HOCHDORF Group Press Release: Annual Results 2018

Implementation of strategy continues – expected earnings not yet realised

Hochdorf, 19 March 2019 – **HOCHDORF generated a net sales revenue of CHF 561.0 million in 2018 (−6.6% compared to previous year (PY)). Earnings before interest and taxes (EBIT) amounted to CHF 18.6 million (−56.2% PY) with a net profit of CHF 8.7 million. Although significantly below the record figures of the previous year, the sales and earnings figures are within those forecast by the company in December 2018. The main reasons for the disappointing results are the significantly lower performance of Pharmalys Laboratories SA, the lack of sales in China, delays in the new spray tower line and a worsening of the problems in the Dairy Ingredients division, as well as the one-off effect from the sale of HOCHDORF Baltic Milk UAB.**

The HOCHDORF Group processed 661,017 tonnes of milk, cream, whey and milk permeate in 2018 (PY 650,017 tonnes; +1.7%) and sold 154,609 tonnes of product (−18.8% on PY). It achieved a net sales revenue of CHF 561.0 million (PY CHF 600.5 million; −6.6%) and company profits of CHF 8.7 million (PY CHF 40.8 million). The net sales revenue is thus within the range of CHF 540 – 570 million forecast in December 2018. At 3.3%, EBIT as a percentage of production revenue is slightly below the predicted range of 3.5 – 4.0%.

Below expectations

Within the context of the history of the HOCHDORF Group, an EBIT of this size is a reasonably good result, especially considering the additional one-off effect of the sale of HOCHDORF Baltic Milk at CHF 2.9 million. At net profit level, the charge from the sale amounted to a total of around CHF 5.9 million. In addition, operating costs rose sharply to CHF 135.9 million (prev. year CHF 116.4 million; +16.8%).

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Last year with high investment total

Earned capital was reduced from CHF 56.0 million to CHF 30.4 million. The considerably lower operating results have a significant impact here. Compared to the previous year, cash flow from operational activities fell from CHF 6.0 million to CHF −81.3 million. The main reason for this is the remaining purchase price payment for Pharmalys. Due to the expansion of business activities, the item "Inventories" in particular increased significantly. Longer payment periods in the MEA region (Middle East Africa) pose a challenge. Nevertheless, the "Receivables" item was reduced overall.

Expenditure of CHF 35.5 million was made in the area of investments for plant, buildings and intangible assets. By omitting the amounts for the expansion of the Sulgen plant, the ordinary investments could be financed from the current cash flow. Work on the new T9/can line 2 was largely completed in 2018. We are planning mainly for replacement investments for 2019.

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As expected, free cash flow was negative in 2018 due to the new T9 building and the purchase price payments for Pharmalys and Bimbosan. We expect slightly positive free cash flow for 2019. Net debt increased from CHF 0 million in December 2017 to CHF 141.3 million. The hybrid bond and the mandatory convertible bond are classed as equity and do not affect net debt.

The equity ratio fell to 48.8% compared to the end of 2017 (53.1%). This was due to the higher debt, as outlined above. With the 2018 financial statements, the final purchase price for Pharmalys was again adjusted slightly downwards by offsetting it against equity. Overall, the HOCHDORF Group's financing therefore continues to provide a good basis for the continued growth of the company.

Dairy Ingredients division
The Dairy Ingredients division achieved a net sales revenue of CHF 354.4 million in 2018 (PY CHF 405.1 million; −12.5%) and experienced a challenging year with a still large but declining spread between milk fat and milk protein valuations in the international markets. Activities in Switzerland were mainly shaped by the implementation of the successor to the "Schoggi" law.

In Switzerland, HOCHDORF Swiss Nutrition Ltd processed practically the same amount of liquid (mainly milk and whey) as in the previous year (408,857 tonnes compared to 409,009 tonnes in 2017). In total, however, 26.2% more whey and 8.5% less milk were processed. In terms of products, loss-makers were removed from the portfolio and work was carried out on new and further developments of products with higher added value. Activities also focused on the implementation of the successor to the "Schoggi" law involving a large number of challenging customer and supplier negotiations. With its disproportionately high share of "Schoggi" law milk, HOCHDORF is severely affected by the changes.

Uckermärker Milch GmbH processed a significantly higher liquid volume than in the previous year (193,844 tonnes compared to 234,324 tonnes; + 20.9%). Most noticeably, the processed milk volume increased by almost 30%. On the market side, Uckermärker Milch concentrated on the development and marketing of specialist milk powders with higher margin potential. In this regard, the company achieved an excellent market position for super kosher milk powder in the first year. The year-round low milk protein prices and the additional fall in fat prices in the second half of the year had a strong negative impact on performance. Cost measures were taken to counter these and there were headcount reductions at the end of the year.

Baby Care division
The Baby Care division achieved a net sales revenue of CHF 176.0 million in 2018 (PY 168.8 million; +4.3%). The sales growth is due to the acquisition of Bimbosan and the organic growth of existing customers. However, it was not possible to achieve the sales target of CHF 200 – 215 million forecast in the company's interim report.

HOCHDORF Swiss Nutrition Ltd started the first commercial production on its new production line in Sulgen in August. The task now is to continuously increase the capacity utilisation of the new facilities through new customers and the growth of existing customers. The existing production facilities for the production of infant formula were very well utilised in 2018. HOCHDORF also took the strategic decision to manufacture infant formula for China only in Sulgen.

Pharmalys Laboratories SA reported two different half years: a relatively strong second half year followed on from a weak first period. Overall, however, the strong growth of 2017 could not be repeated. Marketing budgets were increased in 2018 to strengthen the Primalac and Swisslac brands, among other measures. Higher costs for the successful market entries in various African and Middle Eastern countries also had a negative impact on earnings. In addition, market penetration in some existing countries was maintained or even expanded.

Bimbosan AG has been part of the HOCHDORF Group since May 2018. This traditional Swiss company achieved the sales and earnings expected. The communication efforts in Switzerland, which had been intensified before the takeover, were continued as planned. The strong market position in our home market supports the internationalisation of the brand we launched in Vietnam. Documentation was also submitted for registering the Bimbosan brand in China.

Cereals & Ingredients division
The Cereals & Ingredients division achieved a net sales revenue of CHF 30.7 million in 2018 (PY 26.6 million; +15.0%). The year was characterised by the integration of Zifru Trockenprodukte GmbH and Snapz Foods AG as well as the growth of HOCHDORF South Africa Ltd and Marbacher Ölmühle GmbH. Across the entire division, several new products were developed and marketed internationally.

HOCHDORF Swiss Nutrition Ltd launched various new children's food products in the private label category, such as healthy crisps for children from six months, a porridge made from Swiss whole milk and dried fruits and vegetables for children over three.

Marbacher Ölmühle GmbH and *Zifru Trockenprodukte GmbH* are both well on course. They were able to gain new customers throughout the year. Marbacher Ölmühle increased its net sales revenue from CHF 9.9 million to CHF 12.1 million (+22.8%). *HOCHDORF South Africa Ltd* was able to increase sales of Afrikoa chocolate by more than double for another year in succession.

Further work on the strategy
HOCHDORF is pursuing the goal of becoming a globally active, profitable niche company with premium products by 2020. Forward integration – or moving closer to the end consumer – is an important component of this strategy, alongside the development of products with higher added value. HOCHDORF worked intensively on this strategy over the previous business year.

With the investments made in the Sulgen plant, the majority holding in the Pharmalys Group and the acquisition of Bimbosan AG, the Baby Care division is well on the way to achieving its strategic goals by 2020. It is focusing here on fully utilising the capacities available and further strengthening the private label business.

The Cereals & Ingredients division is also well positioned in niche markets with a broad range of premium products. To achieve its strategic goals, further sales and earnings growth is necessary in key products. This means that the development of the Kids' Food business, including Snapz (branded products) and Zifru (private label) as well as Afrikoa chocolate, will continue to be driven forward.

The strategy implementation is most challenging in the traditional core business of Dairy Ingredients. The high level of competition, price sensitivity and the influence of political decisions are the main reasons. In this area, HOCHDORF was able to significantly reduce risk in 2018, for example with the sale of Baltic Milk. In terms of the market, it successfully developed and marketed some specialist milk powders. However, the tough market situation further offset these successes. It is therefore necessary to adapt milk prices to the market and to make them accordingly flexible, to carry out internal optimisations and to develop further product innovations with added value.

Outlook for 2019

Ongoing factors: HOCHDORF is undergoing radical change – with corresponding challenges in all three business divisions. In the Dairy Ingredients division, cost reduction programmes were launched in both Switzerland and Germany to ensure that positive results can be achieved again in the future. The successor to the "Schoggi" law in Switzerland means that HOCHDORF milk prices are barely competitive, which will lead to a significantly lower milk inflow. Measures are therefore being implemented to maintain the ability to supply key products. In addition, the current situation regarding milk prices and quantities, both in Switzerland and in the EU, suggests increased volatility and, at the very most, a narrowly positive result in the DI division.

In the *Baby Care* division, HOCHDORF hopes to register the trademarks it has submitted for the Chinese market. According to new regulations, however, the production plant must first be audited again by the responsible authorities. If this audit takes place in the first half of 2019, HOCHDORF is hopeful it will be in a position to deliver infant formula to China again from 2020 at the latest. HOCHDORF is striving for controlled growth of its own brands at home and abroad in addition to growth with existing and new customers in order to utilise the new facilities to capacity.

The expansion strategy of the Cereals & Ingredients division will be further strengthened this year. It will focus on the private label sector and the Snapz and Afrikoa brands. The first major orders for Snapz products have been received from the USA and China. The division will be represented at various trade fairs and will increase its online and social media activities. In addition, the division's product portfolio will undergo in-depth analysis.

Due to the great uncertainty in the Dairy Ingredients division, the HOCHDORF Group is currently refraining from issuing a sales and earnings forecast.

Dividend proposed at previous year's level

Despite the adverse market conditions currently in the Dairy Ingredients division, HOCHDORF Holding Ltd is pursuing a dividend strategy aimed at continuity. Contrary to the business performance in 2018, the Board of Directors proposes to maintain the dividend at the previous year's level of CHF 4.00. The Board of Directors is thus reaffirming its confidence in the strategy it has set and its successful implementation.

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Key figures of the HOCHDORF Group 2018

TCHF	**2018**	**2017**	**Change**
Net sales revenue	561,031	600,527	−6.6%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	35,886	55,719	−35.6%
as % of production revenue	*6.3*	*9.2*	
Earnings before interest and taxes (EBIT)	18,649	42,616	−56.2%
as % of production revenue	*3.3*	*7.1*	
Net profit	8,656	40,846	−78.8%
as % of production revenue	*1.5*	*6.8*	
Staffing levels as at 31/12	694	695	−0.1%
Cash flow from operating activities before changes in working capital	30,425	56,035	−45.7%
Processed volume of liquid (milk, cream, whey, etc.) in tonnes	661,017	650,017	+1.7%
Quantity produced (including cream) in tonnes	141,380	186,845	−24.3%
Quantity sold in tonnes	154,609	190,499	−18.8%

	31.12.2018	**31.12.2017**	
Total assets	575,231	582,270	−1.2%
thereof equity	280,847	309,282	−9.2%
as % of total assets	*48.8*	*53.1*	

Share details	**2018**	**2017**	
Earnings per share (in CHF)	2.02	18.43	−89.0%
Dividend (in CHF)	4.00*	4.00	
Price at close of trading as of 31/12 (in CHF)	102.00	286.25	−64.4%
Market capitalisation (in CHF million)	146.3	410.7	−64.4%
P/E (price/earnings ratio) as at 31/12	50.4	15.5	

* Subject to approval at the Annual General Meeting of 12 April 2019.

For the full Annual Report, go to: http://report.hochdorf.com/en.

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