



adcock ingram



# GROUP ANNUAL RESULTS AND CASH DIVIDEND DECLARATION

FOR THE YEAR ENDED 30 JUNE 2023



# COMMENTARY

## 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")

## SALIENT FEATURES

Turnover increased 5% to R9.1 billion

Gross profit increased 4% to R3.2 billion

Trading profit increased 6% to R1.2 billion

HEPS increased 12% to 561.3 cents

Final dividend declared: 125 cents per share

Total dividend increased 17% to 250 cents per share

Share buyback: 9.2 million shares

B-BBEE level: 2

## INTRODUCTION

The Board of Directors (Board) is pleased that the Group achieved a healthy financial and operational performance notwithstanding a challenging economic environment, characterised by currency weakness and volatility, poor economic growth and increasing pressure on consumer disposable income.

## REVENUE AND PROFITS

Revenue during the year under review increased by 4.9% to R9,132 million (June 2022: R8,706 million). Mix contributed 4.2% and includes the on-boarding of a range of ophthalmology products from Novartis and E45 from Karo Pharma. Overall price realisation of 3.4% was achieved. Organic volumes declined 2.7%, due to lower demand for products used in the treatment of COVID-19 and lower ARV tender sales, these effects being mostly compensated for by good demand in the OTC and Prescription portfolios.

The gross margin declined marginally from 35.1% to 34.9%, impacted by an average increase of 9.2% in forward exchange contract rates for products acquired in foreign currency, significant cost push from suppliers, and increased production costs including diesel usage and wage increases. Management made every attempt to mitigate the margin compression through selling price increases in the non-regulated portfolio, increased throughput and efficiencies in the factories, and concentrating the sales mix on products with higher margins.

Operating expenses have been well controlled and increased by only 3.1%, the primary drivers being increased distribution, regulatory and IT expenses, resulting in a 6.1% improvement in trading profit to R1,181 million (June 2022: R1,112 million).

In the circumstances the Board is very satisfied with the margin protection and results.

## NON-TRADING EXPENSES

Non-trading expenses of R44.9 million consist mainly of share-based expenses of R44.1 million.

## NET FINANCE COSTS

Net finance costs of R52.2 million (June 2022: R40.9 million) were incurred during the period, including IFRS 16 (Leases) finance costs of R29.5 million (June 2022: R27.5 million). The average borrowing rate in the current reporting period was 10.2%, compared to 7.4% in the prior year.

## HEADLINE EARNINGS

Headline earnings for the period increased by 10.7% to R898 million (June 2022: 812 million). This translates into headline earnings per share of 561.3 cents (June 2022: 502.0 cents), an improvement of 11.8%, including the benefit of 9.2 million shares

# COMMENTARY (CONTINUED)

repurchased by the Group in the reporting period.

## CASH FLOWS

Cash generated from operations was R1,104 million (June 2022: R1,157 million) after working capital increased by R281 million (June 2022: R305 million). Inventories increased by R302 million due to the effect of the exchange rate, newly launched products, and higher safety inventory held to address global supply chain constraints. Trade receivables increased by R226 million, due to the higher sales. The book remains well controlled, and the average days outstanding improved to 55 days (June 2022: 58 days), the lowest in recent memory. Trade and other payables increased by R247 million since June 2022, driven by the investment in inventory.

The Group increased its treasury shares held by Adcock Ingram Limited (AIL) by an additional 9.2 million during the current year, at an average cost of R51.16 per share, resulting in a cash outflow of R472.1 million.

The Group had net cash resources of R82 million (June 2022: R345 million) at the end of the financial year.

## DIVIDEND DISTRIBUTION

The Board has declared a final dividend of 125 cents per share for the year ended 30 June 2023 out of income reserves.

## BUSINESS OVERVIEW

**Consumer** turnover improved by 5.9% to R1,655 million (June 2022: R1,563 million), supported by an average selling price increase of 6.9% and a mix benefit of 5.0% due to product extensions in Epi-max, Cepacol, Gynaguard and Plush, and the on-boarding of the E45 skincare range. Organic volumes declined by 6.0% due to lower demand for Panado post COVID-19, but within the Consumer portfolio Epi-max and Bioplus performed very well. Gross margin ended below the prior year, with significant cost pushes from suppliers and the weaker exchange rate not being fully compensated for by the selling price increases. Trading profit ended on R357 million, 1.6% ahead of the prior year (June 2022: R351 million).

Turnover in **OTC**, which focuses on products in the pain, coughs, colds and flu, and antihistamine therapeutic categories through pharmacy, improved by a very healthy 10.8% to R2,282 million (June 2022: R2,059 million). Volumes improved by 5.1% with major brands like Allergex, Alcophyllex, Adco-Mayogel and Scopex continuing to show good growth. Average price realisation was 5.7%. Gross margin ended lower than the prior year, adversely impacted by the weaker currency and an increase in production costs. With excellent cost control, trading profit increased by 9.6% to R349 million (June 2022: R318 million).

**Prescription** turnover improved by 2.0% to R3,294 million (June 2022: R3,228 million) aided by a mix benefit of 8.6%, due to the on-boarding of the ophthalmology products from Novartis (effective 1 March 2022) and a number of new product launches. Organic volumes declined by 7.8%, following a decrease in the ARV tender award. This, however, led to a more advantageous sales mix and better factory performance, resulting in gross margin improvement being realised, despite the weaker exchange rate. Trading profit improved by an impressive 15.8% to R320 million (June 2022: R276 million).

Sales in **Hospital** improved 2.4% to R1,899 million (June 2022: R1,885 million), despite the reduction in demand for COVID-19 related products and supply chain challenges. The Aero-ton facility and local third-party manufacturers struggled with power interruptions and water supply disruptions, and certain international suppliers were impacted by material shortages. Gross margin ended lower than the prior year due to the adverse impact of the exchange rate and higher production costs. This resulted in a decrease of 7.5% in trading profit to R152 million (June 2022: R164 million).

## CHANGES TO THE BOARD

Mr Kevin Wakeford resigned from the Board and as a member of the Acquisition Committee, effective 31 March 2023.

Mr Mark Steyn was appointed to the Board, effective 1 April 2023.

Ms Busisiwe Mabuza was appointed as the Lead Independent Director, effective 25 May 2023, replacing the retired Professor Matt Haus.

## PROSPECTS

We are confident in the resilience of our diverse and affordable portfolio of healthcare brands, with a proven ability to adapt to changing market dynamics, but remain cautious about the general state of our operating environment. We welcome the recent 'top-up' SEP adjustment of 1.73%, following the 3.28% increase granted in January 2023, which will assist in alleviating the margin pressures on our price-regulated basket of products.

The Board remains committed in seeking additional affordable brands to augment the Company's range of products, through acquisitions and partnerships.

## DIVIDEND DISTRIBUTION

The Board has declared a final gross dividend out of income reserves of 125 cents per share in respect of the year ended 30 June 2023. The South African dividend tax ("DT") rate is 20% and the net dividend payable to shareholders who are not exempt from DT is 100 cents per share. Adcock Ingram currently has 169 718 861 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 cum distribution	Tuesday, 12 September 2023
Shares trade ex distribution	Wednesday, 13 September 2023
Record date	Friday, 15 September 2023
Payment date	Monday, 18 September 2023

Share certificates may not be dematerialised or rematerialised between Wednesday, 13 September 2023 and Friday, 15 September 2023, both dates inclusive.

N Madisa  
Chairperson

AG Hall  
Chief executive officer

22 August 2023

# SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Audited 2023 R'000	Change %	Audited 2022 R'000
<b>Revenue</b>	2.1	<b>9 131 852</b>	5	8 705 817
Cost of sales		<b>(5 944 832)</b>		(5 648 062)
<b>Gross profit</b>		<b>3 187 020</b>	4	3 057 755
Selling, distribution and marketing expenses		<b>(1 390 638)</b>	2	(1 365 882)
Fixed and administrative expenses		<b>(615 907)</b>	6	(579 586)
<b>Trading profit</b>		<b>1 180 475</b>	6	1 112 287
Non-trading expenses	3	<b>(44 948)</b>		(59 467)
<b>Operating profit</b>		<b>1 135 527</b>	8	1 052 820
Finance income		<b>7 628</b>		4 511
Finance costs		<b>(59 795)</b>		(45 417)
Dividend income		<b>3 174</b>		3 187
Equity-accounted earnings		<b>119 048</b>		86 893
<b>Profit before tax</b>		<b>1 205 582</b>	9	1 101 994
Tax		<b>(307 222)</b>		(301 265)
<b>Profit for the year</b>		<b>898 360</b>	12	800 729
Exchange differences on translation of foreign operations		<b>44 740</b>		22 797
Subsidiaries		<b>1 704</b>		949
Joint venture		<b>43 036</b>		21 848
Movement in cash flow hedge accounting reserve, net of tax		<b>57 814</b>		3 926
Fair value of investment*		<b>1 424</b>		628
Actuarial profit on post-employment medical liability*		<b>894</b>		1 963
<b>Total comprehensive income, net of tax</b>		<b>1 003 232</b>		830 043
<b>Profit attributable to:</b>				
Owners of the parent		<b>898 410</b>		800 345
Non-controlling interests		<b>(50)</b>		384
		<b>898 360</b>		800 729
<b>Total comprehensive income attributable to:</b>				
Owners of the parent		<b>1 003 282</b>		829 659
Non-controlling interests		<b>(50)</b>		384
		<b>1 003 232</b>		830 043
Basic earnings per ordinary share (cents)		<b>561.3</b>	13	494.8
Diluted basic earnings per ordinary share (cents)		<b>548.6</b>	13	485.7
Headline earnings per ordinary share (cents)		<b>561.3</b>	12	502.0
Diluted headline earnings per ordinary share (cents)		<b>548.7</b>	11	492.8

\* Remeasurement of investment and post-employment medical liability will not be reclassified to profit and loss. All other items in other comprehensive income may be reclassified to profit and loss.

# SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital R'000	Share premium R'000	Treasury share reserve	Non- distributable reserves R'000	Retained income R'000	Total attributable to holders of the parent R'000	Non- controlling interests R'000	Total R'000
<b>As at 1 July 2021</b>	16 176	255 175		194 180	4 216 817	4 682 348	760	4 683 108
Share-based payment expenses*				33 386		33 386		33 386
Movement in treasury shares		19				19		19
Total comprehensive income				42 607	800 345	842 952	384	843 336
Profit for the year					800 345	800 345	384	800 729
Other comprehensive income				29 314		29 314		29 314
Reclassified to cost of inventory – not included in other comprehensive income				13 293		13 293		13 293
Dividends					(313 811)	(313 811)	(915)	(314 726)
<b>Balance at 30 June 2022</b>	<b>16 176</b>	<b>255 194</b>		<b>270 173</b>	<b>4 703 351</b>	<b>5 244 894</b>	<b>229</b>	<b>5 245 123</b>
Share-based payment expenses*				28 840		28 840		28 840
Transfer of reserves	–	–		6 081	(6 080)	1	(1)	–
Cancellation of shares	(4)	(1 972)				(1 976)		(1 976)
Treasury shares purchase	(923)		(471 196)			(472 119)		(472 119)
Movement in treasury shares	28	13 389				13 417		13 417
Total comprehensive income				51 839	898 410	950 249	(50)	950 199
Profit for the year					898 410	898 410	(50)	898 360
Other comprehensive income				104 872		104 872		104 872
Reclassified to cost of inventory – not included in other comprehensive income				(53 033)		(53 033)		(53 033)
Dividends					(375 368)	(375 368)	(204)	(375 572)
<b>Balance at 30 June 2023</b>	<b>15 277</b>	<b>266 611</b>	<b>(471 196)</b>	<b>356 933</b>	<b>5 220 313</b>	<b>5 387 938</b>	<b>(26)</b>	<b>5 387 912</b>

\* Relate to equity and BMT option schemes.

# SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Audited 2023 R'000	Audited 2022 R'000
<b>ASSETS</b>		
Property, plant and equipment	1 475 795	1 472 548
Right-of-use assets	233 468	270 494
Intangible assets	1 233 326	1 242 716
Deferred tax assets	14 104	4 347
Other financial assets	20 476	21 770
Investment in joint ventures	670 948	528 173
Loans receivable	-	4 124
<b>Non-current assets</b>	<b>3 648 117</b>	3 544 172
Inventories	2 449 611	2 169 077
Receivables and other current assets	2 059 917	1 830 428
Cash and cash equivalents	91 540	345 485
Tax receivable	12 870	-
Loan receivables	479	-
<b>Current assets</b>	<b>4 614 417</b>	4 344 990
<b>Total assets</b>	<b>8 262 534</b>	7 889 162
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Issued share capital	15 277	16 176
Share premium	266 611	255 194
Treasury share reserve	(471 196)	-
Non-distributable reserves	356 933	270 173
Retained income	5 220 313	4 703 351
Total shareholders' funds	5 387 938	5 244 894
Non-controlling interests	(26)	229
<b>Total equity</b>	<b>5 387 912</b>	5 245 123
Long-term portion of lease liability	279 980	310 024
Post-retirement medical liability	13 081	14 079
Deferred tax liabilities	147 352	133 599
<b>Non-current liabilities</b>	<b>440 413</b>	457 702
Trade and other payables	2 180 922	1 938 933
Bank overdraft	9 641	-
Short-term portion of lease liability	35 421	27 717
Cash-settled options	23 212	22 482
Provisions	168 607	175 548
Taxation payable	16 406	21 657
<b>Current liabilities</b>	<b>2 434 209</b>	2 186 337
<b>Total equity and liabilities</b>	<b>8 262 534</b>	7 889 162



# SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS

	Audited 2023 R'000	Audited 2022 R'000
<b>Cash flows from operating activities</b>		
Operating profit	1 135 527	1 052 820
Other adjustments and non-cash items	250 210	408 994
<b>Operating profit before working capital changes</b>	<b>1 385 737</b>	<b>1 461 814</b>
Working capital movements	(281 303)	(304 677)
<b>Cash generated from operations</b>	<b>1 104 434</b>	<b>1 157 137</b>
Finance income received	7 600	4 378
Finance costs paid	(59 155)	(45 440)
Dividend income received	28 174	87 735
Dividends paid	(375 572)	(314 726)
Tax paid	(323 729)	(231 751)
<b>Cash generated from operating activities</b>	<b>381 752</b>	<b>657 333</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment – Replacement	(137 478)	(111 132)
– Expansion	(10 608)	(8 762)
Purchase of intangible assets	–	(209 889)
Proceeds on loan receivable	3 645	5 674
Proceeds of sale of interest in BMT	1 549	265
Proceeds from interest in Group Risk Holdings Proprietary Limited	717	438
Proceeds on disposal of property, plant and equipment	551	95
<b>Net cash outflow from investing activities</b>	<b>(141 624)</b>	<b>(323 311)</b>
<b>Cash flows from financing activities</b>		
Share repurchase	(472 119)	–
Repayment of lease liabilities	(29 426)	(32 606)
Cancellation of shares	(1 976)	–
Equity options scheme settlement	(1 117)	(4 888)
<b>Net cash outflow from financing activities</b>	<b>(504 638)</b>	<b>(37 494)</b>
Net (decrease)/increase in cash and cash equivalents	(264 510)	296 528
Net foreign exchange difference on cash and cash equivalents	924	721
Cash and cash equivalents at beginning of year	345 485	48 236
<b>Cash and cash equivalents at end of year</b>	<b>81 899</b>	<b>345 485</b>

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

### 1.1 INTRODUCTION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Listings Requirements for summary financial statements, and the requirements of the Companies Act, 71 of 2002 (as amended) ("Companies Act") applicable to summary consolidated financial statements. The JSE Listings Requirements require summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: Interim Financial Reporting. These summary financial statements for the year ended 30 June 2023 are not audited but are extracted from the audited consolidated financial statements, which were audited by the independent external auditors, PricewaterhouseCoopers Inc, who have issued an unqualified audit opinion. The Board of Directors take full responsibility for the accuracy of the extraction of the summary financial statements, which have been prepared by Ms Dorette Neethling, chief financial officer, in terms of section 29(1)(e) of the Companies Act.

## 2. SEGMENT REPORTING

**Consumer** – competes in the Fast Moving Consumer Goods (FMCG) space;

**Over the Counter (OTC)** – focuses primarily on brands sold predominantly in pharmacy, where the pharmacist plays a role in the product choice;

**Prescription** – markets products prescribed by medical practitioners and includes specialised instruments and surgical products;

**Hospital** – supplier of hospital and critical care products, including intravenous solutions, blood collection products and renal dialysis systems; and

**Other** – shared services – other support services, including the regulatory services in India, as well as the investment in the joint venture and cash and bank overdraft balances which are managed on a central basis in southern Africa.

	Change %	Audited 2023 R'000	Audited 2022 R'000
<b>2.1 REVENUE</b>			
Consumer	6	1 654 903	1 562 727
OTC	11	2 282 422	2 059 258
Prescription	2	3 294 379	3 228 242
Hospital	2	1 899 225	1 855 035
Other – shared services <sup>1</sup>		923	555
	5	9 131 852	8 705 817

<sup>1</sup>The Group has disclosed the regulatory services in India, after eliminating intercompany sales in the "Other – shared services" segment as it is managed as a shared service.

2.2 REVENUE BY CHANNEL	REVENUE BY CHANNEL								
	Wholesaler R'000	Corporate pharmacy R'000	Retail/ FMCG R'000	Hospital (including SANBS) R'000	Inde- pendent pharmacy R'000	Total private R'000	Public R'000	Export and foreign R'000	Total R'000
<b>30 June 2023</b>									
Consumer	228 511	315 052	1 081 493	–	11 353	1 636 409	–	18 494	1 654 903
OTC	1 223 261	741 179	41 721	3 215	59 588	2 068 964	192 336	21 122	2 282 422
Prescription	1 537 341	981 779	341 266*	38 594	77 157	2 976 137	295 848	22 394	3 294 379
Hospital	400 759	46 144	22 866	764 190	82 410	1 316 369	513 297	69 559	1 899 225
Other – shared services	–	–	–	–	–	–	–	923	923
	<b>3 389 872</b>	<b>2 084 154</b>	<b>1 487 346</b>	<b>805 999</b>	<b>230 508</b>	<b>7 997 879</b>	<b>1 001 481</b>	<b>132 492</b>	<b>9 131 852</b>
% Split	37.1%	22.8%	16.3%	8.8%	2.5%	87.5%	11.0%	1.5%	100.0%

\* Includes specialised medical and surgical equipment, sold to medical practitioners.

Revenue in terms of IFRS 15 and segmental revenue (note 2.1) are considered to be the same.

# NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Change %	Audited 2023 R'000	Audited 2022 R'000
<b>2.3 TRADING PROFIT</b>			
Consumer	2	356 831	351 144
OTC	10	348 590	318 080
Prescription	16	320 118	276 451
Hospital	(7)	152 094	164 350
Other – shared services		2 842	2 262
	6	1 180 475	1 112 287
<b>2.4 TOTAL ASSETS</b>			
Consumer		1 438 283	1 248 105
OTC		2 002 635	1 974 966
Prescription		2 581 733	2 091 202
Hospital		1 661 035	1 512 392
Other – shared services		578 848	1 062 497
		8 262 534	7 889 162
<b>2.5 CURRENT LIABILITIES</b>			
Consumer		341 423	258 594
OTC		463 850	438 110
Prescription		843 742	835 540
Hospital		470 705	366 194
Other – shared services		314 489	287 899
		2 434 209	2 186 337
<b>3. NON-TRADING EXPENSES</b>			
Share-based payment expenses		44 104	40 227
Impairments		–	11 500
Fair value adjustment of long-term receivable		844	4 414
Transaction costs		–	3 326
		44 948	59 467
<b>4. INVENTORY</b>			
Inventories written down and recognised as an expense in cost of sales that forms part of trading profit		73 690	62 513

	<b>Audited 2023 R'000</b>	Audited 2022 R'000
<b>5. CAPITAL COMMITMENTS</b>		
– Contracted for	<b>62 158</b>	56 482
– Approved but not contracted	<b>76 229</b>	42 354
	<b>138 387</b>	98 836
<b>6. HEADLINE EARNINGS</b>		
Headline earnings is determined as follows:		
Profit attributable to owners of Adcock Ingram	<b>898 410</b>	800 345
<b>Adjusted for:</b>		
Impairment of intangible assets	–	11 500
(Profit)/loss on disposal/scrapping of property, plant and equipment	<b>(45)</b>	474
Tax effect on (profit)/loss on disposal of property, plant and equipment	<b>(4)</b>	(573)
Adjustments relating to equity accounted joint ventures	<b>93</b>	216
	<b>898 454</b>	811 962
<b>7. SHARE CAPITAL</b>		
Number of shares in issue	<b>169 759</b>	169 759
Cancellation of shares	<b>(40)</b>	–
Number of ordinary shares held by the Group companies	<b>(16 950)</b>	(8 000)
<b>Net shares in issue</b>	<b>152 769</b>	161 759
Headline earnings and basic earnings per share are based on:		
Weighted average number of ordinary shares outstanding	<b>160 065</b>	161 759
Diluted weighted average number of shares outstanding	<b>163 754</b>	164 770
<b>8. SUBSEQUENT EVENTS</b>		
With the exception of the dividend declaration, there were no significant events after year end.		



# CORPORATE INFORMATION

## ADCOCK INGRAM HOLDINGS LIMITED

Incorporated in the Republic of South Africa  
(Registration number 2007/016236/06)  
Share code: AIP ISIN: ZAE000123436  
("Adcock Ingram" or "the Company" or "the Group")

## DIRECTORS

Ms L Boyce (Non-executive director)  
Dr S Gumbi (Independent non-executive director)  
Mr A Hall (Chief executive officer)  
Ms B Letsoalo (Executive director: Human Capital and Transformation)  
Ms B Mabuza (Independent non-executive director)  
Ms N Madisa (Non-executive director and Chairperson)  
Dr C Manning (Independent non-executive director)  
Ms D Neethling (Chief financial officer)  
Ms D Ransby (Independent non-executive director)  
Prof Michael Sathekge (Independent non-executive director)  
Mr M Steyn (Non-executive director)

## COMPANY SECRETARY

Mr Mahlatse "Lucky" Phalafala

## 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  
Private Bag X9000  
Saxonwold, 2132

## AUDITORS

PricewaterhouseCoopers 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

Investec Bank Limited  
100 Grayston Drive  
Sandton, 2196

Nedbank Limited  
135 Rivonia Road, Sandown  
Sandton, 2146

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

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