

Group Interim Results and Cash Dividend Declaration for the six months ended 31 December 2019



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")

SALIENT FEATURES

B-BBEE level 1 achieved
Turnover and trading profit up 1%
Operating expenses flat
Cash on hand: R363 million
Dividend declared: 100 cents per share

INTRODUCTION

On 29 July 2019, Adcock Ingram became a subsidiary of The Bidvest Group Limited, with minority shareholders owning 49% of the Company. Closer interactions are now taking place between Adcock Ingram and Bidvest, including the appointment of an additional Director to the Adcock Ingram Board of Directors to assist in exploring strategic possibilities for Adcock Ingram, to complement its range of trusted healthcare products.

In November, Adcock Ingram was certified as a B-BBEE level 1 provider, endorsing the Group's focus on Transformation as an imperative.

South African consumers remain under financial pressure, due to the country's low economic growth, high levels of unemployment and ongoing utility problems. The results for the six-month period ended 31 December 2019 reflect the difficult trading conditions and constrained consumer environment.

Against this background, the Board is satisfied with the profits for the half year under review, particularly that with strict cost control and a relentless focus on customer service, growth in both revenue and trading profit was achieved.

FINANCIAL PERFORMANCE

TURNOVER AND PROFITS

Turnover during the period under review increased by 1% to R3,628 million (December 2018: R3,595 million), supported by an average price increase of 3.8%, mainly realised in the Consumer segment, a mix benefit of 3.5% due to the on-boarding of additional Leo Pharma dermatology brands (Advantan, Scheriproct, Travocort and Skinoren), almost entirely offset by a volume decline of 6.4%, mainly due to a temporary voluntary sales suspension of BronClear, reduced demand for our anti-retrovirals in the private sector and stock supply issues on some key generic products.

Gross profit for the six months increased by 0.4% to R1,395 million (December 2018: R1,390 million) with the margin declining from 38.7% to 38.4%. The gross margin was negatively impacted by water supply constraints at the Clayville factory, resulting in production disruptions, and generally poor efficiencies and throughput at the Wadeville facility. Production inflation continues to exceed selling price increases with utility costs having increased by 11.4% in the period and wages by 7%. The weaker Rand resulted in the weighted cost of our basket of imported raw materials and finished products, increasing by 6.1%. These unfavourable factors on the margin were partially offset by an advantageous sales mix in the Consumer segment and excellent throughput at the Hospital factory, based in Aeroton.

Operating expenses were exceptionally well controlled and ended flat, resulting in a 1% improvement in trading profit to R490.1 million (December 2018: R485.5 million).

NON-TRADING EXPENSES

Non-trading expenses of R28.3 million include share-based expenses of R20.4 million, an ex-gratia payment of R10.0 million made to the Group's B-BBEE partner (Ad-izinyosi Proprietary Limited), offset by a R2.1 million gain on the disposal of an investment, consequent to the unwinding of the B-BBEE scheme in July 2019.

HEADLINE EARNINGS

Headline earnings from continuing operations for the period under review increased 3.2% to R372.8 million (December 2018: R361.2 million). This translates into headline earnings per share (HEPS) from continuing operations of 218.5 cents (December 2018: 217.2 cents), an improvement of 1%. The current period HEPS reflects a higher weighted average number of shares in issue, as a result of the unwinding of the B-BBEE scheme. On a like-for-like basis, excluding the reduction in B-BBEE treasury shares and the R10 million *ex-gratia* payment referred to above, HEPS from continuing operations would have increased to 6.0%.

CASH FLOWS

Cash generated from operations amounted to R307.0 million (December 2018: R347.9 million) after working capital increased by R277.5 million, mainly arising from an investment in active pharmaceutical ingredients related to the ARV tender, the on-boarding of the additional Leo Pharma dermatology brands, and planned stock build ahead of the shutdown of all factories in December.

The Group had net cash resources of R363.4 million at the end of the period (December 2018: R109.1 million).

DIVIDEND DISTRIBUTION

The Board has declared an interim dividend of 100 cents per share for the six-month period ended 31 December 2019, out of income reserves.

BUSINESS OVERVIEW

OTC turnover decreased by 7.8% over the comparative period to R939.4 million (December 2018: R1,019 million), impacted by the temporary voluntary sales suspension of BronCleer, inventory supply challenges emanating from the Clayville facility and the difficult trading environment. Nonetheless, a number of the top brands including Allergex, Alcophyllex and Napamol showed double-digit growth.

Gross margin regressed in comparison to the comparative period, mainly impacted by the weaker currency, general production inflation and water supply constraints experienced in the Clayville factory. As a result, trading profit decreased by 8.7% to R197.8 million (December 2018: R216.7 million).

Prescription turnover increased by 4.4% to R1,423 million (December 2018: R1,363 million) aided by price increases in the tender and Genop businesses, a mix benefit due to the on-boarding of the new Leo portfolio, compensating for the volume declines experienced in the ARV and Generic portfolios. Generics was impacted by stock supply challenges and pricing pressure, whilst the ARV business was impacted by the State's extremely slow roll-out of the DLT (Dolutegravir, Tenofovir, Lamivudine) combination drug.

Gross margin ended lower compared to the prior comparative period impacted by a weaker currency, coupled with poor factory recoveries at the Wadeville facility. As a result, trading profit of R142.2 million is 5.3% below the comparative period of R150.2 million.

Consumer turnover increased by 7.3% to R421.9 million (December 2018: R393.3 million) with key brands posting healthy growth. Growth in the segment was generally from the ability of our top brands to push price increases into the market. Volumes were more or less static. Notwithstanding the increasingly competitive environment and with good cost control, trading profits increased by 11.6% to R73.4 million (December 2018: R65.8 million).

Hospital turnover improved by an impressive 8.0% to R825.6 million (December 2018: R764.4 million) with volumes and price increasing 3.1% and 2.6% respectively, and new products contributing the balance. A gross margin improvement was realised, driven by the advantageous sales mix and excellent throughput in the Aero-ton factory. Trading profits improved by an excellent 40.2% to R71.7 million (December 2018: R51.2 million) with disciplined control of operating expenditure.

REST OF AFRICA

Turnover in the Kenya operation was flat at R30.4 million (December 2018: R30.6 million), but the business still achieved a trading profit R2.6 million during the period under review (December 2018: R1.6 million).

REGULATORY

Government announced a 4.53% Single Exit Price Adjustment for 2020 on 10 December 2019, effective in Adcock Ingram from February 2020. While this adjustment is in line with CPI it does not compensate for current production inflation, particularly in wages and utilities.

In January 2020 SAHPRA communicated that it is reviewing the scheduling status of codeine and codeine-containing medicines following concerns of abuse, specifically of cough preparations. SAHPRA has invited industry to submit proposals for the amendment and strengthening of the Codeine Care Initiative and alternatives to up-scheduling, by 29 February 2020. Adcock Ingram supports the responsible use of all medicines we manufacture and market, including those containing codeine. The Company has an extensive range of codeine-containing medicines and has implemented extensive measures over the last year to better control the distribution of codeine-containing products and curb abuse and will be making additional proposals to SAHPRA in this regard. We do not believe that up-scheduling of codeine-containing medicines in a country burdened by lack of access to healthcare is a suitable outcome, and are in full support of strict enforcement of controls throughout the supply chain, extending to the point-of-sale.

At the same time SAHPRA communicated that it is reviewing the scheduling status of meprobamate and meprobamate-containing medicines following concerns of misuse, including irrational prescribing, and abuse.

The Pharmaceutical Task Group (PTG) of which Adcock Ingram is a member, submitted a written submission on the NHI Bill in November 2019. The submission, which supported provision of universal healthcare, included issues relevant to the pharmaceutical industry, such as procurement and supply mechanisms that would facilitate long-term viability of the pharmaceutical industry, maintenance of quality and level of care within the system, a milestone approach in terms of implementation and governance.

CHANGES TO THE BOARD

The following changes were effective 27 August 2019:

- Mr Lindsay Ralphs was appointed to the HR, Remuneration and Nominations Committee and Ms Nompumelelo Madisa resigned from this Committee but remains as a permanent invitee thereto;
- Mr Ralphs was also appointed as the Chairperson of both the Nominations Committee and the Acquisitions Committee;
- Ms Debra Ransby was appointed as the Chairperson of the Audit Committee and a member of the Risk and Sustainability Committee;
- Dr Sibongile Gumbi was appointed as a member of the Risk and Sustainability Committee;
- Prof Matt Haus was appointed as the Chairperson of the Risk and Sustainability Committee; and
- Mr Kevin Wakeford was appointed to the Board as a non-executive director and a member of the Acquisitions Committee and is a permanent invitee to the Audit Committee.

The following changes were effective 22 November 2019:

- Dr Anna Mokgokong resigned as the Chairperson of the Social Ethics and Transformation (SET) Committee and Dr Claudia Manning was appointed as Chairperson; and
- Dr Sibongile Gumbi was appointed as a member of the SET Committee.

Dr Anna Mokgokong, who has served on the Board as a non-executive director since April 2014, will retire at the end of February 2020 to pursue her other interests.

PROSPECTS

The effect of the current economic climate on consumer spending and behaviour remains concerning. In the absence of sustainable SEP increases, margins will continue to be under pressure from cost increases, particularly labour, transport and utilities, and active ingredient prices which are directly linked to currency fluctuations.

To attempt to protect margins, the Group has placed a heightened focus on driving productivity in the factories, strict cost control and expanding the Group's product portfolio, by acquisition or partnership, particularly in less regulated product classes.

DIVIDEND POLICY

Shareholders are advised that the Board has approved a change to the Company's dividend policy, from dividends covered 2 to 3 times by headline earnings, to 2 to 2.5 times.

DIVIDEND DISTRIBUTION

The Board has declared an interim gross dividend out of income reserves of 100 cents per share in respect of the six months ended 31 December 2019. The South African dividend tax ("DT") rate is 20% and the net dividend payable to shareholders who are not exempt from DT is 80 cents per share. Adcock Ingram currently has 175,758,861 ordinary shares in issue and qualifying for ordinary dividends. The income tax reference number is 9528/919/15/3.

The salient dates for the distribution are detailed below:

Last date to trade <i>cum</i> distribution	Tuesday, 10 March 2020
Shares trade <i>ex</i> distribution	Wednesday, 11 March 2020
Record date	Friday, 13 March 2020
Payment date	Monday, 16 March 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 11 March 2020 and Friday, 13 March 2020, both dates inclusive.

LP Ralphs
Chairman

19 February 2020

AG Hall
Chief Executive Officer

Condensed consolidated statements of comprehensive income

	Notes	Unaudited six months ended 31 December 2019 R'000	Change %	Unaudited six months ended 31 December 2018 R'000	Audited year ended 30 June 2019 R'000
Continuing operations					
Revenue from contracts with customers		3 628 386	1	3 594 581	7 078 438
Cost of sales		(2 233 531)		(2 204 920)	(4 289 332)
Gross profit		1 394 855	–	1 389 661	2 789 106
Selling, distribution and marketing expenses		(640 400)	(1)	(647 878)	(1 318 830)
Fixed and administrative expenses		(264 321)	3	(256 329)	(514 855)
Trading profit		490 134	1	485 454	955 421
Non-trading expenses	2	(28 358)		(28 498)	(71 884)
Operating profit		461 776	1	456 956	883 537
Finance income		1 862		4 003	6 756
Finance costs		(14 324)		(12 505)	(18 404)
Dividend income		2 271		1 378	3 864
Equity-accounted earnings		62 107		47 069	90 714
Profit before taxation		513 692	3	496 901	966 467
Taxation		(136 314)		(138 771)	(269 435)
Profit for the period/year from continuing operations		377 378	5	358 130	697 032
Profit/(Loss) after taxation for the period/year from discontinued operation		–		3 803	(1 609)
Profit for the period/year		377 378	4	361 933	695 423
Other comprehensive income which will subsequently be reclassified to profit or loss					
Exchange differences on translation of foreign operations:					
– Continuing operations		(502)		844	279
– Joint venture and associate		(12 187)		8 399	4 342
– Discontinued operation		–		2 396	2 770
Movement in cash flow hedge accounting reserve, net of tax		(12 422)		(7 519)	(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					
Fair value of investment, net of tax		–		–	27
Actuarial profit on post-employment medical liability, net of tax		–		–	706
Total comprehensive income for the period/year, net of tax		352 267		366 053	662 582
Profit attributable to:					
Owners of the parent		374 283		358 027	687 986
Non-controlling interests		3 095		3 906	7 437
		377 378		361 933	695 423
Total comprehensive income attributable to:					
Owners of the parent		349 172		362 147	655 145
Continuing operations		349 172		355 948	672 944
Discontinued operation		–		6 199	(17 799)
Non-controlling interests		3 095		3 906	7 437
		352 267		366 053	662 582
Continuing operations:					
Basic earnings per ordinary share (cents)		219.3	3	213.0	414.8
Diluted basic earnings per ordinary share (cents)		219.3	3	212.9	414.8
Headline earnings per ordinary share (cents)		218.5	1	217.2	421.7
Diluted headline earnings per ordinary share (cents)		218.5	1	217.1	421.6
Total operations:					
Basic earnings per ordinary share (cents)		219.3	2	215.3	413.8
Diluted basic earnings per ordinary share (cents)		219.3	2	215.2	413.8
Headline earnings per ordinary share (cents)		218.5	–	219.5	422.9
Diluted headline earnings per ordinary share (cents)		218.5	–	219.4	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 (audited)	17 146	666 356	223 875	2 999 037	3 906 414	2 413	3 908 827
Movement in treasury shares*	(3)	(2 483)			(2 486)		(2 486)
Movement in share-based payment reserve*			(5 237)		(5 237)		(5 237)
Total comprehensive income			4 120	358 027	362 147	3 906	366 053
Profit for the period				358 027	358 027	3 906	361 933
Other comprehensive income			4 120		4 120		4 120
Dividends				(125 220)	(125 220)		(125 220)
Balance at 31 December 2018 (unaudited)	17 143	663 873	222 758	3 231 844	4 135 618	6 319	4 141 937
IFRS 9 deferred tax adjustment				1 706	1 706		1 706
Balance at 31 December 2018 (unaudited)	17 143	663 873	222 758	3 233 550	4 137 324	6 319	4 143 643
Movement in treasury shares*	(1)	141			140		140
Movement in share-based payment reserve*			10 551		10 551		10 551
Total comprehensive income			(36 961)	329 959	292 998	3 531	296 529
Profit for the period				329 959	329 959	3 531	333 490
Other comprehensive income			(36 961)		(36 961)		(36 961)
Dividends				(145 581)	(145 581)	(7 088)	(152 669)
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	1	778			779		779
Movement in treasury shares*	4	2 225			2 229		2 229
Movement in share-based payment reserve*			(2 587)		(2 587)		(2 587)
Total comprehensive income			(25 111)	374 283	349 172	3 095	352 267
Profit for the period				374 283	374 283	3 095	377 378
Other comprehensive income			(25 111)		(25 111)		(25 111)
Dividends				(171 468)	(171 468)		(171 468)
Balance at 31 December 2019 (unaudited)	17 147	667 017	168 650	3 620 743	4 473 557	5 857	4 479 414

* Relate to equity option schemes.

Condensed consolidated statements of financial position

	Notes	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018 R'000	Audited 30 June 2019 R'000
ASSETS				
Property, plant and equipment	1.2	1 835 665	1 519 158	1 538 198
Intangible assets		604 448	620 619	609 444
Deferred tax		6 125	6 446	8 671
Other financial assets		28 904	32 669	29 627
Investment in joint ventures		525 506	483 599	506 236
Investment in associate		–	2 459	–
Non-current assets		3 000 648	2 664 950	2 692 176
Inventories		1 638 048	1 408 660	1 312 551
Trade and other receivables		1 836 883	1 737 367	1 787 025
Cash and cash equivalents		363 366	448 176	448 252
Taxation receivable		12 022	13 689	10 789
Current assets		3 850 319	3 607 892	3 558 617
Assets classified as held-for-sale		–	143 926	–
Total current assets		3 850 319	3 751 818	3 558 617
Total assets		6 850 967	6 416 768	6 250 793
EQUITY AND LIABILITIES				
Capital and reserves				
Issued share capital		17 147	17 143	17 142
Share premium		667 017	663 873	664 014
Non-distributable reserves		168 650	222 758	196 348
Retained income		3 620 743	3 231 844	3 417 928
Total shareholders' funds		4 473 557	4 135 618	4 295 432
Non-controlling interests		5 857	6 319	2 762
Total equity		4 479 414	4 141 937	4 298 194
Long-term portion of lease liability	1.2	294 737	–	–
Post-employment medical liability		15 775	16 478	15 637
Deferred tax		94 954	103 590	102 333
Non-current liabilities		405 466	120 068	117 970
Trade and other payables		1 844 122	1 575 183	1 702 622
Bank overdraft		–	359 161	–
Short-term portion of lease liability	1.2	25 011	–	–
Provisions		96 954	132 280	132 007
Current liabilities		1 966 087	2 066 624	1 834 629
Liabilities classified as held-for-sale		–	88 139	–
Total current liabilities		1 966 087	2 154 763	1 834 629
Total equity and liabilities		6 850 967	6 416 768	6 250 793

Condensed consolidated statements of cash flows

	Unaudited six months ended 31 December 2019 R'000	Unaudited six months ended 31 December 2018 R'000	Audited year ended 30 June 2019 R'000
Cash flows from operating activities			
Operating profit from continuing operations	461 776	456 956	883 537
Operating profit from discontinued operation	–	4 918	3 098
Operating profit	461 776	461 874	886 635
Other adjustments and non-cash items	122 803	139 226	350 770
Operating profit before working capital changes	584 579	601 100	1 237 405
Working capital changes	(277 537)	(253 169)	(208 600)
Cash generated from operations	307 042	347 931	1 028 805
Finance income received	2 464	4 074	7 350
Finance costs paid	(14 324)	(11 839)	(20 109)
Dividend income received	32 920	18 131	41 953
Dividends paid	(171 468)	(125 220)	(277 889)
Taxation paid	(137 616)	(140 755)	(274 147)
Net cash inflow from operating activities	19 018	92 322	505 963
Cash flows from investing activities			
Purchase of property, plant and equipment			
– Expansion	(20 995)	(54 601)	(92 626)
– Replacement	(68 616)	(65 525)	(122 858)
Proceeds on disposal of investment	6 125	–	–
Disposal of other financial assets	723	1 341	2 655
Proceeds on disposal of property, plant and equipment	205	49	1 288
Proceeds on disposal of investment in associate	–	–	2 156
Disposal of business	–	–	15 940
Net cash outflow from investing activities	(82 558)	(118 736)	(193 445)
Cash flows from financing activities			
Proceeds from issue of share capital	779	–	–
Settlement of equity options	(9 352)	(19 329)	(21 818)
Settlement of Mpho ea Bophelo equity options	(6 081)	–	–
Repayment of lease liabilities	(8 772)	–	–
Sale/(purchase) of treasury shares*	2 229	(2 486)	–
Net cash outflow from financing activities	(21 197)	(21 815)	(21 818)
Net (decrease)/increase in cash and cash equivalents	(84 737)	(48 229)	290 700
Net foreign exchange difference on cash and cash equivalents	(149)	1 602	1 800
Cash and cash equivalents at beginning of period/year	448 252	155 752	155 752
Cash and cash equivalents at end of period/year	363 366	109 125	448 252
* Relates to equity option schemes			
Split as follows:			
Cash and cash equivalents	363 366	448 176	448 252
Bank overdraft	–	(359 161)	–
Net cash position per statement of financial position	363 366	89 015	448 252
Cash at banks and short-term deposits attributable to the discontinued operation	–	20 110	–
Cash and cash equivalents at end of period/year	363 366	109 125	448 252

Notes to the condensed consolidated financial statements

1. BASIS OF PREPARATION

1.1 INTRODUCTION

The condensed unaudited interim results for the six months ended 31 December 2019 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. The Board of directors take full responsibility for the set of financial results which have been prepared by Ms Dorette Neethling, Chief Financial Officer.

1.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies applied in the preparation of these interim financial statements are in terms of IFRS and are consistent with those of the previous financial year, except for the adoption of the following new and amended standards and interpretations during the period.

a) IAS 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 however 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 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 incremental borrowing rate of between 9.44% and 9.61%, over the term of the lease, resulting in the Group recognising a lease liability of R329 million, in accordance with IFRS 16.

	1 July 2019 R'000
Lease liability recognised as at 1 July 2019	328 925
Split and disclosed as follows:	
Current lease liability	48 367
Non-current lease liability	280 558

A decrease in "other liabilities" of R28.5 million was recorded with the release of the straight-lining of leases balance 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 included in property, plant and equipment at 31 December 2019 was R282.7 million.

Profit or loss

During the six months ended 31 December 2019, depreciation on the ROU assets of R17.6 million and interest costs of R14.3 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 modification in the lease terms of a warehousing facility.

	Change %	Unaudited six months ended 31 December 2019 R'000	Unaudited six months ended 31 December 2018 R'000	Audited year ended 30 June 2019 R'000
2. NON-TRADING EXPENSES				
Share-based payment expenses		20 472	19 422	41 756
<i>Ex-gratia</i> B-BBEE expense		10 000	–	–
Profit on disposal of investment		(2 114)	–	–
Retrenchment costs		–	–	12 347
Impairments		–	5 823	8 568
Transaction costs		–	3 253	5 843
Fair value adjustment of long-term receivable		–	–	1 763
Release of foreign currency translation reserve on disposal of investment in associate		–	–	1 607
		28 358	28 498	71 884
3. SEGMENT REPORTING				
3.1 REVENUE FROM CONTRACTS WITH CUSTOMERS				
<i>Continuing operations</i>				
Southern Africa	1	3 613 307	3 578 251	7 030 034
OTC	(8)	939 432	1 018 625	1 982 886
Prescription	4	1 423 364	1 363 453	2 739 649
Hospital	8	825 585	764 361	1 454 604
Consumer	7	421 858	393 262	786 896
Other – shared services		3 068	38 550	65 999
Rest of Africa		30 399	30 551	68 524
Research and development services in India		11 441	10 353	21 114
		3 655 147	3 619 155	7 119 672
Less: Inter-company sales		(26 761)	(24 574)	(41 234)
		3 628 386	3 594 581	7 078 438

Notes to the condensed consolidated financial statements *continued*

	Private R'000	Public R'000	Export and foreign R'000	Total R'000
3. SEGMENT REPORTING CONTINUED				
3.2 REVENUE FROM CONTRACTS WITH CUSTOMERS BY CHANNEL				
31 December 2019				
<i>Continuing operations:</i>				
Southern Africa	2 998 010	515 121	100 176	3 613 307
OTC	836 855	81 853	20 724	939 432
Prescription	1 228 622	169 963	24 779	1 423 364
Hospital	535 386	263 305	26 894	825 585
Consumer	394 079	–	27 779	421 858
Other – shared services	3 068	–	–	3 068
Rest of Africa	–	–	30 399	30 399
India	–	–	11 441	11 441
Less: Inter-company sales	–	–	(26 761)	(26 761)
	2 998 010	515 121	115 255	3 628 386

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 3.1) are considered to be the same.

	Change %	Unaudited six months ended 31 December 2019 R'000	Unaudited six months ended 31 December 2018 R'000	Audited year ended 30 June 2019 R'000
3.3 TRADING AND OPERATING PROFIT				
<i>Continuing operations</i>				
Southern Africa	1	486 567	482 672	944 752
OTC	(9)	197 791	216 714	388 361
Prescription	(5)	142 213	150 217	309 989
Hospital	40	71 733	51 152	112 225
Consumer	12	73 415	65 808	134 177
Other – shared services		1 415	(1 219)	–
Rest of Africa		2 597	1 585	8 609
India		970	1 197	2 060
Trading profit		490 134	485 454	955 421
Less: Non-trading expenses		(28 358)	(28 498)	(71 884)
Operating profit		461 776	456 956	883 537
3.4 TOTAL ASSETS				
<i>Continuing operations</i>				
Southern Africa		6 534 913	5 961 565	5 922 443
OTC		1 767 695	1 733 746	1 771 142
Prescription		2 271 670	2 112 789	2 020 144
Hospital		1 327 661	1 174 818	1 189 750
Consumer		364 152	307 001	342 209
Other – shared services		803 735	633 211	599 198
Rest of Africa		35 376	47 206	40 502
India		280 678	264 071	287 848
		6 850 967	6 272 842	6 250 793
<i>Discontinued operation</i>				
Rest of Africa		–	143 926	–
		6 850 967	6 416 768	6 250 793

	Unaudited six months ended 31 December 2019 R'000	Unaudited six months ended 31 December 2018 R'000	Audited year ended 30 June 2019 R'000
4. INVENTORY			
The amount of inventories written down recognised as an expense in profit or loss in cost of sales:			
Continuing operations:	37 667	28 561	99 944
Discontinued operation:	–	290	290
5. CAPITAL COMMITMENTS			
– contracted	50 852	54 611	21 772
– approved, but not contracted	65 562	76 869	90 100
	116 414	131 480	111 872
6. HEADLINE EARNINGS			
Headline earnings is determined as follows:			
<i>Continuing operations</i>			
Earnings attributable to owners of Adcock Ingram from total operations	374 283	358 027	687 986
Adjusted for:			
(Profit)/loss attributable from discontinued operation	–	(3 803)	1 609
Earnings attributable to owners of Adcock Ingram from continuing operations	374 283	354 224	689 595
Adjusted for:			
Profit on disposal of investment	(2 114)		
Tax effect on profit on disposal of investment	273		
Loss on disposal/scrapping of property, plant and equipment	230	264	677
Tax effect on loss on disposal of property, plant and equipment	(54)	(118)	(257)
Impairment of intangible assets	–	–	5 595
Impairment of investment in associate	–	5 823	2 973
Release of foreign currency translation reserve on disposal of investment in associate	–	–	1 607
Adjustments relating to equity accounted joint ventures	155	970	845
Headline earnings from continuing operations	372 773	361 163	701 035
Discontinued operations			
Profit/(loss) attributable from discontinued operation	–	3 803	(1 609)
Adjusted for:			
Loss on sale of discontinued operation	–	–	3 592
Headline earnings from discontinued operations	–	3 803	1 983
Headline earnings from total operations	372 773	364 966	703 018
7. SHARE CAPITAL			
Number of shares in issue	175 759	175 748	175 748
Number of ordinary shares held by a Group company	(4 286)	(4 326)	(4 324)
Net shares in issue	171 473	171 422	171 424
Headline earnings and basic earnings per share are based on:			
Weighted average number of ordinary shares outstanding	170 640	166 265	166 260
Diluted weighted average number of shares outstanding	170 640	166 352	166 262

Following the unwinding of the B-BBEE scheme on 29 July 2019, the shares previously held by the Mpho ea Bophelo Trust will no longer be regarded as treasury shares, resulting in a higher weighted average number of shares in issue in the current period. On the same date, Adcock Ingram became a subsidiary of The Bidvest Group Limited.

Notes to the condensed consolidated financial statements *continued*

8. 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	Unaudited six months ended 31 December 2019 R'000	Unaudited six months ended 31 December 2018 R'000	Audited year ended 30 June 2019 R'000
Investment ⁽¹⁾	Fair value through OCI	Other financial assets	1 649	1 614	1 649
Black Managers Share Trust ⁽¹⁾	Fair value through profit and loss	Other financial assets	27 255	31 055	27 978
Trade and sundry receivables ⁽³⁾	At amortised cost	Trade and other receivables	1 723 659	1 657 982	1 679 475
Foreign exchange contracts – derivative asset ⁽²⁾	Fair value through OCI	Trade and other receivables	791	4 622	–
Cash and cash equivalents ⁽³⁾	At amortised cost	Cash and cash equivalents	363 366	448 176	448 252
Long-term borrowings ⁽³⁾	At amortised cost	Long-term borrowings	294 737	–	–
Trade and other payables ⁽³⁾	At amortised cost	Trade and other payables	1 724 268	1 520 839	1 605 575
Foreign exchange contracts – derivative liability ⁽²⁾	Fair value through OCI	Trade and other payables	34 842	410	16 799
Short-term borrowings ⁽³⁾	At amortised cost	Short-term borrowings	25 011	–	–
Bank overdraft ⁽³⁾	At amortised cost	Bank overdraft	–	350 161	–

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ The carrying value approximates fair value.

Corporate information

ADCOCK INGRAM HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 2007/016236/06)
Income tax number 9528/919/15/3
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 Director)
Ms B Letsoalo (Executive Director)
Ms N Madisa (Non-executive Director)
Dr C Manning (Independent Non-executive Director)
Dr A Mokgokong (Independent Non-executive Director)
Ms D Neethling (Chief Financial Officer)
Mr L Ralphs (Non-executive Director and Chairman)
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

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Rosebank Towers, 15 Biermann Avenue, Rosebank
Johannesburg, 2196
PO Box 61051
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AUDITORS

PrincewaterhouseCoopers Inc
4 Lisbon Lane, Waterfall City
Waterfall, 2090

SPONSOR

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

BANKERS

Nedbank Limited
135 Rivonia Road, Sandown
Sandton, 2146

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

Investec Bank Limited
100 Grayston Drive
Sandton, 2196

FORWARD-LOOKING STATEMENTS

Adcock Ingram may, in this document, make certain statements that are not historical facts and relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to our future prospects, developments and business strategies. Examples of such forward-looking statements include, but are not limited to, statements regarding exchange rate fluctuations, volume growth, increases in market share, total shareholder return and cost reductions. Words such as "believe", "anticipate", "expect", "intend", "seek", "will", "plan", "could", "may", "endeavour" and "project" and similar expressions are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and there are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. If one or more of these risks materialise, or should underlying assumptions prove incorrect, our actual results may differ materially from those anticipated. Forward-looking statements apply only as of the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

