

HALF-YEAR REPORT

FEBRUARY TO JULY 2019



a PHOENIX company

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THE FIRST HALF-YEAR AT A GLANCE

- Total operating performance and revenue increased again
- Significant increase in profit for the period compared to the prior-year period
- Further reduction in net debt compared to the first half-year 2018/19
- Agreement signed to acquire Thio Pharma Pharmacies in the Netherlands
- Forecast for 2019/20 confirmed

Key figures of PHOENIX Pharmahandel GmbH & Co KG *		1st half-year 2018/19	1st half-year 2019/20
Total operating performance	in EUR m	16,081.9	16,941.8
Revenue	in EUR m	12,565.1	13,325.6
Total income	in EUR m	1,336.9	1,435.6
Adjusted EBITDA	in EUR m	215.9	222.3
EBITDA	in EUR m	197.7	216.9
EBIT	in EUR m	130.5	147.2
Profit after tax	in EUR m	75.5	93.5

		31 July 2018	31 January 2019	31 July 2019
Equity	in EUR m	3,140.2	3,144.8	3,194.9
Equity ratio	in %	34.5	36.2	36.3
Net debt	in EUR m	2,021.2	1,451.2	1,665.2

* 2019/20: excluding IFRS 16

INTERIM GROUP MANAGEMENT REPORT

BUSINESS AND ECONOMIC ENVIRONMENT

Development of the market

The European economy could continue its growth trend in the second quarter of 2019. In the eurozone, seasonally adjusted GDP increased by 1.1% in the second quarter of 2019 compared to the prior year's second quarter. In Germany, the seasonally and calendar-adjusted GDP increased by 0.4% compared to the second quarter of 2018.

Overall, the European pharmaceutical markets continued their moderate growth trend in the second quarter of 2019. The German pharmaceutical market also showed growth. The total turnover of the German wholesale pharmaceutical market grew by 3.8% from January to July 2019 compared to the same period of the prior year. The increase was mainly due to higher prescription pharmaceuticals revenues. Market growths were also noted in various foreign markets of PHOENIX.

In total, PHOENIX continued its positive development in the European market environment.

Acquisitions

In the first half-year of 2019/20, business combinations led to a cash outflow of EUR 23.1m (comparative period: EUR 127.7m). The acquisitions mainly pertained to pharmacies in several countries.

Results of operations

The mandatory initial application of IFRS 16 "Leases" as of 1 February 2019 has a material impact on the consolidated financial statements of PHOENIX. The new standard requires payment obligations from existing operating leases to be discounted and recognised as lease liabilities; at the same time, a right-of-use asset is recognised. As a result, net debt increases. Lease payments in connection with operating leases were previously recognised as operating expenses. IFRS 16 requires recognising depreciation charges on right-of-use assets and interest expenses on lease liabilities. This will increase EBITDA without any attendant change in the economic circumstances. In the statement of cash flows, the principal repayment portion of the lease payments from existing operating leases will reduce cash flow from financing activities and no longer affect cash flow from operating activities. The interest portion of the payments will remain in cash flow from operating activities.

IFRS 16 was applied using the modified retrospective approach. For this reason, prior-year comparative figures have not been restated. To facilitate comparability, the effects from IFRS 16 have been adjusted in the first half-year of 2019/20:

EUR k	1st half-year 2018/19	1st half-year 2019/20 including IFRS 16	Impact of IFRS 16	1st half-year 2019/20 excluding IFRS 16	Change excluding IFRS 16	Change excluding IFRS 16 in %
Revenue	12,565,053	13,323,386	2,178	13,325,564	760,511	6.1
Cost of purchased goods and services	- 11,299,428	- 11,960,260	0	- 11,960,260	- 660,832	5.8
Gross profit	1,265,625	1,363,126	2,178	1,365,304	99,679	7.9
Other operating income	71,249	70,625	- 319	70,306	- 943	- 1.3
Personnel expenses	- 690,217	- 741,323	0	- 741,323	- 51,106	7.4
Other operating expenses	- 449,822	- 403,037	- 74,563	- 477,600	- 27,778	6.2
Result from associates and joint ventures	774	162	0	162	- 612	- 79.1
Results from other investments	94	58	0	58	- 36	
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	197,703	289,611	- 72,704	216,907	19,204	9.7
Amortisation of intangible assets and depreciation of property, plant and equipment	- 67,185	- 134,512	64,776	- 69,736	- 2,551	3.8
Earnings before interest and taxes (EBIT)	130,518	155,099	- 7,928	147,171	16,653	12.8
Financial result	- 17,790	- 31,482	13,404	- 18,078	- 288	1.6
Profit before tax	112,728	123,617	5,476	129,093	16,365	14.5
Income taxes	- 37,200	- 34,118	- 1,511	- 35,629	1,571	- 4.2
Profit for the period	75,528	89,499	3,965	93,464	17,936	23.7

In the first six months of 2019/20, total operating performance, which comprises revenue and handled volume not recognised as revenue but instead charged as a service fee, increased by 5.3% to EUR 16,941.8m. Adjusted for foreign exchange rate effects, total operating performance grew by 5.7%.

Revenue grew by EUR 760.5m (6.1%) to EUR 13,325.6m (comparative period: EUR 12,565.1m). The increase is mainly due to increased revenue in Western Europe, as well as in Eastern Europe as a result of the acquisition in Romania as of 31 July 2018. Adjusted for foreign exchange rate effects, revenue grew by 6.2%.

Gross profit increased by EUR 99.7m to EUR 1,365.3m. The gross profit margin came to 10.2% (comparative period: 10.1%).

Other operating income decreased by EUR 0.9m to EUR 70.3m.

Personnel expenses increased by 7.4% to EUR 741.3m (comparative period: EUR 690.2m). This is mainly due to the impact of collective salary increases, acquisitions, and the growth in business.

Other expenses rose by EUR 27.8m to EUR 477.6m, mainly due to increased transport costs, lease payments, and consulting fees. In relation to revenue, other expenses came to 3.6% (comparative period: 3.6%).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by EUR 19.2m to EUR 216.9m.

An EBITDA figure adjusted for interest from customers, expenses related to ABS and factoring, and other non-recurring effects (adjusted EBITDA) came to EUR 222.3m and is calculated as follows:

EUR k	1st half-year 2018/19	1st half-year 2019/20 including IFRS 16	Impact of IFRS 16	1st half-year 2019/20 excluding IFRS 16	Change excluding IFRS 16	Change excluding IFRS 16 in %
EBITDA	197,703	289,611	-72,704	216,907	19,204	9.7
Interest from customers	4,528	4,381		4,381	-147	-3.2
Factoring fees	741	753		753	12	1.6
Other non-recurring effects	12,910	245		245	-12,665	-98.1
Adjusted EBITDA	215,882	294,990	-72,704	222,286	6,404	3.0

Depreciation and amortisation came to EUR 69.7m and were slightly above the prior year's level due to acquisitions.

The financial result came to EUR -18.1m and was EUR -17.8m in the comparative period.

The effective tax rate in the first half-year of 2019/20 came to 27.6% and was 33.0% in the comparative period.

Profit after tax was EUR 93.5m (comparative period: EUR 75.5m) and increased by 23.7% versus the comparative period.

Net assets

The group's total assets increased by 11.0% to EUR 9,653.1m compared to 31 January 2019 due to the initial application of IFRS 16 and acquisitions. As of 31 July 2019, right-of-use assets of EUR 840.8m (31 January 2019: EUR 0.0m) were recognised. The currency translation difference on the total assets, which is presented in the statement of changes in equity, amounts to EUR – 112.8m (31 January 2019: EUR – 100.6m).

Compared to 31 January 2019, non-current assets increased – excluding IFRS 16 – by EUR 22.7m to EUR 2,998.5m. The increase is particularly related to intangible assets. The intangible assets contain goodwill in the amount of EUR 1,473.4m (31 January 2019: EUR 1,460.3m), which had risen due to acquisitions.

Inventories increased compared to 31 January 2019 by EUR 281.0m to EUR 2,582.1m. Besides acquisition effects, the increase is mainly due to seasonal fluctuation.

Trade receivables increased by 1.5% to EUR 2,590.6m. As of 31 July 2019, receivables of EUR 298.3m (31 January 2019: EUR 302.4m) had been sold under ABS and factoring programmes that are not accounted for in the statement of financial position. Under ABS and factoring programmes that are accounted for only to the extent of the continuing involvement, receivables of EUR 173.3m had been sold as of 31 July 2019 (31 January 2019: EUR 169.2m). The group's continuing involvement came to EUR 8.7m (31 January 2019: EUR 8.5m).

Other current receivables and other current financial assets decreased from EUR 501.1m as of 31 January 2019 to EUR 277.8m and mainly include a purchase price loan to PHOENIX Pharma SE of EUR 147.3m (31 January 2019: EUR 345.0m), loans granted to customers of EUR 43.3m (31 January 2019: EUR 49.4m), as well as receivables from factoring and ABS transactions of EUR 52.5m (31 January 2019: EUR 58.7m).

Other current assets increased from EUR 135.3m as of 31 January 2019 to EUR 190.8m, among others, due to higher prepayments.

The change in cash and cash equivalents is presented in the statement of cash flows.

Financial position

Equity increased – excluding IFRS 16 – by EUR 50.2m compared to 31 January 2019. The equity ratio as of 31 July 2019 came to 36.3% (31 January 2019: 36.2%).

Cashflow from operating activities – excluding IFRS 16 – came to EUR – 353.2m (comparative period: EUR – 83.9m) which was largely affected by a higher increase of EUR 276.6m in working capital versus the comparative period. Cashflow from investing activities came to EUR 102.8m and was EUR – 195.8m in the comparative period. The partial repayment of a purchase price loan granted to PHOENIX Pharma SE of EUR 200.1m had a positive effect. In the previous year, cash flow from investing activities mainly included the acquisition of a pharmaceutical wholesaler and a pharmacy chain in Romania.



See the Consolidated Statement of Cash Flows (p. 14).

Non-current financial liabilities came to EUR 1,033.8m (31 January 2019: EUR 662.3m). This item includes lease liabilities according to IFRS 16 of EUR 672.5m (31 January 2019: EUR 0.0m). Beyond that, non-current financial liabilities contain, among others, bonds of EUR 199.1m (31 January 2019: EUR 497.6m) and promissory note bonds of EUR 149.8m (31 January 2019: EUR 149.7m).

Current financial liabilities came to EUR 1,170.3m (31 January 2019: EUR 543.3m) and include lease liabilities according to IFRS 16 of EUR 192.0m (31 January 2019: EUR 0.0m). Beyond that, current financial liabilities contain, among others, bonds of EUR 299.2m (31 January 2019: EUR 0.0m), liabilities to banks of EUR 324.3m (31 January 2019: EUR 137.5m), liabilities from ABS and factoring agreements in the amount of EUR 202.7m (31 January 2019: EUR 213.6m), as well as other loans amounting to EUR 135.6m (31 January 2019: EUR 116.2m).

According to the calculation below, net debt increased by EUR 214.0m compared to 31 January 2019 to EUR 1,665.2m (excluding IFRS 16).

EUR k	31 Jan. 2019	31 July 2019 including IFRS 16	Impact of IFRS 16	31 July 2019 excluding IFRS 16	Change excluding IFRS 16	Change excluding IFRS 16 in %
+ Financial liabilities (non-current)	662,282	1,033,754	-672,487	361,267	-301,015	-45.5
./ Derivative financial instruments (non-current)	-187	-179		-179	8	-4.3
+ Financial liabilities (current)	543,324	1,170,337	-191,998	978,339	435,015	80.1
./ Derivative financial instruments (current)	-5,733	-2,828		-2,828	2,905	-50.7
./ Cash and cash equivalents	-152,845	-81,900		-81,900	70,945	-46.4
+ Receivables sold in the course of factoring and ABS transactions	463,065	462,936		462,936	-129	0.0
./ Factoring receivables	-24,412	-25,206		-25,206	-794	3.3
./ Receivables from ABS programmes	-34,316	-27,251		-27,251	7,065	-20.6
Net debt	1,451,178	2,529,663	-864,485	1,665,178	214,000	14.7

Trade payables decreased by EUR 84.3m to EUR 3,528.9m.

Overall, PHOENIX was able to underline its position in the first half-year of 2019/20 as a leading health-care provider in Europe.

RISKS AND OPPORTUNITIES

PHOENIX has comprehensive planning, approval, and reporting structures and an early warning system, which we use to identify, assess, and monitor our opportunities and risks. The opportunities and risks of significance to us are presented extensively in our annual report for fiscal year 2018/19.



www.phoenixgroup.eu/en/investor-relations/annual-report-201819/

The risks and opportunities presented in that report are still essentially relevant.

FORECAST

We anticipate a stable economic environment in 2019, with GDP in Germany and the eurozone expected to grow by around 1%.

We expect the pharmaceutical markets in Europe to record market growth of around 2.0% overall in 2019. In Germany, our largest market, we anticipate market growth of approximately 2.2%.

For fiscal year 2019/20, PHOENIX expects to further expand its market position in Europe through organic growth and acquisitions and thereby increase revenue slightly above the level of growth on the European pharmaceutical markets. We expect revenue growth in nearly all markets in which we are present.

For fiscal year 2019/20, we expect EBITDA to be up slightly on the level for 2018/19 (adjusted for effects from the first-time application of IFRS 16).

We expect a slight increase in the equity ratio (adjusted for effects from the first-time application of IFRS 16).



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

for the first half-year of 2019/20

EUR k	2nd quarter 2018/19	2nd quarter 2019/20	1st half-year 2018/19	1st half-year 2019/20
Revenue	6,370,769	6,765,233	12,565,053	13,323,386
Cost of purchased goods and services	- 5,723,711	- 6,073,313	- 11,299,428	- 11,960,260
Gross profit	647,058	691,920	1,265,625	1,363,126
Other operating income	35,892	33,754	71,249	70,625
Personnel expenses	- 346,570	- 372,946	- 690,217	- 741,323
Other operating expenses	- 229,043	- 204,885	- 449,822	- 403,037
Results from associates and joint ventures	397	263	774	162
Result from other investments	94	0	94	58
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	107,828	148,106	197,703	289,611
Amortisation of intangible assets and depreciation of property, plant and equipment	- 33,739	- 67,852	- 67,185	- 134,512
Earnings before interest and taxes (EBIT)	74,089	80,254	130,518	155,099
Interest income	4,112	3,673	6,777	8,265
Interest expenses	- 12,478	- 19,065	- 24,086	- 37,777
Other financial result	857	- 374	- 481	- 1,970
Financial result	- 7,509	- 15,766	- 17,790	- 31,482
Profit before tax	66,580	64,488	112,728	123,617
Income taxes	- 22,340	- 17,798	- 37,200	- 34,118
Profit for the period	44,240	46,690	75,528	89,499
thereof attributable to non-controlling interests	10,605	9,898	18,466	18,221
thereof attributable to owners of the parent company	33,635	36,792	57,062	71,278

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the first half-year of 2019/20

EUR k	2nd quarter 2018/19	2nd quarter 2019/20	1st half-year 2018/19	1st half-year 2019/20
Profit after tax	44,240	46,690	75,528	89,499
Items not reclassified to profit or loss				
Remeasurement of defined benefit plans	273	-7,242	-544	-12,913
Items that may be subsequently reclassified to profit or loss as a result				
Currency translation differences	-5,743	-14,109	-7,095	-12,444
Components of other comprehensive income, net of tax	-5,470	-21,351	-7,639	-25,357
Total comprehensive income	38,770	25,339	67,889	64,142
thereof attributable to non-controlling interests	10,382	9,750	18,128	17,973
thereof attributable to equity holders of the parent	28,388	15,589	49,761	46,169

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 July 2019

ASSETS

EUR k	31 Jan. 2019	31 July 2019
Non-current assets		
Intangible assets	1,837,805	1,864,217
Property, plant and equipment	966,580	1,782,486
Investment property	10,042	10,058
Investments in associates and joint ventures	7,220	5,877
Trade receivables	309	889
Other financial assets	88,050	122,387
Deferred tax assets	65,811	75,021
	2,975,817	3,860,935
Current assets		
Inventories	2,301,048	2,582,083
Trade receivables	2,552,315	2,589,739
Income tax receivables	35,970	38,336
Other receivables and other current financial assets	501,061	277,761
Other assets	135,279	190,777
Cash and cash equivalents	152,845	81,900
	5,678,518	5,760,596
Non-current assets held for sale	39,417	31,545
Total assets	8,693,752	9,653,076

EQUITY AND LIABILITIES

EUR k	31 Jan. 2019	31 July 2019
Equity		
Unlimited and limited partners' capital	1,000,000	1,000,000
Reserves	2,136,450	2,209,136
Accumulated other comprehensive income	- 260,448	- 285,557
Equity attributable to partners	2,876,002	2,923,579
Non-controlling interests	268,750	268,419
	3,144,752	3,191,998
Non-current liabilities		
Financial liabilities	662,282	1,033,754
Trade payables	0	428
Provisions for pensions and similar obligations	249,589	259,073
Other non-current provisions	2,481	1,758
Deferred tax liabilities	116,460	117,478
Other non-current liabilities	1,452	1,571
	1,032,264	1,414,062
Current liabilities		
Financial liabilities	543,324	1,170,337
Trade payables	3,613,235	3,528,479
Other provisions	37,271	37,989
Income tax liabilities	32,206	34,322
Other liabilities	290,700	275,889
	4,516,736	5,047,016
Liabilities directly associated with assets held for sale	0	0
Total equity and liabilities	8,693,752	9,653,076

CONSOLIDATED STATEMENT OF CASH FLOWS

for the first half-year of 2019/20

EUR k	31 July 2018	31 July 2019
Profit after tax	75,528	89,499
Income taxes	37,200	34,118
Profit before income taxes	112,728	123,617
Adjustments for:		
Interest expenses and interest income	17,309	29,512
Amortisation/depreciation/impairment/write-ups of intangible assets, property, plant and equipment and investment property	67,185	134,512
Result from associates and other investments	-868	-220
Net result from the disposal of assets related to investing activities	5,226	-1,840
Other non-cash expense and income	56,689	51,058
	258,269	336,639
Interest paid	-30,421	-40,774
Interest received	6,475	5,639
Income taxes paid	-35,615	-35,521
Dividends received	217	183
Result before change in assets and liabilities	198,925	266,166
Changes in assets and liabilities, net of effects of changes in the scope of consolidation and other non-cash transactions:		
Change in non-current provisions	-15,230	-16,286
Result before change in operating assets and liabilities	183,695	249,880
Change in inventories	-180,513	-294,972
Change in trade receivables	40,775	-77,130
Change in trade payables	-36,574	-62,675
	-176,312	-434,777
Change in other assets and liabilities not related to investing or financing activities	-91,302	-109,408
Change in operating assets and liabilities	-267,614	-544,185
Cash flow from operating activities	-83,919	-294,305
Acquisition of consolidated companies and business units, net of cash acquired	-127,739	-23,079
Capital expenditures for intangible assets, property, plant and equipment, and investment property	-69,000	-85,810
Investment in other financial assets and non-current assets	-1,190	-2,500
Cash outflows for investments	-197,929	-111,389

EUR k	31 July 2018	31 July 2019
Cash received from the sale of consolidated companies and business units, net of cash disposed	64	2,278
Cash received from disposal of intangible assets, property, plant and equipment and investment property	1,609	8,551
Proceeds from other financial assets and non-current assets	500	203,363
Cash inflows from realised investments and divestments	2,173	214,192
Cash flow from investing activities	-195,756	102,803
Cash available for financing activities	-279,675	-191,502
Capital contribution from/repayment to non-controlling interests	0	642
Acquisition of additional shares in already consolidated subsidiaries	-3,382	-1,252
Proceeds from disposal of interests in subsidiaries without loss of control	0	324
Dividends paid to non-controlling interests	-9,996	-15,239
Proceeds from bond issuance and bank loans	120,523	162,958
Repayment of bonds and bank loans	-20,155	-41,917
Change in bank loans which have a maturity period of 3 months or less	148,191	65,482
Proceeds from the issue of loans from shareholders in the parent company	60,000	0
Repayment of loans from shareholders in the parent company	-60,000	0
Proceeds from the issue of loans from related parties	200,000	111,241
Repayment of loans from related parties	-200,000	-100,220
Change in ABS/Factoring	30,876	-2,879
Change in finance lease	-295	-58,891
Change in other financial liabilities	-681	-264
Cash flow from financing activities	265,081	119,985
Changes in cash and cash equivalents	-14,594	-71,517
Effect of exchange rate changes on cash and cash equivalents	-313	572
Cash and cash equivalents at the beginning of the period	104,415	152,845
Cash and cash equivalents at the end of the period	89,508	81,900
Less cash and cash equivalents included in assets held for sale	0	0
Cash and cash equivalents presented in the balance sheet at the end of the period	89,508	81,900

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the first half-year of 2019/20

EUR k	Unlimited and limited partners' capital	Reserves	Currency translation differences	IAS 39 available-for sale financial assets	Remeasurement of defined benefit plans	Equity attributable to shareholders of the parent	Non-controlling interests	Total equity
1 February 2018	1,000,000	1,721,560	-96,269	12,511	-139,806	2,497,996	341,973	2,839,969
Initial application of IFRS 9		-12,110		-12,511		-24,621	-1,385	-26,006
1 February 2018 adjusted	1,000,000	1,709,450	-96,269	0	-139,806	2,473,375	340,588	2,813,963
Profit after tax		57,062				57,062	18,466	75,528
Accumulated other comprehensive income			-6,765		-536	-7,301	-338	-7,639
Total comprehensive income after taxes		57,062	-6,765		-536	49,761	18,128	67,889
Changes in the interest of consolidated companies		-1,356				-1,356	-1,234	-2,590
Sale of own shares		268,452			-247	268,205	-1,675	266,530
Dividends						0	-12,738	-12,738
Other transactions with owners		7,011				7,011	0	7,011
Other changes in equity		-1,229				-1,229	1,380	151
31 July 2018	1,000,000	2,039,390	-103,034	0	-140,589	2,795,767	344,449	3,140,216
1 February 2019	1,000,000	2,136,450	-100,617	0	-159,831	2,876,002	268,750	3,144,752
Initial application of IFRS 16		1,426				1,426	-408	1,018
1 February 2019 adjusted	1,000,000	2,137,876	-100,617	0	-159,831	2,877,428	268,342	3,145,770
Profit after tax		71,278				71,278	18,221	89,499
Accumulated other comprehensive income			-12,196		-12,913	-25,109	-248	-25,357
Total comprehensive income, net of tax		71,278	-12,196		-12,913	46,169	17,973	64,142
Changes in the interest of consolidated companies		-445				-445	-855	-1,300
Dividends						0	-18,266	-18,266
Other changes in equity		427				427	1,225	1,652
31 July 2019	1,000,000	2,209,136	-112,813	0	-172,744	2,923,579	268,419	3,191,998

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

as of 31 July 2019

The company

PHOENIX Pharmahandel GmbH & Co KG, Mannheim, ("PHOENIX") is a European healthcare provider and pharmaceuticals distribution group. PHOENIX has business activities in 27 European countries. In several countries, PHOENIX also operates its own pharmacy chains. The registered office is located in Mannheim, Germany.

Basis of presentation

The interim condensed consolidated financial statements of PHOENIX as of 31 July 2019 are prepared on the basis of IAS 34 "Interim Financial Reporting", observing all International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), London, and mandatory in the EU as of 31 July 2019, as well as all mandatory interpretations of the International Financial Reporting Standards Interpretation Committee (IFRIC).

The interim condensed consolidated financial statements as of 31 July 2019 of PHOENIX were released for publication by the management of PHOENIX Pharmahandel GmbH & Co KG on 11 September 2019.

Significant accounting policies

The accounting policies used to prepare the interim condensed consolidated financial statements are – except where financial reporting standards have been applied for the first time in 2019/20 – essentially consistent with those used in the consolidated financial statements as of 31 January 2019. Standards and interpretations that are applicable since 1 February 2019 for the first time had the following impacts on the interim financial statements:

IFRS 16 Leases

IFRS 16 introduces a single accounting model for leases. Lessees are required to recognise assets for the right to use as well as leasing liabilities for the outstanding lease payments for all lease contracts. Hence, lessees are no longer required to classify their leases as either finance leases or operating leases. According to IFRS 16, a lessee may elect, for leases with a lease term of twelve months or less (short-term leases) and for leases for which the underlying asset is of low value, not to recognise a right-of-use asset and a lease liability. PHOENIX applies both recognition exemptions. In this respect, the lease payments will continue to be recognised in the income statement in the same way as before.

The lease liability is measured on the basis of the outstanding lease payments, discounted using the incremental borrowing rate. The right-of-use asset is basically measured at the amount of the lease liability plus any initial direct costs. During the lease term, the right-of-use asset is depreciated, and the lease liability is adjusted using the effective interest method and taking the lease payments into account. The right-of-use assets are recognised in the balance sheet under those items in which the assets underlying the lease would have been reported if they were owned by PHOENIX.

Lessor accounting essentially follows the previous rules of IAS 17. Lessors will still be required to continue to classify their leases as finance leases or operating leases on the basis of the risks and rewards incidental to ownership of the leased asset.

Due to the change in recognition of leases which have previously been classified as operating leases, EBITDA increased in the first half-year of 2019/20 by EUR 72,704k, EBIT increased by EUR 7,928k, and the financial result decreased by EUR 13,404k. Total impact on profit before taxes amounts to EUR – 5,476k.

PHOENIX accounts for leases in accordance with IFRS 16 using the modified retrospective method, for the first time as of 1 February 2019. Prior-year periods have not been restated. The following practical expedients of IFRS 16 have been applied:

- For leases previously classified as operating leases according to IAS 17, the lease liability is measured at the present value of the outstanding lease payments, discounted by the incremental borrowing rate at 1 February 2019. The respective right-of-use asset is generally recognised at an amount equal to the lease liability.
- An impairment test is not performed. Instead, a right-of-use asset is adjusted by the amount of any provision for onerous lease contracts recognised as at 31 January 2019.
- Leases for which the lease term ends at the latest on 31 January 2020 are generally recognised as short-term leases, regardless of their original lease term.
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
- If a lease contains a termination or extension option, current knowledge is given due consideration when determining the lease term.

The initial recognition of right-of-use assets and lease liabilities, as well as lease receivables for sub-leases to be classified as finance leases, had the following effects as of 1 February 2019:

- Right-of-use assets of EUR 857,159k were recognised in the opening balance sheet under property, plant and equipment.
- Lease liabilities of EUR 876,751k were recognised in the opening balance sheet and are reported under non-current and current financial liabilities.
- Non-current and current lease receivables of EUR 22,705k were recognised in the opening balance sheet for sub-leases to be classified as finance leases.
- The effect of initial application of IFRS 16 within equity was EUR 1,018k net of taxes.

Business combinations

The business combinations carried out in the first six months of 2019/20 are explained below. Purchase accounting is performed in accordance with the acquisition method pursuant to IFRS 3 "Business Combinations".

In fiscal year 2019/20, the cumulative profit after tax of the acquirees came to EUR 358k and revenue to EUR 12,404k. Assuming that the acquisition date coincides with the beginning of the reporting period for all business combinations, accumulated revenue for the period came to EUR 15,843k. Assuming that the acquisition date coincides with the beginning of the reporting period for all business combinations, the accumulated profit after tax came to EUR 2,494k.

The table below shows a summary of the fair values of acquisitions:

Fair value recognised upon acquisition

EUR k	Other
Cash and cash equivalents	13,477
Equity instruments	0
Acquisition-date fair value of previously held equity interest	1,331
Total cost	14,808
Intangible assets	1
Other non-current assets	4,214
Inventories	2,638
Trade receivables	2,384
Cash and cash equivalents	1,211
Other current assets	1,162
Non-current liabilities	6,828
Current liabilities	5,024
Net assets	-242
Non-controlling interests	86
Net assets acquired	-328
Bargain purchase	0
Goodwill	15,136

Other business combinations

In the first six months of 2019/20, the group acquired further pharmacies and a service company that are individually immaterial.

The goodwill arising on those acquisitions was allocated to the cash-generating units Norway (EUR 4,532k), Bosnia, (EUR 2,983k), Serbia (EUR 2,723k), Netherlands (EUR 2,559k), Slovakia (EUR 1,316k) and Sweden (EUR 1,023k) and is managed in the local functional currencies (NOK, BAM, RSD, EUR, and SEK).

Non-controlling interests were recognised at the proportionate identifiable net assets in the acquirees.

The purchase price allocation takes into account all the information about facts and circumstances as of the acquisition date that was available until the preparation of these financial statements. If further facts or circumstances become known within the 12-month measurement period in accordance with IFRS 3, the purchase price allocation is adjusted accordingly.

Revenue

The table below shows a breakdown of revenue according to IFRS 15 based on the type of goods and services:

1st half-year 2018/19	Trade revenue	Revenue from commissions	Distribution fees and consignment warehouse fees	Other logistics services	Other services	Other revenue	Total revenue according to IFRS 15
EUR k							
Gross revenue	13,010,799	50,431	37,888	15,897	57,655	62,106	13,234,776
Sales deductions	-669,709	0	-9	0	0	-5	-669,723
Revenue	12,341,090	50,431	37,879	15,897	57,655	62,101	12,565,053
thereof satisfaction of performance obligation at a point in time	12,341,090	46,554	33,775	14,377	57,644	46,501	12,539,941
thereof satisfaction of performance obligation over time	0	3,877	4,104	1,520	11	15,600	25,112

1st half-year 2019/20	Trade revenue	Revenue from commissions	Distribution fees and consignment warehouse fees	Other logistics services	Other services	Other revenue	Total revenue according to IFRS 15
EUR k							
Gross revenue	13,768,847	50,207	40,333	17,954	64,214	63,030	14,004,585
Sales deductions	-690,439	0	-9	0	0	-6	-690,454
Revenue	13,078,408	50,207	40,324	17,954	64,214	63,024	13,314,131
thereof satisfaction of performance obligation at a point in time	13,078,408	46,608	35,725	16,609	64,214	46,425	13,287,989
thereof satisfaction of performance obligation over time	0	3,599	4,599	1,345	0	16,599	26,142

Total revenue for the first six months 2019/20 amounts to EUR 13,323,386k and includes revenue from leasing business according to IFRS 16 of EUR 9,255k.

Other operating expenses

Other operating expenses contain expenses in connection with ABS and factoring programmes of EUR 753k (comparative period: EUR 741k).

Financial result

EUR k	1st half-year 2018/19	1st half-year 2019/20
Interest income	6,777	8,265
Interest expenses	- 24,086	- 37,777
Other financial result	- 481	- 1,970
Financial result	- 17,790	- 31,482

Interest income includes interest from customers of EUR 4,381k (comparative period: EUR 4,528k).

The other financial result includes exchange rate gains of EUR 20,733k (comparative period: EUR 17,718k) and exchange rate losses of EUR 26,248k (comparative period: EUR 26,771k). Changes in the market value of derivatives gave rise to income of EUR 33,471k (comparative period: EUR 28,404k) and expenses of EUR 30,027k (comparative period: EUR 19,905k).

Other assets and other liabilities

EUR k	31 Jan. 2019	31 July 2019
Prepayments	70,015	99,988
Tax claims – VAT and other taxes	46,036	62,266
Sundry other assets	19,228	28,523
Other assets	135,279	190,777

EUR k	31 Jan. 2019	31 July 2019
VAT and other tax liabilities	71,895	79,705
Personnel liabilities	154,835	135,809
Liabilities relating to social security/similar charges	32,013	24,647
Contract Liabilities (IFRS 15)	16,009	22,036
Sundry other liabilities	15,948	13,692
Other liabilities	290,700	275,889

Other financial assets and other financial liabilities

The table below presents the non-current financial assets:

EUR k	31 Jan. 2019	31 July 2019
Trade receivables, non-current	309	889
Other financial assets		
Equity and debt instruments	51,060	64,135
Other loans	25,951	26,987
Lease receivables	10,699	30,927
Other non-current financial assets	340	338
	88,050	122,387

The table below presents the current financial assets:

EUR k	31 Jan. 2019	31 July 2019
Trade receivables	2,552,315	2,589,739
Other financial assets		
Loans to and receivables from associates or related parties	1,660	609
Other loans	394,335	190,591
Derivative financial instruments	8,289	7,311
Lease receivables	2,800	8,418
Other current financial assets	93,977	70,832
	501,061	277,761

The receivables from factoring and ABS transactions as of 31 July 2019 are presented below:

EUR k	31 Jan. 2019	31 July 2019
Transferred but only partly derecognised receivables		
Receivables not derecognised in accordance with IFRS 9		
Volume of receivables	234,224	230,033
Financial liabilities	204,433	193,384
Continuing involvement		
Volume of receivables	169,164	173,313
Continuing involvement	8,514	8,688
Financial liabilities	9,174	9,358
Transferred and fully derecognised receivables		
Volume of receivables	302,415	298,311
Retentions of title	58,728	52,457

At the reporting date, financial liabilities were divided into non-current and current liabilities as follows:

EUR k	31 Jan. 2019	31 July 2019
Financial liabilities (non-current)		
Liabilities to banks	149,708	149,832
Bonds	497,631	199,076
Loans	252	253
Lease liabilities	2,510	672,548
Other financial liabilities	12,181	12,045
	662,282	1,033,754

EUR k	31 Jan. 2019	31 July 2019
Financial liabilities (current)		
Liabilities to banks	137,482	324,341
Bonds	0	299,224
Loans	116,242	135,648
Liabilities to associates and related parties	541	0
ABS and factoring liabilities	213,607	202,742
Lease liabilities	6,581	192,278
Other financial liabilities	68,871	16,104
	543,324	1,170,337

In connection with the loan agreements, it was agreed to comply with certain financial covenants, all of which were met in the first half-year of 2019/20.

Other financial liabilities (non-current) contain non-current derivative financial instruments of EUR 179k (31 January 2019: EUR 187k).

Other financial liabilities (current) contain current derivative financial instruments of EUR 2,828k (31 January 2019: EUR 5,733k).

Information on financial instruments

The items in the statement of financial position for financial instruments are assigned to classes and categories.

The carrying amounts for each category and class of financial assets, and the fair values for each class are presented in the following table:

31 July 2019	Category pursuant to IFRS 9					
	At amortised costs	At fair value through profit and loss	No category according to IFRS 9	Outside the scope of IFRS 7	Carrying amount	Fair value
EUR k						
Assets						
Equity and debt instruments	0	64,135	0	0	64,135	64,135
Trade receivables	2,360,595	230,033	0	0	2,590,628	2,590,628
Loans to and receivables from associates or related parties	609	0	0	0	609	609
Other loans	217,578	0	0	0	217,578	218,709
Derivative financial assets without hedge accounting	0	7,311	0	0	7,311	7,311
Other financial assets	71,170	0	0	0	71,170	71,170
Lease receivables	0	0	39,345	0	39,345	n/a
Cash and cash equivalents	81,900	0	0	0	81,900	81,900

31 January 2019	Category pursuant to IFRS 9					
	At amortised costs	At fair value through profit and loss	No category according to IFRS 9	Outside the scope of IFRS 7	Carrying amount	Fair value
EUR k						
Assets						
Equity and debt instruments	0	51,060	0	0	51,060	51,060
Trade receivables	2,318,400	234,224	0	0	2,552,624	2,552,624
Loans to and receivables from associates or related parties	1,660	0	0	0	1,660	1,660
Other loans	420,286	0	0	0	420,286	421,403
Derivative financial assets without hedge accounting	0	8,289	0	0	8,289	8,289
Other financial assets	94,317	0	0	0	94,317	94,317
Lease receivables	0	0	13,499	0	13,499	n/a
Cash and cash equivalents	152,845	0	0	0	152,845	152,845

Equity and debt instruments primarily contain shares in unlisted entities and participations in limited partnerships. Shares in listed entities are measured at the quoted price determined as of the reporting date. For other equity and debt instruments, the fair value is determined using a multiplier method (revenue multiple, level 3). This method uses individually derived multipliers between 0.54 and 1.39 (31 January 2019: between 0.54 and 1.39). A 10% increase in the multipliers would increase the value by EUR 5,299k (31 January 2019: EUR 5,299k); a 10% decrease in the multipliers would decrease the value by EUR 5,300k (31 January 2019: EUR 5,300k).

Derivatives are recognised at their fair values (level 2).

Due to the short-term maturities of cash and cash equivalents, trade receivables, and other current financial assets, their carrying amounts generally approximate the fair values at the reporting date (level 2).

The fair value of loans to and receivables from associates or related entities, other loans, held-to-maturity financial assets and other non-current financial assets due after more than one year correspond to the net present value of the payments related to the assets based on the current interest rate parameters and yield curves (level 2).

The carrying amounts for each category and class of financial liabilities and the fair values for each class are presented in the following table:

31 July 2019	Category pursuant to IFRS 9					
	At amortised costs	At fair value through profit and loss	No category according to IFRS 9	Outside the scope of IFRS 7	Carrying amount	Fair value
EUR k						
Financial liabilities						
Liabilities to banks	474,173	0	0	0	474,173	474,425
Bonds	498,300	0	0	0	498,300	520,388
Loans	135,901	0	0	0	135,901	135,901
Trade payables	3,528,907	0	0	0	3,528,907	3,528,907
Liabilities to associates and related parties	0	0	0	0	0	0
ABS and factoring liabilities	202,742	0	0	0	202,742	202,742
Other financial liabilities at cost	22,346	0	0	0	22,346	22,346
Other financial liabilities at fair value	0	2,796	0	0	2,796	2,796
Lease liabilities	0	0	864,826	0	864,826	n/a
Derivative financial liabilities without hedge accounting	0	3,007	0	0	3,007	3,007

31 January 2019	Category pursuant to IFRS 9					
	At amortised costs	At fair value through profit and loss	No category according to IFRS 9	Outside the scope of IFRS 7	Carrying amount	Fair value
EUR k						
Financial liabilities						
Liabilities to banks	287,190	0	0	0	287,190	287,569
Bonds	497,631	0	0	0	497,631	520,834
Loans	116,494	0	0	0	116,494	116,494
Trade payables	3,613,235	0	0	0	3,613,235	3,613,235
Liabilities to associates and related parties	541	0	0	0	541	541
ABS and factoring liabilities	213,607	0	0	0	213,607	213,607
Other financial liabilities at cost	68,125	0	0	0	68,125	68,125
Other financial liabilities at fair value	0	7,007	0	0	7,007	7,007
Lease liabilities	0	0	9,091	0	9,091	n/a
Derivative financial liabilities without hedge accounting	0	5,920	0	0	5,920	5,920

The fair value of the bonds is the nominal value multiplied by the quoted price as of the reporting date (level 1).

Derivatives are recognised at their fair values (level 2).

Due to the short-term maturities of trade payables and other current financial liabilities, their carrying amounts generally approximate the fair values at the reporting date (level 2).

Fair value hierarchy of financial instruments

PHOENIX applies the following fair value hierarchy to define and present its financial instruments measured at fair value:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Techniques that use inputs that are not based on observable market data.

Financial instruments measured at fair value				
EUR k	Level 1	Level 2	Level 3	Total
31 July 2019				
Equity and debt instruments	0	0	64,135	64,135
Derivative financial assets without hedge accounting	0	7,311	0	7,311
Derivative financial liabilities without hedge accounting	0	3,007	0	3,007
Other financial liabilities	0	0	2,796	2,796

Financial instruments measured at fair value				
EUR k	Level 1	Level 2	Level 3	Total
31 January 2019				
Equity and debt instruments	0	0	51,060	51,060
Derivative financial assets without hedge accounting	0	8,289	0	8,289
Derivative financial liabilities without hedge accounting	0	5,920	0	5,920
Other financial liabilities	0	0	7,007	7,007

The following table shows the reconciliation of the fair value based on level 3.

EUR k	Equity and debt instruments	Other financial liabilities
1 February 2019	51,060	7,007
Purchase	11,105	0
Sale of shares	- 707	0
New measurements (through profit and loss)	- 4	
Issues	2,685	0
Acquisitions	0	0
Remeasurement of contingent purchase price obligations (through profit or loss)	0	0
Payments due to acquisitions	0	- 4,215
Other	- 4	4
31 July 2019	64,135	2,796

Contingent liabilities

As of 31 July 2019, PHOENIX recorded contingent liabilities for guarantees of EUR 85,578k (31 January 2019: EUR 86,258k).

Notes to the statement of cash flows

EUR k	31 Jan. 2019	31 July 2019
Restricted cash		
Cash and cash equivalents at the end of the period	152,845	81,900
thereof restricted		
due to security deposits	9,050	3,789
due to restrictions placed upon foreign subsidiaries	17,884	11,027

Related party disclosures

Related parties granted PHOENIX in the first three months of 2019/20 loans amounting to EUR 100,000k, which were all fully repaid during the reporting period and interest expenses of EUR 37k were incurred.

Due to the initial application of IFRS 16, lease liabilities to related parties of EUR 91,326k have been recognised and interest expenses of EUR 1,028k were incurred.

An amount of EUR 200,100k of the purchase price loan granted to PHOENIX Pharma SE (31 January 2019: EUR 344,984k) was redeemed during the reporting period. Interest income of EUR 2,092k was recognised until now.

Beyond that, the business relationships with related parties presented in the consolidated financial statements as of 31 January 2019 remained essentially unchanged in the first half-year of 2019/20.

Subsequent events

In July 2019, the PHOENIX signed an agreement to acquire Thio Pharma Pharmacies in the Netherlands. The agreement is still subject to the approval of the responsible competition authority.

Mannheim, 11 September 2019

The Management Board of the unlimited partner
PHOENIX Verwaltungs GmbH

FINANCIAL CALENDAR 2019

Please consult our calendar for the most important announcement dates:

16 December Quarterly report February to October 2019

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