HOCHDORF

Swiss Nutrition Solutions

Half-year Report

2023

Half-year Report 2023

Dear Shareholders

The HOCHDORF Group is continuing the pleasing development from the second half of 2022, in line with its strategy. As a result of a consistent focus on earnings quality and growth in the infant nutrition sector, the gross margin was further increased to 30.5% in the first half of 2023. HOCHDORF achieved a positive operating profit at EBITDA level of CHF 6.7 million and a positive EBIT of CHF 1.6 million as at 30 June 2023. HOCHDORF believes it is on track to achieve its target of a positive EBITDA by the end of 2023 under current market conditions.

Ralph Siegl (CEO and Delegate of the Board of Directors – left) and Jürg Oleas (Chairman of the Board of Directors)

Strong result for Infant Nutrition

Food Solutions contributed around 67% (CHF 103.5 million) of net sales revenue in the first half of 2023. The total net sales revenue increased by 5.8% to CHF 154.2 million compared to the first half of 2022. The Infant Nutrition division – formerly "Baby Care" – contributed around 33% (CHF 50.7 million) to sales in the first half of 2023. In line with our strategy, performance in this segment is very clearly above the previous year. To promote further growth in Infant Nutrition, HOCHDORF and its partners registered several hundred products for existing and new markets in the first half of 2023. We are confident that we will achieve the planned annual sales volume within the Infant Nutrition division.

The seasonally strong milk intake in the first half of the year and the good cream prices had a strong impact on production at the Hochdorf and Sulgen sites. Despite lower milk volumes expected in the market as a whole, HOCHDORF processed significantly more milk than planned at the beginning of the year, not least as a result of the structural adjustment at the cheese dairies and in view of the persistently full cheese warehouses, and thus made a significant contribution to regulating the milk market.

Financing and liquidity

The short and medium-term financing of the HOCHDORF Group is secured by the continuation of the current syndicated loan by the existing bank consortium with a term of two years.

From an operational point of view, liquidity has improved significantly and the further recovery towards a cash-positive business model is the focus of the strategy.

The Board of Directors and Group Management are exploring financing options that would provide the company with more flexibility.

Innovation

In view of the changing market requirements, innovation is vital and this is impressively underpinned by the innovation rate of 21.5%: more than a fifth of sales in the first half of 2023 were generated with products that are less than three years old. In relation to pioneering new products, for example, a development cooperation was agreed with a global food group for the plant-based milk powder alternative VIOPLUS. The leading market position of the BIMBOSAN brand in the Swiss specialist trade sector came under some pressure due to energy-related price increases. A marketing campaign closely aligned with the BIMBOSAN brand is currently impacting customer numbers and market share.

Dairy sector and price compensation

Further processing of Swiss milk proteins remains the main focus of HOCHDORF's strategy. As one of the four largest milk processors in Switzerland with a milk volume equivalent to the average production of over 1,200 milk producers, the company has an important role to play in regulating the milk market. HOCHDORF also currently provides more than half of Switzerland's active production capacity for roller-dried milk powder, which is used primarily in Swiss milk chocolates. The whey produced in cheese dairies is processed into powder by our in-house whey competence centre and has an important function as a raw material for infant formula.

As a company that directly or indirectly exports the majority of its milk, HOCHDORF is directly affected by the milk price in Switzerland defined by the government's agricultural policy. HOCHDORF therefore depends on a functioning price compensation mechanism for exported milk powder (successor solution to the Schoggi Law and vertical financing). In recent years, the company has mostly cross-subsidised a substantial contribution to ensure competitive export powder prices. This has maintained production capacity to enable milk powder sales primarily for the chocolate industry. The funding required for this had to be provided essentially from the company's own reserves. The profitability of these industrial powders, which is significantly below average compared to infant formula and functional specialities, presents HOCHDORF with major challenges in view of the challenging financing situation and capital structure. Solutions for financial recovery must be found promptly with the interested parties (milk producers, food industry, chocolate industry).

Outlook

The HOCHDORF Group transformation is on track. If the pleasing demand for infant formula in emerging markets and the general conditions remain stable, the Group will achieve its target of a positive EBITDA by the end of 2023.

As our valued shareholders, we view the trust that you have also placed in us as an important indicator. HOCHDORF has great expertise that is highly relevant to today's nutrition market – which is worth fighting for. A creative and entrepreneurial solution to eliminate the existing legacy issues is essential for the company's long-term survival. With this in mind, we will continue to communicate transparently and realistically. Despite the good work over the past twelve months, there are still some challenges ahead that we can only resolve by working together.

We would like to take this opportunity to thank our ONE HOCHDORF team once again for their perseverance, their openness to change and their stamina in these challenging times.

Jürg Oleas
Chairman of the Board of Directors

Ralph P. Siegl
CEO and Delegate of the Board of Directors

Infant Nutrition

The Infant Nutrition division – previously “Baby Care” – contributed around 33% (CHF 50.7 million) to sales in the first half of 2023. Private label infant formula products and follow-on milks account for the largest proportion of sales, with a smaller share represented by the company’s own brand Bimbosan, which is distributed in Switzerland.

Among the private label customers, Pharmalys Laboratories SA, with target markets in the Middle East and in North and West Africa, was by far the largest customer for “Made in Switzerland” infant formula. In the first half of the year, growth was particularly strong in Jordan, Algeria and Côte d'Ivoire due to overall market growth and market share gains. Pharmalys has also submitted numerous new applications for product registrations abroad and hopes to achieve further sales growth in populous countries in East Africa and other regions.

Bimbosan: strengthening the Swissness factor

In recent months, Bimbosan has been strongly challenged by the increased marketing mix of its competitors and has lost market share in the specialist trade sector. With a new website launched in March and a new Fanshop with personalised gift items, HOCHDORF and its Bimbosan team aim to defend and further expand their market position. In addition, the national campaign planned for the second half of the year with short films on the brand benefits and a “Swissness” film will increase brand awareness. The Swissness factor is a strong selling point because so few other manufacturers of infant formula can claim to process Swiss milk with short travel distances in Switzerland and for the Swiss market.

Swissmilk green: 100% from 2024

The planned 100% conversion to the “swissmilk green” standard will emphasise the competitive advantages of Swiss grassland feeding and Swiss welfare and control regulations even more strongly – providing an additional quality argument for Bimbosan in 2024 too. In terms of the product range, the innovative “Balance” product will feature rather than a successor product for the HA milks with hydrolysed protein. “Balance” has an adapted carbohydrate profile and a reduced lactose content, which can have a positive effect on digestibility.

The new Bimbosan product “Balance”

Food Solutions

The Food Solutions division contributed around 67% (CHF 103.5 million) of the net sales revenue of CHF 154.2 million in the first half of 2023. This includes milk and fat powders produced as semi-finished products for the food industry using the spray or roller process, as well as finished products such as cream and condensed milk.

Milk intake and “swissmilk green” share

The seasonally strong milk intake in the first half of the year that averaged 22.7 million kilograms per month and the good cream prices had a critical impact on production at the Hochdorf and Sulgen sites. During the first six months, the milk volume was seasonally higher than the annual average, which meant HOCHDORF produced substantial quantities of milk powder as well as cream. Although it is not one of the strategic focus products, cream achieved a higher margin than usual as a result of the favourable economic situation. Overall, the share of “swissmilk green” milk was 85% of the total milk volume. In line with the decision taken by industry associations, this proportion will rise to 100% as early as 2024, which HOCHDORF very much welcomes.

First successes for vegetable milk powder alternative

Demand from the chocolate industry for Swiss whole milk powder from HOCHDORF's five roller drying plants was largely stable. Price negotiations with partners, some of whom have worked with HOCHDORF for many years, were dominated by vertical financing in view of the sharp drop in EU prices and the continuing high Swiss milk prices. The first customer tests with the plant-based milk powder alternative VIOPLUS were successful: impressed by the taste profile, the customer is currently working with the HOCHDORF team to develop a unique variant for its products. The Niro4 spray belt dryer in Hochdorf also produced various specialities in the first half of 2023, including spray-dried organic coconut fat and enriched speciality products. Demand for Swiss whey protein concentrate (WPC) was higher than the production processes and milk intake made possible.

Yuma whey drink: new formulation and flavours

HOCHDORF launched its new whey product "Yuma" at the start of the year. After six months of development and optimisation work, the whey drink is now produced 100% in Hochdorf and almost exclusively with Swiss raw materials (with the exception of the agave syrup). The composition has been optimised in terms of fibre, vitamins and natural flavours. Agave syrup has replaced sugar as a natural sweetener. The increased "health factor" is also reflected in the new flavours, which were selected as Vanilla, Lemon & Ginger, Coffee and Natural varieties following customer panel surveys. Yuma is sold in online shops as well as pharmacies and chemist shops. As a B2C product, it demonstrates HOCHDORF's expertise in supporting customers with the launch of a branded product in the smart nutrition sector, supporting every aspect from product composition to shelf space.

New Yuma product range

Innovation and R&D

As of the end of June, the innovation rate for 2023 is 21.5%, well above the target of 10%. The innovation rate measures the ratio of sales of products launched over the past three years to total sales.

New launches for Yuma, Bimbosan and private label products

In terms of new launches, there was considerable activity in the first half of 2023: our own whey drink brand Yuma was launched with a changed composition and new flavours (see Food Solutions). “Balance” will complement the Bimbosan range in the future (see Infant Nutrition). HOCHDORF developed a new “preterm” formula for premature babies for a private label customer in the Infant Nutrition sector. This product is a good example of the time required for new launches with intensive registration requirements. The development of this product was initiated three years ago. In the first half of the year, the R&D team also started the first tests for a special high-fat powder, which should be ready in the second half of the year.

Audit for market access in the US

At the same time, HOCHDORF is working on qualifying as a US supplier for infant formula. We have undertaken the required audit and are planning the constructional value-added investments required for market access.

Memberships with Foodward and Swiss Protein Association

Since this year, HOCHDORF has been an active member of the Swiss Association for Protein Research and a patron of "Foodward". Both networks are important for the further training and networking of employees within the industry, but also for sharing the HOCHDORF perspective as one of the largest milk processors in Switzerland and as a specialist in refining protein. We will continue to focus on active involvement with industry, universities and foodtech start-ups and expand this further in the second half of the year.

Concept study with sample products for the new area of food supplements for adults

Trade fair presence at the PLMA

HOCHDORF presented a concept study based on the "ready to adapt" principle for the specialist nutrition sector at the Private Label Exhibition in Amsterdam (PLMA). This considered food supplements for adults with additional functional benefits. As part of the S-GE Swiss Pavilion, the sales team was able to cultivate old and new contacts at the exhibition and to present HOCHDORF's technological expertise to the outside world.

HOCHDORF booth in the S-GE Pavilion at PLMA in Amsterdam (April 2023)

Photovoltaic and flotation plant in Sulgen

A photovoltaic system was installed on a roof area at the Sulgen site with an external supplier, covering around 7000 m2. It will be used for the company's own consumption in the future, supplying about 4% of the annual electricity requirement. In terms of sustainability goals, further progress was made in waste water management and a new flotation plant was put into operation.

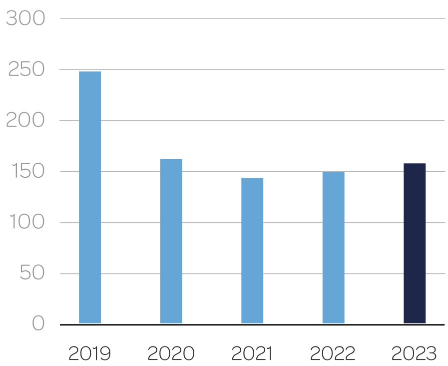
Photovoltaic system during the final phase of installation at the Sulgen site

Financial Report

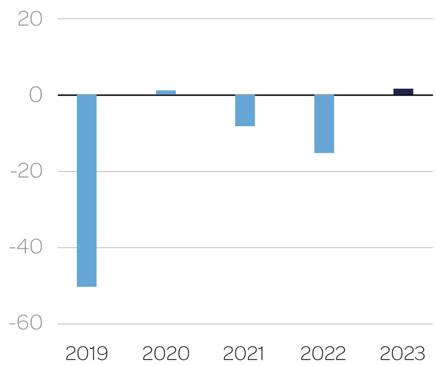
Net sales revenue

In the first half of 2023, the HOCHDORF Group achieved a net sales revenue of CHF 154.2 million (previous year: CHF 145.7 million; +5.8%). The Food Solutions division contributed around 67% (CHF 103.5 million) to net sales revenue in the first half of 2023 and was 12.6% below the previous year's level (CHF 118.3 million). The Infant Nutrition division – previously "Baby Care" – was responsible for around 33% (CHF 50.7 million) of sales in the first half of 2023. In line with our strategy, performance in this segment is very clearly above the previous year (CHF 27.4 million; +85%) and is on course to meet expectations. To promote further growth in Infant Nutrition, HOCHDORF and its partners registered hundreds of products for existing and new markets in the first half of 2023. The HOCHDORF Group is confident to achieve the annual sales target set for the Infant Nutrition division.

Net sales revenue[1)]
CHFm



EBIT [1)]
CHFm



1 Comparability with previous years is limited due to restructuring and value adjustments in 2019, 2020 and 2021.

Gross operating profit, EBITDA, EBIT, net profit

In the first half of 2023, the HOCHDORF Group was able to benefit from sales in the Infant Nutrition division, renegotiated prices and good cream sales. The operating result was thus stabilised and positive compared to 2022. The pleasing development from the second half of 2022 continued in line with the Group's strategy. As a result of a consistent focus on earnings quality and growth in the Infant Nutrition sector, the gross margin was further increased to 30.5% in the first half of 2023. HOCHDORF achieved a positive operating profit at EBITDA level of CHF 6.7 million (3.9% of production revenue) and a positive EBIT of CHF 1.6 million (1.0% of production revenue) as at 30 June 2023. The company is on track to achieve its target of a positive EBITDA by the end of 2023.

The cost of materials and goods was 5.7% lower in the first half of 2023 than in the same period of 2022 (CHF 118.6 million compared to 125.8 million). At CHF 19.2 million, personnel costs are CHF 1.0 million lower than in the first half of 2022 (–5.3%). Due to higher energy costs and additional external expenses, other operating expenses increased by CHF 1.6 million to CHF 26.2 million (previous year: CHF 24.4 million). As a percentage of operating income, operating expenses (personnel plus other operating expenses) fell by 1.4% from 28.0% (2022) to

26.6% (2023). The situation on the energy and logistics markets eased although they were still above the pre-pandemic levels. The stabilisation gave us planning security and had a positive effect on delivery and operational performance. The milk price rose again and is at a high level compared to other years: the difference between the European market price has widened significantly again. This high milk price is an issue because we can only pass on these raw material costs to our customers to a limited extent and on a small scale. The HOCHDORF Group is involved with discussions with customers around these concerns as necessary.

The financial result of CHF –1.9 million improved compared to the first half of 2022 (CHF –2.2 million) despite higher interest rates. The net result at group level is still slightly negative at CHF –0.9 million.

Assets, financing, cash flow

Current assets have increased from CHF 107.5 to CHF 110.1 million since 31.12.2022. The high inventory level (+ CHF 17.2 million compared to December 2022) led to a strong increase in current assets, which were reduced by the decrease in trade receivables (CHF –14.1 million due to the partial reclassification of receivables from the customer Pharmalys Laboratories SA as non-current, reduction of average payment terms, etc.) Non-current assets increased by CHF 2.0 million compared to 31.12.2022 (related to this partial reclassification of Pharmalys financial assets). Total receivables from Pharmalys Laboratories SA amounted to CHF 56.3 million as at 30.06.2023 (31.12.2022: CHF 55.6 million). No new receivables were built up (the increase is related to the reporting date, as all new receivables were settled on time). The liabilities increased from CHF 115.6 million (31.12.2022) to CHF 121.0 million due to higher level of accrued liabilities and deferred income at the reporting date.

The financial covenants that require compliance under the syndicated loan agreement and the bilateral credit from Luzerner Kantonalbank are an equity ratio of at least 40.0% and a maximum loss at EBITDA level of CHF 7.0 million. There was compliance with these covenants as at 31 December 2022 and 30 June 2023. The Group Management and Board of Directors of the HOCHDORF Group currently assume that there is no risk of a breach of the agreed covenants as at 31 December 2023.

The cash flow situation is stable and improved significantly compared to the same period last year. The cash flow from operating activities is still negative at CHF –6.0 million. This is due to higher inventories, which should ensure the availability of products during necessary updates work on production facilities in the second half of 2023.

Key Figures of the HOCHDORF Group

	30.06.2023	30.06.2022	30.06.2021	30.06.2020[1)]	30.06.2019
Net sales revenue from goods and services (in CHF 1'000)	154,170	145,715	140,293	158,289	242,864
threreof net sales Food Solution (in CHF 1'000)	103,450	118,301	112,434	120,681	201,934
threreof net sales Baby Care (in CHF 1'000)	50,720	27,414	27,859	37,608	30,289
threreof net sales Other (in CHF 1'000)	0	0	0	0	10,641
EBIT(in CHF 1'000)	1,622	–15,926	–8,604	1,158	–52,390
Net result for the period (in CHF 1'000)	–901	–18,256	–9,046	–3,996	–63,631
Total assets (in CHF 1'000)	287,986	295,358	339,037	418,552	564,289
Equity ratio	58.0%	55.9%	50.6%	56.8%	38.5%
Cash flow from operating activities (in CHF 1'000)	–6,024	–12,355	–7,912	–15,094	–29,029
Market capitalisation as at 30.06.	42,605	80,261	123'950	131,903	154,954
Share price at close of trading as at 30.06. (in CHF)	19.80	37.30	57.50	61.30	108.00
Earnings per share (shareholder) basic (in CHF)	–0.42	–8.63	–4.24	–1.90	–30.89
Earnings per share (shareholder) diluted (in CHF)	–0.42	–8.63	–4.24	–1.90	–30.89
Staffing level as at 30.06.	333	369	390	427	666

1) Comparative period of the half year financial statement adjusted due to the change in the valuation principles for the hybrid bond (see also the Notes to the annual financial statements of the HOCHDORF Group "Principles of consolidation").

Consolidated balance sheet as at 30 June 2023

	Explanations in the notes	2023 TCHF	in %	2022 TCHF	in %
		01.01.23-30.06.23		01.01.22-31.12.22	
Assets					
Cash and cash equivalents		7,802	2.7%	10,205	3.6%
Securities		0	0.0%	223	0.1%
Trade accounts receivables	3)	13,953	4.8%	22,022	7.8%
Trade accounts receivables from related parties	3)	24,201	8.4%	30,146	10.6%
Trade accounts receivables from associated companies	3)	0	0.0%	107	0.0%
Other receivables	3)	4,288	1.5%	3,189	1.1%
Other receivables from related parties	3)	63	0.0%	0	0.0%
Inventories	4)	52,425	18.2%	35,163	12.4%
Accrued income	5)	7,408	2.6%	6,441	2.3%
Current assets		**110,140**	**38.2%**	**107,496**	**37.9%**
Property and plant		47,637	16.5%	48,468	17.1%
Other fixed assets		86,694	30.1%	89,243	31.5%
Total fixed assets		**134,331**	**46.6%**	**137,711**	**48.6%**
Investments in associated companies		395	0.1%	1,325	0.5%
Financial assets	6)	42,309	14.7%	35,951	12.7%
Intangible assets		810	0.3%	869	0.3%
Non-current assets		**177,846**	**61.8%**	**175,856**	**62.1%**
Total assets		**287,986**	**100.0%**	**283,352**	**100.0%**
Liabilities					
Trade payables	7)	9,072	3.2%	26,712	9.4%
Trade payables to associated companies		0	0.0%	139	0.0%
Short-term financial liabilities		74,376	25.8%	67,118	23.7%
Other liabilities		5,221	1.8%	2,926	1.0%
Other financial liabilities to related parties		337	0.1%	310	0.1%
Accrued liabilities and deferred income	7)	24,881	8.6%	10,813	3.8%
Short-term provisions		149	0.1%	313	0.1%
Current liabilities		**114,035**	**39.6%**	**108,331**	**38.2%**
Non-current financial liabilities		121	0.0%	121	0.0%
Non-current provisions		6,846	2.4%	7,165	2.5%
Non-current liabilities		**6,967**	**2.4%**	**7,286**	**2.6%**
Share capital		21,518	7.5%	21,518	7.6%
Treasury shares		–5,704	–2.0%	–5,747	–2.0%
Capital reserves		163,389	56.7%	163,389	57.7%
Hybrid capital		116,437	40.4%	116,437	41.1%
Accumulated losses		–127,814	–44.4%	–112,124	–39.6%
Net result (shareholder)		–884	–0.3%	–15,796	–5.6%
Equity excl. minority interests		**166,941**	**58.0%**	**167,676**	**59.2%**
Minority interests		43	0.0%	60	0.0%
Shareholders' equity		**166,984**	**58.0%**	**167,736**	**59.2%**
Total liabilities and equity		**287,986**	**100.0%**	**283,352**	**100.0%**

The figures were recorded to the nearest centime, but not shown. Rounding differences may therefore occur.

Consolidated income statement

	Explanations in the notes	2023 TCHF 1.1.23-30.06.23	in %	2022 TCHF 1.1.22-30.06.22	in %
Net sales revenue from goods and services	8)	154,170	90.3%	145,715	91.1%
Other operating income		1,705	1.0%	1,970	1.2%
Change in inventories of semi-finished and finished products		14,831	8.7%	12,191	7.6%
Production revenue		**170,706**	**100.0%**	**159,876**	**100.0%**
Cost of materials and goods		–118,621	–69.5%	–125,807	–78.7%
Gross operating profit		**52,085**	**30.5%**	**34,068**	**21.3%**
Personnel expenses		–19,244	–11.3%	–20,317	–12.7%
Other operating expenses		–26,178	–15.3%	–24,405	–15.3%
Total operating expenses		**–45,423**	**–26.6%**	**–44,721**	**–28.0%**
EBITDA		**6,662**	**3.9%**	**–10,653**	**–6.7%**
Depreciation of fixed assets		–4,971	–2.9%	–5,168	–3.2%
Amortisation of intangible assets		–70	–0.0%	–105	–0.1%
EBIT		**1,622**	**1.0%**	**–15,926**	**–10.0%**
Income from associates and joint ventures		–547	–0.3%	175	0.1%
Financial result		–1,926	–1.1%	–2,204	–1.4%
Ordinary result		**–850**	**–0.5%**	**–17,955**	**–11.2%**
Non-operating result		–59	–0.0%	3	0.0%
Extraordinary result		7	0.0%	–0	–0.0%
Earnings before taxes		**–902**	**–0.5%**	**–17,952**	**–11.2%**
Income taxes		1	0.0%	–304	–0.2%
Net result		**–901**	**–0.5%**	**–18,256**	**–11.4%**
Attributable to:					
Net result current year (shareholder)		–884	–0.5%	–18,305	–11.4%
Net result current year (minority interests)		–17	–0.0%	49	0.0%
Net result		**–901**	**–0.5%**	**–18,256**	**–11.4%**
Earnings per share (basic)	9)	**–0.42**		**–8.63**	
Earnings per share (diluted)		**–0.42**		**–8.63**	

The figures were recorded to the nearest centime, but not shown. Rounding differences may therefore occur.

Consolidated cash flow statement

	01.01.2023 - 30.06.2023 TCHF	01.01.2022 - 30.06.2022 TCHF
Net result	–901	–18,256
Depreciation of fixed assets and amortisation of intangible assets	5,040	5,273
Net interest expense	2,106	1,059
Other non-cash adjustments [1]	–265	1,536
Change in provisions	–484	891
Income from associates and joint ventures	547	–175
Cash flow from operating activities before changes in net working capital	**6,043**	**–9,672**
As % of net sales revenue from goods and services	3.9%	–6.6%
Change in accounts receivables	8,366	715
Change in other receivables and accrued income	–2,129	843
Change in inventories	–17,262	–13,491
Change in trade payables	–17,787	–759
Change in other liabilities and deferred income	16,745	10,009
Change in net working capital	**–12,067**	**–2,683**
Cash flow from operating activities	**–6,024**	**–12,355**
As % of net sales revenue from goods and services	–3.9%	–8.5%
Investments in fixed assets	–1,591	–722
Investments in intangible assets	–11	–80
Investments in/divestment of long-term financial assets	–108	–31
Cash flow from investing activities	**–1,162**	**–833**
Free cash flow	–7,187	–13,188
As % of net sales revenue from goods and services	–4.7%	–9.1%
Change in short-term financial liabilities	7,257	–59
Change in long-term financial liabilities	0	10,000
Change in minority interests in capital and profit	–17	49
Interest paid	–2,461	–1,060
Cash flow from financing activities	**4,823**	**8,931**
Currency translation	–40	156
Net change in cash and cash equivalents	**–2,403**	**–4,101**
Cash and cash equivalents at 1 January	10,205	24,285
Cash and cash equivalents at 30 June	**7,802**	**20,184**

1) Other non-cash adjustments mainly include non-realized currency gains accounts receivable/payable

The figures were recorded to the nearest centime, but not shown. Rounding differences may therefore occur.

Consolidated statement of changes in equity

	Share capital [1]	Treasury shares	Capital reserves	Hybrid capital	Accumulated losses [2]	Accumulated currency translation differences	Total excl. minority shares	Minority shares	Total incl. minority shares
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF
Equity as at 31.12.2021	**21,518**	**–7,105**	**164,490**	**116,437**	**–112,174**	**48**	**183,213**	**55**	**183,267**
Currency translation differences	0	0	0	0	0	191	191	0	191
Net result	0	0	0	0	–18,305	0	–18,305	49	–18,256
Equity as at 30.06.2022	**21,518**	**–7,105**	**164,490**	**116,437**	**–130,479**	**239**	**165,099**	**104**	**165,203**
Equity as at 31.12.2022	**21,518**	**–5,747**	**163,389**	**116,437**	**–127,921**	**0**	**167,676**	**60**	**167,736**
Sale treasury shares	0	43	0	0	0	0	43	0	43
Currency translation differences	0	0	0	0	0	106	106	0	106
Net result	0	0	0	0	–884	0	–884	0	–884
Equity as at 30.06.2023	**21,518**	**–5,704**	**163,389**	**116,437**	**–128,805**	**106**	**166,941**	**43**	**166,984**

1) 2022 and 2023: 2,151,757 registered shares at nominal CHF 10.00; each share corresponds to one vote; the maximum entry limit in the share register is 15% of the votes

2) Of which non-distributable legal reserves TCHF 20'535 (31.12.2022 TCHF 18'510). This includes deferred interest under the hybrid bond of TCHF 9'915 (PY: TCHF 7'890) as at 30.06.2023, which will become due for payment at the time of a dividend resolved by the Annual General Meeting

Notes to the consolidated half-year financial statements

1. Consolidation principles

Accounting principles

The following consolidated financial statements include the non-audited half-yearly statements for HOCHDORF Holding Ltd and its subsidiaries for the reporting period ending on 30 June 2023. The consolidated half-year financial statements have been prepared in accordance with Swiss GAAP FER 31, the provisions of Swiss law, and with the consolidation and valuation principles described in the consolidated annual financial statements for 2022.

The consolidated half-year financial statements should be read in conjunction with the annual financial statements of the HOCHDORF Group prepared for the financial year ended 31 December 2022, as they represent an update of the last complete set of financial statements and therefore do not include all the information and disclosures required in the annual consolidated financial statements. The consolidated financial statements are prepared in Swiss francs (CHF).

The Board of Directors of HOCHDORF Holding Ltd approved the consolidated half-year financial statements 2023 for publication on 22 August 2023.

Currency conversion rates in CHF

The following exchange rates were used for both the consolidated half-year financial statements and the individual financial statements.

	Average half-year exchange rates		Mid-of-year exchange rates	
	2023	2022	30.06.2023	30.06.2022
1 EUR	1.014	1.026	1.025	1.000
1 USD	1.095	0.938	1.118	0.957
1 GBP	0.886	1.217	0.879	1.163
1 UYU	0.414	0.022	0.418	0.024

2. Changes in the scope of consolidation

The following changes to the scope of consolidation of the HOCHDORF Group have occurred since 30 June 2022.

The sale of Ostmilch Frischdienst Magdeburg GmbH on 25.04.2023 did not lead to any significant changes in individual balance sheet items. The overall published figures are therefore directly comparable with the previous year.

Consolidated companies	Location	Function	Currency	Capital in thousands 30.06.2023	Capital share 30.06.2023	Capital in thousands 31.12.2022	Capital share 31.12.2022
Snapz Foods AG [1]	Hochdorf CH	Handel	CHF	0	0%	0	0%
Ostmilch Frischdienst Magdeburg GmbH [2]	Meitzendorf DE	Handel	CHF	0	0%	25	26%

1) Liquidated as of 19.07.2022
2) Sale as of 25.04.2023; as an assosiated company with 'equity consolidation' no change in the scope of consolidation but listed here for transparency

Selected Notes

3 Accounts receivables

TCHF	30.06.2023	31.12.2022
Accounts receivables from third parties [1]	25,395	33,164
./. Provision for doubtful accounts	–11,443	–11,142
Short-term receivables from related parties [2]	24,201	30,146
Accounts receivables from associated companies	0	107
Other accounts receivables	4,288	3,189
Other accounts receivables from related parties	63	0
Total	**42,505**	**55,464**

1) Accounts receivables from third parties in the amount of CHF 10 million have been globally ceded as collateral for a bilateral credit line of CHF 10 million with a financial institution.
2) Partial reclassification of trade receivables as non-current

The accounts receivables from third parties do not contain any concentration of credit risk due to customer diversification. The bad debt item includes the value adjustment made in 2019 for a receivable in the amount of CHF 10 million from a customer that will still be carried under accounts receivables from third parties in 2023.

Accounts receivables from related parties include outstanding invoices from deliveries of goods to Pharmalys Laboratories SA. A significant portion of these receivables was classified as non-current as at the end of June 2023 (see also explanation under financial assets). The other accounts receivables mainly include receivables from government agencies (value added tax, Directorate General of Customs) and from social welfare organisations.

With regard to the recoverability of the accounts receivables from related parties, please refer to the notes on the assessment as a going concern in section 11.

4. Inventories

TCHF	30.06.2023	31.12.2022
Raw/auxiliary/operating materials	8,697	6,374
Finished goods and semi-finished products	49,328	32,594
Value adjustments for inventories	–5,601	–3,804
Total	**52,425**	**35,163**

Inventories increased due to the seasonality caused by the availability of milk on the market. Compared to the end of the previous year (CHF 32.6 million), the inventory value is significantly higher as considerably more milk was purchased. The value adjustments in the first half of 2023 are mainly due to the sales price devaluations for skimmed milk powder.

5. Accrued income

TCHF	30.06.2023	31.12.2022
Accrued revenues	3,875	2,440
Customs receivables	1,605	1,733
CO_2 refund	394	497
Others	1,534	1,771
Total	**7,408**	**6,441**

6. Financial assets

TCHF	30.06.2023	31.12.2022
Securities	37	37
Non-current receivables to related parties [1]	42,157	35,799
Assets from employer contribution reserves	116	116
Total	**42,309**	**35,951**

1) Partial reclassification of trade receivables to financial assets

As at the end of June 2023, non-current receivables from related parties include non-current receivables from deliveries of goods from HOCHDORF Swiss Nutrition Ltd to Pharmalys Laboratories SA of CHF 31.2 million and the outstanding payments (including repayment of loans and interest) of CHF 11.0 million from Pharmalys Laboratories SA (formerly Pharmalys Invest Holding Ltd) to HOCHDORF Holding Ltd .

7. Trade payables / Accrued liabilities and deferred income

Trade payables

TCHF	30.06.2023	31.12.2022
To third parties [1]	9,072	26,712
To associated companies	0	139
Total	**9,072**	**26,850**

1) Due to the earlier closing date, various supplier invoices (including the milk invoices) had not yet been received by the company

Accrued liabilities and deferred income

TCHF	30.06.2023	31.12.2022
Reimbursements [1]	3,089	1,281
Milk and goods received not yet invoiced	12,809	2,769
Invoiced not delivered revenues	0	1,284
Electricity, gas, water [2]	1,087	0
Employee overtime	350	361
Employee vacation	895	546
Others	6,650	4,572
Total	**24,881**	**10,813**

1) The "Reimbursements" include as the largest items the accruals for 'BOM vertical financing'
2) Due to the increase in energy prices

8 Segment reporting

As a result of possible competitive disadvantages compared to non-listed and large listed competitors, customers and suppliers, presentation of the segment results was waived, pursuant to Swiss GAAP FER 31/12. The Swiss milk market is small and tightly knit with few key companies and providers. The supplier side (milk producers) is organised within several milk producer organisations. On the processing side, the market is dominated by the cheese dairies and four large dairies. In terms of customers, the chocolate industry is dominated by a few large manufacturers. In the area of infant formula (based on milk), only one other firm produces infant formula for the Swiss and international market, apart from the HOCHDORF Group.

By segment

TCHF	1 halfyear 2023	Share	1 halfyear 2022	Share
Food Solutions	103,450	67.10%	118,301	81.19%
Infant Nutrition	50,720	32.90%	27,414	18.81%
Total	**154,170**	**100.00%**	**145,715**	**100.00%**

The Infant Nutrition segment includes the product group infant formula and products from other product groups

9 Earnings per share

	30.06.2023	30.06.2022
Weighted average shares outstanding, basic	2,129,295	2,122,019
Weighted average shares outstanding, diluted	2,129,295	2,122,019
Earnings current year (shareholder); TCHF	–884	–18,305
Earnings per share (shareholder) basic (in CHF)	**–0.42**	**–8.63**
Earnings per share (shareholder) diluted (in CHF)	**–0.42**	**–8.63**

To determine the earnings per share, the earnings attributable to the shareholders of the HOCHDORF Group for the current year are divided by the average number of outstanding shares. The treasury shares held are not included in the calculation (as at 30.06.2023: 22,462; 30.06.2022: 29,738).

10. Significant events and business transactions

There have been no significant events or transactions during the reporting period to the critical estimates, judgements and assumptions made in the consolidated financial statements as at 30.06.2023 . For further events after the balance sheet date, see section 12.

11. Assessment as a going concern by the Board of Directors

Assessment as a going concern

The Board of Directors and Group Management of HOCHDORF Holding Ltd are of the opinion that the following material uncertainties may cast significant doubt about the ability of HOCHDORF Holding Ltd to continue as a going concern. The ability to continue as a going concern at this time is dependent on the successful completion of the follow-on financing from 30 September 2023, based on the binding financing confirmation signed by the banks and available to the HOCHDORF Group.

The material uncertainties relate to:

a. Recoverability of receivables from Pharmalys Laboratories SA
b. Compliance with the financial covenants from the syndicated loan agreement
c. Ensuring solvency

Recoverability of receivables from Pharmalys Laboratories SA

There is close contact between the management of the HOCHDORF Group and the management of Pharmalys Laboratories SA. The development of the markets in which Pharmalys Laboratories SA is active, the ordering and delivery processes and the liquidity development are discussed and agreed in regular meetings. The aim of these meetings is to ensure transparent communication about market developments, optimise processes and meet payment terms. Reliable sales planning was introduced in the first instance and Pharmalys Laboratories SA was able to reduce the payment terms in the markets relevant for the HOCHDORF Group (North Africa and the Middle East) to a level that is customary in the industry.

The Board of Directors and Group Management of HOCHDORF Swiss Nutrition Ltd consider the receivables from Pharmalys Laboratories SA to be recoverable. At the present time, no future payment default is to be expected.

Sales forecasts in Pharmalys Laboratories SA's markets to end customers assume double-digit growth rates on average from 2023 to 2026.

As at 30.6.2023, receivables from Pharmalys Laboratories SA amounted to CHF 55.0 million, of which CHF 24.2 million related to current receivables and CHF 31.2 million to non-current receivables posted under financial assets. A payment agreement in connection with a supply agreement is being worked out for the repayment of these non-current receivables. Pharmalys Laboratories SA did not reduce these receivables between 1 January 2023 and the publication of this Interim Report. However, Pharmalys Laboratories SA has complied with all payment obligations for deliveries and goods, which were agreed verbally, up to the publication of this Interim Report.

Compliance with the financial covenants from the syndicated loan agreement

HOCHDORF Group is the borrower of the syndicated loan agreement in the amount of CHF 67.0 million. The covenants of the loan agreements are calculated on the basis of the consolidated figures of the HOCHDORF Group. These were complied with at the HOCHDORF Group level as at 31 December 2022. The Group Management and Board of Directors of HOCHDORF Swiss Nutrition Ltd currently assume that there is no threat of a breach of the agreed covenants as at 30 September 2023. This is the last date on which covenants will be tested for the current credit agreement, which ends on 30 September 2023.

The key financial indicators to be complied with under the syndicated loan agreement are an equity ratio of at least 40.0% at the consolidated level and a loss at the EBITDA level of no more than CHF 7.0 million. As of 30.06.2023, the equity ratio was 58% and the profit at EBITDA level was CHF 6.6 million.

The HOCHDORF Group's 2023 budget shows a positive EBITDA for the first half of the year (CHF 0.6 million). For the entire 2023 business year, the management also expects a positive business result at the EBITDA level. Based on the cautious planning and the measures adopted in the 2023 budget to improve the result in 2023, the Board of Directors and Group Management assume compliance with the covenants in 2023 and no risk of a breach.

Ensuring solvency

As at 30.06.2023, the net debt of the HOCHDORF Group amounted to CHF 66.7 million (as of 31.12.2022: CHF 56.8 million). The freely available credit line amounted to CHF 2.7 million. The actuell HOCHDORF Group’s 6-month liquidity plan shows that the available credit line is sufficient if the operating business is realised as planned and if payment by Pharmalys Laboratories SA is delayed. However, this credit line would not compensate for a complete default on the outstanding receivables from Pharmalys Laboratories SA.

The financing of the HOCHDORF Group is secured in the short term by the following loans from financial institutions:

- A committed syndicated loan totalling CHF 67 million, which is secured by a lien and expires on 30 September 2023. HOCHDORF Swiss Nutrition Ltd’s share amounts to CHF 30.0 million; Hochdorf Holding Ltd is the borrower for the remaining amount.
- A bilateral loan in the amount of CHF 10.0 million, which is secured by a portion of the accounts receivable. This credit limit is uncommitted and indirectly linked to the conditions of the syndicated loan and is therefore also valid until 30 September 2023.

To ensure medium-term solvency, the HOCHDORF Group has a binding financing confirmation signed by a bank consortium for the extension of the existing syndicated loan agreement for 2 years. The new syndicated loan agreement to be signed with the banks will contain covenants within the previous framework based on the consolidated financial statements (targets for absolute EBITDA and equity ratio). See also Note 12 “Events after the balance sheet date”.

The Board of Directors and Group Management of HOCHDORF Group conclude that the company’s short-term and medium-term solvency is ensured.

12 Events after the balance sheet date

In the first half of 2023, the HOCHDORF Group continued to work intensively on the refinancing process. The existing syndicated loan expires on 30 September 2023. The Board of Directors and Group Management have commissioned an external consultant to support the company in this process. At the time of the publication of the 2023 half-year financial statement, the syndicate banks have signed a term sheet for the continuation of the syndicated loan from 30 September until 30 September 2025. In the view of the Board of Directors and Group Management, this ensures the solvency of the HOCHDORF Group for the medium-term future. In the coming weeks, the Board of Directors and the Group Management will finalise and sign the new syndicated loan agreement on the basis of this term sheet.

No other significant events have occurred since the balance sheet date of 30.06.2023 that could affect the informational value of the 2023 half-year financial statement or that would have to be disclosed here.

Non-GAAP indicators used in this report

The financial information in the annual financial statements includes certain non-GAAP indicators that are not defined by Swiss GAAP FER. These measures are used by management to set targets and assess HOCHDORF's performance. The non-GAAP indicators used may differ from similar measures used by other companies and should not be considered as a substitute for the Swiss GAAP FER indicators.

Operating income

The operating income includes net revenues (gross revenues less sales deductions) plus other operating income, such as warehouse inventory changes.

Gross operating profit

The gross operating profit comprises the operating income less cost of materials.

EBITDA

Earnings before interest, taxes, deprecation of property, plant and equipement and amortization of intangible assets comprise the gross operating profit less all operating expenses.

EBIT

Earnings before interest and taxes comprise the EBITDA less depreciation of tangible assets and amortisation of intangible assets as well as impairment of investments.

Net debt

Net debt includes short-term and long-term interest-bearing liabilities less cash and cash equivalents.

Free Cash Flow

Free cash flow includes cash flow from working capital less changes in net working capital and cash flow from investing activities.

Imprint

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Main theme: Canning line in Sulgen, David Biedert Photography

Business segments: Copyright HOCHDORF Holding AG

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Financial calendar

- 21 March 2024: Full year report
- 15 May 2024: Annual General Meeting

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