

HOCHDORF Group Press Release: 2018 half-year results

HOCHDORF expecting a significant improvement in the second half of the year

Hochdorf, 30 August 2018 – The HOCHDORF Group achieved a net sales revenue of CHF 281.6 million in the first half of 2018 (previous year CHF 302.4 million, -6.9%). Various temporary and exceptional effects impacted upon the half-yearly results. These include high initial costs and delays on the new spray drying Tower and a lack of sales in China, which also had a substantial negative impact on the Pharmalys Laboratories SA results; the sale of HOCHDORF Baltic Milk UAB also affected the result. The group-wide EBITDA fell to CHF 13.1 million (previous year CHF 21.7 million) and the EBIT to CHF 2.9 million (previous year CHF 15.8 million). HOCHDORF is expecting a very strong second half year, but will not fully succeed in balancing the negative effects of the first half year and is therefore revising the forecast slightly down.

In the first half of the year the HOCHDORF Group processed 365.3 million kg of milk, whey, cream and butter milk (liquid quantity) (previous year 377.6 million kg; -3.2%). The main reason for the slight fall was the continued reduction in milk quantities from the plant in Lithuania and its sale at the end of May 2018. Due to a streamlining of the product portfolio the product volume sold fell by -25.5% to 83,374 tonnes (previous year 111,948 tonnes). Net sales revenue fell by comparison by just -6.9% to CHF 281.6 million (previous year CHF 302.4 million).

Growth in expenditure to invest in the future

The gross profit rose slightly compared to the previous year to CHF 82.0 million (previous year 79.3 million). Significantly higher operating costs resulted in an EBITDA of CHF 13.1 million (previous year CHF 21.7 million). High amortisations on tangible assets (CHF 6.6 million; +18.2% compared to previous year) and the value adjustments in shareholdings (CHF 2.8 million; previous year CHF 0) result in an EBIT of CHF 2.9 million (previous year 15.8 million). This results in a loss of CHF -2.2. million attributable to the shareholders.

Analysis of additional operating costs shows that this is only partly due to pure cost increases, such as energy. A larger proportion of the increased costs relates to strategy implementation and is seen as an investment in the future. For instance, additional personnel were employed when the new plants went live or investments were made in potential markets or customer acquisitions in Baby Care and Cereals & Ingredients.

New production line Sulgen

After some initial delays we were able to move the new production and packaging line in Sulgen to commercial production from the middle of August. The ultra-modern and technically complex plant is running in line with our expectations. We are particularly pleased with the powder structure we have achieved.

Dairy Ingredients

The Dairy Ingredients business area achieved net sales revenue of CHF 188.2 million (previous year CHF 216.6 million; -13.1%). The lower sales can be explained by the continued price distortions between the milk fat and milk protein evaluation in the international milk market. The amount of milk,

The HOCHDORF Group, based in Hochdorf, achieved a consolidated net sales revenue of CHF 600.5 million in 2017. It is one of the leading foodstuff companies in Switzerland, employing 695 staff as of 31.12.2017. Made from natural ingredients such as milk, wheat germ and oil seeds, HOCHDORF products have been contributing to our health and wellbeing since 1895 – from babies to senior citizens. Its customers include the food industry and the wholesale and retail sectors. Its products are sold in over 90 countries. The shares are traded on the SIX Swiss Exchange in Zurich (ISIN CH0024666528).

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cream, whey and permeate (liquid volume) processed in the first half of the year showed a total reduction of a little more than three percent to 365.3 million kg.

The Dairy Ingredients division within HOCHDORF Swiss Nutrition Ltd introduced seasonal price reductions in the milk high season from March to May for the first time this year. There was a corresponding fall of 5% in the amount of milk processed in the Swiss plants. The overall liquid volume processed rose however to 229.7 million kg (previous year 225.6 million kg; +1.8%). The project to improve profitability by adjusting our portfolio and developing new speciality milk powders has been continued. With regard to agricultural policy, discussions were held between industry players, customers and suppliers on how best to implement the follow-up solution to the «Schoggi Law». Implementation will involve a certain degree of change in pricing for both customers and suppliers.

Uckermärker Milch GmbH continued to be affected by the market's low valuation for milk protein. The thriving butter business was not enough to fully cover the very weak milk powder prices. The curd business that was resumed in the middle of February and the butter milk business are running at the expected level. Production and sales of higher margin special milk powders maintained their successful trajectory.

Baby Care

The Baby Care division showed sales growth of 4.1% in the first half of the year and achieved net sales revenue of CHF 77.1 million (previous year CHF 74.1 million). As positive development, we were still able to achieve an increase in sales, despite delays with brand registration in China. The main reason for this was sales growth with existing customers in the Middle East and in Central and South America. However, customers in Asian countries also showed pleasing growth. It remains a key objective to register our brands in China as soon as possible.

The production and filling plants for HOCHDORF Swiss Nutrition Ltd's infant formula were pleasingly busy in the first half of the year. First production tests for potential customers also took place at the new production plant in Sulgen. However, the company does not envisage regular production for new customers until 2019.

Pharmalys Laboratories SA achieved a net sales revenue for the first half of the year that was below the projected figure. Nevertheless orders from and sales to the distributors indicate a very strong second half of the year; despite this we still expect slightly lower annual results compared to the previous year. The new markets we have entered this year are developing as we expected.

At the start of May 2018, HOCHDORF took over the traditional Swiss company Bimbosan AG. Initial discussions have been carried out around internationalising the successful Swiss brand for infant and young children's formula. However the complicated product registration process means that international expansion cannot be expected before the second half of 2019. In Switzerland, Bimbosan launched various successful new products in the first half of the year.

Cereals & Ingredients

Cereals & Ingredients sold products worth CHF 16.3 million (net sales revenue) and achieved growth of around 40% (previous year CHF 11.7 million). The Swiss Cereals & Ingredients business, Marbacher Ölmühle GmbH and HOCHDORF South Africa Ltd with the chocolate brand Afrikoa have all shown organic growth. All the companies in the Cereals & Ingredients division either successfully launched new products or expanded their distribution network.

Outlook

«Based on updated production and sales orders, we are expecting very good results in the second half of the year. However we will not manage to completely offset the half-year results, which were below expectations,» explains Thomas Eisenring, CEO of the HOCHDORF Group. For this reason HOCHDORF

has adjusted the forecast for the 2018 business year slightly downwards. The group is now anticipating a net sales revenue in the area of CHF 570 – 600 million as well as a percentage EBIT compared to the production revenue of 5.8% – 6.5%. This adjustment is based on the lack of the lucrative China turnover, the delays with the new production and filling plants, the weak first half of the year for Pharmalys Laboratories SA and the impairment value related to the sale of the shareholding in HOCHDORF Baltic Milk UAB.

«At the operational level in the Baby Care division we anticipate a slight increase on the volumes of the previous year as a result of growth with existing customers,» says Thomas Eisenring. Additional production of specialist milk powders is expected within Dairy Ingredients. Various market and product launches are also planned for Cereals & Ingredients.

Key figures for the HOCHDORF Group (consolidated and unchecked)

<i>CHF 1000 (unless otherwise stated)</i>	01.01.2018 – 30.06.2018	01.01.2017 – 30.06.2017	Change
Processed milk, whey, cream and per- meate (liquid quantities) in millions of kg	365.3	377.6	-3.2%
Quantity sold in tonnes	83,374	111,948	-25.5%
Net sales revenue	281,594	302,383	-6.9%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	13,051	21,697	-39.9%
<i>as % of production revenue</i>	<i>4.3%</i>	<i>6.9%</i>	
Earnings before interest and taxes (EBIT)	2,932	15,780	-81.4%
<i>as % of production revenue</i>	<i>1.0%</i>	<i>5.0%</i>	
Net profit	-2,198	13,985	
<i>as % of production revenue</i>	<i>-0.7%</i>	<i>4.5%</i>	
Staffing levels as at 30.06	678	686	-1.2%
	30.06.2018	31.12.2017	
Total assets	586,685	582,270	
<i>thereof shareholders' equity</i>	<i>268,811</i>	<i>309,282</i>	
<i>as a % of total assets</i>	<i>45.8%</i>	<i>53.1%</i>	
Share details	30.06.2018	30.06.2017	
Share price (in CHF)	281.50	305.75	-7.9%

For the complete letter to the shareholders, go to report.hochdorf.com.

Telephone conference for analysts, investors and media representatives (in German)

The HOCHDORF Group is holding a telephone conference on the 2018 half-year results today at 10.00 am. Registration is possible until 8.30 am. For more information, contact ir@hochdorf.com.

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