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HOCHDORF Group Press Release: Annual Results 2019

2019: A challenging year of transformation

Hochdorf, 19 March 2020 – **2019 was a year of transformation for the HOCHDORF Group, caused in particular by acquisitions in recent years that did not develop as hoped. The extension of the syndicated loan and the sale of the Pharmalys companies were two of the most important measures implemented to stabilise the company. HOCHDORF generated a net sales revenue of CHF 456.8 million in 2019 (-18.6% compared to the previous year). Due to additional capital allowances, value adjustments and provisions, EBIT was CHF -265.3 million, with a loss attributable to shareholders of CHF -239.2 million. Due to the highly negative result, the Board of Directors is proposing to shareholders that no dividend be paid.**

In 2019, HOCHDORF processed 677,845 tonnes of milk, whey, cream and buttermilk (previous year (PY): 661,017 tonnes; +2.5%). A lower quantity of liquid was processed at the Swiss plants and a higher quantity at Uckermärker Milch GmbH. In terms of infant formula in particular, plant utilisation did not meet expectations.

Result impacted by additional capital allowances and value adjustments
HOCHDORF generated net revenues of CHF 456.8 million, -18.6% below the prior-year figure of CHF 561.0 million. As a result of the lower sales and the value adjustments made, gross profit fell significantly year-on-year from CHF 171.8 million to CHF 61.8 million.

Operating costs increased slightly compared to the previous year. This was due to the higher costs of Pharmalys Laboratories SA, particularly in the area of distribution costs, which are included until de-consolidation at the end of November 2019. Amortisations on tangible and intangible assets amounted to CHF 51.6 million (PY 14.4 million). This is mainly due to impairments on fixed assets of CHF 28.5 million on shareholdings. The loss on shareholdings amounts to CHF 139.1 million, which resulted from the sale of the Pharmalys shareholdings and HOCHDORF South Africa Ltd. In addition, debt provisions were set up and additional amortisations were made on the assets of subsidiaries and inventories. Value adjustments and provisions were also undertaken for loans to subsidiaries. The additional capital allowances, value adjustments and provisions resulted in an EBIT of CHF -265.3 million and a loss attributable to shareholders of CHF -239.2 million.

These specific factors arose as a result of negative developments in the Baby Care segment and shareholdings. The newly formed Board of Directors reviewed the prevailing risks and adjusted the strategy (press release of 8 July 2019).

The HOCHDORF Group, based in Hochdorf, achieved a consolidated gross sales revenue of CHF 456.8 million in 2019. It is one of the leading foodstuff companies in Switzerland, employing over 618 staff as of 31.12.2019. Made from natural ingredients such as milk, whey and oil seeds, HOCHDORF products have been contributing to our health and well-being since 1895 – from babies to senior citizens. Its customers include the food industry and the wholesale and retail sectors and its products are sold in over 70 countries. The shares are traded on the SIX Swiss Exchange in Zurich (ISIN CH0024666528).

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Positive free cash flow resulting from the Pharamlys sale
Earned capital was reduced from CHF 30.4 million to CHF -34.8 million. The considerably lower operating results have a significant impact in this regard. Compared to the previous year, cash flow from operating activities showed an improvement from CHF -81.3 million to CHF -15.4 million. This is mainly due to the deconsolidation of the Pharmalys companies and the reduction of receivables and inventories. The item Inventories also includes value adjustments due to damage claims.

As announced last year, the investment total was significantly reduced to CHF 8.6 million (PY CHF 35.5 million). Free cash flow was positive again at CHF 16.5 million. This was mainly due to the net cash flow from the sale of the Pharmalys companies. For 2020, the Group expects positive free cash flow again. Net debt fell from CHF 141.3 million to CHF 113.3 million compared to December 2018.

The equity ratio increased compared to the end of 2018 to 54.6% (PY 48.8%). The HOCHDORF Group's financing will improve significantly in the current business year once it receives the remaining purchase price from the sale of the Pharmalys companies.

Dairy Ingredients
In Switzerland, HOCHDORF Swiss Nutrition Ltd processed 391,409 tonnes of milk and whey (PY 408,857 tonnes; -4.3%). The decline can be explained by the lower milk yield as a result of the dry summer of 2018, the lower milk production in the second half of the year due to the uncertain financial situation as well as the poorer milk prices in competition with industrial cheese making as a result of the follow-on solution from the "Schoggi Law". Despite the challenging procurement and liquidity circumstances, HOCHDORF Swiss Nutrition Ltd always managed to maintain supply and so defend its market share. The integration of parts of the Cereals & Ingredients division and the divestment of unprofitable business activities were largely completed by the end of the year.

Uckermärker Milch GmbH processed a significantly higher liquid volume than in the previous year (286,436 tonnes compared to 234,324 tonnes; +22.2%). The milk quantity increased significantly as a result of new contracts with several regional direct suppliers. As part of the restructuring of the HOCHDORF Group, the shareholding in Uckermärker Milch GmbH was sold at the end of February 2020.

Baby Care division
The Baby Care division achieved a net sales revenue of CHF 72.8 million in 2019 (PY 176.0 million; -58.6%). The decrease can be mainly explained by a significant fall in sales to some large customers and the sluggish sales for the former subsidiary Pharmalys Laboratories SA. A collapse in sales, necessary value adjustments on outstanding receivables and the technical challenges that arose in the second half of the year in connection with the launch of the spray tower line 9 at the Sulgen plant all put pressure on operating results.

Lower sales coupled with these technical challenges led to a relatively low utilisation of the new production and filling line for *HOCHDORF Swiss Nutrition Ltd* in Sulgen. The planned technical renovation of spray tower line 8 was largely completed. This enables the plant to produce new, high-quality formulations that meet the highest quality requirements. The development of the new EU formulations was also successfully concluded at the same time. A new product also achieved market readiness in the FSMP segment (food for special medical purposes).

Bimbosan AG reported positive results in 2019 and slightly exceeded expectations. Bimbosan expanded its strong position in the domestic market further and continued to increase its share of the Swiss specialist market. The first results were achieved in the internationalisation of the "Bimbosan" brand.

Postponement of the Annual General Meeting
Based on the Federal Council's decisions of 13 and 16 March 2020 in connection with the coronavirus pandemic, the Board of Directors has decided to postpone the Annual General Meeting on 17 April 2020. It will now take place on Tuesday 30 June 2020 at 10.30 am.

As a result of the negative results, the Board of Directors is proposing to shareholders that no dividend be paid.

Outlook for 2020
In 2020, the new Board of Directors will work together with Group Management to develop a future strategy for the HOCHDORF Group. In preparation for this we have defined various focus projects that form the basis of our future strategic planning. In addition, we launched our "OPTIMA" efficiency enhancement programme at the beginning of the year to achieve a sustained reduction in operating costs.

A key focus for the future will be ensuring sustainable business development in the *Baby Care* division in a highly competitive international environment. Sales and service structures have to be strengthened and market oriented to achieve the required growth and improve utilisation of the plants in Sulgen. It is vital to secure sustained growth with Pharmalys in 2020 and promote the internationalisation of our own "Bimbosan" brand. Business development plays a central role in the future development of the Baby Care division, as the acquisition of new customers involves lengthy and complex approval processes.

The wholesale market will remain highly competitive for *Dairy Ingredients* in 2020. We expect the situation in milk procurement and the sales market to remain very challenging as a result of the solution that succeeded the "Schoggi Law". The customer and product portfolio established in recent years will be further developed. The best possible plant utilisation to secure the HOCHDORF Group's economic success is particularly important in this regard.

The market situation remains very challenging; with the impact of the coronavirus epidemic difficult to assess at the current time, the Board of Directors and Group Management have agreed a sales and revenue range for the 2020 business year. The HOCHDORF Group is expecting net sales revenue in the region of CHF 280 – 320 million and positive results at the EBITDA level.

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HOCHDORF Group key figures 2019

TCHF	2019	2018	Change
Net sales revenue	456,797	561,031	-18.6%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	-74,709	35,886	n.a.
as % of production revenue	-17.0	*6.3*	
Earnings before interest and tax (EBIT)	-265,309	18,649	n.a.
as % of production revenue	-60.3	*3.3*	
Net profit	-271,393	8,656	n.a.
as % of production revenue	-61.7	*1.5*	
Staffing levels at 31.12	618	694	-11.0%
Earned capital	-34,821	30,425	n.a.
Liquid quantity processed (milk, cream, whey etc) in tonnes	677,845	661,017	+2.5%
Quantities produced (including cream) in tonnes	163,396	141,380	+15.6%
Quantities sold in tonnes	162,093	154,609	+4.8%

	31.12.2019	31.12.2018	
Balance sheet total	455,572	575,231	-20.8%
of which equity capital	248,953	280,847	-11.4%
as a % of the balance sheet total	*54.6*	*48.8*	

Share details	2019	2018	
Earnings/loss per share (in CHF)	-164.56	2.02	n.a.
Dividend payout (in CHF)	0.00*	0.00	
Price at close of trading per 31.12. (in CHF)	83.20	102.00	-18.4%
Stock exchange capitalisation (in million CHF)	146.3	146.3	0.0%
Price/earnings ratio (P/E) as at 31.12	n.a.	50.4	

* subject to approval at the Annual General Meeting of 30 June 2020.

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

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