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**Press release of the HOCHDORF Group: Annual results 2017**

# HOCHDORF: Successful forward integration

*Hochdorf, 5 April 2018* – **In 2017, the HOCHDORF Group increased its net sales revenue by 10.9% to CHF 600.5 million. The income figures exceeded the previous year significantly. At CHF 42.6 million, HOCHDORF increased its earnings before interest and taxes (EBIT) by 89.7%. Net profit rose by 110.5% to CHF 40.8 million (PY CHF 19.4 million). The revenue growth is mainly due to the majority shareholding in Pharmalys Laboratories SA. In view of the substantial investment, the Board of Directors is applying to the Annual General Meeting for a slight increase in the dividend payment from CHF 3.80 to CHF 4.00 per registered share, payable from capital investment reserves.**

In the 2017 business year, the HOCHDORF Group sold products amounting to 190,499 tonnes (-19.6% compared to the previous year) and therefore generated net sales revenue of CHF 600.5 million (previous year: CHF 541.6 million; +10.9%). The gross sales revenue is within the range predicted in the half-yearly report of CHF 610 to 650 million. The Group processed 650,017 tonnes of milk, cream, whey and milk permeate (PY 741,770 tonnes; -12.4%). The higher turnover despite lower volumes is due to the higher prices of raw materials and turnover growth in the Baby Care Division as a result of the majority shareholding in Pharmalys Laboratories SA.

**Earnings values have increased considerably**

In the past business year, HOCHDORF achieved maximum values for EBITDA, EBIT and net profit, thanks to the majority shareholdings in companies belonging to the Pharmalys Group. At CHF 55.7 million, HOCHDORF increased its earnings before interest, taxes, depreciation and amortisation (EBITDA) significantly (PY 33.4 million; +67%). HOCHDORF increased its EBIT compared to the previous year by 89.7% to CHF 42.6 million (PY CHF 22.5 million). In comparison with production revenue, EBIT was 7.1% and was therefore higher than the forecasted target band of between 6.1 and 6.6%. Net profit, at CHF 40.8 million, more than doubled compared with the previous year (PY CHF 19.4 million; +110.5%) and was therefore in line with the high expectations.

The growth of HOCHDORF is also reflected in the development of gross profit, which increased from CHF 136.8 million to CHF 172.1 million. The new gross profit margin stands at 28.5% (PY 25.2%).

Operating expenditures are up 12.5% on the previous year. This includes prepayments relating to the new infant formula factory with tower 9, for which staff were already recruited and trained in 2017, and, in particular, the first-time inclusion of the Pharmalys companies. In addition, HOCHDORF invested in the development and expansion of the sales organisation. The total number of employees rose year on year from 632 to 695.



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### Finance forms the basis for further growth

Compared to the previous year, cash flow from operating activities fell from CHF 24.2 million to CHF 6.0 million as a result of growth. On the other hand, cash flow from operating activities before changes in working capital increased from CHF 32.2 million to CHF 56.0 million, the main reason being the better operating business and the improvement in the financial result. Inventories have increased to a reasonable extent. In 2017, the HOCHDORF Group invested just under CHF 85.0 million. As expected, there was a negative free cash flow of CHF -84.1 million due to the high level of investment. HOCHDORF is also anticipating a negative free cash flow for the current business year because of the investment in the expansion of capacity and, in particular, the residual financing of the takeover of Pharmalys.

Net debt fell compared with December 2016 from CHF 213.5 million to CHF 0. As a result of the re-financing via a hybrid bond, no claims had been made on the syndicated loan by the end of the year. The issued hybrid loan and the outstanding convertible bond are treated as equity and therefore do not have any adverse effect on net debt. The equity ratio returned to normal compared to the end of 2016 at 53.1% (PY 10.8%). Overall, the HOCHDORF Group's financing provides a solid basis for the company's continued growth.

"The consolidated earnings of the HOCHDORF Group have reached new heights as a result of the majority shareholding in Pharmalys, and we should be satisfied with the figures we have achieved," explained Dr Thomas Eisenring, CEO of the HOCHDORF Group.

### Dairy Ingredients Division

The Dairy Ingredients Division generated net sales revenue of CHF 405.1 million in 2017 (PY CHF 393.1 million; +3.0%). The differing price trends were challenging in 2017: record-high prices for milk fat and a price slump for milk proteins and low-fat milk powder. This led to slight advantages for our factory in Germany and serious disadvantages for our factory in Lithuania. In Switzerland, milk fat prices fluctuated only minimally, whereas milk protein prices were significantly lower than in the previous year.

In Switzerland, HOCHDORF Swiss Nutrition Ltd processed virtually the same volume of liquid (especially milk and whey) as in the prior year (409,009 tonnes in 2017 vs. 409,119 tonnes in 2016). Accordingly, plant utilisation was at a very high level throughout the year. Reduced "Schoggi Law" contributions and too little B-milk for the contractually agreed export products had a considerable impact on our margin. Combined with the low protein prices, this led to a negative result in the Swiss dairy ingredients business overall.

As a result of the high Lithuanian milk prices and the low protein prices on the international market, the processed milk volume at HOCHDORF Baltic Milk UAB was further reduced to 45.6 million kg milk and whey (PY 56.8 million kg; -19.7%).

The processed milk volume of Uckermärker Milch GmbH decreased due to the price turbulence to 193.8 million kg (PY 271.7 million kg; -28.7%). The main reason for this was the significantly lower curd production compared to the previous year, while butter and powder production was down, too. The partial discontinuation of curd production from the end of October 2017 was crucial for the factory. Contrary to our communication in August 2017, this can now continue at a lower volume level, thanks to cooperation with another partner.

**Baby Care Division**
The Baby Care Division generated net sales revenue of CHF 168.8 million in 2017 (PY CHF 123.0 million; +37.2%). This leap in growth can be attributed to the majority shareholding in the Pharmalys companies.

As predicted in the half-year report, the facilities of HOCHDORF Swiss Nutrition Ltd for the production of infant formula were well to very well utilised in the second half-year and were at the previous year's high level. However, as stated, the company was unable to make up for the loss of turnover in the first six months mentioned in the half-year report. Investment in the new production and filling lines at the Sulgen site progressed with a high degree of intensity. Our efforts to acquire new customers to utilise the new capacities were also successful.

The Pharmalys Group launched Primalac products in Cameroon and Algeria in the previous business year. Swisslac infant formula is now available in Syria, Bahrain and Lebanon. Besides the main business of milk-based infant formula, cereals were also introduced on the market under the Primalac brand in Iraq, Lebanon, Mauritania, West Africa and Saudi Arabia in 2017. At the same time, the cooperation with HOCHDORF intensified.

**Cereals & Ingredients Division**
The Cereals & Ingredients Division generated net sales revenue of CHF 26.6 million (PY CHF 25.5 million; +4.6%). The turnover growth of Marbacher Ölmühle GmbH was particularly pleasing. Thanks to the increase in production capacities, larger quantities of oils and seed flours were successfully sold in the market.

With new kids food products and products in sprinklers, HOCHDORF Swiss Nutrition Ltd was very successful in the area of private label products. In the kids food segment, new products were launched in the Swiss retail trade.

In 2017, HOCHDORF South Africa Ltd managed to acquire new distribution partners and was able to increase sales significantly at a low level. In addition, investment was made in a new, larger production facility, which was put into production in November 2017. This means that the investment and development phase of the production infrastructure has been concluded.

As of November 2017, following the acquisition of Zifru Trockenprodukte GmbH, the Cereals & Ingredients Division expanded its product range to include healthy dried fruits and vegetables. At the same time, the business division took a step in the direction of forward integration with the purchase of the Snapz brand.

**Pharmalys purchase price**
Pharmalys Laboratories SA continued its strong growth in 2017. The purchase price for the majority stake in Pharmalys Laboratories SA currently amounts to a maximum of CHF 248.2 million, accordingly. "In connection with the strategic further development of the Baby Care Division and the desired forward integration this is an important market investment for the HOCHDORF Group," explained Dr Thomas Eisenring.

**Retrospective adjustment in the half-yearly statement**
HOCHDORF Holding Ltd issued a mandatory convertible bond as at the end of March 2017. In the half-yearly statement as at 30 June 2017, this was incorrectly shown in full in equity instead of being split into a liability and equity component (split accounting method). Owing to the substantially increased

influence on net profit and earnings per share, SIX Exchange Regulation (SER) has begun an investigation due to a breach of the applied accounting regulations. In accordance with the agreement with the SER, HOCHDORF has undertaken to apply split accounting and to make a retrospective adjustment in the half-yearly statement as at 30/06/2018.

**Outlook 2018**
2018 represents a transitional year and will be challenging due to ongoing projects to achieve our strategic goals. For example, we need to market the additional potential capacities in the Baby Care Division, bring the business of healthy kids food and snacks to market and launch the developed high value-added new products in the Dairy Ingredients Division as quickly as possible. We need to make the Swiss dairy ingredients business profitable again for the future by employing various measures.

For 2018, the HOCHDORF Group is correspondingly expecting net sales revenue in the region of CHF 600 – 630 million. The basis for turnover growth will be the additional capacities in the infant formula segment and (to a smaller extent) the acquisition effect in the Cereals & Ingredients Division. On the earnings front, the Group is expecting the proportional EBIT in relation to production revenue to be 7.0 – 7.5% (PY 7.1%).

**Dividend increase applied for**
On account of the positive earnings figures and taking into account the large-scale investment, the Board of Directors is applying to the Annual General Meeting for a dividend payment of CHF 4.00 per share (previous year CHF 3.80), paid from capital investment reserves. With this increase, a dividend return of 1.40% was achieved as at the closing date, 31 December 2017. This will enable the Board of Directors to continue a cautious dividend policy aimed at sustainability.

**Key figures of the HOCHDORF Group 2017**

| TCHF | **2017** | **2016** | **change** |
|---|---|---|---|
| Net sales revenue | 600,527 | 541,606 | +10.9% |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 55,719 | 33,360 | +67.0% |
| *as % of production revenue* | *9.2* | *6.1* | |
| Earnings before interest and taxes (EBIT) | 42,616 | 22,464 | +89.7% |
| *as % of production revenue* | *7.1* | *4.1* | |
| Net profit | 40,846 | 19,406 | +110.5% |
| *as % of production revenue* | *6.8* | *3.6* | |
| Staffing levels as at 31/12 | 695 | 633 | +9.8% |
| Cash flow from operating activities before changes in working capital | 56,035 | 32,213 | +74.0% |
| Processed volume of liquid (milk, cream, whey, etc.) in tonnes | 650,017 | 741,770 | -12.4% |
| Quantity produced (including cream) in tonnes | 186,845 | 236,179 | -20.9% |
| Quantity sold, in tonnes | 190,499 | 237,054 | -19.6% |

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| | 31/12/2017 | 31/12/2016 | |
|---|---|---|---|
| Total assets | 582,270 | 425,474 | +36.9% |
| thereof equity | 309,282 | 45,805 | +575.2% |
| *as % of total assets* | *53.1* | *10.8* | |

| **Share details** | **2017** | **2016** | |
|---|---|---|---|
| Earnings per share in CHF | 18.43 | 14.12 | +30.5% |
| Dividend (in CHF) | 4.00* | 3.80 | +5.2% |
| Price at close of trading as of 31/12 (in CHF) | 286.25 | 309.75 | -7.6% |
| Market capitalisation (in CHF million) | 410.7 | 444.4 | -7.6% |
| P/E (price/earnings ratio) as at 31/12 | 15.5 | 21.9 | -29.2% |

* subject to approval at the Annual General Meeting on 4 May 2018.

The full annual report is available at: http://report.hochdorf.com/en.

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