

HOCHDORF Group press release: Half-year results for 2016

Higher revenue despite slightly lower turnover

Hochdorf, 17 August 2016 – **The HOCHDORF Group processed 415.9 million kg of milk, whey, permeate and cream in the first half of the year (previous year: 421.4 million kg; -1.3%). It generated gross sales revenue of CHF 278.4 million (previous year: CHF 284.3; -2.1%). The slight decline in these figures was primarily due to the challenging market environment. Due in part to efficiency-boosting measures, EBIT rose sharply to CHF 13.1 million (+22.7%). The turnover and revenue targets for the 2016 business year as a whole have been adjusted.**

Overall, the HOCHDORF Group processed 415.9 million kg of milk, whey, permeate, and cream, an amount slightly less than for the same period last year (previous year: 421.4 million kg; -1.3%). In this regard, milk intake in Switzerland was 3.5% higher than the figure for last year – nearly 30% more whey was processed. In Germany and Lithuania, liquid intake fell slightly on account of the difficult situation on the milk market.

Higher revenue despite slightly lower turnover

Gross sales revenue came in at CHF 278.4 million and was thus somewhat lower than the comparable figure for 2015 (CHF 284.3 million). The main reason for this was the continued fall in milk prices, which also led to lower product prices in the Dairy Ingredients business area. The HOCHDORF Group as a whole sold 125,604 tonnes of product (-0.1% compared with the previous year).

In terms of revenue, HOCHDORF achieved a gross margin of 24.1% (previous year: 22.3%). In absolute terms, this meant gross profit of CHF 70.7 million (+10.8% compared with the previous year). The Group significantly boosted both EBITDA (CHF 18.4 million) and EBIT (CHF 13.1 million). Net profit amounted to a gratifying CHF 11.0 million (previous year: CHF 4.1 million). Increases in efficiency, adjustments to the product portfolio, good utilisation of facilities and the disappearance of a currency effect that had existed in the previous year all contributed to the significantly higher revenue figures, which also came in above expectations.

Dairy Ingredients area

In Switzerland, the quantity of liquids purchased and processed rose by 6.8% to 226.7 million kg compared with the previous year. The Hochdorf and Sulgen plants took in 189.6 million kg of raw milk (+3.5% compared with the previous year). In Sulgen, HOCHDORF processed 33.7 million kg of whey, nearly 30% more than in the previous year. As a result of the high intakes of liquid, the facilities were running at more or less full capacity. Overall, the Dairy Ingredients Switzerland business area generated gross sales revenue of CHF 110.4 million (-6.8% compared with the previous year). The lower turnover was due to lower commodity prices, which were passed on to customers, and a large increase in inventory.

At the HOCHDORF Group's Lithuanian plant, the purchased quantity of liquids fell significantly, due to the difficult situation on the milk market and political interventions on the market. The plant processed 29.5 million kg of milk and permeate, which was 27.8% less than in the record-setting previous year (40.8 million kg). Gross sales revenue accordingly fell from CHF 15.2 million to CHF 9.7 million (-36.1%).

In the first half of the year, Uckermärker Milch GmbH in Germany processed 159.7 million kg of milk, permeate, cream, and buttermilk to make curd, butter, buttermilk, and milk powder (previous year: 168.3 million kg; -5.1%). The company also posted somewhat lower gross sales revenue, which came in at CHF 84.2 million (previous year: CHF 87.7 million; -4.0%). Despite the slightly lower quantity of liquids, the facilities were working at good capacity. With regard to production, the company invested in cost-saving measures, e.g. in the automation of butter production. In accordance with the defined product strategy, the first higher-quality milk powder was also produced.

Baby Care area

In the Baby Care business area, HOCHDORF boosted gross sales revenue by 20.3% to CHF 60.2 million (previous year: CHF 50.1 million). This growth in turnover shows the successful maximisation of facility utilisation.

During the first half of the year, the Board of Directors approved investments of roughly CHF 80 million for expanding manufacturing and filling capacities for infant formula, as well as for inventory logistics in Sulgen. Planning is running according to schedule for the new spray tower line and the new tin line. The new capacities are scheduled to be available starting in the first quarter of 2018.

Cereals & Ingredients area

The Cereals & Ingredients business area posted gross sales revenue of CHF 10.0 million, which was clearly above the previous year's figure of CHF 8.8 million (+13.9%). The facilities were running at high capacity as a result of several large orders. In addition, healthy VIOGERM® wheat germ products were able to be placed in various new products, both nationally and internationally.

Despite the difficult market environment, Marbacher Ölmühle GmbH experienced a successful start to 2016, and gross sales revenue was able to be held constant at CHF 3.7 million. This result was made possible, inter alia, by changes in the internal sales organisation. In addition to the sale of high-quality plant oils, the sale of by-products has become an ever more important mainstay. The company manufactures healthy powder for the food industry from the press cake that accumulates during oil production, which is valuable in terms of nutrition and physiology.

Somewhat later than planned, HOCHDORF South Africa Ltd generated its first sales in May. The sale of chocolate under the "Afrikoa" brand had a satisfactory launch in South Africa. It was also possible to open the factory store in early June.

Forward integration project

Implementation of the communicated strategy 2016-2020 is underway. During the first half of the year, new products were developed that fit the strategy, and some were launched on the market. But above all, a letter of intent was signed in early July concerning the potential majority participation by the HOCHDORF Group in Pharmalys Laboratories SA. The aim is now to negotiate a purchase agreement and initiate all necessary clarifications and measures that will enable the HOCHDORF Group to take a successful first step toward closer proximity to end consumers.

Presuming that a purchase agreement is signed on schedule, the Board of Directors will convene an extraordinary General Meeting in the fourth quarter of 2016. A conditional capital increase is currently planned for the purpose of financing the transaction. An increase in the restriction to voting rights from the current 5% to 15% might also become necessary. HOCHDORF will provide timely information about the results of the negotiations and next steps.

Outlook

In terms of the market, the aim in the Dairy Ingredients area is to handle the continuing difficult situation on the milk market, to further increase efficiency at the plants and to push forward with projects concerning the production of products with strong added value. The Baby Care business area is expediting the development, production, and marketing of base powder for infant formula and is on the look for new partners in order to fully utilise as quickly as possible the new production and filling capacities that will become available in 2018. The Cereals & Ingredients area is pursuing three key issues: expansion of the plant in Marbach, development and launching of additional products with strong added value, and a successful appearance at SIAL in October 2016, one of the world's leading trade fairs for food.

"We are optimistic as to the second half of the year. Because of the persistently low price of milk with influence on the Dairy Ingredients products, we slightly lowered the forecasted annual turnover to CHF 540 to 580 million," said Thomas Eisenring, CEO of the HOCHDORF Group. He also stated that modifications were made to the forecast at the start of the year concerning EBIT as a percentage of production revenue. Based on the good result for the first half of the year, Eisenring expects that the EBIT percentage will now come in the range of 4.0-4.2%.

Key figures of the HOCHDORF Group (consolidated and unaudited)

TCHF (unless stated differently)	01.01.16 – 30.06.16	01.01.15 – 30.06.15	Change
Processed milk, whey and permeate, in million kg	415.9	421.4	-1.3%
Quantity produced (including cream), in tons	130,169	126,995	+2.5%
Quantity sold, in tons	125,604	125,767	-0.1%
Gross sales revenue	278,401	284,297	-2.1%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	18,447	15,503	+19.0%
<i>as % of production revenue</i>	<i>6.3%</i>	<i>5.4%</i>	
Earnings before interest and taxes (EBIT)	13,109	10,682	+22.7%
<i>as % of production revenue</i>	<i>4.5%</i>	<i>3.7%</i>	
Net profit	11,039	4,117	+168.1%
<i>as % of production revenue</i>	<i>3.8%</i>	<i>1.4%</i>	
Staffing levels as of 30 June	614	588	+4.4%
	30.06.2016	31.12.2015	
Balance sheet total	359,664	340,396	+5.7%
thereof equity	197,924	192,788	+2.7%
as % of the balance sheet total	55.0	56.6	
Information concerning shares	30.06.2016	31.12.2015	
Share price (in CHF)	183.80	168.70	+9.0%

You can find the detailed letter to shareholders online at report.hochdorf.com

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