreased to R53.6 million (2019: R68.5 million) and the business made a small loss, including the costs of closure. In 2020 the operating model changed from having a physical presence in Kenya, to the appointment of an agent to distribute the Company's products.

Covid-19

The unprecedented effect of the Covid-19 pandemic has had a profound impact on the lives of millions around the globe. In the midst of this devastating pandemic, the Group responded with the following support for employees and stakeholders:

- established a Covid-19 Crisis Communication Committee Task Team to provide strategic policy guidelines to safeguard employees' safety and wellness in the workplace, and implement protocols to curb the spread of the virus, test and trace at-risk employees, and manage employees in isolation or quarantine;
- all our factories, distribution network and other departments critical to the continuity of operations were operational throughout the lockdown period;
- the majority of our employees (75%) work on site, with the remaining 25% working predominately from home, but, as essential workers, able to come to the office when required. Employees over 60 years of age and those with comorbidities, health issues and any certain social factors, e.g. parents with school going children under the age of 18, have been prioritised to work predominantly from home where possible;
- non-executive and executive directors of the Board, and certain senior managers, voluntarily donated 20% of their fees or salaries, for three months to the Solidarity Fund, or as a cost saving in their respective division;
- raised funds to support employees of the in-house car wash service during lockdown period;
- donated hospital beds and respirators through corporate social responsibility projects;
- provided food parcels and facemasks to communities in need;
- made early settlement of payments due to small medium enterprises suppliers (SME's); and
- collaborated with the South African Depression and Anxiety Group and The Healthcare Workers Care Network to offer healthcare workers access to support, therapy, resources, training and psycho-education via the Adcock Ingram Depression and Anxiety Helpline, to assist them to cope with the mental strain of the pandemic.

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

- 262 positive cases:
- 253 cases recovered and returned to work;
- 6 active cases; and
- sadly 3 deceased employees. Our thoughts and prayers are with their families, friends and colleagues.

In addition, we currently have 18 employees in self-quarantine. Over the course of the pandemic, outside of the positive cases reported above, 587 employees have self-quarantined and returned to work in accordance with our protocols.

The Group spent R31 million during the financial year on Covid-19 related costs, including the provision of meals and transport during lockdown level 5, and additional hygiene protocols including disinfecting and decontamination procedures at all sites, with special measures in the factories, canteens and ablution facilities.

The Covid-19 pandemic has highlighted how much the country depends upon essential workers, who worked and continue to do so, throughout the pandemic. We are tremendously grateful to the people serving on the frontlines of Covid-19 in essential services, especially healthcare workers, as well as our own employees who ensure that life-saving intravenous fluids and other medicines, essential to the crisis, are manufactured and distributed.

Changes to the Board and in directors' functions

On 29 February 2020 Dr Anna Mokgokong resigned as a non-executive director of the Board.

Prospects

Given the uncertain nature of the Covid-19 pandemic and the probable prolonged negative impact on the economy, particularly unemployment levels and the weak exchange rate, South Africans and corporates face a difficult path in the short to medium term.

In the absence of relief on the Single Exit Price, margin compression in the Group is inevitable at current exchange rate levels. In addition, the longer the pandemic persists, the greater the risk that current levels of weak demand in parts of the Group's portfolio will continue.

The Group continues to examine its structures and operating model, taking into account customer and consumer behaviour during the lock-down period, to remain relevant in a post-Covid-19 economy and protect the sustainability of the business.

Notwithstanding the impact of Covid-19, the Group owns, produces and distributes an extensive range of affordable pharmaceutical, medical and consumer products, including many iconic South African brands. The Board therefore remains optimistic about the longer term prospects of the Company.

LP Ralphs
Chairman

AG Hall
Chief Executive Officer

25 August 2020

Condensed consolidated statements of comprehensive income

Continuing operations	Notes	Audited 2020 R'000	Change %	Audited 2019 R'000
Revenue from contracts with customers	4.1	**7 346 558**	4	7 078 438
Cost of sales		**(4 607 502)**		(4 289 332)
Gross profit		**2 739 056**	(2)	2 789 106
Selling, distribution and marketing expenses		**(1 263 723)**	(4)	(1 318 830)
Fixed and administrative expenses		**(531 053)**	3	(514 855)
Trading profit		**944 280**	(1)	955 421
Non-trading expenses	3	**(82 099)**		(71 884)
Operating profit		**862 181**	(2)	883 537
Finance income		**5 278**		6 756
Finance costs		**(38 764)**		(18 404)
Dividend income		**3 825**		3 864
Equity-accounted earnings		**97 489**		90 714
Profit before taxation		**930 009**	(4)	966 467
Taxation		**(247 815)**		(269 435)
Profit for the year from continuing operations		**682 194**	(2)	697 032
Loss after taxation for the year from discontinued operation		**–**		(1 609)
Profit for the year		**682 194**	(2)	695 423
Other comprehensive income which will subsequently be reclassified to profit or loss		**118 300**		(16 221)
Exchange differences on translation of foreign operations		**40 619**		7 391
Continuing operations		**4 801**		279
Joint venture and associate		**35 818**		4 342
Discontinued operation		**–**		2 770
Movement in cash flow hedge accounting reserve, net of tax		**77 681**		(23 612)
Other comprehensive income reclassified to profit or loss				
– Associate		**–**		1 607
– Discontinued operation		**–**		(18 960)
Other comprehensive income which will not be reclassified to profit or loss		**665**		733
Fair value of investment, net of tax		**43**		27
Actuarial profit on post-employment medical liability, net of tax		**622**		706
Total comprehensive income for the year, net of tax		**801 159**		662 582
Profit attributable to:				
Owners of the parent		**676 366**		687 986
Non-controlling interests		**5 828**		7 437
		682 194		695 423
Total comprehensive income attributable to:				
Owners of the parent		**795 331**		655 145
Non-controlling interests		**5 828**		7 437
		801 159		662 582
Continuing operations:				
Basic earnings per ordinary share (cents)		**398.0**	(4)	414.8
Diluted basic earnings per ordinary share (cents)		**398.0**	(4)	414.8
Headline earnings per ordinary share (cents)		**417.5**	(1)	421.7
Diluted headline earnings per ordinary share (cents)		**417.5**	(1)	421.6
Total operations:				
Basic earnings per ordinary share (cents)		**398.0**	(4)	413.8
Diluted basic earnings per ordinary share (cents)		**398.0**	(4)	413.8
Headline earnings per ordinary share (cents)		**417.5**	(1)	422.8
Diluted headline earnings per ordinary share (cents)		**417.5**	(1)	422.8

Condensed consolidated statement of changes in equity

	Attributable to holders of the parent						
	Issued share capital R'000	Share premium R'000	Non-distributable reserves R'000	Retained income R'000	Total attributable to ordinary shareholders R'000	Non-controlling interests R'000	Total R'000
As at 1 July 2018	17 146	666 356	223 875	3 000 743	3 908 120	2 413	3 910 533
Movement in treasury shares*	(4)	(2 342)			(2 346)		(2 346)
Movement in share-based payment reserve*			5 314		5 314		5 314
Total comprehensive income			(32 841)	687 986	655 145	7 437	662 582
Profit for the year				687 986	687 986	7 437	695 423
Other comprehensive income			(32 841)		(32 841)		(32 841)
Dividends				(270 801)	(270 801)	(7 088)	(277 889)
Balance at 30 June 2019 (Audited)	**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**
Movement in share-based payment reserve*			**(2 133)**		**(2 133)**		**(2 133)**
Share repurchase	**(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**		**118 965**		**118 965**
Reclassified to cost of inventory – not included in other comprehensive income			**(55 851)**		**(55 851)**		**(55 851)**
Dividends				**(342 941)**	**(342 941)**	**(6 713)**	**(349 654)**
Balance at 30 June 2020 (Audited)	**16 746**	**510 354**	**257 329**	**3 751 353**	**4 535 782**	**2 719**	**4 538 501**

* *Relate to equity and BMT option schemes.*

Condensed consolidated statements of financial position

	Audited 2020 R'000	Audited 2019 R'000
ASSETS		
Property, plant and equipment	**1 528 541**	1 538 198
Right-of-use assets	**264 274**	–
Intangible assets	**928 518**	609 444
Deferred tax	**6 385**	8 671
Other financial assets	**26 570**	29 627
Investment in joint ventures	**545 178**	506 236
Loans receivable	**17 861**	–
Non-current assets	**3 317 327**	2 692 176
Inventories	**1 909 767**	1 312 551
Trade and other receivables	**1 625 246**	1 787 025
Cash and cash equivalents	**316 825**	448 252
Taxation receivable	**12 585**	10 789
Current assets	**3 864 423**	3 558 617
Total assets	**7 181 750**	6 250 793
EQUITY AND LIABILITIES		
Capital and reserves		
Issued share capital	**16 746**	17 142
Share premium	**510 354**	664 014
Non-distributable reserves	**257 329**	196 348
Retained income	**3 751 353**	3 417 928
Total shareholders' funds	**4 535 782**	4 295 432
Non-controlling interests	**2 719**	2 762
Total equity	**4 538 501**	4 298 194
Long-term portion of lease liability	**281 295**	–
Post-retirement medical liability	**14 852**	15 637
Deferred tax	**153 507**	102 333
Non-current liabilities	**449 654**	117 970
Trade and other payables	**2 014 408**	1 683 923
Short-term portion of lease liability	**28 986**	–
Cash-settled options	**21 097**	18 699
Provisions	**129 104**	132 007
Current liabilities	**2 193 595**	1 834 629
Total equity and liabilities	**7 181 750**	6 250 793

Condensed consolidated statements of cash flows

	Audited 2020 R'000	Audited 2019 R'000
Cash flows from operating activities		
Operating profit from continuing operations	**862 181**	883 537
Operating profit from discontinued operations	**–**	3 098
Operating profit	**862 181**	886 635
Adjustments and non-cash items	**383 376**	350 770
Operating profit before working capital changes	**1 245 557**	1 237 405
Working capital changes	**(164 655)**	(208 600)
Cash generated from operations	**1 080 902**	1 028 805
Finance income received	**5 394**	7 350
Finance costs paid	**(38 479)**	(20 109)
Dividend income received	**99 474**	41 953
Dividends paid	**(349 654)**	(277 889)
Taxation paid	**(271 757)**	(274 147)
Net cash inflow from operating activities	**525 880**	505 963
Cash flows from investing activities		
Acquisition of business (Plush)	**(308 979)**	–
Purchase of property, plant and equipment – Replacement	**(129 453)**	(122 858)
– Expansion	**(24 086)**	(92 626)
Cash foregone on loss of control of owner-driver subsidiaries[1]	**(13 866)**	–
Purchase of intangible assets	**(2 578)**	–
Proceeds from the cancellation of B-BBEE scheme	**6 125**	–
Proceeds on loan receivable	**2 310**	–
Proceeds of sale of interest in BMT	**1 085**	2 655
Proceeds on disposal of property, plant and equipment	**836**	1 288
Disposal of Zimbabwean business	**–**	15 940
Proceeds on disposal of investment in associate	**–**	2 156
Net cash outflow from investing activities	**(468 606)**	(193 445)
Cash flows from financing activities		
Proceeds from issue of share capital	**779**	–
Share repurchase[2]	**(157 043)**	–
Treasury shares bought for equity option scheme	**(7 363)**	(21 818)
Settlement of Mpho ea Bophelo equity options	**(6 081)**	–
Repayment of lease liabilities	**(21 270)**	–
Net cash outflow from financing activities	**(190 978)**	(21 818)
Net (decrease)/increase in cash and cash equivalents	**(133 704)**	290 700
Net foreign exchange difference on cash and cash equivalents	**2 277**	1 800
Cash and cash equivalents at beginning of year	**448 252**	155 752
Cash and cash equivalents at end of year	**316 825**	448 252

1 *On 1 March 2020, Adcock Ingram Healthcare Proprietary Limited signed a cession agreement, transferring its rights, title, interest and obligations in the contracts with the owner-driver companies to RTT Proprietary Limited, resulting in the Group losing control over the these companies.*

2 *During March 2020, the Adcock Ingram Limited purchased 4 014 038 shares, at an average price of R39.12, with the price ranging from R38.02 to R40.00 , in terms of the November 2019 AGM approval.*

Notes to the consolidated financial statements

1. BASIS OF PREPARATION

1.1 Introduction

The audited consolidated annual financial statements for the year ended 30 June 2020 have been prepared in compliance with the Listings Requirements of the JSE Limited, International Financial Reporting Standards (IFRS), the requirements of the International Accounting Standards (IAS) 34: Interim financial reporting, SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act, No. 71 of 2008. These condensed results for the year ended 30 June 2020, 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 summarised 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 consistent with those of the previous financial year except for the adoption of the following new and amended standards and interpretations during the year.

a) **IAS 19:** ***Plan amendment, curtailment or settlement – Amendments***

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

Both of these did not have a significant impact on the financial performance or position of the Group.

c) **IFRS 16:** ***Leases***

The adoption of IFRS 16 on 1 July 2019, had an impact on the financial performance and position of the Group and the following adjustments were recognised, after the Group elected to apply the standard retrospectively, using the modified retrospective approach as well as the following practical expedients:

– the use of single discount rates to be applied to portfolios of leases with reasonably similar characteristics;

– excluding operating leases which will expire within 12 months of adoption of this standard and continued to be expensed over the lease term; and

– excluding operating leases of low value of assets (assets below R100 000).

Liabilities

At 30 June 2019, the Group recorded operating lease commitments of R504.7 million, in accordance with leases classified as 'operating leases' under the principles of IAS 17 Leases.

On 1 July 2019, these liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's weighted average incremental borrowing rate (as obtained from the Group's bankers) of 9.6%, over the term of the lease, resulting in the Group recognising a lease liability of R328.5 million, in accordance with IFRS 16.

No contract renewal options have been initially included in the present value calculations as the renewal of any agreement was not considered reasonably certain at that point in time.

A reconciliation from operating leases commitments disclosed at 30 June 2019 to the lease liability disclosed under IFRS16 at 1 July 2019 is shown below:

	R'm
Operating lease commitments as at 30 June 2019	504.7
Discounted using incremental borrowing rate of 9.6% at the date of initial application:	
Lease liability recognised at 01 July 2019	328.5
Split and disclosed as follows:	
Current lease liability	47.9
Non-current lease liability	280.6

A decrease in "other liabilities" of R28.2 million was recorded with the release of the straight-lining of leases balance recorded at 30 June 2019, which was offset against the "Right of Use" asset on adoption.

Assets

The Group initially recognised the associated "right of use" (ROU) asset of R300.4 million, at a value equal to the lease liability, adjusted by the release of the straight-lining of leases balance. The net book value of the ROU asset at 30 June 2020 was R264.3 million.

Profit or loss

During the year ended 30 June 2020, depreciation on the ROU assets of R39.2 million and interest costs of R29.7 million on the lease liabilities have been recognised.

Change in initial impact assessment

The decrease in the lease liability and the ROU assets (R7.9 million) in comparison to the impact assessment disclosed in the 30 June 2019 annual financial statements, is due to a payment holiday granted on one warehousing facility subsequent to the initial assessment.

2. ACQUISITION OF BUSINESS

On 27 May 2020, Adcock Ingram Healthcare Proprietary Limited acquired 100% of Plush Professional Leather Care Proprietary Limited (Plush), a well-established company offering an extensive range of homecare, cleaning and leather care products, which are sold through most major retailers into South Africa and selected Southern African countries. The acquisition of Plush is in line with the Group's strategy to expand into less regulated segments of the market, including homecare.

The fair value of the identifiable assets, based on a provisional purchase price allocation as at the date of acquisition, was:

	Audited 2020 R'000
Assets	
Inventories	**31 643**
Trade and other receivables	**34 180**
Property, plant and equipment	**6 407**
Trademarks and brands	**235 218**
Cash and cash equivalents	**13 701**
	321 149
Liabilities	
Trade and other payables	**37 486**
Provisions	**675**
Deferred tax	**66 406**
Tax payable	**1 077**
	105 644
Total identifiable net assets at fair value	**215 505**
Goodwill arising on acquisition	**107 175**
Purchase consideration	**322 680**
Net cash acquired with the business	**(13 701)**
Net cash consideration	**308 979**

The fair value of the trade receivables equalled the net amount of trade receivables and amounted to R34.0 million.

Goodwill represents the difference between the purchase consideration and the fair value of the net assets acquired as there are no further separately identifiable intangible assets. The significant factor that contributed to the recognition of goodwill includes, but is not limited to, the acquisition of a business with strong capabilities in innovation.

From the date of acquisition, Plush contributed R18.9 million towards revenue and reported a profit before income tax of R2.6 million.

If the Plush acquisition took place at the start of the financial year, the revenue would have been R224.0 million and profit before income tax would have been R22.1 million.

	Audited 2020 R'000
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(1 924)
Net cash acquired with business (included in cash flows from investing activities)	13 701

3. NON-TRADING EXPENSES

	Audited 2020 R'000	Audited 2019 R'000
Retrenchment costs	**33 507**	12 347
Deficit on loss of control of subsidiary	**19 274**	–
Ex-gratia B-BBEE expense	**10 000**	–
Impairments	**16 196**	8 568
Fair value adjustment of long-term receivable	**2 027**	1 763
Transaction costs	**1 924**	5 843
Share-based payment expenses	**936**	41 756
Lease cancellation fee	**349**	–
Profit on sale of investment following the cancellation of B-BBEE scheme	**(2 114)**	–
Release of foreign currency translation reserve on disposal of investment in associate	**–**	1 607
	82 099	71 884

4. SEGMENT REPORTING

The Group's reportable segments in Southern Africa are as follows:

- **Consumer** – competes in the Fast Moving Consumer Goods (FMCG) space;
- **Over the Counter (OTC)** – focuses primarily on brands sold predominantly in the pharmacy market, where the pharmacist plays a role in the product choice;
- **Prescription** – markets products prescribed by medical practitioners and includes specialised instrument 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 cash and bank overdraft balances which are managed on a central basis in Southern Africa.

4.1 Revenue from contracts with customers

	Change %	Audited 2020 R'000	Audited 2019 R'000
Continuing operations			
Southern Africa	4%	**7 309 337**	7 030 034
Consumer	13%	**892 392**	786 896
OTC	2%	**2 017 941**	1 982 886
Prescription	1%	**2 758 538**	2 739 649
Hospital	12%	**1 627 518**	1 454 604
Other – shared services		**12 948**	65 999
Rest of Africa	(22%)	**53 583**	68 524
Research and development services in India	18%	**24 944**	21 114
	4%	**7 387 864**	7 119 672
Less: Intercompany sales	0%	**(41 306)**	(41 234)
	4%	**7 346 558**	7 078 438

4.2 Revenue from contracts with customers by channel

	Private R'000	Public R'000	Export and foreign R'000	Total R'000
30 June 2020 (Audited)				
Southern Africa	**6 106 703**	**1 061 305**	**141 329**	**7 309 337**
Consumer	**880 070**	**–**	**12 322**	**892 392**
OTC	**1 834 574**	**154 947**	**28 420**	**2 017 941**
Prescription	**2 324 832**	**374 125**	**59 581**	**2 758 538**
Hospital	**1 054 279**	**532 233**	**41 006**	**1 627 518**
Other – shared services	**12 948**	**–**	**–**	**12 948**
Rest of Africa			**53 583**	**53 583**
Research and development services in India			**24 944**	**24 944**
Less: Inter-company sales			**(41 306)**	**(41 306)**
	6 106 703	**1 061 305**	**178 550**	**7 346 558**
% split	**83.1%**	**14.5%**	**2.4%**	
30 June 2019 (Audited)				
Southern Africa	5 969 909	863 346	196 779	7 030 034
Consumer	737 800	4	49 092	786 896
OTC	1 820 678	117 176	45 032	1 982 886
Prescription	2 355 191	319 832	64 626	2 739 649
Hospital	990 241	426 334	38 029	1 454 604
Other – shared services	65 999			65 999
Rest of Africa			68 524	68 524
Research and development services in India			21 114	21 114
Less: Inter-company sales			(41 234)	(41 234)
	5 969 909	863 346	245 183	7 078 438
% split	84.3%	12.2%	3.5%	

All of the Group's revenue from contracts with customers is recognised at a point in time.

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

4. SEGMENT REPORTING (continued)

	Change %	Audited 2020 R'000	Audited 2019 R'000
4.3 Trading profit*			
Continuing operations			
Southern Africa	0%	**942 221**	944 752
Consumer	16%	**155 134**	134 177
OTC	10%	**426 272**	388 361
Prescription	(30%)	**217 652**	309 989
Hospital	25%	**140 453**	112 225
Other – shared services		**2 710**	–
Rest of Africa		**(525)**	8 609
Research and development services in India	25%	**2 584**	2 060
	(1%)	**944 280**	955 421

* *Segment performance metrics include trading profit and Return on Funds Employed.*

	Audited 2020 R'000	Audited 2019 R'000
4.4 Total assets		
Southern Africa	**6 780 824**	5 922 443
Consumer	**719 751**	342 209
OTC	**1 758 602**	1 771 142
Prescription	**2 241 489**	2 020 144
Hospital	**1 359 322**	1 189 750
Other – shared services	**701 660**	599 198
Rest of Africa	**25 570**	40 502
India	**375 356**	287 848
	7 181 750	6 250 793

5. INVENTORY

Inventories written down and recognised as an expense in cost of sales in trading profit:

	Audited 2020 R'000	Audited 2019 R'000
Continuing operations	**95 424**	99 944
Discontinued operation	**–**	290
	95 424	100 234

6. CAPITAL COMMITMENTS

	Audited 2020 R'000	Audited 2019 R'000
– Contracted for	**50 485**	21 772
– Approved but not contracted	**75 647**	90 100
	126 132	111 872

	Audited 2020 R'000	Audited 2019 R'000
7. HEADLINE EARNINGS		
Headline earnings is determined as follows:		
Continuing operations		
Earnings attributable to owners of Adcock Ingram from total operations	676 366	687 986
Adjusted for:		
Loss attributable to Adcock Ingram from discontinued operation	–	1 609
Earnings attributable to owners of Adcock Ingram from continuing operations	676 366	689 595
Adjusted for:		
Impairment of intangible assets	16 196	5 595
Impairment of investment in associate	–	2 973
Release of foreign currency translation reserve on disposal of investment in associate	–	1 607
(Profit)/Loss on disposal/scrapping of property, plant and equipment	(922)	677
Tax effect on (profit)/loss on disposal of property, plant and equipment	266	(257)
Loss of control of owner-driver subsidiaries	19 274	–
Sale of investment following the cancellation of B-BBEE scheme	(2 114)	–
Tax effect on sale of investment following the cancellation of B-BBEE scheme	273	–
Adjustments relating to equity accounted joint ventures and associate	182	845
Headline earnings from continuing operations	709 521	701 035

	'000	'000
8. SHARE CAPITAL		
Number of shares in issue	175 759	175 748
Number of ordinary shares held by the Group companies	(8 300)	(4 324)
Net shares in issue	167 459	171 424
Headline earnings and basic earnings per share are based on:		
Weighted average number of ordinary shares outstanding	169 928	166 260
Diluted weighted average number of shares outstanding	169 946	166 262

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 2020 R'000	Audited 2019 R'000
At fair value – Level 2[1]				
Foreign exchange contracts – derivative asset	Hedging derivative	Trade and other receivables	**12 410**	–
Foreign exchange contracts – derivative liability	Hedging derivative	Trade and other payables	**471**	16 799
At fair value – Level 3[2]				
Black Managers Share Trust	Fair value through profit and loss	Other financial assets	**24 866**	27 978
Investment	Fair value through OCI	Other financial assets	**1 704**	1 649
At amortised cost				
Trade and sundry receivables[3]	At amortised cost	Trade and other receivables	**1 519 067**	1 679 475
Cash and cash equivalents[3]	At amortised cost	Cash and cash equivalents	**316 825**	448 252
Trade and other payables[3]	At amortised cost	Trade and other payables	**1 997 320**	1 605 575

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 the fair value due to the short-term nature.*

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 market capitalisation of the Company, 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 2020 R'000
Bidvest Service Holdings (Pty) Ltd t/a BidAir Cargo	Freight forwarding	**1 146**
Bidvest Afcom (Pty) Ltd	Consumables (tape)	**1 984**
Bidvest G Fox (Pty) Ltd	Protective wear	**537**
Bidvest Material Handling (Pty) Ltd	Maintenance	**25**
Bidvest McCarthy Ltd t/a Bidvest Car Rental	Vehicle rental	**1 801**
Bidvest Office (Pty) Ltd t/a Bidvest Waltons	Office stationery	**1 413**
Bidvest Office (Pty) Ltd t/a Cecil Nurse	Furniture	**2 307**
Bidvest Office (Pty) Ltd t/a Hortors SA Diaries	Diaries	**1 606**
Bidvest Paperplus (Pty) Ltd t/a Lithotech Blesston	Consumables	**1 262**
Bidvest Paperplus (Pty) Ltd t/a Rotolabel Johannesburg	Packaging	**61**
First Garment Rental (Pty) Ltd	Factory laundry	**2 267**
HRG Rennies Travel (Pty) Ltd	Travel	**6 935**
Steiner Hygiene (Pty) Ltd	Cleaning consumables	**133**
		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 2020 R'000
Bidvest Bank Limited	Forex	**203**
Bidvest Car Rental (Pty) Ltd t/a Budget Car & Van Rental	Car hire	**788**
Pureau Fresh Water Company (Pty) Ltd	Refreshments	**983**
		1 974

10.3 Contracts are in place for a period of time for the following services obtained:

Company	Description	
Bidvest Facilities Management (Pty) Ltd [(1)]	Facilities Management	**8 907**
Bidvest Managed Solutions (Pty) Ltd [(2)]	Cleaning/Gardening	**4 186**
Bidvest Prestige Cleaning t/a Bidvest Managed Solutions (Pty) Ltd [(3)]	Cleaning	**6 043**
Bidvest Protea Coin (Pty) Ltd [(4)]	Guarding	**20 486**
Safcor Freight (Pty) Ltd t/a Bidvest International Logistics [(5)]	Freight forwarding	**61 955**
		101 577

Contract details

[(1)] 36 months contract, which started 1 July 2018, with a three-month extension.

[(2)] Main contract that caters for the manufacturing sites and distribution. Was for 36 months up to February 2020. To be renegotiated.

[(3)] Main contract that caters for the manufacturing sites and distribution. Was for 36 months up to February 2020. To be renegotiated.

[(4)] A new contract is in the process of being renegotiated.

[(5)] The previous contract was for 30 months and expired in February 2019. To be renegotiated.

10.4 The following directors fees have been paid following the authority granted by the AGM in November 2019:

Bidvest Branded Products	Directors' fees	**330**
Bidvest Corporate Services	Directors' fees	**1 542**
		1 872

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 (Independent 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)
Ms N Madisa (Non-executive Director)
Dr C Manning (Independent Non-executive Director)
Ms D Neethling (Chief Financial Officer)
Mr L Ralphs (Non-executive Director)
Ms D Ransby (Independent Non-executive Director)
Mr K Wakeford (Non-executive Director)

Company secretary

Mr NE Simelane

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
PO Box 61051
Marshalltown, 2107

Auditors

PricewaterhouseCoopers
4 Lisbon Ave, 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

1 New Road, (c/o New Road & 7th Street),
Midrand, South Africa

Private Bag X69, Bryanston,

2021, South Africa

Telephone: +27 11 635 0000
Fax: +27 86 553 0000
Customer Service: 0800 113 844