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Conference Call transcript

22 August 2024

ANNUAL RESULTS PRESENTATION FOR THE YEAR ENDED 30 JUNE 2024

Operator

Good day all, and welcome to Adcock Ingram Group financial results for the year ended 30 June 2024. All attendees will be in listen-only mode. The question and answer session will follow the formal presentation. If you do require operator assistance during the call, please signal for an operator by pressing * and then 0. Please note that this event is being recorded. I would now like to hand the conference over to the Chief Executive Officer, Mr Andy Hall. Please go ahead, sir.

Andy Hall

Thank you, Judith. Good morning, ladies and gentlemen, and thanks for joining us for this year-end results presentation. We appreciate you giving up your time this morning. As per our normal format, I'm going to take you through a short overview of the company and a quick analysis of what we believe was a good trading and financial performance for the year.

So, these results were attained while, as you know, dealing with a number of macroeconomic challenges, not a particularly favourable consumer environment, with low levels of consumer disposable income, rising unemployment and elevated interest rates. So, we're glad to have delivered decent HEPS growth and good cash flow generation, showing the defensive nature of our portfolio, and really a credit to the breadth and depth of our range of healthcare and consumer brands, and our sales and marketing team's ability to adjust to these marketing conditions.

When I'm finished, I'll hand over to Dorette Neethling, our CFO, and Dorette will take you through the detail on the financials, and then we can do some Q&A at the end. So, for the year under review, turnover improved by 6% to R9.6 billion. We had nice, strong trading performances from our over the counter and our hospital divisions. Consumer, a little bit of a mixed bag, brand to brand, and then the prescription division, nice, resilient top line. Mix contributed 2% to the growth and our price realisation for the year under review was 5%.

Our volumes did decline, but by less than 1%, which was a very satisfying recovery from the 5% decline that we reported in the first six months of the financial year. And the second half of the year benefited really from improved demand for our winter basket driven by a rise in cold and flu cases and other respiratory illnesses, particularly in the May and June period. The gross margin has shrunk from 34.9% to 33.4%, driven primarily by the weak exchange rate and the sales mix. Dorette will give you a lot more detail on how the currency has affected us over the last year. Our opex was very well controlled. You'll see that it was just lower than last year marginally and this resulted in a 4% improvement in trading profit to R1.23 billion.

On the regulatory environment, you know we operate in a complex and highly regulated environment, including the price controls on scheduled medicines. The quantum of the single exit price adjustment that we get each year determines to some extent the pressure on our margins, particularly in this environment of rising costs of raw materials and packaging, as well as transportation, utilities and wages. We did, however, get a decent price increase this year, so we got a 6.79% adjustment for 2024 and we realised a decent amount of that increase in both regulated divisions, the OTC and the prescription divisions.

The other regulatory issue that's topical at the moment, in July 2024, SAHPRA responded to the clinical data provided by industry which we had been requested to submit regarding the safety and efficacy of codeine-containing medicines in the paediatric population, that's children below the age of 12 years. In July, the regulator concluded that there is evidence indicating codeine-containing medicines are associated with respiratory complications in children and consequently SAHPRA has recommended that codeine-containing medicines become contraindicated for children under 12 years of age as well as women in their third trimester of pregnancy and those who are breastfeeding infants. We have not objected to these recommendations and we will implement the safety restrictions on all relevant codeine-containing medicines of our own. Our revenue from codeine-containing medicines indicated specifically for use in children is less than R10 million per annum, so not a particularly big commercial impact.

You're probably also aware that one of the FDA's drug advisory committees concluded that phenylephrine, which is a commonly used nasal decongestant in many cold and flu products around the globe, including some at Adcock Ingram, like Corenza C and Grippon. Their conclusion was that it's ineffective when taken orally. The committee did, however, indicate that there were no safety concerns with the oral administration of phenylephrine, and SAHPRA has recently requested applicants to provide comment on the ongoing benefit and risk of the oral phenylephrine containing products. So, we'll be making a submission to SAHPRA in that regard. Certainly, without any safety concerns we don't consider this to be a big risk. There have been no withdrawals called for at the FDA level or at the European Medicines Agency level, and most of these medicines have other active ingredients in them which would compensate for the potential lack of efficacy of phenylephrine.

Just moving on to our business division highlights, in the consumer division, that business operating in healthcare, personal care and home care segments. We have a large portfolio there in analgesia, energy, dermatology, sun care, vitamins, minerals and supplements, shoe care and home care. And this is an area where we have seen some pressure on consumer discretionary spend. However, we believe it delivered an acceptable trading performance. Turnover was at 3%. As I said earlier on, a bit of a mixed bag here. We had weak demand for paracetamol and our home care product, Plush, battled in an environment of aggressive discounting and promotion by competitors, but we did see some standout performances from Epi-Max and Bioplus as well as Compral. All three of those big brands grew in double digits.

We saw quite a bit of cost push from suppliers in this division. A large proportion of its portfolio is imported in Dollar terms, so that did impact the margin. And the 3% increase in turnover yielded trading profit growth of just 2%. On the acquisition side, just off the year end, we acquired the Dermopal brand. So, that's on our books from July onwards. Dermopal is a range of moisturising sunscreens used for everyday facial care, primarily in darker skin tones, and this will strengthen the division's existing skin care and sun care portfolios.

Moving on to our over-the-counter division, the market leader in pain, coughs, colds and flu, digestive and allergy categories through the pharmacy channel in South Africa. According to IQVIA, which measures sales through pharmacy in SA, in Schedule 1 and 2 medicines, this business has grown its share in the last year to just short of 20% and more than 30% by volume. And IQVIA says its rate of growth is currently more than double that of the rate of growth in the market in Schedule 1 and 2. Ex-factory, we saw revenue improve by 8% here. As I mentioned, we had a very good winter. And prominent brands like Corenza C have grown well, as well as Citro Soda and Adco-Mayogel, two of our gastrointestinal products, also had a very good year. The gross margin was slightly softer than the prior year. Again, some currency pressure here and some production cost increases at our factory in Clayville, but trading profits still increased by an impressive 10% to R384 million.

Our other highly regulated division, the Prescription division, which operates in both branded and generic medicines, and then has a range of specialised skin care products and ophthalmology equipment and surgical products. This team grew revenue by 4%. We saw a solid trading performance from all the segments, except antiretrovirals, which we had expected, because we had a big decline in the tender award at the last tender award. So, we basically saw a big decline in tender sales in this division.

The branded portfolio delivered an exceptional performance. So that portfolio delivered 20% ex-factory growth and all of the top 10 products in that segment are in growth. Products you might recognise like Synaleve and Advantan, Mypaid Forte and Stresam all growing in double digits. We've seen our generic segment continue to do better over time, so that showed nice growth of 6% compared to last year. And then all of this of course provided a more favourable sales mix, particularly with less ARV tender sales. And with excellent cost control we also saw 10% trading profit growth in this division, so we're very happy with that. The division launched 11 new products in the year under review, and this contributed to Adcock Ingram being ranked second in terms of revenue from new products, again as measured by IQVIA. So, a nice overall sustainable operating performance from this business. And in Schedule 3 and above medicines growing ahead of the market.

Lastly, our hospital division which is the leading manufacturer and supplier of critical care and hospital products in South Africa. Strong trading performance here with turnover increasing by 8%. You will recall we were given a very large portion of the large volume parentarels tender that started on the 1st of October 2023. But on the back of this increase in revenue we've seen a number of operational challenges during the year. We've had water supply interruptions at the factory, numerous equipment failures because it is an aging plant, and we saw effectively a large degree of inefficiency in the factory over the year. The weaker currency and the change in the sales mix also impacted the gross margin and consequently trading profits here unfortunately decreased by 16% to R128 million.

Just moving on to our supply chain, our factory at Clayville that produces high volume oral liquids, effervescents and powders as well as eye drops. In the first half of the year, we mentioned that the Durban port congestion had impacted the supply of some raw materials which led to manufacturing delays in H1. And in H2 we've had some water supply disruptions at that factory. But we have installed water storage capacity of about a million litres there now to mitigate against water supply problems. Capacity utilisation there is running at more than 50% in the high volume liquids facility, around about 75% to 80% in the powders and effervescents part of the plant, and in the eye drops facility still pretty low but just continuing to increase incrementally over time.

At Wadeville, we manufacture liquids. We've seen a good improvement in throughput during the year there. Those are not high volume liquid runs. They are lower volume liquid runs. So, we had a slow start to the year in July and August 2023. We were busy with an upgrade there. But subsequent to that, it has improved over the course of the year. And our oral solid dosage facility there, where we used to do ARVs, has now geared itself up to be a backup site for the Bangalore facility for some of the tablets and capsules that we bring in from India, just to ensure continuity of supply of those products, which effectively mitigates against any potential port problems or potential supply problems within the Indian market. Again, in terms of capacity utilisation, the liquids there are running in excess of 50%. At this stage the tablets and capsules are only running at about 30, but that will improve now as we bring smaller batches of some of these Indian products back to South Africa.

The Aeroton facility that services the hospital division is running full. Utilisation there well in excess of 90% and at some stages easily at 100%. But that has brought with it, as I mentioned, a significant amount of production challenges. We've installed 4 million litres of water storage capacity there to mitigate against water supply outages. And we continue to undergo improvements and upgrades there just to make sure we have regulatory compliance and adherence to our partners' quality standards.

We are currently assessing the production capability and configuration of that facility with the assistance of some manufacturing and GMP consultants, so by the end of the calendar year we'll have a decent view on what we want to do with that factory. Our distribution business operates in partnership with RTT, who does our outbound logistics for us. We had a good year in distribution, service levels and cost being what we concentrate on there, and our on-time delivery was almost 99% on average over the year. So, a good performance from that team, and very happy with our outsource provider.

Moving on to our ESG journey, in our efforts there to manage the effects of unreliable electricity supply and continue moving towards renewable energy, we've now got solar installation at five of our sites. And in the current reporting year, our solar installations delivered 7% of our total power consumption. If we include the electricity supplied by our generators, we generated just short of 10% of our own electricity during the current year, and we're likely to continue our move towards solar projects in the year ahead.

Waste management is another big focus for our business, and we've introduced a number of projects to reduce the waste that we send to landfill. That's effectively how we measure waste management at Adcock Ingram. These projects include sorting waste on site. We do pallet recycling here, and we also recycle thermal pallet covers into blankets. The company also now has five electric trucks to enhance the reduction of our carbon footprint. And of course, you'll all be aware of the recycling initiative we run with Netcare and one of the other hospital groups to make school shoes from recycled plastic.

On the BEE front, we were rated a level 2 again in November 2023, so that remains valid until the November of this year, and an independent verification agency is busy with our 2024 assessment. We've continued to invest in corporate social responsibility projects. One of the projects that we've really taken to this year is the planting of more than 1,400 indigenous trees in communities, as well as school food gardens for food security in 20 schools in the Gauteng and Eastern Cape provinces. We're partnering here with an NPO called Food and Trees for Africa. We also donated a renewable solar energy solution to the Empumelelweni Community Health Centre that's located in eMalahleni or the Witbank area in Mpumalanga. We did this through the South African Medical and Education Foundation, also an NPO, and that solar energy project will certainly assist in enhancing the delivery of healthcare services to that area, which is greatly needed. That concludes my overview of the company. I'll hand over now to Dorette to take you through a detailed view on the financials.

Dorette Neethling

Thank you, Andy. Good morning, ladies and gentlemen. Before I get into the details of the financial results, just as our normal practice, a full set of annual financial statements are available on our website. And this investor presentation will also be made available a bit later today. So, if we move to the income statement and starting with revenue, which during the year under review increased by 5.6% to R9.6 billion, supported by the price realisation of 4.9% and a mixed benefit of 1.5%. Organic volumes declined by 0.8%, and as Andy mentioned earlier, a pleasing recovery from the 5% decline experienced in the first six months of the financial year, mainly due to the increased demand for the winter products due to the cold and flu season.

Gross profit of R3.2 billion ended 1% above the prior year, so some deleveraging, as the to 33.4%, impacted by an average increase of 10.8% in forward exchange contract rates for products acquired in foreign currency, as well as the change in the sales mix with a higher portion of low margin LVP tender sales in the hospital business. In a closer look at the impact of the exchange rate, we bought the following material foreign currencies during the year. $54 million at an average rate of R18.82, which represents a 9.5% weakening relative to the prior year, which was at R17.19. And €58 million at an average rate of R20.39, which represents a 12.1% weakening compared to the previous year, which was at R18.19. With approximately 54% of FECs in Euro and the balance in Dollars, the weighted cost of our basket of all currencies weighted on the actual settlements during the year was 10.8% higher.

Operating expenses of just under R2 billion have been exceptionally well controlled and decreased by almost 1% compared to 2023 despite the higher sales, salary increases and other inflationary pressures. Trading profit of R1.23 billion ended 4.2% above the prior year. Non-trading expenses of R165 million consists of impairments of R116 million, share-based expenses of R45 million, with a balance relating to a fair value adjustment on a long-term receivable, as well as corporate activity costs.

Impairments include the goodwill of R107 million which was recognised during the Plush acquisition as its revenue has been negatively impacted by the weak consumer environment where discretionary spend remains under pressure. We also impaired property, plant and equipment of R6 million in one of the factories that is no longer in use. And as reported during the first half of the financial year when we impaled the Lulu and Marula brand, as we are no longer using that brand.

That left us with operating income of just over R1 billion, ending 6.2% below the prior year. Equity accounted earnings from joint ventures for the year, which arise from the two joint ventures, the one with the Netcare, NRC, as well as the other JV in India with Medreich Meiji. Those earnings were R143 million, which were up 20% on the prior year. Net finance costs of R87 million were incurred during the year and it includes IFRS 16 finance costs of R27 million.

The average borrowing rate in the current year was 11.75% compared to 10.5% in the prior year. And obviously the share buyback, the cash outflow of that influenced this line as well. That resulted in headline earnings for the year of R970 million, which was 3.5% ahead of the prior year. And this translates into headline earnings per share of 616.6 cents, an improvement of 9.9% benefiting from the 6 million shares the group repurchased during the current year.

If we turn to the balance sheet, and I'll start with the non-current assets, depreciation amounted to R191 million, slightly higher than the previous year, and it includes depreciation of R44 million on the right of use assets capitalised in terms of IFRS 16. Intangible assets including Goodwill now have a carrying value of R1.11 billion and comprise of generic, consumer and OTC trademarks and license agreements. And amortisation in amounted to R9.4 million.

The investments in joint ventures of R673 million are the cost and the subsequent equity accounted earnings of the dividends of the two joint ventures adjusted for the translation difference in the case of the Indian JV which comprises two-thirds of that investment value.

In turning to the current assets, where inventory was at R2.54 billion, and as always, it's stated at a lower of cost and net realizable value. The days in inventory at the end of June 2024 improved to 133 days from the 141 days we reported at the end of June 2023. Trade accounts receivable of just short of R2 billion are shown net of provisions of R45 million, with 93% of trade receivables due within their terms, the terms being 60 days or less, and 13% of trade receivables or R267 million relating to government debt, where 65% are due within 60 days. The days in receivables are 54 days, and it's the best in memory. As we said earlier this week, we can't remember when last we could achieve those levels.

At the end of June, the group was in a net cash position of R89 million and had access to working capital facilities of R1.75 billion. The only liabilities outside of accounts payable and provisions relate to leases. And the group has shareholder funds of R5.4 billion at June 2024. The movement in the non-distributable reserve, the decrease of R82 million since June 2023, is as a result of decreases in the share-based payment reserve, the cash flow hedge accounting reserve, as well as the foreign currency translation reserve.

I'll now turn to the segments and I'll start with the consumer division. Revenue of R1.7 billion ended 2.8% ahead of the prior year driven by a mix benefit of 4.1% due to the inclusion of the E45 skin care range for the full year, compared to, as you will recall, only six months in the prior year. And we've also seen some line extensions in that division's established brands. An average price increase of 5% was realised, and organic volumes declined 6.3%. As Andy alluded, the demand for the paracetamol was weak and Plush experienced poor demand due to the aggressive discounting and promotion activities from competitors.

That division's growth margin ended lower than the prior year because of significant cost push from suppliers, the weaker exchange rate, and then a change in mix with less Panado, and then the inclusion of E45 at a lower margin. Operating expenses were very well-controlled and ended below the prior year due to the savings in discretionary expenses to compensate for the pressure on the gross margin. As a result, trading profit of R362 million improved 1.6% from 2023.

Moving to the OTC business, sales of R2.5 billion ended 7.9% above the prior year. They realised an average price increase of 7.5%, with the organic volumes improving slightly, which is an excellent recovery from the 6.3% decline they experienced in the first six months of the financial year. The improvement in volumes was due to the demand for the winter basket of products with the rise of cold and flu cases and other respiratory illnesses, as I mentioned earlier. Gross margin ended marginally lower than the prior year as the adverse impact of the weaker currency in this business, the increases in production costs, and additional costs incurred in air freighting of inventory during the first half of the year were generally offset by an improved sales mix and selling price increases. Operating expenditure was well controlled and ended 1.2% above the prior year despite the increase of almost 8% in sales. As a result, trading profit of R384 million ended a commendable 10% above the prior year.

In looking at the prescription business, where sales were just over R3.4 billion, which were 4.1% ahead of the prior year, this was aided by a price realisation of 4% and a mixed benefit of 1.8% due to a number of new product launches. Organic volumes declined by 1.7% as the prior year included sales from the ARV tender. The gross margin also ended marginally below the prior year as the cost increases from suppliers and the weaker exchange rate were mostly offset by an improved sales mix with a decrease of low margin ARV sales, the selling price increases, and higher income from our multinational partners. Operating expenditure was also very well controlled, ending 2.7% below the prior year. As a result, trading profit of R352 million ended a pleasing 9.9% ahead of 2023.

Then lastly, in looking at the hospital division, revenue of just over R2 billion ended 7.9% above the prior year. Organic volumes increased by 3.7%, aided by the three year LVP tender awarded as Andy alluded to. The realised price of 3.5% and mix contributed the balance of the growth with the recently on-boarded ConvaTec range performing according to expectations. Gross margin ended below the prior year following the change in the sales mix with the high lower margin LVP tender sales, the adverse impact of the exchange rate, this division mainly impacted by the movement in the Euro, and production challenges arising from union activity and water supply interruptions. Operating expenditure ended above the prior year because of higher distribution costs related to the increased sales. As a result, trading profit of R128 million ended a disappointing 15.5% below 2023. Thank you, ladies and gentlemen. That is the end of my part of the presentation. I will hand back to Judith and we will take any questions.

Operator
Thank you. To the participants on the webcast, you are welcome to submit your questions in the question box provided on your screen. Participants who have dialled into the call and would like to ask a verbal question, please signal by pressing * and 1 on your telephone keypad or the keypad on your screen. A confirmation tone will indicate that a line is in the question queue. You may press * 2 to exit the question queue. We will pause a moment while we assemble the question queue. At this stage we have no questions on the telephone lines. I will now hand over for written questions submitted via the webcast.

Dorette Neethling
Thank you, Judith. I'll start off with a question from Alex Frey from Integrity Asset Management. Is the extent to which the brands you acquire are consumer discretionary a consideration in your acquisition decision? Andy.

Andy Hall
Alex, good morning. Certainly, it's a consideration, but the much bigger consideration for us is making sure that we keep a balanced portfolio of medicines that are price controlled and products that are not price controlled. So, currently 59% of our portfolio is subject to SEP pricing. And you will have seen in the last year that that's largely the OTC and the prescription business. When times are tough, those portfolios tend to prove more defensive, and that's probably what you've seen in that part of the business. But when consumers recover a little bit, then consumer discretionary spend becomes much more relevant. And it's that balance that we're trying to get because there you have the ability to push in prices as opposed to on the regulated portfolio.

We effectively look at three categories on the non-price regulated portfolio. So, we look at consumer health care, we look at personal care, and we look at home care. And then we've always said we have an intention to get into baby care if any decent brands become available for acquisition. So that's effectively how we roll out that strategy. If you're looking at the Dermopal acquisition, subsequent to this acquisition, we've become a meaningful player in sun care. So, we already have two big sun care brands in the business, and with Dermopal on board, we've become the second biggest player in sun care. So, it fits perfectly with the category that we currently operate in well across price points, from a very premium brand down to a brand that I guess would be described as more ‘everyday’.

Dorette Neethling
Thanks Andy. We're staying on Dermopal. Charles Bowles from Titanium Capital. The question is on Dermopal. The cost of the acquisition was R110 million. Annual turnover is R 50 million, so approximately 2.2x revenue. So, assuming a margin of 20%, which is his assumption, it indicates an acquisition price of 11x pre-tax profit. Charles commented that the acquisition seems expensive and can you please talk us through how we think about valuation.

Andy Hall
Okay. Charles, hi. Your revenue multiple I can't argue with. That's maths. We haven't disclosed the EBIT multiple of this product, but what I can tell you is that three years ago this product was selling R12 million and in its last

financial year it sold close to R50 million. So, this is certainly a growing brand, and we think we can continue with a decent growth trajectory for it. I can assure you that when we put in a bid for the product, we calculated a forward-looking EBITDA for the product because it comes out of an owner-managed business, so the cost structures here are a little bit different. Not a little bit, a lot different to what that was under the owner-manager. And we intend investing in some marketing and sales strategies for this business. But it's certainly a single-digit EBITDA multiple.

This is a product that's virtually exclusively distributed in Dischem, and not even in all of the Dischem stores. So, there's an ability to increase distribution within its biggest customer alone. And it complements perfectly our Island Tribe and our Heliocare range, effectively giving us another segment of the market in sun care, so a brand we were very happy to get on board.

Dorette Neethling
Thanks, Andy. There are two questions around the equity account it's earning, so I'm going to try and combine the two. So, once again Charles and then also from Nick from Centaur. So, pretty much asking or commenting that equity-accounted earnings grew 20%. These assets performed well and they want some insight into it, as well as the fact that I would have thought the performance of the Indian associates or JV partner is linked to Adcock's volumes. And maybe to add to that, Nick also asked on the H2 performance on the JVs. He asked if it's repeatable or was there a pent-up demand from the coding shortages in the first half?

Andy Hall
Okay. So, we've seen nice growth in the earnings on the Indian JV. So, effectively our renal joint venture with Netcare, that delivered flattish earnings for the year. But the Indian JV profits were up about 30%. There are two reasons for it. The one reason is – and this kind of also answers part of the second part of the question about whether their volumes are linked to ours – the one reason is they don't only manufacture for us. They also manufacture for another significant OTC player that operates here in South Africa as well as in Australia. It's actually big in Australia.

They had a large amount of supply chain efficiencies that came through on some of the raw material purchases for that customer which improved their margin. And off the top of my head, that customer could be about a third of their production volumes. Dorette is nodding, so it looks like I'm right on that one. And then there was a little bit of a one-off there. There's some solar energy incentives in India which this business also managed to get. So, I guess if we were forward looking, which we don't particularly like to be, we would say that not all of the 30% is sustainable, but probably about half of that number, if you're building it back into earnings, is sustainable, because the solar energy rebate is a once off.

Dorette Neethling
Thanks, Andy. Then a question from Dean from Steyn Capital Management. Could you please unpack what drove the recovery in volumes in H2 versus the decline we saw in H1 for the consumer and OTC segment?

Andy Hall
Yeah, Dean. Dorette covered a little bit of this, but just let me maybe try and add a couple of things. So, if we look at the consumer business, in H1, that business's volumes were down about 10%. And for the full year, they're down about 6%. So, you're right, there is a little bit of recovery there, but still a mixed bag. We would be much happier with volume growth in that part of the market. What we saw in the second half of the year was a big recovery from Bioplus. So, we had some supply chain challenges on Bioplus in the first half of the year, particularly getting factories to fill the sachet format of Bioplus. And we've now got three manufacturers on

board that can take bulk away from us and put them into sachets. So, that's helped Bioplus significantly. In fact, it managed to creep into double-digit growth for the year.

And then on Epi-Max, we had a very good performance in the second half of the year, both on the established SKUs within Epi-Max, as well as expanding our baby range on Epi-Max. We have quite a lot of SKUs being marketed for use in babies. And Epi-Max also pushed into double digit growth for the year. So, those are the two brands that did particularly well. Compral powder has also added to that. And then, as Doreen mentioned, we struggled a little bit on paracetamol demand, although it wasn't as bad as in H1. And then Plush demand wasn't as good as we would have wanted in H1 and H2, in fact.

On the OTC part of the business, volumes were down about 6% at the end of half one and they are flat for the full year so definitely a much better second half. You'll recall that in H1 we said we had some Durban port delay issues that impacted some of the products from India. Those all arrived in January so we were able to fill some back orders on those products. And then we had, as Dorette mentioned, a very strong winter. So, when we have a strong winter, products like Corenza C, Solphyllex, Dilinct, all of those cough mixtures tend to do well. And the cold and flu season this year came with a lot of respiratory complications, which meant that portfolio did well.

And then lastly, Citro Soda. We were short on Citro Soda sachets in the first half of the year. Again, we brought that factory on board in India which now manufactures Citro Soda sachets. So, being able to cure the supply of that particular SKU also helped the Citro Soda sales. Off the top of my head, Citro Soda is now a R300 million brand. I can remember when it sold R100 million. So, it has really done well.

Dorette Neethling
Thank you, Andy. Then a question from Patsy David from All Weather saying, in hospital division you note operational challenges, equipment failures and ageing plants. Please give indication of how this is being addressed and what capital outlay is required.

Andy Hall
Patsy, hi. Our biggest objective at that factory is to make sure that we deliver quality product to patients. And the reason is more so than any other product in our portfolio, these are products that go into people's veins. And in general, these are patients that are very sick and in hospital. So, we have to make sure that quality comes first about anything in that factory. What we're struggling with is parts of that factory are old. Some of them are from the 50s, some of the machinery in fact is from the 60s. The factory is not well configured to take the increased volumes that are going through it. And it's causing pressure on aging equipment as well as efficiencies in terms of how the product moves through that factory.

We've got some consultants helping us at the moment that look at these types of factories globally to see if there is a better way that we can configure that factory within the existing bricks and mortar, or whether we need to think about stripping out parts of that portfolio, potentially doing them in different types of facilities, or bringing them in from third-party suppliers. And that work is still going to take a little while. So, we think we'll probably know by the end of the year what our plans are for that factory, if not by the end of the year, certainly by the end of the financial year.

It's too early to comment on capital outlay, so at the moment we're just making sure that we spend every cent that is required or requested by that team to make sure that we maintain regulatory requirements and adhere to our partners' quality standards. So, there's no skimping on capex in that part of the business. We will continue to do that. We're busy installing a new laboratory there, which off the top of my head is a R25 million or R30 million investment. But we'll be able to give you more information potentially at the interim results when we talk to you in February.

Dorette Neethling
And staying on the factories, a question from Alex Frey asking if we have a longer term target utilisation rate for Wadeville.

Andy Hall
Alex, we don't really have a target rate. To be honest, if all of our factories were operating above 75% capacity, we'd be happy. But as volume tends to come and go and as different types of formulations are put through factories, it changes. But certainly, at Wadeville, the oral solid dosage facility, when we bring in these small batches of products we're currently making in India, we'd like to get that part of the facility above 50% capacity. And I think it'll be difficult to get it much higher than that unless we start bringing in a significant amount of products back from India. And that's not particularly attractive for the margin, because there's no question that making products in India is cheaper. And that needs to be balanced with the security of supply risk. So that's why we're doing a portion of each product in India now back here in SA.

Dorette Neethling
Thank you, Andy. And then the last question that is submitted also from Charles relating to the impairment of Plush which he says indicates that we overpaid for that business. And can you give us some insight as to why this business has not performed to expectations set at the time of acquisition?

Andy Hall
Right. Thanks Charles. So, I guess the question of whether a business is overpaid for or not is partly a factor of what's available in the market and who's bidding for a business at that particular time. We do know that there were at least three other parties in play when we acquired this business. Two of whom are known well to me, one of which has outbid us twice on personal care assets that have gone into their portfolio which we would have liked. So, we have a reasonable idea of what is happening multiple-wise in the market at any particular point in time.

That having said, I don't want to pretend that the business has done well this year. The truth is we've had a very difficult year in Plush. That business was purchased in 2020. This is the first year that our gross sales on that portfolio have gone down. So, they've grown over the first three years, and this year we had a difficult year with gross sales going backwards. In addition to that, we saw the gross margin get impacted here because we had some cost push from suppliers on the chemicals as well as on the plastics. And it was in an environment where we were unable to take selling price increases.

And the reason was that with some promotional discounting from a couple of our more premium brand competitors, the price gap between Plush and those competitors was not sufficiently wide for us to push selling price increases in. So, we had to keep selling prices flat in an environment where costs had gone up and some customers had moved to the premium product because the price gap was not sufficiently wide. We've addressed some of these issues. We think we could have reacted quicker. There are some personnel changes that have happened in that part of the business. And we've also brought on someone now from another FMCG business to assist with some of the sales strategies on Plush. So certainly, we're hopeful for a much better year on Plush.

Dorette Neethling

Thanks Andy. Judith, I'll hand over back to you. There were no further questions on the call.

Operator
Thank you. There are no further questions on the telephone lines either. And that brings us to the end of the Q&A session. I will now hand over to Mr Andy Hall for closing remarks.

Andy Hall
Thanks Judith. I just want to thank everyone for joining us. We of course will be meeting with some of you or talking to you one on one over the course of the next week or so. But we'd be happy to answer any other questions that you might have if you wanted to submit them on email or however that's more convenient for you. But wishing everyone a good day and thank you.

Operator
Thank you sir. Ladies and gentlemen that concludes today's event. Thank you for attending and you may now disconnect your lines.

END OF TRANSCRIPT