

Notes to the Group annual financial statements

1 ACQUISITION OF BUSINESSES

1.1 GENOP HOLDINGS PROPRIETARY LIMITED (GENOP)

On 1 January 2018, Adcock Ingram Healthcare Proprietary Limited acquired 100% of Genop, a highly specialised instrument, surgical and pharmaceutical products company focused on the ophthalmic, optometry, skincare, aesthetic and plastic surgery segments in Southern Africa. Genop owns and markets the well-known Epi-max branded range of consumer products.

The fair value of the identifiable assets as at the date of acquisition was:

	2018 R'000
Assets	
Inventories	87 003
Trade and other receivables	89 383
Property, plant and equipment	18 291
Marketing-related intangible assets	121 385
Cash and cash equivalents	9 082
Taxation receivable	1 579
	326 723
Liabilities	
Trade and other payables	99 602
Short-term borrowings	24 297
Deferred tax	27 622
Provisions	2 255
	153 776
Total identifiable net assets at fair value	172 947
Goodwill arising on acquisition	163 758
Purchase consideration	336 705
Net cash acquired with the business	(9 082)
Net cash consideration	327 623
The fair value of the trade receivables equals the net amount of trade receivables and amounts to R74.3 million. Market-related intangible assets relate to Epi-Max brand. Epi-Max was fair valued, at acquisition, from R11.7 million to R120 million which gave rise to a deferred tax liability of R30.3 million. The royalty relief methodology was used to determine the valuation, by applying a 9% royalty rate and market related discount rate. Goodwill represents the difference between the purchase consideration and the fair value of the net assets acquired as there are no further separately identifiable intangible assets. The significant factors that contributed to the recognition of goodwill include, but are not limited to the acquisition of a specialised and quality pharmaceutical business with a management team with proven experience, knowledge, skills and track record in their field. From the date of acquisition, Genop contributed R223.8 million towards revenue and reported a profit before income tax of R6.2 million. If the Genop acquisition had taken place at the beginning of the reporting period, the revenue would have been R452.3 million and profit before income tax would have been R24.5 million.	
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(5 662)
Net cash acquired with the business (included in cash flows from investing activities)	9 082

Transaction costs of R5.7 million have been expensed and are included in non-trading expenses.

Notes to the Group annual financial statements continued

1 ACQUISITION OF BUSINESSES (continued)

1.2 VIRTUAL LOGISTICS PROPRIETARY LIMITED (VIRTUAL)

On 1 April 2017, Adcock Ingram Healthcare Proprietary Limited acquired 100% of the shareholding of Virtual, a national fine distribution company. The Group acquired Virtual as it complements the Company's reach and capacity, allowing for improved service levels to customers.

2017
R'000

The fair value of the identifiable assets as at the date of acquisition was:

Assets

Trade and other receivables	16 485
Property, plant and equipment	5 288
Intangible assets	2 880
Taxation receivable	462
Deferred tax	204
Inventories	94
	25 413

Liabilities

Trade and other payables	11 015
Bank overdraft	2 275
Short-term borrowings	1 198
Long-term borrowings	920
	15 408

Total identifiable net assets at fair value	10 005
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Goodwill arising on acquisition	5 595
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Purchase consideration	15 600
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Deferred consideration	(8 000)
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Net bank overdraft acquired with the business	2 275
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Net cash consideration	9 875
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The fair value of the trade receivables equalled the gross amount of trade receivables and amounted to R16.1 million. None of the trade receivables were impaired and it was expected that the full contractual amounts could be collected.

Goodwill represented the difference between the purchase consideration and the fair value of the net assets acquired as there were no further separately identifiable intangible assets. The significant factors that contributed to the recognition of goodwill include, but were not limited to, the establishment of a fine distribution network, expanding the Group's national footprint.

During the previous financial year, Virtual contributed R21.7 million towards revenue and reported a profit before income tax of R0.9 million.

If the Virtual acquisition took place at the start of the previous financial year, the revenue would have been R84.9 million and profit before income tax would have been R3.1 million.

Analysis of cash flows on acquisition

Transaction costs of the acquisition (included in cash flows from operating activities)	(1 467)
Net bank overdraft acquired with the business (included in cash flows from investing activities)	(2 275)

Transaction costs of R1.5 million were expensed and were included in non-trading expenses.

A payment of R8.0 million of the purchase price, which was fully provided for in the previous financial year, was deferred and subject to the achievement of profit targets. During the 2018 financial year the deferred amount was paid.