adcock ingram

UNAUDITED FINANCIAL RESULTS

for the six-month period ended 31 December

2014

Adding value to life

Consolidated statements of comprehensive income

	Note	Unaudited 6 months ended 31 December 2014 R'000	Change	Unaudited 6 months ended 31 December 2013 R'000	Audited 9 months ended 30 June 2014 R'000
REVENUE	2	**2 717 083**	1%	2 687 084	3 640 780
TURNOVER	2	**2 699 331**	1%	2 669 260	3 615 287
Cost of sales		**(1 706 304)**		(1 700 979)	(2 475 723)
Gross profit		**993 027**	3%	968 281	1 139 564
Selling, distribution and marketing expenses		**(518 979)**	2%	(510 628)	(727 671)
Drug management and regulatory expenses		**(60 759)**	7%	(56 762)	(81 096)
Fixed and administrative expenses		**(196 042)**	3%	(190 185)	(337 887)
Trading profit/(loss)		**217 247**	3%	210 706	(7 090)
Non-trading expenses	3	**(16 977)**		(66 157)	(967 645)
Operating profit/(loss)		**200 270**	39%	144 549	(974 735)
Finance income	2	**13 795**		13 005	18 987
Finance costs		**(57 392)**		(58 141)	(98 620)
Dividend income	2	**3 957**		4 819	6 506
Equity-accounted earnings		**32 511**		30 111	31 895
Profit/(Loss) for the period before taxation		**193 141**	44%	134 343	(1 015 967)
Taxation		**(48 189)**		(29 677)	53 811
Profit/(Loss) for the period		**144 952**	38%	104 666	(962 156)
Other comprehensive income which will subsequently be recycled to profit or loss		**40 562**		(65 936)	51 792
Exchange differences on translation of foreign operations		**40 516**		(54 585)	52 967
Net profit on available-for-sale asset, net of tax		**–**		327	350
Movement in cash flow hedge accounting reserve, net of tax		**46**		(11 678)	(1 525)
Other comprehensive income which will not be recycled to profit or loss					
Actuarial loss on post-retirement medical liability		**–**		–	(6 880)
Total comprehensive income for the period, net of tax		**185 514**		38 730	(917 244)
Profit/(Loss) attributable to:					
Owners of the parent		**141 892**		102 387	(965 343)
Non-controlling interests		**3 060**		2 279	3 187
		144 952		104 666	(962 156)
Total comprehensive income attributable to:					
Owners of the parent		**181 142**		39 449	(914 826)
Non-controlling interests		**4 372**		(719)	(2 418)
		185 514		38 730	(917 244)
Basic earnings/(loss) per ordinary share (cents)		**84.1**	38%	60.8	(572.3)
Diluted basic earnings/(loss) per ordinary share (cents)		**84.0**	38%	60.7	(571.9)
Headline earnings/(loss) per ordinary share (cents)		**83.8**	38%	60.7	(179.5)
Diluted earnings/(loss) earnings per ordinary share (cents)		**83.8**	38%	60.7	(179.3)

Consolidated statement of changes in equity

	Attributable to holders of the parent						
	Issued share capital R'000	Share premium R'000	Retained income R'000	Non-distributable reserves R'000	Total attributable to ordinary shareholders R'000	Non-controlling interests R'000	Total R'000
As at 1 July 2013	16 861	524 788	2 762 300	467 433	3 771 382	129 801	3 901 183
Share issue	43	5 333			5 376		5 376
Movement in treasury shares	(32)	(21 131)			(21 163)		(21 163)
Movement in share-based payment reserve				4 860	4 860		4 860
Acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited			(43)		(43)	(37)	(80)
Total comprehensive income			102 387	(62 938)	39 449	(719)	38 730
Profit for the period			102 387		102 387	2 279	104 666
Other comprehensive income				(62 938)	(62 938)	(2 998)	(65 936)
Dividends			(145 010)		(145 010)	(555)	(145 565)
Share issue expenses incurred by subsidiary				(3 669)	(3 669)		(3 669)
Balance at 31 December 2013 (unaudited)	16 872	508 990	2 719 634	405 686	3 651 182	128 490	3 779 672
Share issue	6	1 930			1 936		1 936
Movement in share-based payment reserve				3 965	3 965		3 965
Acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited			(26)		(26)	(137)	(163)
Total comprehensive income			(934 920)	16 764	(918 156)	(3 029)	(921 185)
Loss for the period			(934 920)		(934 920)	1 485	(933 435)
Other comprehensive income				16 764	16 764	(4 514)	12 250
Dividends						(6 746)	(6 746)
Balance at 30 June 2014 (audited)	**16 878**	**510 920**	**1 784 688**	**426 415**	**2 738 901**	**118 578**	**2 857 479**
Share issue	**6**	**1 187**			**1 193**		**1 193**
Movement in share-based payment reserve				**11 497**	**11 497**		**11 497**
Acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited			**(31)**		**(31)**	**(100)**	**(131)**
Total comprehensive income			**141 892**	**39 250**	**181 142**	**4 372**	**185 514**
Profit for the period			**141 892**		**141 892**	**3 060**	**144 952**
Other comprehensive income				**39 250**	**39 250**	**1 312**	**40 562**
Balance at 31 December 2014 (unaudited)	**16 884**	**512 107**	**1 926 549**	**477 162**	**2 932 702**	**122 850**	**3 055 552**

Consolidated statements of financial position

	Unaudited 31 December 2014 R'000	Unaudited 31 December 2013 R'000	Audited 30 June 2014 R'000
ASSETS			
Property, plant and equipment	**1 540 308**	1 652 252	1 554 420
Intangible assets	**827 632**	1 446 118	836 178
Deferred tax	**4 891**	8 513	7 959
Other financial assets	**138 349**	139 646	138 955
Other non-financial asset	**–**	38 038	–
Investment in joint ventures	**239 835**	188 230	202 237
Non-current assets	**2 751 015**	3 472 797	2 739 749
Inventories	**1 032 932**	1 587 294	1 106 261
Trade and other receivables	**1 383 248**	1 438 104	1 235 674
Cash and cash equivalents	**459 429**	145 196	247 852
Taxation receivable	**79 678**	93 807	76 306
Current assets	**2 955 287**	3 264 401	2 666 093
Total assets	**5 706 302**	6 737 198	5 405 842
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	**16 884**	16 872	16 878
Share premium	**512 107**	508 990	510 920
Non-distributable reserves	**477 162**	405 686	426 415
Retained income	**1 926 549**	2 719 634	1 784 688
Total shareholders' funds	**2 932 702**	3 651 182	2 738 901
Non-controlling interests	**122 850**	128 490	118 578
Total equity	**3 055 552**	3 779 672	2 857 479
Long-term borrowings	**1 015 332**	1 005 003	1 004 861
Post-retirement medical liability	**22 194**	15 573	22 034
Deferred tax	**51 788**	120 745	21 047
Non-current liabilities	**1 089 314**	1 141 321	1 047 942
Trade and other payables	**1 266 310**	952 963	1 115 563
Bank overdraft	**228 719**	775 939	319 613
Short-term borrowings	**10 693**	4 722	5 132
Cash-settled options	**16 362**	41 815	14 782
Provisions	**39 352**	40 766	45 331
Current liabilities	**1 561 436**	1 816 205	1 500 421
Total equity and liabilities	**5 706 302**	6 737 198	5 405 842

Consolidated statements of cash flows

		Unaudited 6 months ended 31 December 2014 R'000	Unaudited 6 months ended 31 December 2013 R'000	Audited 9 months ended 30 June 2014 R'000
Cash flows from operating activities				
Operating profit/(loss)		**200 270**	144 549	(974 735)
Non-cash items		**153 980**	204 840	1 034 309
– depreciation and amortisation		**102 227**	104 817	157 118
– inventories written off		**31 906**	44 385	93 170
– other, including impairments and share-based payment expenses		**19 847**	55 638	784 021
Operating profit before working capital changes		**354 250**	349 389	59 574
Working capital changes		**39 493**	(642 587)	358 527
Cash generated/(absorbed) from operations		**393 743**	(293 198)	418 101
Finance income, excluding receivable		**16 120**	7 873	17 287
Finance costs, excluding accrual		**(60 592)**	(65 360)	(101 480)
Dividend income		**3 957**	13 488	20 504
Dividends paid		**–**	(145 565)	(6 746)
Taxation paid		**(18 053)**	(92 982)	(36 869)
Net cash inflow/(outflow) from operating activities		**335 175**	(575 744)	310 797
Cash flows from investing activities				
Decrease in other financial assets		**606**	118	–
Purchase of property, plant and equipment	– Expansion	**(20 216)**	(23 449)	(12 278)
	– Replacement	**(32 988)**	(84 632)	(83 187)
Proceeds on disposal of property, plant and equipment		**573**	353	54
Increase in loans receivable		**–**	(1 183)	–
Net cash outflow from investing activities		**(52 025)**	(108 793)	(95 411)
Cash flows from financing activities				
Acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited		**(131)**	(80)	(241)
Proceeds from issue of share capital		**1 193**	5 376	6 902
Purchase of treasury shares		**–**	(21 163)	–
Share issue expenses incurred by subsidiary		**–**	(3 669)	–
Increase in borrowings		**15 278**	1 001 890	1 004 635
Repayment of borrowings		**–**	(202 980)	(100 000)
Net cash inflow from financing activities		**16 340**	779 374	911 296
Net increase in cash and cash equivalents		**299 490**	94 837	1 126 682
Net foreign exchange difference on cash and cash equivalents		**2 981**	(4 363)	11 958
Cash and cash equivalents at beginning of period		**(71 761)**	(721 217)	(1 210 401)
Cash and cash equivalents at end of period		**230 710**	(630 743)	(71 761)

Notes to the consolidated financial statements

1 BASIS OF PREPARATION

1.1 Introduction

The abridged interim results have not been reviewed or audited by the Group's auditors and 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 Guides 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. Mr Andy Hall, Deputy Chief Executive and Financial Director, is responsible for this set of financial results and has supervised the preparation thereof in conjunction with the Finance Executive, Ms Dorette Neethling.

1.2 Changes in accounting policies

The accounting policies adopted are in line with IFRS and are consistent with those of the previous financial year except for the adoption of the following amended IFRS standards and IFRIC interpretations during the year which did not have any effect on the financial performance or position of the Group:

* IAS 32: Financial Instruments: Presentation: Offsetting of financial assets and financial liabilities.
* IAS 19: Defined benefit plans: Employee contributions.

	Unaudited 6 months ended 31 December 2014 R'000	Unaudited 6 months ended 31 December 2013 R'000	Audited 9 months ended 30 June 2014 R'000
2 REVENUE			
Turnover	**2 699 331**	2 669 260	3 615 287
Finance income	**13 795**	13 005	18 987
Dividend income	**3 957**	4 819	6 506
	2 717 083	2 687 084	3 640 780
3 NON-TRADING EXPENSES			
Impairments	**–**	–	(843 364)
– Intangible assets	**–**	–	(601 789)
– Inventories	**–**	–	(130 966)
– Property, plant and equipment	**–**	–	(69 243)
– Long-term receivable and non-financial asset	**–**	–	(41 366)
Transaction costs	**–**	(46 629)	(91 000)
Retrenchment costs and separation package	**–**	–	(16 505)
Share-based payment expenses	**(16 977)**	(19 528)	(10 016)
Scrapping of property, plant and equipment	**–**	–	(5 561)
Lease cancellation expense	**–**	–	(1 199)
	(16 977)	(66 157)	(967 645)

4 SEGMENT REPORTING

CHANGE IN THE STRUCTURE AND COMPOSITION OF THE REPORTABLE SEGMENTS

- In May 2014, Adcock Ingram announced substantive changes to the Group's internal processes and structures which were expected to be fully implemented with effect from 1 July 2014. The reorganisation of the business was necessary to create autonomous operating divisions with separate focused strategies to best manage the challenges and opportunities in each of the businesses, while at the same time, facilitating full accountability in each case and allow for better measurement of returns. The new structure came into operation on 1 July 2014 creating a more defined and decentralised structure with focused and specialised commercial divisions in Southern Africa. The structure is ultimately designed to be customer-centric and assist in the recovery of the business.

The Company's reportable segments in Southern Africa are now as follows:

- Over the Counter (OTC) – focuses primarily on brands sold predominantly in the pharmacy market, where the pharmacist plays a role in the product choice;
- Consumer – competes in the Fast Moving Consumer Goods (FMCG) space,
- Prescription – market products prescribed by medical practitioners, and
- Hospital – supplier of hospital and critical care products, including intravenous solutions, blood collection products and renal dialysis systems.

The prior periods have been restated to reflect this change, in accordance with IFRS 8 Operating Segments.

	Unaudited 6 months ended 31 December 2014 R'000	Unaudited 6 months ended 31 December 2013 R'000	Unaudited 9 months ended 30 June 2014 R'000
Turnover			
Southern Africa	**2 441 439**	2 431 307	3 268 441
OTC	**698 568**	604 750	835 605
Consumer	**304 152**	345 805	327 464
Prescription	**880 914**	952 172	1 348 422
Hospital	**557 805**	528 580	756 950
Rest of Africa	**129 150**	126 108	183 130
India	**136 098**	118 730	177 708
	2 706 687	2 676 145	3 629 279
Less: Intercompany sales	**(7 356)**	(6 885)	(13 992)
	2 699 331	2 669 260	3 615 287
Trading and operating profit/(loss)			
Southern Africa	**238 518**	237 082	62 820
OTC	**141 174**	97 315	77 095
Consumer	**38 298**	73 599	(25 280)
Prescription	**57 909**	51 298	45 170
Hospital	**1 137**	14 870	(34 165)
Rest of Africa	**4 574**	(5 553)	(23 171)
India	**(25 845)**	(20 823)	(46 739)
Trading profit/(loss)	**217 247**	210 706	(7 090)
Less: Non-trading expenses (1)	**(16 977)**	(66 157)	(967 645)
Operating profit/(loss)	**200 270**	144 549	(974 735)
(1) Non-trading expenses are managed on a central basis and are not allocated to operating segments.			
Total assets			
Southern Africa	**4 536 701**	5 334 443	4 261 452
Pharmaceuticals	**3 868 720**	4 567 206	3 645 069
Hospital	**667 981**	767 237	616 383
Rest of Africa	**215 678**	288 100	195 883
India	**953 923**	1 114 655	948 507
Total assets	**5 706 302**	6 737 198	5 405 842

	Unaudited 6 months ended 31 December 2014 R'000	Unaudited 6 months ended 31 December 2013 R'000	Audited 9 months ended 30 June 2014 R'000
5 INVENTORY			
The amount of inventories written down recognised as an expense in profit or loss:			
Cost of sales	**31 906**	44 385	93 170
Non-trading expenses	**–**	–	130 966
	31 906	44 385	224 136
6 CAPITAL COMMITMENTS			
– contracted	**21 140**	11 766	57 278
– approved, but not contracted	**10 841**	100 616	23 880
	31 981	112 382	81 158
7 HEADLINE EARNINGS/(LOSS)			
Headline earnings/(loss) is determined as follows:			
Earnings/(Loss) attributable to owners of Adcock Ingram	**141 892**	102 387	(965 343)
Adjusted for:			
Impairment of property, plant and equipment	**–**	–	69 243
Impairment of intangible assets	**–**	–	601 789
Tax effect on impairment of intangible assets and property, plant and equipment	**–**	–	(15 823)
(Profit)/Loss on disposal/scrapping of property, plant and equipment, net of tax	**(475)**	(65)	7 413
Headline earnings/(loss)	**141 417**	102 322	(302 721)

	Number of shares '000	Number of shares '000	Number of shares '000
8 SHARE CAPITAL			
Number of shares in issue	**201 652**	201 521	201 589
Number of A and B shares held by BEE participants	**(25 944)**	(25 944)	(25 944)
Number of ordinary shares held by BEE participants	**(2 571)**	(2 571)	(2 571)
Number of ordinary shares held by Group company	**(4 285)**	(4 285)	(4 285)
Net shares in issue	**168 852**	168 721	168 789
Headline earnings and basic earnings per share are based on:			
Weighted average number of shares	**168 795**	168 483	168 679
Diluted weighted average number of shares	**168 844**	168 663	168 788

INTRODUCTION

The Board of directors of Adcock Ingram ("Board") presents the Group's unaudited results for the six-month period ended 31 December 2014.

For a more meaningful appreciation of these interim results, shareholders should take the following into account:

- The results presented herein reflect the first six-month trading and reporting period since the business reorganisation and restructure was implemented on 1 July 2014.
- In May 2014 the Company's financial year-end was changed from 30 September to 30 June.
- Subsequently, the Group reported unaudited results for the six-month period ended 31 March 2014 and audited results for the nine-month period to 30 June 2014.
- The comparative figures for the subject reporting period are accordingly an aggregate of two conterminous quarterly periods (1 July 2013 to 30 September 2013 and 1 October 2013 to 31 December 2013), each previously included in different reporting periods.
- Given the material divergent trading results in each of the aforesaid quarters, the customary use of comparative numbers for purposes of trends and analysis of income and expenditure are likely to be of marginal value.

FINANCIAL PERFORMANCE

Having regard to the substantive changes and reorganisation of the business into separate and distinct business units, there is already evidence of added efficiencies and productivity; this coupled with encouraging increases in certain product turnover and improved margins. Most business units achieved their internal targets during the period under review, and additional marketing investment is being made to support those products where the pace of recovery has been slow. Notwithstanding the aforesaid, turnover reached a satisfactory level of R2,7 billion, even with lower volumes in the ARV and tender businesses, also through the discontinuation of certain uneconomic product lines.

Gross profit margins were well maintained, generating a gross profit for the period of R993,0 million, which, after well controlled operating costs, yielded a trading profit of R217,2 million. Profits after taxation amounted to R144,9 million of which R141,9 million is attributable to shareholders. This translates into headline earnings of 83.8 cents per share for the period, a distinctly more reassuring start to the year when compared to the Group's immediately preceding reported performance.

For an appreciation of certain comparable statistics, set out below is an extract of the Trading Statement released on the Stock Exchange News Service on 18 February 2015, which reflects the basic and headline earnings/(loss) per share, after substituting the actual earnings in each case for the expected range of earnings reflected in the Trading Statement.

	Interim 1 July 2014 – 31 December 2014 Unaudited Cents	Interim* 1 October 2013 – 31 March 2014 Unaudited (A) Cents	Interim 1 July 2013 – 31 December 2013 Unaudited (B) Cents	Change vs A %	Change vs B %
Basic earnings/(loss) per share	**84.1**	(24.8)	60.8	439	38
Headline earnings/(loss) per share	**83.8**	(23.0)	60.7	464	38

*Interim period prior to the financial year end change

Perhaps the most significant feature of these interim results is the successful turnaround in the Group's cash flows and cash management. Reference to the informative Consolidated Statements of Cash Flows in this results presentation, affirms another positive dimension of management's focused attention to the Group's business, more particularly exhibiting the renewed efforts of general and divisional management, in restoring the Group's profitability.

Note 4 to these interim financial results sets out the segmental analysis of the Group's Southern African and international operations. This analysis is self-explanatory; it reveals the general performance of each segment of the business insofar as turnover and contribution is concerned, clearly revealing that much work needs to be done to improve the Group's Indian operations.

REGULATORY ENVIRONMENT

Government announced a 7,5% Single Exit Price adjustment on 4 February 2015 for the year ahead, in an attempt to mitigate the adverse effects of overhead inflation and currency depreciation, a common concern of all South African Pharmaceutical Enterprises.

CHANGE IN DIRECTORS' FUNCTIONS

With effect from 27 August 2014 the Chairman of the Board, Mr Brian Joffe, will chair the HR, Remunerations and Nominations Committee, when constituted as the Nominations Committee. In instances where the Chairman of the Board is conflicted, the Lead Independent Director of the Board, Mr Clifford Raphiri, will chair the Nominations Committee. When constituted as the Nominations Committee, the Committee will have the following membership: Messrs Brian Joffe; Motty Sacks and Clifford Raphiri.

An Acquisitions Committee was established by the Board on 21 November 2014 and Messrs Brian Joffe, Clifford Raphiri, Roshan Morar, Lindsay Ralphs and Motty Sacks were appointed as members of this Committee. Messrs Kevin Wakeford and Andrew Hall will serve on this Committee as invitees.

DIVIDEND

The Board has resolved that notwithstanding the relative improvement in the Group results, no interim dividend in respect of the period ended 31 December 2014 will be declared.

PROSPECTS

The reorganisation and general restructure of the business, including the implementation of a series of corrective measures and actions, has resulted in a more energised workplace instilling greater pride and confidence in staff and management within all of the Group's operating divisions. Notwithstanding the volatile economics and uncertainties in both South African and world markets, the Board is satisfied with the direction and progress made during this reporting period.

By order of the Board

B Joffe	**KB Wakeford**	**AG Hall**
Chairman	*Chief Executive Officer*	*Deputy Chief Executive and Financial Director*

23 February 2015

Notes

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:

Mr B Joffe (Non-Executive Chairman)
Mr K Wakeford (Chief Executive Officer)
Mr A Hall (Deputy Chief Executive and Financial Director)
Prof M Haus (Independent Non-Executive Director)
Dr T Lesoli (Independent Non-Executive Director)
Mr M Makwana (Independent Non-Executive Director)
Dr A Mokgokong (Non-Executive Director)
Mr R Morar (Non-Executive Director)
Mr L Ralphs (Non-Executive Director)
Mr C Raphiri (Lead Independent Non-Executive Director)
Mr M Sacks (Independent Non-Executive Director)
Dr R Stewart (Independent Non-Executive Director)

Company secretary:

NE Simelane

Registered office:

1 New Road, Midrand, 1682

Postal address:

Private Bag X69, Bryanston, 2021

Transfer secretaries:

Computershare Investor Services (Pty) Limited
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

Auditors:

Ernst & Young Inc.
102 Rivonia Road, Sandton, 2146

Sponsor:

Deutsche Securities (SA) Proprietary Limited
3 Exchange Square, 87 Maude Street, Sandton, 2146

Bankers:

Nedbank Limited, 135 Rivonia Road, Sandown, Sandton, 2146
Rand Merchant Bank, 1 Merchant Place, corner Fredman Drive and Rivonia Road, 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.

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