

**FARMACEUTICA REMEDIA SA
PERFORMANCE ANALISYS of the
OPERATIONAL and RETAIL ACTIVITY
during 2017 - 2019**

The analysis of the company's performance plays a decisive role in establishing the strategy to be followed especially over the period of decrease of profitability of the current activity.

The following analysis has been performed for Farmaceutica REMEDIA SA, based on the balance sheet data and on the allocation of revenues and expenses on the income / cost centers, on the retail activity in particular and the operational activity, based on which, the forecast for the future development can be done.

Farmaceutica REMEDIA S.A currently operates 90 pharmacies in 14 counties, especial in Hunedoara si Alba, plus Bucharest, oferring a diversified range of pharmaceutical products, medical devices, food supplements, dermato-cosmetics, as well as specialized consiliation servicies adapted to the pacients needs at the national level.

The analized period 2017 – 2019.

1. Operational activity analizys over the period Q3 2017- Q3 2019

In the calculation all the revenues and expenses of the company are included, according to the balance sheet (incl. Profit tax), less the revenues from the sale of assets, incomes from dividends / equity securities, these are considered revenues that are not part of the current and retail activity.

The rezultat from the curent/operational activity as of Q3 207 - 2019:

Lei	Average monthly values		
YEAR	2017	2018	2019
TOTAL INCOME	66.912.769	71.801.894	77.613.131
TOTAL EXPENCES	66.785.999	72.925.036	79.008.744
OPERATIONAL REZULT	126.770	-1.123.142	-1.395.613

The negativ result at Q3 2019 and Q3 2018 is due to the increase of the costs of the salaries due to the legal and fiscal modifications mainly, no. of employees remaining constant over the 3 years.

The evolution of the no. of employees over the period 2017 – 2019:

YEAR	ALOCATION	No of employees Q 3	No of employees Q4
2017	SUPPORT	46	46
	PHARMACIES	304	309
2018	SUPPORT	42	40
	PHARMACIES	330	335
2019	SUPPORT	42	
	PHARMACIES	309	

2. Retail activity analizys

All the income distributed to each center of income (revenues from sales of goods, discounts received, revenues from marketing activities), as well as all the direct costs distributed according to the documents on each cost center (salaries, rents, utilities, operational) are included in the calculation.

The indirect expenses are distributed as a percentage % of total revenues / working point for the years 2017-5%; 2018-4.8% and 2019- 4.5%.

Retail result at Q3

Q3 YEAR/LEI	2017	2018	2019
RETAIL RESULT	-958.340	-1.933.360	-2.211.950

The following table presents the sales, the cost of the goods sold, the value margin, respectively the percentage margin, the total costs and EBITDA for the period September 2017 - September 2019

LEI (thousands)						
YEAR	REVENUE WITHOUT VAT	COGS	VALUE MARGIN	MARGIN (%)	TOTAL COST	EBITDA
2017 JAN-SEPT	65.934,48	51.084,49	14.850,00	22,5%	15.808,34	-958,34
2018 JAN-SEPT	72.427,08	56.830,71	15.596,36	21,5%	17.529,72	-1.933,36
2019 JAN-SEPT	77.201,92	60.941,24	16.260,69	21,1%	18.472,64	-2.211,95
2019/2017 (%)	14,6%	16,17%	8,68%	-1,4%	14,42%	-56,67%

Even if on 30.09.2019, the sales increased with 14.6% compared to 30.09.2017, however, the percentage margin decreased by 1.4%, i.e. from 22.5% in September 2017, to 21.1% in September 2019. From the analysis on each type of cost, the decrease of the percentage margin by 1.4% is due to the need to lower prices for alignment with the competition.

The negative value of the EBITDA indicator shows that there are fundamental problems regarding profitability due first of all to the increase in wages due to legislative changes.

3. Evaluation of the operational and retail results between January 2017 and September 2019

Financial annual result

YEAR/lei	OPERATIONAL RESULT	RETAIL RESULT
2017	232.880	- 1.060.950
2018	- 1.180.434	- 1.902.710
Q3/ 2019	- 1.395.613	- 2.211.950
TOTAL	- 2.343.167	- 5.175.610

4. Conclusions

The negative evolution from year to year, although different strategies have been implemented to increase the profitability by relocating pharmacies, selling / suspending 10 unprofitable units, applying various collaborations and intensifying the marketing activity, it is clear that the measures taken are not sufficient.

The aggressive competition in the market, the way of presentation, promotion and allocation of new technologies existing on the competitive market, highlights the fact that in order to align with the standards imposed by the competition, to stimulate the clients, there is a need for consistent investments in Remedia pharmacies, that management does not consider appropriate.

Considering the above, we propose:

- Consolidation with a player of comparable size, as of pharmacies or combined pharmacies and distribution
- Partial sale, restriction of the territory in which we operate with profitable pharmacies
- Integral sale of the chain of pharmacies and working points.

In conclusion, the continuing of the retail activity presents a financial risk.

Financial Director

Date, 26.11.2019

Elena CODREAN

Internal Auditor

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