

General Management Report 4th Board of Directors Meeting

21/8/2017

Allow me to welcome all of you to Pharmacare's 4th Board of Directors meeting for 2017.

Thank you all for your efforts to be with us today and thank you for your continued contribution to Pharmacare.

1. Review and approval of the Minutes of 2nd and 3rd Board Meeting held on 26/04/2017.

2. 2017 First Half Performance

i. Sales

Please refer to **Transparency (1)** for details of 2017 First Half sales in USD. As evident in data presented, **local sales strategic items** were **18%** below budget in \$ and **19%** below budget in units. Total **non-strategic items** were **21%** below budget in \$ and **19%** below budget in units. As a total, and after including the contingency, **local market** was **14%** below budget in \$ and **19%** below budget in units. The drop is mainly due to Gaza and to the drop in the West Bank in the south.

As for **exports to Belarus**, sales were **49%** below target in \$ and **64%** below budget in units. We have orders in the coming months that will make up for the deficit.

As to **local market veterinary sales**, sales were **20%** below budget in \$ and **21%** below budget in units; this was due to maintenance works on the production line where it was stopped for 3 months , the deficit will be compensated in the coming months.

As to **Tender sales**, we sold an amount of **\$688K** and are **28%** above budget for the period.

Total conventional sales are **15%** below budget in \$ and **25%** below budget in units.

Novonordisk Local sales are 8% below budget in \$, while **Novonordisk Tender sales** are 72% below budget, due to the fact that we had to deliver quantities for MOH in December 2016, this deficit will be compensated when we deliver the rest of the tender in Q3 and Q4 of 2017.

As for **sales to Europe**, we were able to deliver **6 orders** to AET amounting to **16.83** million tablets which generated an amount of **\$559K** in revenue; this result is **17%** above budget for the period. Also we had sales to Pharmacare Premium in the amount of **\$197K** which is **65%** more than we budgeted.

As a total, Pharmacare Sales were **\$ 9.48 million** while the budget was **\$11.055 million**; this translates to **14%** below budget.

As for total units, we were able to sell and distribute 3.55 million units compared to a budget of 4.47 million units which is **%21** below budget.

ii. Expenses:

As to expenses per account, please refer to **Transparency (2)** for details. Expenses were budgeted at 5.56 million \$ before currency differences and royalties, we spent 5.08 million \$. Thus expenses for the period were 9% below budget.

If we include the effects of currency differences and royalties, we will be 24% below budget.

Transparency (2) details the situation in the different expense accounts.

As to expenses per department, please refer to **Transparency (3)** for details. Administration, finance, and accounting expenses were 11% below budget. Industrial expenses were 10% below budget. Other operating expenses were 15% below budget. R&D was 8% above budget. Sales and marketing were 9% below budget.

As mentioned before, overall we are **9%** lower than the budget before currency differences and royalties, and are **24%** lower than the budget after including them.

iii. Profitability:

Please see **Transparency (4)** for details on profitability of 2017 first half. As evident, total sales were **14%** below budget, but thanks to favorable currency differences, net profit after tax was **14%** instead of **8%** budgeted. As to Cost of Goods Sold, RPM for our regular sales were **32%** instead **27%** budgeted . As for EU sales, RPM costs were budgeted to be 67% of sales due to the high price of the active material used; actual cost were at **49%**. As a result total cost of goods sold were **34%** instead of **30%** budgeted for the period. Industrial expenses were at 22% instead 21% budgeted. Thus margin A was 50% instead 49% budgeted. Margin B was 42% instead of 46% budgeted. Margin C – after including sales force & promotion costs - was 35% instead of 40% budgeted. Margin D which accounts for sales and distribution was 31% instead of 36% budgeted. R&D was 7% instead of 5% budgeted; administration costs were 8% instead of 10% budgeted, hence operating result was 17% instead of 20% budgeted. EBITDA was 23% instead of 17% budgeted and net profits after tax were 1.36 million \$ instead of 906K \$, this translates to 50% above budget.

iv. Pharmacare's Loan Status:

Please see **Transparency (5)** for details on Pharmacare loan status at 21/8/2017.

Pharmacare has long term loans from five local banks, Arab bank, Al-Quds bank, Bank of Palestine, Ahli bank, and Jordan Commercial Bank. In addition to those, we have soft loans from the French and Italian, and a loan from BOP taken on behalf of Pharmacare Premium in the amount of 1.2 million Euros.

Total loans from local banks in USD are 6.93 million, of which USD 6.43 million are long term. This is lower than the cap of 7 million USD for local long term loans set by our BOD by USD 570K translating to 8% below cap. When adding the soft Loans and PCM loan; the total will be USD 11.967 million, of this USD 0.633 million will be paid during 2017.

v. Sales Analysis

Please See **Transparency (6)** for a detailed sales analysis and comparisons for different years.

3. Discussion and Approval of the Audited Financial Statements, audited by Deloitte Touché for 2016

- Income Statement
- Balance Sheet

4. Discussion of Financial Statements for the 1st half of 2017 – Revised Unconsolidated Financial Statements.

5. Discussion of the 1st half of 2017 Financial Statements for the Subsidiary - Revised Financial Statements.

6. Board of Directors' recommendations to the General Assembly pertaining to the financial year ending 31/12/2016 to be approved in its annual Meeting which will be held on the same day.

7. Other arising issues

Thank you