

General Management Report **5th Board of Directors Meeting**

21/11/2017

Allow me to welcome all of you to Pharmacare's 5th 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 the 4th Board Meeting held on 21/8/2017.

2. 2017 Q1-Q3 Performance

i. Sales

Please refer to **Transparency (1)** for details of 2017 Q1-Q3 sales in USD. As evident in data presented, **local sales strategic items** were **27%** below budget in \$ and **28%** below budget in units. Total **non-strategic items** were **24%** below budget in \$ and **21%** below budget in units. As a total, and after including the contingency, local **market** was **22%** below budget in \$ and **27%** 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 **43%** below target in \$ and **61%** 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 **13%** below budget in \$ and **10%** 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 **\$926K** and are **10%** above budget for the period.

Total conventional sales are **21%** below budget in \$ and **32%** below budget in units.

Novonordisk Local sales are **9%** below budget in \$, while **Novonordisk Tender sales** are **50%** 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 Q4 of 2017.

As for **sales to Europe**, we were able to deliver **11 orders** to AET amounting to **25.10** million tablets which generated an amount of **\$864K** in revenue; this result is **1%** above budget for the period. Also we had sales to Pharmacare Premium in the amount of **\$420K** which is **124%** more than we budgeted.

As a total, Pharmacare Sales were **\$ 14.03 million** while the budget was **\$17.3 million**; this translates to **19%** below budget.

As for total units, we were able to sell and distribute 5.25 million units compared to a budget of 6.93 million units which is **%24** below budget.

ii. Expenses:

As to expenses per account, please refer to **Transparency (2)** for details. Expenses were budgeted at 8.34 million \$ before currency differences and royalties, we spent 7.37 million \$. Thus expenses for the period were 12% below budget. If we include the effects of currency differences and royalties, we will be 20% 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 12% below budget. Industrial expenses were 11% below budget. Other operating expenses were 14% below budget. R&D was 2% below budget. Sales and marketing were 15% below budget.

As mentioned before, overall we are **12%** lower than the budget before currency differences and royalties, and are **20%** lower than the budget after including them.

iii. Profitability:

Please see **Transparency (4)** for details on profitability of Q1-Q3 2017. As evident, total sales were **19%** below budget, net profit after tax was **13%** instead of **10%** budgeted. As to Cost of Goods Sold, RPM for our regular sales were **35%** 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 **36%** instead of **30%** budgeted for the period. Industrial expenses were at 23% instead 20% budgeted. Thus margin A was 50% as budgeted. Margin B was 41% instead of 47% budgeted. Margin C – after including sales force & promotion costs - was 35% instead of 42% budgeted. Margin D which accounts for sales and distribution was 31% instead of 37% budgeted. R&D was 6% instead of 5% budgeted; administration costs were 8% instead of 10% budgeted, hence operating result was 16% instead of 22% budgeted. EBITDA was 22% instead of 18% budgeted and net profits after tax were 1.831 million \$ instead of 1.71 million \$, this translates to 7% above budget.

iv. Pharmacare's Loan Status:

Please see **Transparency (5)** for details on Pharmacare loan status at 21/11/2017.

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 6.2 million, of which USD 6.03 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 798K translating to 11% below cap. When adding the soft Loans and PCM loan; the total will be USD 11.13 million, of this USD 0.211 million will be paid during 2017.

3. Budgets for the year 2018:

i. Sales budget

Please refer to **Transparency (6)** for details of the 2018 sales budget. Total net sales will be **25.53** million USD net of cash discount; the total budget for conventional sales is **20.72** million USD, **76%** of this budget will come from strategic items sold in the local market, **9%** from non-strategic items in the local market, as a result the local market will constitute **85%** of total conventional sales and **8%** from regular export sales, **7%** from local veterinary sales, and **3%** from tender sales, and **4%** will be given out as cash discount.

When compared with total sales of USD 24.03 million, local market will constitute 69% of total budget, Russia export 6%, veterinary sales 5%, tender sales 5%, thus total conventional sales will be 83% of total sales budget, Novonordisk will be 11%, and EU sales will be 5%.

ii. Expenses Budget.

- a. **Expenses per account.** Please refer to **Transparency (7)** for details. Total expenses for 2018 are budgeted to be **11.5** million USD; **50%** of the budget will be allocated to personnel expenses, **1%** to social related expenses, **3%** for travel and cars, **0.6%** to rent and lease expenses, **6%** to other external expenses, **4%** to fees and charges, **15%** to depreciation, **7%** to financing expenses, **8%** to other expenses.
- b. **Expenses per department.** Please refer to **Transparency (8)** for details; **21%** of this budget is allocated to administration and finance departments, **35%** will be allocated to industrial departments, **9%** will be allocated to other operating departments, **10%** for R&D budget, **20%** for sales and marketing and as mentioned the total budget is **11.5** million USD.

iii. Profits for 2017

Please refer to **Transparency (9)** for details. As mentioned before, total net sales were budgeted to be **25.53** million USD and expenses are **11.5** million USD; the cost of goods sold are budgeted to be 30% of net manufactured sales in addition to royalty cost of EU goods, so as a result total cost of goods sold will be **50%**. This will result in pre-tax net profits of **4.36** million USD, which is 17% of total sales.

4. Trading in the Stock Exchange Market – Update

5. Update on Malta

6. Other arising issues

Thank you

2018 Sales Budget

ITEM	2018 Budget				2018 Budget			
	QTY	Bonus %	Bonus %	Samples	Samp%	\$	% of Total	% of Total
Total Antibiotics	965,078	342,697	36%	118,963	12%	5,486,831	26%	21%
Total Dermatology	282,190	100,486	36%	29,823	11%	1,282,405	6%	5%
Total Pain	355,435	89,060	25%	22,675	6%	2,223,357	11%	9%
Total Gastro	199,197	50,332	25%	22,654	11%	1,613,031	8%	6%
Total Others	954,105	272,719	29%	86,686	9%	5,203,384	25%	20%
SUB-TOTAL STRATEGIC ITEMS	2,756,006	855,294	31%	280,801	10%	15,809,008	76%	62%
Total Antibiotics	323,387	121,136	37%	12,683	4%	628,999	3%	2%
Total Dermatology	340,536	77,952	23%	7,343	2%	469,040	2%	2%
Total Others	326,018	102,433	31%	7,276	2%	778,800	4%	3%
SUB-TOTAL NON STRATEGIC ITEMS	989,940	301,521	30%	27,303	3%	1,876,839	9%	7%
Contingency						0	0%	0%
SUB-TOTAL LOCAL MARKET	3,745,946	1,156,815	31%	308,104	8%	17,685,847	85%	69%
Export- Total Non-Strategic	1,603,818	0	0%			1,189,175	6%	5%
Export Total Strategic	145,251	0	0%			546,362	3%	2%
SUB-TOTAL EXPORT	1,749,069	-	0%			1,735,537	8%	7%
Total Veterinary - Local	259,491		0%			1,377,410	7%	5%
TOTAL LOCAL	5,754,506	1,156,815	20%	308,104	5%	20,798,795	100%	81%
Cash Discount						762,530-	-4%	-3%
SUB-TOTAL SALES	5,754,506	1,156,815	20%	308,104	5%	20,036,264	97%	78%
* TENDER SALES	702,247	-				688,705	3%	3%
TOTAL CONVENTIONAL SALES	6,456,753	1,156,815	20%	308,104	5%	20,724,969	100%	81%
* NOVONORDISK LOCAL SALES	59,777					1,515,152	6%	5%
* NOVONORDISK TENDER SALES	420,000					1,377,410	11%	0%
TOTAL NOVONORDISK	479,777					2,892,562	123,967	
* OTHER SALES								
TOTAL OTHER SALES						-	1,101,928	4%
** AET	407,000						688,705	3%
PHARMACARE PREMIUM	342,000						1,790,634	7%
TOTAL EU SALES	749,000						25,532,132	100%
GRAND TOTAL	7,685,530	1,156,815	15%	308,104	4%			

* Not Within our Normal Operations and cannot be properly budgeted
** API for EU sales dropped from EUR 9500/KG in 2012 when budgeting to a minimum of EUR 3115/KG with an average of EUR 4000/K

2018 Income Statement \$

2018 Budget		
	\$	Struct. %
Operating Sales	23,027,563	90%
./. Cash Discounts	762,530	-3%
./. Services and Other Sales	123,967	0%
./. Trading	3,143,132	12%
Total Sales	25,532,132	100%
Regular Sales	21,925,635	83%
Trading	3,143,132	12%
AET Sales	1,101,928	4%
Services and Other Sales	123,967	0%
	±0	
Net Sales Manufactured Items	22,265,033	100%
	±0	
./. Cost of Goods Sold :	±0	
RPM - Regular Sales	6,468,062	30%
RPM for AET	325,069	30%
Royalties	440,000	40%
Total RPM Related to AET	765,069	69%
RPM - Total	7,233,131	32%
Industrial Expenses Exc. Royalties	3,905,455	18%
TOTAL C.O.G.S	11,138,586	50%
Margin A + Income from Services	11,250,414	51%
./. Product-related costs	470,000	2%
Margin B	10,780,414	48%
./. Sales force costs- Promotion	1,025,995	5%
Margin C	9,754,419	44%
./. Marketing and Distribution costs	757,051	3%
Margin D	8,997,367	40%
./. R&D costs	1,148,033	5%
./. Administration costs	1,978,574	9%
OPERATING RESULT	5,870,761	26%
± Other Operating Exp.	975,744	4%
± Other Inc/ Exp.	±0	0%
± Other Trading Inc.	267,166	1%
./. Accounting exp./ accrued exp.	800,000	4%
± Depreciation Fixed Assets	-1,700,000	-8%
EBITDA	6,062,183	24%
./. Depreciation Fixed Assets	1,700,000	7%
EBITA	4,362,183	17%
EBIT	4,362,183	17%
INC./LOSS BEFORE TAXES	4,362,183	17%
± Income taxes *	-654,328	-3%
INC./LOSS AFTER TAXES	3,707,856	15%