First shop-in-shop pharmacy opened in Switzerland

Growth strategy

Revenue up 11.8%

Refocusing of Halle facility

with a downside: 40 jobs cut

One year after the ECJ ruling

Double-digit growth with Rx drugs in Germany

38.7%

OTC sales growth in Germany

Further expansion of European market leadership

Acquisitions of Eurapon and Vitalsana

Successful IPO, raising

215 Mio.

in net proceeds

Discussion of ban on Rx mail-order sales continues

6.5%

sales growth in doctors' supply business in Switzerland

Profile

Operating under the Zur Rose and DocMorris brands, the Swiss-based Zur Rose Group is Europe's leading online pharmacy and one of Switzerland's foremost wholesale suppliers to medical doctors. Through its business model, it helps to ensure safe, reliable and high-quality pharmaceutical care, while also excelling in developing innovative medicines management services to increase the effectiveness of the medication process. This creation of added value, the strong focus on patients and the commitment to supply medication at low cost for the benefit of payors and patients make the Group an important strategic partner for all healthcare stakeholders.

The Zur Rose Group is headquartered in Frauenfeld, from where it also serves the Swiss market. Customers in Germany and Austria are primarily supplied from Heerlen (NL). Furthermore, the Group holds a majority interest in BlueCare in Winterthur, the leading provider of networking systems in the Swiss healthcare market. Employing more than 1,000 people at its various locations, Zur Rose Group generated revenue of CHF 983 million in 2017. Zur Rose Group AG's shares (ticker symbol ROSE, Swiss security no. 4261528, ISIN CH0042615283) are traded on SIX Swiss Exchange.

Key Financials

	2017	2016	2015
	in CHF million	in CHF million	in CHF million
Revenue	**982.9**	879.5	834.4
Year-on-year revenue growth in %	**11.8**	5.4	–8.9
Gross margin in % of revenue	**14.9**	15.0	15.1
Earnings before interest, taxes, depreciation and amortisation (EBITDA) after adjusting extraordinary costs 2017	**–6.0**	2.1	15.8
in % of revenue	**–0.6**	0.2	1.9
EBITDA	**–21.2**	2.1	15.8
Earnings before interest and taxes (EBIT) after adjusting extraordinary costs 2017	**–18.1**	–7.1	8.4
in % of revenue	**–1.8**	–0.8	1.0
EBIT	**–38.3**	–7.1	8.4
Net operating income after adjusting extraordinary costs 2017	**–16.3**	–12.8	3.4
in % of revenue	**–1.7**	–1.5	0.4
Net operating income	**–36.3**	–12.8	3.4
Equity	**294.2**	103.8	72.8
in % of total assets	**64.4**	39.7	31.2
Investments	**22.0**	21.2	15.5
Number of employees in FTEs at year-end	**1,106**	752	716

Letter to Shareholders

Dear Shareholders

The growth strategy introduced by the Zur Rose Group at the end of 2016 is bearing fruit. Europe's leading online pharmacy in 2017 increased sales by double digits to CHF 982.9 million. The dynamic growth is the result of the marketing campaign in Germany and an encouraging performance in Switzerland. For 2018, management expects further accelerated growth of more than 20 percent in local currency terms.

For the Zur Rose Group, the 2017 financial year marked a milestone in the company's 25-year history. By raising funds under the IPO and the listing on the SIX Swiss Exchange, the company has created the capital base for implementing a dynamic growth strategy. The net proceeds from the IPO of CHF 215 million have enabled the defined growth initiatives to be pursued and the corporate bond of CHF 50 million to be repaid. With an equity ratio of 64.4 percent, the company is solidly financed and also has a stable anchor shareholder base.

Investments in the market are paying off — The Zur Rose Group in 2017 successfully continued the broad-based marketing campaign in Germany aimed at attracting new customers for the purpose of accelerated growth. Consolidated sales increased by 11.8 percent year-on-year to CHF 982.9 million. The growth momentum confirmed the effectiveness of marketing expenses at the expense of short-term profit performance. Profit was burdened as scheduled by around CHF 15 million due to further future-oriented expenses and non-recurring costs in connection with the IPO. The reported operating result (EBITDA) is minus CHF 21.2 million and net income/(loss) is minus CHF 36.3 million. Adjusted for the aforementioned extraordinary expenses, EBITDA would amount to minus CHF 6 million.

Cooperation and innovation boost the Swiss business — In 2017, Zur Rose succeeded in strengthening its strong market position by further developing innovative services and partnerships with Migros, Medbase and health insurers. With sales up 6.3 percent to CHF 500 million, Zur Rose in Switzerland grew well above the market average. In the doctors' segment, the company increased its market share by 0.6 percentage points to 23.6 percent. The partnership with Medbase, Switzerland's largest service provider in basic outpatient medical care, was launched in 2017. Zur Rose exclusively supplies all Medbase centres with drugs. The retail business grew for the first time again since the Federal Court ruling of 2015 restricting the mail-order dispatch of over-the-counter drugs (OTC). Both the realignment of the specialty care business and the two new inpatient pharmacies in Bern contributed to this. The successful launch of the shop-in-shop concept as part of the cooperation with Migros has prompted the company to open two more in-store pharmacies in 2018 at the Migros branches Claramarkt Basel and Limmatplatz Zurich. Additional locations are under consideration above all in cantons without medical self-dispensation. Zur Rose combines its in-patient presence with the e-commerce business as part of an omnichannel strategy, thereby enabling its customers to access drugs across all channels at the same preferential rates as via the online channel.

Strengthening of market leadership in Germany — The Zur Rose Group in 2017 also further expanded its leading market position in Germany. Due to the increased marketing activities of DocMorris targeting both chronically ill patients with a regular need for medication and OTC customers, sales of the Germany segment increased by 18.1 percent to CHF 483.2 million. With an increase in sales of 38.7 percent in the mail-order business with non-prescription drugs, DocMorris once again grew significantly faster than the market as a whole in local currency terms, making it one of Germany's leading mail-order pharmacies in the OTC sector. The proportionately larger prescription drug business (Rx) increased by 10.2 percent in local currency terms. As a result of the marketing offensive, the number of active DocMorris customers increased by 32 percent to 1.8 million in the year under review.

Synergies through the bundling of mail-order activities — In 2018, the Zur Rose Group will complete the integration of Eurapon and Vitalsana, acquired at the end of 2017. The sales of the two companies with a sustained impact on the Group would have amounted to EUR 85 million in 2017. The mail-order volumes handled in Heerlen from mid-2018, which are the result of the realignment of the Halle site, and the integration of Vitalsana will generate sustainable synergies. In the medium term, the mail-order business of Eurapon will also be handled in Heerlen.

Aftermath of the ECJ ruling — The coalition agreement between the CDU/CSU and SPD includes a passage on the implementation of a ban on mail-order sales of prescription drugs. It states: "To strengthen local pharmacies, we are committed to a prohibition on mail-order trade in prescription drugs." Prohibitions were rejected by politicians in 2008 and 2012 for constitutional reasons. Both European and constitutional arguments against a ban were significantly strengthened

by the ruling of the European Court of Justice in 2016. In the past legislative period, a draft bill for a corresponding law failed because of opposition from a wide range of stakeholders. A recent report commissioned by the Federal Ministry for Economic Affairs and Energy came to the conclusion that a ban on the mail-order business was not justified in the light of nationwide coverage. The Zur Rose Group is therefore observing and analysing all developments and if need be will take all necessary legal and operational steps against a possible ban in the interest of patients both in Germany and at the European level.

Outlook and thanks — The Zur Rose Group intends to continue on its path of growth and also in the coming years to consistently utilise the long-term market developments marked by an ageing society, steadily rising cost pressure in the healthcare sector and online penetration lagging behind the consumer goods industry for the benefit of its business model. This also includes an active role in consolidating the OTC mail-order market through appropriate acquisitions. Based on continued double-digit organic growth, management expects sales growth of more than 20 percent in local currency terms in 2018 and aspires to break even at the EBITDA level adjusted for exceptional items. To this end, taking advantage of profitable growth opportunities in the medium term is preferred over short-term profit improvements.

We look forward to tackling these challenges with the energetic support of our motivated employees, to whom we owe much in 2017 thanks to their tireless dedication and high level of expertise. A special thank-you also to our customers for their trust as well as to you, our esteemed shareholders, for your loyalty.

Prof. Stefan Feuerstein
Chairman of the Board

Walter Oberhänsli
Executive Director and CEO

STEFAN FEUERSTEIN *(left)*
AND WALTER OBERHÄNSLI.

Interview

The IPO brought in significant funds for further growth in the Zur Rose Group. At the same time strong signals were sent in Germany with intensified marketing activities and acquisitions. In Switzerland the mail-order pharmacy is attracting particular attention with shops.

Moderator: Medard Meier

The financial year 2017 was very eventful for the Zur Rose Group. What was the personal highlight for you?

Walter Oberhänsli — That question is easy to answer: the IPO! It has been in our minds for quite some time. After the European Court ruled against the distortion of competition to the detriment of discounting of drug sales by foreign providers in October 2016, we started to make preparations. The time window on the stock exchange was favorable. To the delight of everyone, the IPO was a complete success.

Marcel Ziwica — For the Head of Finance an IPO is about the biggest thing that you can do in your career. So, the stock market flotation was an absolute highlight. The balance sheet situation changed for the better at a stroke. The Zur Rose Group is now fully self-financed.

"We are delighted that we have not only met the high targets but also surpassed them in some cases." *– Walter Oberhänsli –*

How much new funding was available to you?

Ziwica — It amounted to 215 million Swiss francs net, which we are using according to our announced plans in the context of the growth strategy: for organic growth in Germany, for acquisitions, two of which have now been completed, for internationalization and for e-health. 50 million were used for redemption of the bond, by means of which we created new funding potential at the same time. Should any opportunities arise, we can now respond quickly and exploit them immediately.

Mr. Heinrich, what impact is the IPO having on the German business?

Olaf Heinrich — The IPO enables us to implement the growth strategy as we planned. For me the highlight was to see that a year after the ruling by the European Court, we returned to the growth path in prescription drugs that we had been on before the regulation which formed the basis for the ruling. This also shows that we are using the funds received through the stock exchange correctly and well on the market.

Mr. Hess, what was the eventful IPO year like for you, as Head of the operating segment Switzerland?

Walter Hess — The financial year was particularly shaped by the establishment of cooperative ventures with Migros, Medbase and some health insurance companies, but of course also by the IPO. The stock market flotation did of course bring us additional prominence and boosted our business.

How has business been?

Oberhänsli — We have been pursuing an ambitious growth strategy since 2016 and we are delighted that we have not only met the high targets but also surpassed them in some cases. This creates confidence for the new financial year because the growth must continue.

Hess — The Swiss segment has developed very positively. In the doctors' segment, which is our core business area, we recorded growth rates which are considerably above those of the market. We are also very happy with the retail business. The cooperative ventures with the health insurance companies contributed to this, as did the Specialty Care business with expensive medications. The contributions from the new brick-and-mortar business are also a welcome addition.

Heinrich — DocMorris has grown as we had intended. Over the year we achieved 19% organic growth. In the OTC business the increase is significantly above 30 percent; for prescription drugs it is still in the low double-digit range.

"In the doctors' segment we recorded growth rates which are considerably above those of the market." *– Walter Hess –*

The Group's results are in the red, as envisaged. Did you expect the results to be closer to zero?

Ziwica — No, the year-end figures were entirely within the scope of our expectations. We deliberately invested in the markets. This is reflected in the marketing costs and in the results accordingly. The investments in the markets have been carefully controlled in order to acquire new customers. We are, however, already achieving profit contributions that we can be proud of.

When will you make it into the black?

Ziwica — The existing business areas and operational businesses will deliver positive results at EBITDA level. The seizing of new opportunities, the integration of the acquisitions and possible internationalization moves will once again result in liabilities for us, which will keep the results in the red in 2018.

Oberhänsli — We will continue to adhere to our approach of achieving growth through intensified marketing. We are thus quite prepared to accept being in the red. At a certain point in market penetration we will be able to reduce the marketing costs relative to sales, which will then put us into the black.

What are the expected market prospects, based on this assumption?

Hess — The growth in the supply of drugs will be maintained in Switzerland in the coming years. We expect to grow more strongly than the market. Consolidation will continue in the doctors' wholesale business, which will be of benefit to us. The efforts of the regulator to bring down prices in the healthcare sector also favor our business model. The mail-order business would offer even greater potential for cost savings. However, this is still greatly underestimated by the politicians and actually prevented by regulation in some cases, as is shown by the OTC ruling.

What's happening to the brick-and-mortar business, which you are also investing in? Is it already paying off?

Hess — Absolutely! This year we will be opening at least two more shop-in-shop pharmacies. The visibility and brand recognition of Zur Rose will be further enhanced as a result. Ultimately, we are aiming for cross-channel shopping and the associated greater convenience for the customers. Omni-channel is the keyword. And experience has shown us that it meets a need.

Oberhänsli — We're living in a market where there is no price competition, because the chain pharmacies belong to the wholesalers. You work against cannibalization by keeping the price levels as high as possible. Our initiative to widen availability for the consumer through the brick-and-mortar trade is a promising approach, particularly as we operate with relevant discounts – in fact we are the only provider in Switzerland to do so. We see great disruptive potential in our strategy to change the Swiss market.

How rosy is the outlook in Germany?

Heinrich — We still see considerable growth potential in Germany. One major issue is the foreseeable consolidation in the OTC market, caused by intensified competition. We will be playing an

THE GROUP MANAGEMENT IN DISCUSSION:
(clockwise from left to right)

WALTER HESS (HEAD SWITZERLAND),
WALTER OBERHÄNSLI (CHIEF EXECUTIVE OFFICER),
MARCEL ZIWICA (CHIEF FINANCIAL OFFICER),
OLAF HEINRICH (HEAD GERMANY).

active role. There are ongoing discussions about a mail-order ban on prescription drugs. However, a current report by the Federal Ministry for Economic Affairs and Energy confirms without doubt that the European Court was right in its assessment of the German pharmacy market and a ban on the mail-order business cannot be justified against the background of the comprehensive provision.

"With the acquisitions, we demonstrated our active role in the shake-out of the market." *– Olaf Heinrich –*

Oberhänsli — Based on legal opinions and statements by several Federal ministries and parties, I am convinced that a ban on mail-order Rx sales is in breach of the constitution and incompatible with European law. Against this background we are astonished that these rulings have not been adequately acknowledged and the intention of a ban has been included in the coalition agreement. We will therefore take all necessary legal and operational steps both in Germany and at the European level in the interest of the patients.

What do the acquisitions of Eurapon and Vitalsana mean for your business?

Heinrich — With those takeovers we demonstrated our active role in the shake-out of the market for the mail-order distribution of non-prescription drugs. This business represents a key pillar in our growth strategy. Eurapon, which has a very entrepreneurial management team, is already gaining market share. We can build on this strategy. With Vitalsana, we secured the last Dutch mail-order pharmacy with a relevant sales volume available on the market, and in doing so we raised the market entry barrier in the Netherlands. The media cooperation with former owner, Ströer, which we entered into at the same time, is enabling us to achieve Germany-wide visibility for the DocMorris brand. Developments make us very confident that we will be able to successfully exploit further market consolidation.

Keyword growth: Which main trends are also driving the business forward?

Oberhänsli — An ageing society which is reliant on drugs, the constantly rising cost pressure in the healthcare sector, as well as increasingly well-informed and aware consumers, will support the growth potential. Furthermore, digitization in the healthcare sector has lagged significantly behind other consumer goods industries. This can be seen in the considerably lower online penetration of the healthcare market.

Where do you see your opportunities with regard to digitization?

Hess — With the further expansion of our digital service portfolio we want to make further contributions to therapy compliance, to improve healthcare provision and to reduce the costs for the healthcare system and the insured persons. The use of smart data is also an important factor.

Heinrich — We expect e-health applications, platform solutions and a digital medications management system to play a key role in the German healthcare system in future. For that reason, DocMorris is developing step-by-step from a drugs retailer into a digital health advisor.

What are the targets for 2018?

Oberhänsli — Growth, growth, growth.

Hess — Expansion of our profitable base, the doctors' segment, and growth in the retail business, including by expanding the cooperative ventures with the insurance companies, Medbase and Migros.

Heinrich — Organic growth, active participation in the market shake-out and integration of the companies we have acquired.

Ziwica — Digitization, new market entries and internationalization should set the pace. The real challenge will be to stay on the ball and to assert our position as leaders.