Media Release

23 November 2010

Adcock Ingram reports double-digit revenue growth

Today, Adcock Ingram announced its financial results for the year ended 30 September 2010.

Highlights include:

- Normalised headline earnings up 15.5% to R900 million (518.2 cents per share)
- Turnover up 11% to R4.4 billion
- Gross profit up 15% to R2.3 billion
- Cash on hand R1.4 billion
- Final dividend up 27.5% to 102 cents per share

Commenting on the results, Adcock Ingram CEO, Dr Jonathan Louw, said: "2010 has been a challenging yet satisfying year for Adcock Ingram. Despite a tough economic environment, the group - which celebrated its 120th birthday this year - has achieved pleasing results, reporting double-digit revenue growth, improved normalised headline earnings per share and shown strong cash generation. Adcock Ingram is building competitive advantage and market share in South Africa through strong multinational partnerships, factory upgrades, acquisitive growth and our diversified portfolio.

Headline earnings for the year ended 30 September 2010 are lower at R631.2 million (2009: R779.3 million), but when adjusted for the R269 million impact of the BEE transaction, normalised headline earnings amount to R900.2 million, reflecting an increase of 15.5% over the prior year. This translates into normalised headline earnings per share of 518.2 cents, up 15.2% from the previous year.

The impact of our acquisitions of Unique Formulations, Ayrton Drug Manufacturing Limited in Ghana and Indigenous Systems, as well as the conclusion of co-promotion agreements with major multinationals, and a 5% volume growth across the business supported turnover growth of 11% to R4.4 billion (2009: R4.0 billion).

Gross profit for the twelve months increased by 14.6% to R2.3 billion

(2009: R2.0 billion) with overall margins improving from 50.9% to 52.6% for the year.

Gross margins across all businesses benefited from the strengthening of the rand, which favourably affected imported raw materials and finished products, but this was partially offset by a higher proportion of lower margin ARVs in the sales mix and continued pricing pressure in the generic portfolio and the hospital segment.

Operating profit before abnormal items improved by 14.9% to R1.2 billion (2009: R1.0 billion).

Cash generated from operations was pleasing at R1.4 billion (2009: R1.1 billion) as a result of sound working capital management in the period under review. Net cash generated from operations was R862 million (2009: R754 million) and after investing and financing activities cash equivalents increased by R740 million, giving the business a net cash position of R850 million (September 2009: R381 million).

Profit after tax was R643 million, compared to R790 million in 2009, but after adjusting for the abnormal item reflects an improvement to R912 million, an increase of 15.4%.

Pharmaceutical Division

Sales increased by 12.3% to R3.1 billion with anti-retrovirals again performing well in the state tender. However continued financial pressure on consumers negatively impacted the OTC segment as consumers continued to downgrade from premium to economy brands. Operating profit grew by 15.0% to R948 million assisted by the strong rand during the year which had a positive impact on input costs.

For the year under review, an analysis of IMS data shows that Adcock Ingram outperformed the private sector market both in volume and value terms assisted by an overall strong performance in volume from Prescription Generics.

With the continued investment in facilities, upgrades to the Wadeville factory have been completed during the year while the construction of the high-volume liquids plant in Clayville is on track for completion in 2012. Service levels improved significantly during the year and the company is delivering 96% of stock on time to customers.

Hospital Products Division

The Hospital Products division consists of Adcock Ingram Critical Care (AICC) and The Scientific Group (TSG).

AICC's financial performance reflects a pleasing 11% volume growth and significant public sector wins. AICC was awarded in excess of 80% of the tender for intravenous fluids and more than 95% of the tender for renal products. At year end, the R290 million factory upgrade which resulted in some disruption to production, is now 65% complete and proceeding on schedule. State tenders commenced on 1 March 2010 and are set to run for 24 months. Long term partnerships were also secured in the renal and blood arenas, with National Renal Care and South African National Blood Services.

In October, for strategic reasons unrelated to the business of AICC, Baxter Healthcare SA elected not to proceed with the exercise of its Call Option over 50% plus one share of the business. Consequently, the Call Option Agreement was cancelled by mutual agreement of the parties. Adcock Ingram will retain control of AICC and the business will continue to benefit from the 15-year licence, distribution and raw materials supply agreements with Baxter. With this certainty, we will now focus on re-energising and growing the business in existing and adjacent categories.

TSG turnover increased 2.7%, but improved margins and well controlled expenses have resulted in operating profit growing strongly over the comparative period.

Medical equipment sales into hospitals have shown double digit growth and market presence improved with the successful acquisition and integration of Indigenous Systems during the second half of the financial year, bringing a reputable product portfolio and a team with strong relationships within the private hospital groups.

Organic growth, strategic acquisitions and partnerships

In line with the strategic drive for growth in Africa and adjacent categories, Adcock Ingram successfully concluded the acquisition of Ayrton Drug Manufacturing Limited in Ghana. It also secured a five-year strategic collaboration agreement with MSD South Africa, the local subsidiary of the second largest US-based pharmaceutical company, Merck, to distribute and jointly promote MSD's consumer healthcare and selected prescription brands, thus also allowing both companies to leverage off each other's strengths.

Marketing and distribution agreements were also signed with Eli Lilly and Novartis, further leveraging Adcock Ingram's market position in Africa and moving it closer to its goal of being a multinational partner of choice. Most recently Adcock Ingram has signed a further collaboration agreement with Roche Pharma for marketing and distribution of two important products in South Africa. Our collaboration with multinationals is a strong driver of growth and boosts our pipeline, while increasing access to first-to-market generics.

The acquisition of Unique Formulations in November 2009 has enabled the group to gain market share in the fast moving consumer goods (FMCG) and adjacent categories, resulting in more visibility in self-medication products.

Through organic growth, strategic acquisitions and partnerships, Adcock Ingram has been able to diversify its portfolio of products through existing and adjacent channels. Adcock Ingram has concluded a member of new strategic license partnerships in the year under review.

The Kenyan operation is showing good growth, particularly from its strong pharmaceutical brands. Dawanol sales are increasing in Kenya and the product is now available in Uganda and other East African markets via local distribution partners.

Good growth is expected in the new financial year as new Prescription and OTC products are registered and new distribution agreements have been signed.

An agreement signed in April 2010 with South Korea's Celltrion will enable Adcock Ingram to compete in the oncology market. Celltrion, which specialises in protein-based therapeutics, awarded Adcock Ingram the rights to market and distribute up to nine biotech products coming off patent from 2013 onwards.

Black Economic Empowerment (BEE)

In April this year, Adcock Ingram completed its broad-based BEE ownership transaction and implemented a share ownership scheme for all black employees. Share allocation to employees will be finalised by 31 March 2011. The Group is currently a Level 4 BEE contributor and continues to focus on the other pillars of transformation. The Board of Directors has approved a plan to accelerate enterprise development.

Outlook

Louw says that Adcock Ingram will continue to acquire products and businesses and seek new multinational collaborations to service sub-Sahara Africa. "Several new launches and line extensions are planned for 2011, bolstering our product pipeline, and acquisition opportunities in the personal care and well-being categories have been identified. We will continue our focus on growth in Africa and emerging markets in the coming year" adds the CEO.

"While the economic recovery remains slow, we anticipate real growth in the coming year. Price increases in the SEP portfolio will be challenging, and low inflationary increases on the non-SEP business will be likely. We are optimistic that 2011 will deliver an exciting innovation pipeline providing the Medicines Control Council approves the required registrations. The Group is well positioned for the next ARV tender and we continue to make strides in achieving our over-arching vision of becoming a leading, world-class branded healthcare company. We are building capability and capacity, which drives partnerships, which in turn drive growth," concludes Louw.

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