

HOCHDORF Group Press Release: Annual Results 2020

HOCHDORF – strategic and operational foundations developed

Hochdorf, 12 April 2021 – During 2020, HOCHDORF largely completed the restructuring it began in summer 2019. The integration of Bimbosan was implemented with its move to Hochdorf in January 2021. The business relationship with Pharmalys was improved in terms of operational cooperation. HOCHDORF achieved the sales and earnings targets published for 2020, despite the negative impact of the Covid-19 pandemic. A revaluation of assets did lead to additional depreciation and thus to a clearly negative EBIT. However, the adjusted operating EBIT of the core business is positive and has thus reached break-even.

In 2020, HOCHDORF Swiss Nutrition Ltd processed a total of 335.8 million kg (previous year: -14.2%) of milk, whey, cream and buttermilk (liquid quantity) and sold 57,488 tonnes of products (figures excl. Uckermärker Milch GmbH). The Covid-19 pandemic led to higher domestic demand for dairy products due to the discontinuation of shopping tourism, which reduced the quantity of milk available and created significant under-deliveries in the cream sector.

Lower net sales revenue with improved gross margin

Net sales revenue decreased in line with expectations from CHF 457 million to CHF 306.2 million. The decrease is mainly due to the sale of the subsidiary Uckermärker Milch GmbH. The gross operating profit increased from CHF 61.8 million to CHF 94.3 million despite this significantly lower net revenue. The gross profit margin is thus 30.9% (previous year: 14.1%), reflecting the positive effect of the agreed and implemented portfolio streamlining.

Personnel expenses fell significantly from CHF 50.7 million to CHF 39.7 million. Other operating expenses also fell sharply from CHF 85.8 million to CHF 40.7 million due to the streamlining and the absence of special effects. This resulted in a clearly positive EBITDA of CHF 13.9 million (2019: CHF -74.7 million), allowing HOCHDORF to meet its forecast in this respect.

EBIT negative; adjusted operating EBIT of core business reaches break-even point

Depreciation includes an impairment of CHF 65.8 million on buildings and other fixed assets of the spray tower plant 9 and the related canning line. This impairment is justified by the low capacity utilisation of these plants and the high risk of the Baby Care business with regard to the customer portfolio. This resulted in a negative EBIT of CHF -67.9 million (previous year CHF -265.3 million). After adjustment for one-off special effects such as value adjustments to assets, effects from sales, liquidations and site closures in 2020, EBIT from the core operating business is slightly positive at CHF 2.3 million. The net result for the Group is CHF -70.3 million (2019: CHF -271.4 million).

The OPTIMA cost efficiency programme in particular had a positive impact on the result. Measures to make savings in the areas of purchasing and to reduce operating costs have already been successfully implemented.

The HOCHDORF Group, which is listed on the Zurich Stock Exchange, achieved a consolidated net sales revenue of CHF 306.2 million in 2020. It is one of the leading foodstuff companies in Switzerland, employing 391 staff as of 31.12.2019. Advanced processing expertise for high-quality raw materials, state-of-the-art production technology and the market-focused nutrition expertise of its employees means that HOCHDORF stands out in the global market as a developer, manufacturer and marketing expert in specialist foods for people of all ages with specific nutritional needs. The portfolio offers solutions ranging from high-quality semi-finished products for the processing food industry to consumer products in the sensitive infant formula segment.

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Negative cash flow from operating activities, positive free cash flow

Earned capital increased from CHF -34.8 million to CHF 11.1 million. Due to the low investment volume and the payment of the first outstanding purchase price payments from Pharmalys, the free cash flow was also positive at CHF 17.3 million. In contrast, the cash flow from financing activities was clearly negative at CHF -24.9 million, driven by high interest payments, in addition to a redemption payment to the syndicate banks and to third-party banks as part of the sale of Uckermärker Milch GmbH. Net debt fell from CHF 104.7 million to CHF 87.6 million compared to the previous year.

The equity ratio stabilised at 56% (previous year 58%) despite a strongly negative company result. The negative result was compensated by the sale of subsidiaries but also by the repayment of bank debts. The Board of Directors is not recommending payment of a dividend.

Baby Care Division

The Baby Care division (HOCHDORF Swiss Nutrition Ltd and Bimbosan AG) achieved net sales of CHF 99.5 million. After eliminating the value adjustments on receivables made in 2019 and the loss of market sales due to the sale of Pharmalys Laboratories SA, net sales increased by 4% despite the loss of a major customer and the challenges posed by the Covid-19 pandemic. Net sales are therefore within the projected sales range of CHF 90 million to 110 million. The largest share of turnover is generated by sales to Pharmalys. Despite the recall of baby food products, Bimbosan AG remained at the previous year's level and was able to increase its specialist market share to just over 39%.

In 2020, the Baby Care division focused more on project development with existing and new customers and on the development of new products. With the change in EU regulations in February 2020, HOCHDORF successfully introduced the newly developed premium products to the markets in Switzerland and Europe.

The division has also focused on current nutritional trends to expand its portfolio, developing a product range based on goat's milk and a vegan infant formula based on GMO-free soya. Both product concepts were launched on the Swiss market under the Bimbosan brand at the end of 2020.

HOCHDORF expanded its own brand business with the launch of the new Babina Plus product in Central America. Babina Plus is a milk formula for growing children and adolescents. Unlike Babina (infant formula), it is also sold in retail outlets.

Operational cooperation with Pharmalys improved and expanded

HOCHDORF has set up joint projects with Pharmalys for product development and opening up new markets, some of which are already being operationally implemented. Pharmalys remains the Baby Care division's largest single customer. The Baby Care division is working intensively on growth with existing and new customers in the private label sector and with its own Bimbosan and Babina brands to create a more balanced customer portfolio.

Food Solutions Division (formerly Dairy Ingredients)

In Switzerland, HOCHDORF Swiss Nutrition Ltd processed a liquid quantity of 335.8 million kg in 2020 (previous year 391.4 million kg; -14.2%). The reduced liquid quantity can be explained by higher domestic demand for milk products during the Covid-19 lockdown in spring and autumn/winter of 2020. The business division achieved its forecast sales target with net sales of CHF 206.7 million despite the difficult global economic situation (forecast 2020: CHF 190 to 210 million).

The Dairy Ingredients division continued to drive forward the strategic development and marketing of high value-added products in the 2020 business year. In this context, HOCHDORF launched a whey competence centre at the Sulgen plant in autumn 2020 to focus on further refining whey as a raw material. This will enable HOCHDORF to develop and produce high-quality functional whey-based semi-finished products for use in baby care and high-protein products. It also gives HOCHDORF the opportunity to replace the purchase of some specialities with its own products and significantly increase internal value creation.

Strategy 2025 developed and corporate structure adapted

For the new Board of Directors and Group Management in place as of 30 June 2020, the focus was on stabilising the company and shaping its future. The strategy and the organisational model were approved by the Board of Directors at the beginning of December 2020.

CEO Peter Pfeilschifter explains: "HOCHDORF is well equipped to meet the growing global demand for high-quality and technically sophisticated 'smart nutrition' products for people of all ages. We see interesting growth opportunities with above-average value creation in this area."

HOCHDORF is also strengthening its customer, market and brand perspective through its internal "ONE HOCHDORF" project. A new corporate structure was implemented at the beginning of 2021 in line with this goal and strategy. "In short, the new structure will allow us to become even more agile, innovative and service-oriented, so that we can inspire our customers and employees even more about HOCHDORF," explains Peter Pfeilschifter.

Annual General Meeting without shareholders present

The Board of Directors has decided to hold the Annual General Meeting on 09 June 2021 to bring the 2020 business year to an appropriate conclusion. The meeting will take place in the absence of shareholders due to the Covid-19 pandemic.

Outlook for 2021

After years of reorganisation and restructuring, HOCHDORF sees 2021 as a year of new beginnings. At the same time, it is important to continue on the path of financial recovery. To this end, the Board of Directors is currently focusing on developing financial strategy options, which may include capital measures to further stabilise the balance sheet and support sustainable corporate growth.

Competition remains intense and the impact of the Covid-19 pandemic is affecting the company's own product sales as well as those of its customers. The Baby Care division is also strongly influenced by very strict regulatory requirements and declining birth rates in China for several years, combined with overcapacities in the market. HOCHDORF is seeking to counter these market challenges with its new Strategy 2025.

In Baby Care, new customer projects are progressing much more slowly than hoped due to the Covid-19 pandemic. However, HOCHDORF is confident it will continue to grow with its branded and private label customers in 2021. In addition, it expects to develop several new customers in the Latin America, Europe, Middle East, North Africa and Asia regions.

In Food Solutions, HOCHDORF still expects sales volumes in 2021 from premium chocolate customers below the levels prior to the Covid-19 pandemic. In contrast, the company anticipates growth for high-protein powder products based on milk and whey and for non-dairy or plant-based powders, as well as in Swiss cream sales.

In 2021, the HOCHDORF Group expects to achieve net sales in the range of CHF 260 to 300 million and a balanced annual result at EBIT level, despite the continuing uncertainties related to the Covid-19 pandemic. This means organic sales growth of 3 to 4 percent for the “new” HOCHDORF Group without Uckermärker Milch GmbH, Marbacher Ölmühle GmbH and Zifru Trockenprodukte GmbH.

HOCHDORF Group key figures 2020

	2020	2019 ¹⁾ (adjusted)	Change
TCHF			
Net sales revenue	306,199	456,797	-33.0 %
Earnings before interest, tax, depreciation and amortisation (EBITDA)	13,869	-74,709	n.a.
<i>as % of production revenue</i>	<i>4.5</i>	<i>-17.0</i>	
Earnings before interest and taxes (EBIT)	-67,872	-265,309	n.a.
<i>as % of production revenue</i>	<i>-22.3</i>	<i>-60.3</i>	
Net profit	-70,274	-271,378	n.a.
<i>as % of production revenue</i>	<i>-23.0</i>	<i>-61.7</i>	
Earned capital	11,097	-34,821	n.a.
Staffing levels at 31.12	391	618	-36.7 %
Liquid quantity processed (milk, cream, whey etc) in tonnes	376,009 ²⁾	677,845	-44.5 %
Quantities produced (including cream) in tonnes	69,091	161,831	-57.3 %
Quantities sold in tonnes	80,732	162,093	-50.9 %
	31.12.2020	31.12.2019	
Balance sheet total	323,838	455,572	-28.9 %
of which equity capital	180,461	257,816	-30.0 %
<i>as a % of the balance sheet total</i>	<i>55.8</i>	<i>56.6</i>	
Share details			
Earnings/loss per share (in CHF)	-34.60	-164.56	n.a.
Dividend payout (in CHF)	0.00*	0.00	
Price at close of trading per 31.12. (in CHF)	63.20	83.20	-24.0 %
Stock exchange capitalisation (in million CHF)	136.0	146.3	-7.0 %
Price/earnings ratio (P/E) as at 31.12	n.a.	n.a.	

¹⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond.

²⁾ Incl. Uckermärker Milch GmbH liquid quantities (40,216 tonnes).

* Subject to approval at the Annual General Meeting of 09 June 2021.

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

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