Audited Group Financial Results

FOR THE YEAR ENDED 30 JUNE **2020**

adcock ingram

Continuing operations

B-BBEE
Level 1

REVENUE
+4%

OPEX DECREASED
2%

HEADLINE EARNINGS
+1%

CASH ON HAND
R317m

Introduction

On 11 March 2020, the World Health Organisation officially declared COVID-19 a pandemic, resulting in the South African Government declaring a state of national disaster 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. Adcock Ingram 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 these circumstances, the Board of Directors is pleased with the results delivered by the Group in a depressed and unpredictable market.

Performance including COVID-19 impact

Sales

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. 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 year on year.

Prescription turnover increased 0.7% to R2,759 million. The significant decrease in volume (7.1%) 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. 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.

Consumer turnover improved by 13.4% to R892.4 million, delivering a strong performance throughout the year, but also benefitting from the unprecedented demand for Panado and immune-boosting products amid the COVID-19 outbreak. Demand for personal care and energy products was generally weak during the COVID-19 pandemic. Plush, included for a month after the acquisition became unconditional on 27 May 2020, 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 struggled under lockdown, particularly with the closure of schools and shoe retailers.

Hospital turnover improved by 11.9% to R1,628 million 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.

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

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.

Non-trading expenses 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.

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

		Change %	Audited 2020	Audited 2019
Continuing operations				
Revenue from contracts with customers	(R'000)	4	**7 346 558**	7 078 438
Gross profit	(R'000)	(2)	**2 739 056**	2 789 106
Trading profit	(R'000)	(1)	**944 280**	955 421
Operating profit	(R'000)	(2)	**862 181**	883 537
Headline earnings per share	(cents)	(1)	**417.5**	421.7
Basic earnings per share	(cents)	(4)	**398.0**	414.8
Total operations				
Revenue	(R'000)	3	**7 346 558**	7 164 699
Gross profit	(R'000)	(3)	**2 739 056**	2 814 202
Trading profit	(R'000)	(2)	**944 280**	960 340
Operating profit	(R'000)	(3)	**862 181**	886 635
Headline earnings per share	(cents)	(1)	**417.5**	422.8
Basic earnings per share	(cents)	(4)	**398.0**	413.8
Total assets	(R'000)		**7 181 750**	6 250 793
Net asset value per share	(cents)		**2 708.6**	2 505.7
Dividend declared per share	(cents)		**100.0**	200.0

Group response to 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%) worked on site during the lockdown, 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 the 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 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 manage the crisis, are manufactured and distributed.

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.

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.

LP Ralphs
Chairman

AG Hall
Chief Executive Officer

Approved by the Board: 25 August 2020

SENS release date: 26 August 2020

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**") **Company secretary** 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 Inc, 4 Lisbon Lane, 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 Limted, 100 Grayston Drive, Sandton, 2146