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 an unprecedented and unforeseen 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 the impact of lockdown was unprecedented on the operations during 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 R201.8 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 Corex, Calpol, Alacephyll and Allergex showed double-digit growth year on year.

Prescription turnover increased 0.7% to R725.9 million. The significant decrease in volume (71%) is attributable to the COVID-19 outbreak and subsequent lockdowns. This resulted in increased numbers of patients consulting drug 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 and ophthalmology portfolios.

A significant portion of the Group’s business, which makes surgical products and medical equipment, primarily to orthopaedic surgeons and optometry practices, saw virtually no demand during lockdown. However, Epi-max, this business’ anchor personal brand, continues to grow.

Consumer turnover improved by 1.3% to R892.4 million, delivering a strong performance throughout the year, but also benefiting 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 subsequent to its launch in January 2020, but COVID-19 effectively brought this business in the Hospital Division, the take-on of Plush, and higher safety disruptions, and declines in demand for certain categories of medicine and products.

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 wellbeing in the workplace, and to protect 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 divisions;
- raised funds to support employers 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 (SMIs); 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 effects 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 work and continue to do so, through the pandemic. We are tremendously grateful to the people serving on the frontlines of COVID-19, especially healthcare workers, as well as our own employees who ensure that life-saving intravenous fluids and medicines, as well as essential demand, is managed, and manufactured and distributed.

Prospects

Given the uncertain nature of the COVID-19 pandemic and the probable prolonged negative impact on the economy, particularly unemployment 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 models, taking into account customer and consumer behaviour during the lockdown 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’s operations, and distributions 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.