

Swiss convictions Bern

Recommended since 06.11.2020

25.05.2022



Country CH	Market capitalization (bn) CHF 3.6	Perf. since reco. (%)
Sector Health Care	Free float 96.1%	Galenica AG 17.6
Factset GALE-CH	Closing price CHF 72.20	Market 8.8
ISIN CH0360674466	ESG Risk score* 12.4 Low risk	



Profile

Galenica AG is a healthcare provider in Switzerland, operating through the following divisions: Health & Beauty; Services; Corporate. The Health & Beauty division comprises two business sectors: Retail and Products & Brands. The Services division offers pre-wholesale services to pharmaceutical and healthcare companies, ranging from storage and distribution of products in Switzerland to debt collection. The Corporate division encompasses group management and corporate functions, such as controlling, accounting, tax, treasury, insurance, human resources, legal services, general secretariat, communications and investor relations. Galenica was founded in 1927 and has its headquarters in Berne (Switzerland).

Strengths/opportunities

- Defensive stock with a low beta thanks to its market leadership in Swiss pharmacy retailing, a very stable business.
- The company has a highly efficient distribution network.

Weaknesses/threats

- Swiss regulation places limits on the distribution of profits.
- Growth potential as a Swiss player is limited.
- Online pharmacy services could impact the retail landscape, as could changes in regulations.

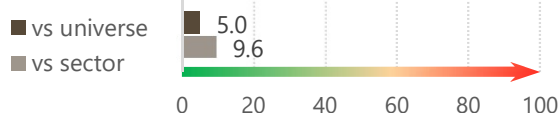
Investment case

- As the leading fully-integrated healthcare provider with a market share of 30%, Galenica plays an active role in distributing drugs in Switzerland, which, despite tight regulation, is a very stable and defensive market.
- Galenica has increased its sales and operating margin year after year. It managed to boost net profit by 3% during the toughest phase of the coronavirus crisis (H1 2020).
- Key milestones have been a joint venture with Coop (Vitality Pharmacies), purchase of the Sun Store network and creation of the Amavita brand.
- Galenica now operates 356 of its own pharmacies, and its overall network has expanded to a total of 530.
- The company also runs a mail order business alongside its Products & Brands business division with its household-name brands, like Vicks, Oral-B, Perskindol, Triofan and Merfen.

Valuation

Galenica is currently trading at a slight premium to its 5Y average P/E, which is justified by its attractive and resilient business model, lack of forex exposure and high dividend yield. We expect its defensive features to further shield the share against any severe downside.

ESG risk vs. universe & sector (percentile)*



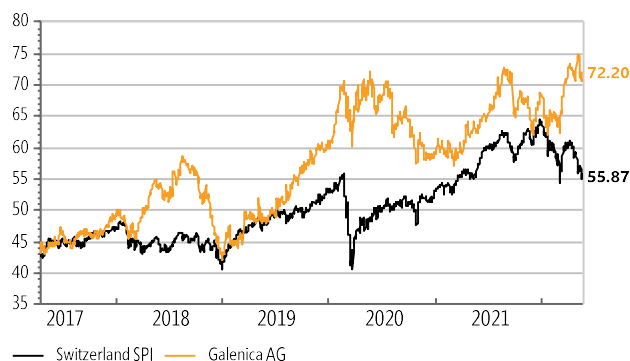
CHF	12/2021	2022e	2023e
Sales revenue (bn)	3'835	3'860	3'969
Sales growth	10.2%	0.7%	2.8%
EBIT adjusted (bn)	186	195	212
% of sales	4.9%	5.1%	5.3%
Net income (bn)	168	157	171
Net income growth	-2.7%	-6.2%	8.8%
FCF/Sales	7.6%	3.9%	5.0%
Net debt/Ebitda	1.8x	1.7x	1.5x
Dividend yield	2.9%	3.0%	3.2%
PE	20.3x	22.7x	21.0x
P/BV	2.9x	2.8x	2.7x

Factset estimates

ESG - risks and key points

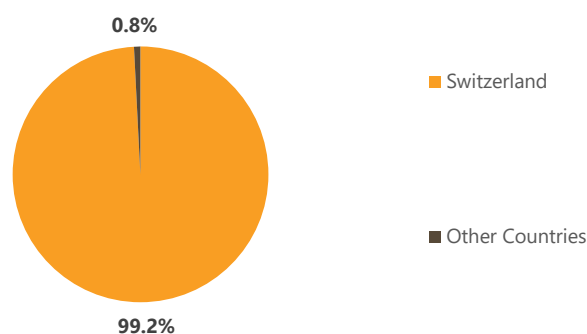
- Galenica is noted for its strong corporate governance performance, which diminishes its overall risk in an environment with already low ESG risks.
- Risks are associated most noticeably with the stringent regulatory environment and close public scrutiny.
- However, the company displays low exposure to ESG issues.

Performance vs SPI



Source: FactSet

Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainability

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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