

## HOCHDORF Group Press Release: 2015 Annual Results

### HOCHDORF generates solid results

*Hochdorf, 7 April 2016* – The HOCHDORF Group significantly increased its turnover in the 2015 business year. At CHF 551.2 million, the Group for the first time posted gross sales turnover of more than a half a billion Swiss francs. Despite all adverse circumstances, HOCHDORF posted results at the level of the previous year. The Board of Directors will propose to the Annual General Meeting that an unchanged dividend be distributed from paid-in capital reserves to the amount of CHF 3.70 per registered share.

In the 2015 business year, the HOCHDORF Group sold 242,821 tons of products (+144.9% compared with the previous year) and generated gross sales revenue of CHF 551.2 million (previous year: CHF 428.7 million; +28.6%). The Group processed 761,240 tons of milk, cream, whey, and milk permeate (previous year: 506,963 tons; +50.2%). Sales and turnover growth was due to the acquisition of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH. Without these acquisitions, the Group would have posted a decline in turnover. Primarily responsible for this were lower milk prices, which also resulted in lower sales prices in the Dairy Ingredients business area. Having a negative impact on Group turnover were also the abolishment of the minimum CHF-EUR exchange rate and the deliberately reduced sales volume at the milk plant in Prenzlau.

#### **New EBITDA record – EBIT at the level of the previous year**

Due to lower-margin business in Germany, gross profit fell to 23.9% (previous year: 24.7%). However, the nominal value rose to CHF 130.1 million (previous year: CHF 105.2 million). In terms of operating expenses, the Group posted higher figures than in the previous year both in personnel expenses and in other operating expenses as a result of the inclusion of the acquired plants.

EBITDA came in at CHF 30.5 million, a new record for the HOCHDORF Group (previous year: CHF 27.2 million; +12.0%). Despite considerably higher amortisations, EBIT was able to be slightly increased to CHF 20.1 million (previous year: CHF 20.0 million; +0.65%). This result shows that the measures undertaken to boost efficiency are having an effect. But it is also clear that, as announced, the acquired companies are not yet contributing to increased income. Net income stood at CHF 13.0 million (previous year: CHF 16.1 million), with the decline attributable solely to currency effects.

#### **Effective new organisational structure**

HOCHDORF Swiss Nutrition Ltd started out the 2015 business year with a new organisational structure. The results were generated in a relatively difficult economic environment, which shows that the restructuring paid off. In addition, the market focus on the three business areas proved successful for the HOCHDORF Group as a whole in the reporting year.

The integration of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH began in early 2015. In Prenzlau, the Group was able to respond relatively well to the currently challenging situation on the international milk market. It benefited from the fact that only a small quantity of milk is procured directly from dairy producers. For this reason, the production of milk powder was able to be scaled back somewhat due to poor product prices.

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In 2015 the HOCHDORF Group, which is headquartered in Hochdorf, generated a consolidated gross sales revenue of CHF 551.2 million. It is one of the leading foodstuff companies in Switzerland, with more than 625 employees as at 31 December 2015. Made from such natural ingredients as milk, wheat germ, and oilseeds, HOCHDORF products have been contributing to the health and well-being of the young and old alike since 1895. Our customers include the food industry and wholesalers and retailers. Our products are sold in more than 90 countries. HOCHDORF stock is traded on the SIX Swiss Exchange in Zurich (ISIN CH0024666528).

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### **Cash flow and financing**

Compared with the previous year, cash flow from operating activities fell from CHF 20.5 million to CHF 18.1 million. In addition, earned income declined from CHF 25.3 million to CHF 23.4 million. The main reason for this was the exchange rate losses suffered due to the appreciation of the Swiss franc. In 2015 HOCHDORF made investments totalling CHF 24.5 million. As anticipated, free cash flow in 2015 was negative. On account of the planned investments, the company expects that cash flow will also be negative in 2016 and 2017.

As at 31 December 2015, net borrowing stood at CHF 21.3 million (previous year: CHF 46.8 million). The reduction was attributable to the premature conversion of convertible bonds. Expensive, long-term debt positions at the German companies were refinanced via the Group, which enabled interest charges to be reduced considerably. The equity ratio amounted to 56.6% at the end of 2015 (previous year: 43.2%). Therefore, as at 31 December 2015, the HOCHDORF Group's financing forms a solid basis for the continued growth of the company.

Dr Thomas Eisenring on the 2015 business year: "In light of the basic conditions that confronted us in the 2015 business year and the current business model of the HOCHDORF Group, I am satisfied with the results we generated."

### **Dairy Ingredients business area**

In 2015 the Dairy Ingredients business area generated gross sales revenue of CHF 415.4 million (previous year: CHF 298.6 million; +39.1%), which came from Swiss business (CHF 227.6 million; -11.8%), HOCHDORF Baltic Milk UAB (CHF 25.2 million; -42.1%), and Uckermärker Milch GmbH (CHF 162.7 million). The reasons for the lower turnover were the appreciation of the Swiss franc and lower milk prices, which had to be passed on to customers. The significantly lower turnover of HOCHDORF Baltic Milk UAB was moreover influenced by the elimination of pure milk-exchange business.

As expected, the quantity of liquids purchased and processed by HOCHDORF Swiss Nutrition Ltd, Dairy Ingredients business area, fell by 5.4% to 388.9 million kg (previous year: 410.9 million kg). Overall, however, a slightly greater quantity of our own milk was processed at the Hochdorf and Sulgen plants (314.1 million kg; previous year: 312.9 million kg). Due to lower milk quantities in the spring, the Group dried considerably less milk in Switzerland in connection with commissioned orders. The quantity of processed milk rose by +10.3% to 55.0 million kg.

It is important for the Dairy Ingredients business area that plant utilisation is as regular as possible during the year. In 2015 this was able to be achieved in Switzerland in part with a somewhat larger quantity of whey. In addition, in September the Directorate General of Customs approved the importing of 780 tons of skimmed milk concentrate for export projects (inward processing). This decision helped to achieve better plant utilisation in times of low milk production. Because Swiss milk quantities rose considerably in December, HOCHDORF elected not to import partial quantities.

In Lithuania, HOCHDORF sold 17,736 tons of products. This figure is nearly 8% above the previous year's figure (not including the quantities for pure milk-exchange business). The quantity was able to be increased, inter alia, due to the optimisation measures carried out in 2014.

Overall, the plant in Prenzlau processed 296.7 million kg of liquids (milk, cream, buttermilk, and milk permeate) and sold 135,407 tons of products. In addition to butter, quark, and milk powder, the Prenzlau site has also been manufacturing buttermilk since December 2015.

### **Baby Care business area**

In the 2015 business year, the Baby Care area generated gross sales revenue of CHF 110.4 million, which was comparable to the previous year (CHF 110.0 million). In view of the strong Swiss franc and foreign turnover of more than 90%, this was a solid result. Quality and product safety are top priority in the manufacture of infant formula. This was borne in mind in connection with the projects to maximise capacity. Compared with the first half of the year, the capacity of the production facilities was able to be increased in the second half of the year. The quantity sold correspondingly rose by 7% to 16,763 tons (previous year: 15,651 tons). The higher production quantity and the regrouping of the customer portfolio made it possible for the fastest growing partners to achieve strong growth despite capacity bottlenecks.

### **Cereals & Ingredients business area**

In 2015 the Cereals & Ingredients business area generated gross sales revenue of CHF 24.9 million (previous year: 17.9 million; +38.8%), which came from Swiss business (CHF 18.0 million; previous year: 17.9 million) and Marbacher Ölmühle GmbH (Germany) (CHF 6.8 million).

At CHF 18.0 million, the Cereals & Ingredients business area of HOCHDORF Swiss Nutrition Ltd generated gross sales revenue at the level of the previous year. The quantity of products sold fell slightly to 3,681 tons (previous year: 3,733 tons; -1.4%). The streamlining of the product range carried out in the 2014 business year, as well as the developed sales and distribution structures, proved effective.

The integration of Marbacher Ölmühle into the HOCHDORF Group went well. On the sales side, numerous synergies were able to be exploited. HOCHDORF is not entirely satisfied with the generated turnover of CHF 6.8 million.

In 2015 HOCHDORF South Africa Ltd arranged for the necessary production equipment, raw materials, personnel, and market entry. No products were sold.

### **New strategy set for 2016-2020**

The aim of the HOCHDORF Group is to transform itself by 2020 into a globally operating, profitable niche company with premium products. As a company operating in niches, HOCHDORF intends to keep its nimbleness as a medium-sized company and conquer new markets with the requisite amount of courage.

Forward integration, i.e. moving closer to end consumers, is an important element of the new strategy. For the moment, this effort will be made in the Baby Care business area. In the process, affiliating with the customer constitutes the ideal scenario. Moreover, the company's own brands are to be developed.

The development and marketing of new products with strong added value constitutes a second important pillar in achieving the objective. The new products are aligned with customer benefit and are intended to offer a high added value.

With its products, HOCHDORF positions itself in all markets as a specialist. The company's close relationship with its partners and a high degree of flexibility allow it to differentiate itself from other market participants with integrated product and marketing concepts. In order to achieve the defined objectives, all business areas will develop corresponding premium products and establish themselves with them in the target markets.

In HOCHDORF's production plants, correspondingly high quality standards apply to the premium aspiration. In so doing, the goal is to optimise the organisation of production processes and quality assurance. The efficiency of existing processes is regularly reviewed using key figures.

The HOCHDORF Group is aware that many natural resources and a great deal of energy are required to manufacture its products. The company intends to handle all resources in a sustainable, environmentally friendly manner. Among other things, we pay attention, with regard to new investments, to a high degree of energy efficiency in the plants.

#### **Change on the Board of Directors**

As announced in late January, Urs Renggli will step down from the Board of Directors in advance of the upcoming Annual General Meeting. The experienced financial expert has served on the Board of Directors of the HOCHDORF Group for eight years. The Board of Directors thanks him for his work.

Dr Daniel Suter, an expert from the field of auditing and business consulting, has made himself available to the Board of Directors. At the time of the election, Dr Suter will still be a partner at the auditing firm PricewaterhouseCoopers in Basel. However, he will be retiring from the firm on 30 June 2016. He served for 12 years on the expert commission and the expert committee that develop recommendations for Swiss GAAP FER accounting, as well as six years in the expert group for accounting issues at the SIX Swiss Exchange. Since 2009, Dr Suter has lectured at the University of Zurich in the area of internal auditing and tax auditing. He has authored or co-authored a number of professional publications.

#### **Outlook for 2016**

The international markets are not yet showing any signs of recovery. "Due to the continuing low market prices for milk products, we anticipate that our gross sales revenue for the current business year will come in at CHF 560-600 million," said CEO Dr Thomas Eisenring. Owing to the current internal projects, EBIT is expected to be 3.8-4.0% in comparison to production revenue. Eisenring emphasised that possible forward integration is not contained in either of the figures.

To be able to implement the strategy for forward integration, the Board of Directors is requesting that the AGM approves a conditional capital increase for a nominal CHF 7,173,800, i.e. 717,380 registered shares at a nominal value of CHF 10.00. With regard to the envisaged forward integration we are currently undertaking exploratory talks with various candidates with regard to a majority shareholding or a takeover by the HOCHDORF Group. "This is about coming closer to the end consumer in our greatly expanding target markets and further extending the collaboration with our current customer base. To this end, developing and marketing new high value-added premium products and expanding our own brand presence are vital," said Josef Leu, Chairman of the Board of Directors.

In the **Dairy Ingredients** business area, the aim is to regularly review costs in light of continuing low raw materials prices and to push forward as rapidly as possible with projects to manufacture products with higher margins.

The **Baby Care** area is planning turnover growth of approximately 5%. For this reason, the focus will be on further improving the supply chain and on increasing existing production capacity. At the same time, a search will be undertaken in the market for potential new partners so that the planned new production and filling capacities can be utilised as quickly as possible.

In 2016 the **Cereals & Ingredients** area will be concentrating on further developing VIOGERM® business and on launching the first kid's food products. In addition, HOCHDORF is planning to expand production at the Marbach (Germany) site. In South Africa, chocolate began to be manufactured for the African market in February 2016. If the assumptions made in the business plan prove to be correct, an investment can be made in 2016 in a larger production facility.

HOCHDORF Holding Ltd is pursuing a cautious dividend policy based on sustainability. For this reason, the Board of Directors will propose to the Annual General Meeting on Friday, 6 May 2016, that it approve an unchanged dividend from paid-in capital reserves of CHF 3.70/share. Accordingly, this achieves a dividend return of 2.19% as at the reporting date of 31 December 2015.

### HOCHDORF Group key figures for 2015

CHF 1,000	2015	2014	Change
Gross sales revenue	551,208	428,689	+28.6%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	30,455	27,197	+12.0%
<i>as % of production revenue</i>	<i>5.6</i>	<i>6.4</i>	
Earnings before interest and taxes (EBIT)	20,146	20,016	+0.7%
<i>as % of production revenue</i>	<i>3.7</i>	<i>4.7</i>	
Net profit	13,024	16,139	-19.3%
<i>as % of production revenue</i>	<i>2.4</i>	<i>3.8</i>	
Staffing levels as at 31 December	625	573	+9.1%
Quantity of liquids processed (milk, cream, whey, etc.), in tons	761,240	506,963	+50.2%
Quantity produced (including cream), in tons	241,754	99,720	+142.4%
Quantity sold, in tons	242,821	99,155	+144.9%
	<b>31.12.2015</b>	<b>31.12.2014</b>	
Balance sheet total	340,396	331,109	+2.8%
thereof equity	192,788	143,168	+34.7%
<i>as % of the balance sheet total</i>	<i>56.6</i>	<i>43.2</i>	
<b>Information concerning shares</b>	<b>2015</b>	<b>2014</b>	
Profit per share (in CHF)	11.73	17.45	-32.8%
Dividend (in CHF)	3.7*	3.7	--
Price at close of trading as at 31 December (in CHF)	168.70	138.00	+22.2%
Market capitalisation (in CHF millions)	242.0	147.8	+63.7
P/E (price/earnings) ratio as at 31 December	14.4	7.9	+82.3

\* Subject to approval at the Annual General Meeting on 6 May 2016.

The full annual report can be found at <http://report.hochdorf.com/en>.

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