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HOCHDORF Group press release: Annual results for 2016

HOCHDORF posts record earnings in 2016

Hochdorf, 13 March 2017 – **The HOCHDORF Group significantly increased its earnings in the 2016 business year. With gross sales revenue at the previous year's level of CHF 551.5 m, the Group achieved record levels of EBITDA and EBIT, at CHF 33.4 m and CHF 22.5 m, respectively. Taking into account the major capital investments, the Board of Directors is applying to the Annual General Meeting for a slight increase in the dividend, from CHF 3.70 to CHF 3.80 per registered share, payable from capital investment reserves.**

In the 2016 business year, the HOCHDORF Group sold products totalling 237,054 tonnes (-2.4% compared to previous year). This generated gross sales revenue at the previous year's level of CHF 551.5 m (PY CHF 551.2 m). The Group processed 741,769 tonnes of milk, cream, whey and milk permeate (PY 761,240 tonnes; -2.6%). This decline is explained partly by the difficult market situation in the Dairy Ingredients area, and partly by an unfavourable ratio of raw material purchasing costs to the market price for selling our Dairy Ingredients products in some cases. The fact that gross sales revenue was nevertheless generated at the previous year's level is due to the sharp rise in turnover in the Baby Care area.

Record figures for EBITDA and EBIT

At 25.2%, the gross profit in percentage terms was higher than in the previous year (23.9%). More important than this, however, is the further nominal rise in gross profit to CHF 136.8 m (PY 130.1 m; +5.1%). Personnel expenses were up on the previous year, largely due to the higher staffing levels required. The higher operating costs year-on-year are due to the higher cost of premises and logistics, together with higher sales commissions. All in all, however, the targets set for 2016 were largely met.

The HOCHDORF Group achieved an EBITDA of CHF 33.4 m, setting a new record (PY CHF 30.5 m; +9.5%). EBIT also reached a new peak at CHF 22.5 m (PY CHF 20.1 m; +11.5%). These figures are very satisfactory for a company that operates for the most part in the business-to-business segment of the food industry. The Swiss business made the main contribution to the encouraging result. Due to their product lines, the foreign plants felt the harsher wind of the international milk market. Compared with the rest of the sector, we have coped well with the demanding situation in the Dairy Ingredients market. At CHF 19.4 m, consolidated net income was also a record figure (PY CHF 13.0 m).

The good earnings figures would not have been achievable without the organisational and structural changes introduced in 2014. The path chosen at that time is proving to be right for the HOCHDORF Group, with its focus on the three divisions, with some of its own logistics on site in Sulgen, with the adjustment to the product range and various other measures.

Cash flow and financing

In comparison with the previous year, cash flow from operating activities has risen from CHF 19.0 m to CHF 24.2 m. Earned capital also increased from CHF 24.9 m to CHF 32.2 m, the main reason being the improvement in the operating business and in the financial result. In 2016, the HOCHDORF Group invested a total of CHF 43.2 m. As a result of the high level of investments, the free cash flow was negative as expected, at CHF -33.5 m. Due to the investments in expanding capacity, HOCHDORF is also expecting negative free cash flow in the current business year.

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At 31/12/2016, net borrowing stood at CHF 213.5 m (PY: CHF 21.3 m). The main reason for this sharp rise is the outstanding purchase price owed for acquiring the Pharmalys companies. The large-scale investments also contributed to the increase. This figure should return to normal on conversion of the mandatory convertible bond to be issued at the end of March 2017. The equity ratio has been reduced to 10.8% in comparison with the end of 2015 (56.6%). This is due to the offsetting of goodwill from the acquisition of the Pharmalys companies directly against equity. This figure will be balanced again as at 31 March 2017, since the mandatory convertible bond can be counted in full as equity. The HOCHDORF Group's financing as at 31 December 2016 still forms a solid basis for the company's continued healthy growth.

"All in all, we have generated a very good result as a business-to-business company. We nevertheless hope that the Pharmalys acquisition will help us increase the earnings figures for 2017 significantly once again", said Dr Thomas Eisenring, CEO of the HOCHDORF Group.

Dairy Ingredients Division

The Dairy Ingredients Division achieved gross sales revenue of CHF 401.9 m in 2016 (PY: CHF 415.4; -3.2%). This figure comprised the Swiss business at CHF 211.8 m (-6.9%), HOCHDORF Baltic Milk UAB at CHF 19.8 m (-21.7%) and Uckermärker Milch GmbH at CHF 170.3 m (+4.7%). The lower turnover is due to the low price of milk, which had to be passed on to customers, and the challenging market situation. The higher turnover at Uckermärker Milch GmbH is due to the sharp rise in the price of butter in the second half of the year, and the more attractive selling of buttermilk in terms of price.

The volume of liquid purchased and processed by HOCHDORF Swiss Nutrition Ltd rose by 5.2% on the previous year, to 409,119 tonnes (PY 388,927 tonnes). The need for whey increased with the regular manufacture of lactose for our own infant formula: in 2016, HOCHDORF processed a total of 79,752 tonnes of whey (+44.9% compared to PY). The supplied quantity of milk fell sharply, following the very high quantities in the first half of the year. By year-end, HOCHDORF had processed 315,553 tonnes of milk in Switzerland (PY: 324,951 tonnes; -2.9%).

From its plant in Lithuania, HOCHDORF sold 13,261 tonnes of product on the international markets (-25.2% compared to PY). The main reason for this substantially lower quantity is the weak market situation and the politically-motivated high price of milk in Lithuania. In these circumstances, Lithuanian milk products were not competitive on the international market.

At 271,700 tonnes of milk, milk permeate, buttermilk and cream, Uckermärker Milch GmbH processed -8.4% less liquids in its facilities than in the previous year (296,696 tonnes). The creamery and the filling plant for buttermilk were well utilised throughout the year. In the first half of the year, the plant also sold skimmed milk powder to the state intervention programme.

Baby Care Division

In the 2016 business year, the Baby Care Division increased gross sales revenue by +11.8% to CHF 123.4 m (PY CHF 110.4 m). The successful optimisation of the existing production facilities, as well as the customer and product portfolio, were instrumental in generating this growth. In contrast, the volume sold increased by only +2.4% to 17,159 tonnes (PY: 16,763 tonnes). The percentage difference for the increase in gross sales revenue demonstrates the restructuring of our customer base due to the continuing capacity bottleneck.

Cereals & Ingredients Division

The Cereals & Ingredients Division achieved total gross sales revenue of CHF 25.7 m in 2016 (PY: CHF 24.9 m; +3.2%). This figure included the Swiss business at CHF 18.4 m (PY 18.0 m). The slightly higher gross sales revenue was achieved through an improved product mix: the sold quantity of products went down by -6.3% to 3,449 tonnes (PY 3,681 tonnes). The division is on course, thanks to various measures for cost optimisation and streamlining the product range.

Marbacher Ölmühle GmbH generated gross sales revenue of CHF 7.2 m in 2016, up +5% on the previous year (PY CHF 6.8 m). In 2016 the entire sales organisation was successfully restructured.

HOCHDORF South Africa Ltd generated its first sales in May 2016. As a classic start-up firm, gross sales revenue was at a low level. As far as the quality of the products is concerned, the company received consistently positive feedback from its customers and continues to do so. The marketing campaigns were geared towards making our products well known in the market.

Forward integration

The majority stake in the Pharmalys companies made the HOCHDORF Group a first step closer to the end consumer last year. Integration work is proceeding on schedule. "HOCHDORF's task is firstly, to create more structure in the administrative area, secondly, to distribute existing products that are interesting for the markets via the Pharmalys distribution channels, and thirdly, to bring the business model to new markets", said HOCHDORF CEO Eisenring.

In order to finance the majority holding, HOCHDORF Holding Ltd is issuing a three-year mandatory convertible bond for CHF 218.49 m on 30 March 2017. Details of the mandatory convertible bond are included in the press release sent on the same date. Shareholders listed in the share register will receive additional information on the mandatory convertible bond by post.

Change to the Board of Directors

The Chairman of the Board of Directors, Josef Leu, and Board member Meike Bütikofer will be resigning from the Board of Directors at the forthcoming Annual General Meeting. Josef Leu worked for 14 years on the Board of Directors of HOCHDORF Holding Ltd, since 2014 as its chairman. He assisted and led the HOCHDORF Group with his knowledge of politics, agriculture and business. Meike Bütikofer supported the HOCHDORF Group for eight years in her role in Marketing and Strategy, chairing the Board of Directors' Market and Strategy Committee since 2014. The Board of Directors extends its thanks to both for their valuable service.

An expert in marketing, distribution and brand positioning, Ulrike Sailer, is available to fill the post of Board member. Ms Sailer has many years' international management experience in the food industry. Over a period of around 21 years, Ulrike Sailer gained extensive distribution and marketing experience in the food industry. During this period she built up and developed a number of brands. The countries she has worked in include China, Germany, Denmark, South Africa, the UK and Switzerland. Her global networking reflects this breadth of experience.

As announced in 2016, the Board of Directors will again be reduced to seven persons. For the office of Chairman of the Board of Directors Dr Daniel Suter will be proposed at the Annual General Meeting on 5 May 2017.

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Outlook 2017

Integration of the Pharmalys companies into the HOCHDORF Group will have a significant impact on the balance sheet and income statement. International milk markets have also recovered in recent months. Accordingly, with the milk volume remaining more or less the same and with prices marginally higher, HOCHDORF expects gross sales revenue in the range of CHF 635 – 670 m and EBIT of 6.1 to 6.6% of production revenue. Eisenring stresses that, due to the majority stake in Pharmalys, a leap in profits at EBIT level can be expected.

The **Dairy Ingredients** Division is expecting turnover of CHF 440 – 465 m in the current business year. In this respect, it is necessary to monitor the ratio of purchasing and selling prices closely and identify opportunities. In line with the strategy, the focus will be on dry products with higher added value on the development side. It is also essential to assist with a number of customer-specific projects. The Prenzlau plant is to become more independent in future: in order to further improve the earnings situation, in future an experienced CEO will manage the plant locally and its own purchasing and sales department will be built up.

In 2017 we still do not have available any additional production capacity for the **Baby Care** Division. Due to the majority stake in Pharmalys, significantly higher gross sales revenue in the range CHF 170 – 180 m is nevertheless expected. The closer cooperation with Pharmalys will be organised in the current business year. HOCHDORF is paying particular attention to evaluating additional HOCHDORF products that could be sold through the Pharmalys distribution network.

From the 2nd quarter of 2018 at the latest, additional production capacity will be available for the Baby Care area. Existing customers are planning to increase their sales activities accordingly and new customers will be acquired. However, HOCHDORF is also reserving capacities for its own brands, under the strategic objective of forward integration.

In 2017 the **Cereals & Ingredients** Division is focusing on developing and introducing market-ready Kids' Food products, which will be distributed through the existing Baby Care sales network, among other channels. An entry into the bio-market for extrusion products is also planned. After expansion of production capacity has been completed in the spring of 2017 at Marbacher Ölmühle GmbH, this company can expect a substantial rise in production volume for high-quality organic-vegetable oils and organic-flour. At HOCHDORF South Africa Ltd, the current business year is again completely dominated by development of the market. An investment is also being made in a more powerful production plant. The Cereals & Ingredients Division expects gross sales revenue to exceed the previous year's level.

Slight dividend increase proposed

On the basis of the good results and taking into account the major capital investments, the Board of Directors is applying to the Annual General Meeting for a dividend payment from capital investment reserves of CHF 3.80 per share (PY CHF 3.70). With the slight dividend increase, a dividend return of 1.23% is achieved as at the closing date, 31 December 2016. This cautious and sustainable dividend policy will be continued.

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Key figures of the HOCHDORF Group for 2016

TCHF	**2016**	**2015**	**Change**
Gross sales revenue	551,476	551,208	--
Earnings before interest, tax, depreciation and amortisation (EBITDA)	33,360	30,455	+9.5%
as % of production revenue	*6.1*	*5.6*	
Earnings before interest and taxes (EBIT)	22,464	20,146	+11.5%
as % of production revenue	*4.1*	*3.7*	
Net profit	19,406	13,024	+49.0%
as % of production revenue	*3.6*	*2.4*	
Staffing levels as of 31.12.	633	625	+1.3%
Earned capital	32,213	24,870	+29.5%
Processed liquid volume (milk, cream, whey, etc.) in tonnes	741,769	761,240	-2.6%
Quantity produced (including cream) in tonnes	236,179	241,754	-2.3%
Quantity sold, in tonnes	237,054	242,821	-2.4%

	31/12/2016	**31/12/2015**	
Total assets	425,474	340,396	+25.0%
thereof shareholders' equity	45,805	192,788	-76.2%
as % of total assets	*10.8*	*56.6*	

Share Information	**2016**	**2015**	
Earnings per share (in CHF)	14.12	11.73	+20.4%
Dividend (in CHF)	3.8*	3.7*	+2.7%
Price at close of trading on 31.12. (in CHF)	309.75	168.70	+83.6%
Market capitalisation (in CHF m)	444.4	242.0	+83.6%
Price/earnings ratio (P/E) as at 31.12.	21.9	14.4	+52.1%

* Subject to approval at the Annual General Meeting on 5 May 2017.

The full Annual Report is available at: http://report.hochdorf.com.

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