
ANNUAL REPORT SUMMARY

2018

Dear Shareholders

In 2018, we clearly failed to meet our financial targets for a variety of reasons. Despite the disappointing earnings performance, we believe that our strategy, on which we continue to work intensely, will prevail. At the same time, we are systematically minimising existing risks.

This is the first time HOCHDORF Holding Ltd is sending out a annual report summary containing the most important information on the past financial year. For a more in-depth look at the financial year under review please refer to the online annual report available at report.hochdorf.com.

In 2018, HOCHDORF processed 661.0 million kg of milk, whey, cream and buttermilk (liquid quantity) in its plants (PY: 650.0 million kg, +1.7%) and generated net revenue of CHF 561.0 million (PY: CHF 600.5 million). Due to higher costs, EBIT amounted to CHF 18.6 million (PY: CHF 42.6 million). At 3.3% (PY: 7.1%), EBIT as a percentage of production revenue was slightly below the December forecast (3.5 – 4.0%). The net profit came in at CHF 8.7 million (PY: CHF 40.8 million), of which CHF 2.8 million (PY: CHF 25.9 million) was attributable to parent company shareholders.

Expectations unfortunately not met

This result was due to non-recurring items from the sale of HOCHDORF Baltic Milk UAB, among other things. The other main reasons for our failure to meet the financial targets we set at the beginning of the year were the significantly lower results

of Pharmalys Laboratories SA, the loss of sales in China, delays in the new spray tower line and the exacerbation of problems in the Dairy Ingredients Division.

Despite adverse market conditions in the Dairy Ingredients Division, HOCHDORF Holding Ltd pursues a continuous dividend policy. In view of the well-functioning strategy, the Board of Directors proposes a dividend of CHF 4.00 per share, unchanged from the previous year.

Ongoing refinement of strategy

We continued to work intensely in 2018 on the strategy that we set in 2016. There were varying degrees of progress depending on the division.

With investments in the Sulgen plant, the majority stake in the Pharmalys Group and the acquisition of Bimbosan AG, the Baby Care Division is well on track to achieving its strategic goals by 2020. The Cereals & Ingredients Division is also well positioned with a broad range of premium products in niche markets. To achieve our strategic goals, our key products have to continue generating growth in turnover and earnings.

The most demanding challenge is turning out to be the implementation of the strategy in the core Dairy Ingredients Division. This is mainly due to strong competition, price sensitivity and the impact of policy decisions. In the Dairy Ingredients Division, it is therefore important to adapt milk prices to the market and make them flexible, to carry out internal optimisations and to develop further product innovations that add value.

Change in the Board of Directors

Prof Holger Till and Dr Anton von Weissenfluh, Vice Chairman, will be stepping down from the Board of Directors at the forthcoming Annual General Meeting. The Board of Directors recommends Hans-Peter Hess and Jörg Riboni to be elected as successors.

A total of four election proposals have been submitted by ZMP Invest AG and the

shareholder group Weiss/Maurer. Apart from Jörg Riboni, these proposals concern Bernhard Merki, Markus Bühlmann and Markus Kalberer. To maintain its independence, the Board of Directors recommends not to elect these candidates. For further details concerning the election of the Board of Directors, please refer to the invitation to the Annual General Meeting.

Outlook

Due to the major uncertainties in the Dairy Ingredients area, the HOCHDORF Group has decided not to publish any turnover and income forecast for the time being.

We would like to take this opportunity to thank our shareholders for their trust and loyalty to the HOCHDORF Group.



Dr. Daniel Suter
Verwaltungsratspräsident



Dr. Thomas Eisenring
CEO



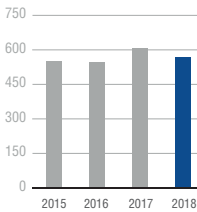
Facts and figures

2018 was a year of successful strategy implementation, but also of unfulfilled expectations. Bimbosan Ltd, for example, was acquired and new products launched as important components for the successful implementation of our strategy. Pharmalys, by contrast, was unable to meet its turnover and earnings expectations; the additional production capacities were only available after a delay and our trademarks in China were not yet registered.

Financial data

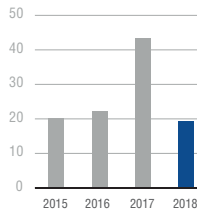
Net sales revenue

CHF Mio.



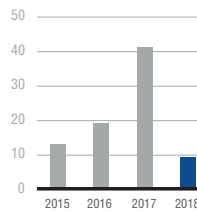
EBIT

CHF Mio.



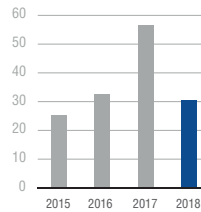
Net profit

CHF Mio.



Earned capital

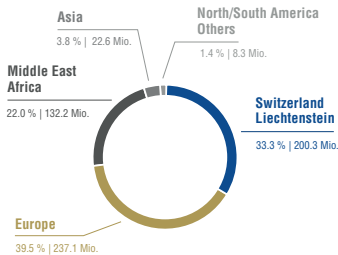
CHF Mio.



Net sales revenue by region

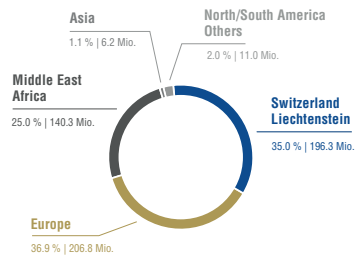
2017

relative | absolute



2018

relative | absolute



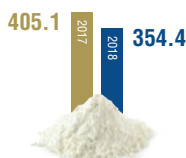
Key figures

	2018	2017	2016	2015
Processed milk and whey in tonnes	661,017	650,017	741,769	761,240
Products sold, in tonnes	154,609	190,499	237,054	242,821
Total assets (in TCHF)	575,231	582,270	425,474	340,396
Equity ratio	48.8%	53.10%	10.80%	56.60%
Cash flow from operating activities (in TCHF)	-81,279	6,019	24,227	18,134
Market capitalisation (in TCHF)	146,346	410,700	444,417	242,044
Share price as at 31.12. in CHF	102.00	286.25	309.75	168.70
Earnings per share in CHF	2.02	18.43	14.12	11.73
Staffing levels at 31.12.	694	695	633	625

Market data

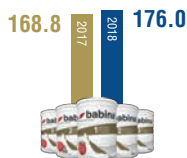
Net sales Dairy Ingredients

CHF Mio.



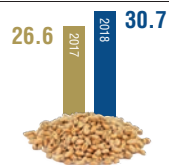
Net sales Baby Care

CHF Mio.



Net sales Cereals & Ingredients

CHF Mio.



Net revenue from goods and services by product groups

TCHF	2018		2017	
Milk products/cream	201,750	35.96%	234,459	39.04%
Milk powder	155,091	27.64%	165,057	27.48%
Infant formula ¹⁾	178,816	31.87%	166,094	27.66%
Specialities/wheat germ	20,572	3.67%	17,227	2.87%
Bakery/confectionary goods	4,707	0.84%	4,664	0.78%
Remaining products/services	95	0.02%	13,026	2.17%
Total	561,031	100.00%	600,527	100.00%

¹⁾ Including infant formula products from the Dairy Ingredients and Cereals & Ingredients Divisions.

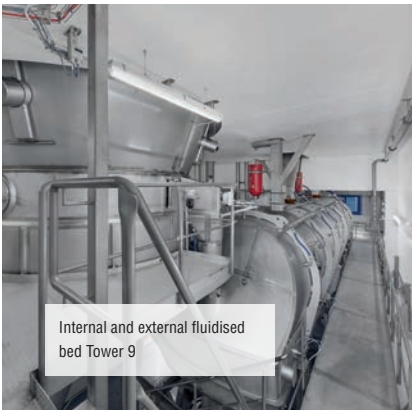
Business model, strategy and markets

The HOCHDORF Group is one of the leading food companies in Switzerland. The company operates in the areas of Dairy Ingredients, Baby Care and Cereals & Ingredients. The Group's core area of expertise lies in developing, producing and marketing powder products based on milk and whey, including, in particular, infant formula. The production and marketing of high-quality cereals, dried vegetables and fruits as well as vegetable oils and flours has been geared towards providing healthy nutrition to all age groups – from babies to senior citizens.

As an international food company, the entire Group identifies with the typically Swiss values of «reliability», «quality» and «precision». Today, the Group largely operates in the B2B sector. As a result of acquisitions and product developments, HOCHDORF is also increasingly active in the B2C market. The Group targets its products at rapidly growing, non-saturated markets, while focusing on premium product segments.

Strategy for 2018 – 2022

Our goal is to turn HOCHDORF into a global, profitable niche company with premium products. Important elements of this strategy include forward integration and the development and marketing of new high value-added products. To achieve these goals, every business division will develop premium products and use these products to establish itself in their respective target markets. The aspiration to operate in premium segments is matched by correspondingly high quality standards in HOCHDORF's production facilities. The aim here is to optimise production processes, quality assurance and the supply chain.



Dairy Ingredients

Our goal is to continue to develop our Dairy Ingredients business internationally. Cooperation between the milk plants will be optimised, and the product portfolio bundled together where appropriate. In Switzerland, we want to defend our market position in roller-dried whole milk powder, for example, and reap the global rewards of our knowledge in the area. At the same time, we want to develop, produce and market new products with high added value.

Cereals & Ingredients

The Cereals & Ingredients Division intends to focus its activities on niche markets. HOCHDORF is well positioned here thanks to the VIOGERM® wheat germ products, the various vegetable oils and flours in organic quality and the dried vegetable and fruit products. The products will be marketed as private label products and also sold directly to consumers. In addition, HOCHDORF operates a sustainable chocolate production facility in South Africa and



Baby Care

The Baby Care Division is international in structure and is planning further growth with existing customers in Asia, the Middle East and Africa. As a USP, along with Swissness, we want to offer our customers a modern and complete product range of children's nutritional specialities. The Baby Care Division intends to move closer to the consumer in the value chain with its own brands «Bimbosan», «Babina», «Primalac», «Swisslac» and «Natrasure». On the production side, we are seeking to optimise existing capacity for the production of infant formula.

has plans to market its products internationally in the future.



Business Divisions

Dairy Ingredients and Baby Care had a challenging 2018. The net sales revenue is broken down between the three divisions as follows: Dairy Ingredients CHF 354.4 million (PY: CHF 405.1 million), Baby Care CHF 176.0 million (PY: CHF 168.8 million), Cereals & Ingredients CHF 30.7 Million (PY: 26.6 million).

Dairy Ingredients

On the product side, we have begun the process of optimising our portfolio to eliminate loss makers. In addition, our development team worked on customer-specific new developments, including protein developments with higher added value as well as process and product improvements.

The activities in Switzerland were affected by the implementation of the follow-on solution to the so-called «Schoggigesetz» (chocolate law). It became clear that the changes will have a strong impact on

HOCHDORF due to its large share of milk affected by the chocolate law.

Uckermärker Milch GmbH focused on the development and marketing of special milk powders with higher margin potential. The company managed to achieve a strong market position for super kosher milk powder in its first year. At the same time, the year-round low milk protein prices and the additional drop in fat prices in the second half of the year weighed heavily on earnings.



Outlook

The long and dry summer of 2018 points towards a drop in milk production in Europe in 2019. We expect the milk prices and accordingly the product prices to rise. Due to the substantial uncertainty, we have decided not to publish any turnover forecast for the time being.

To ensure that the Dairy Ingredients Division generates positive results again in the future, the company implemented cost-cutting and product-streamlining measures in both Switzerland and Germany.



Baby Care

The Baby Care Division recorded a slight growth in net revenue of +4.3% in 2018, which was due to the acquisition of Bimbosan AG, a long-established Swiss company, and the organic growth of existing customers. Another strategically important milestone was the commissioning of the new production plant in Sulgen.

In August, *HOCHDORF Swiss Nutrition Ltd* launched the first commercial production runs on the new production and filling line in Sulgen. In the next step, the company aims to increase the capacity utilisation of the new plants gradually.

Pharmalys Laboratories SA recorded two very different sets of half-year results: The weak first-half results were followed by relatively strong results in the second half. Overall, the strong growth momentum of 2017 could not be repeated. This is not

least because we have partially changed the business model to ensure sufficient liquidity for the Group.

To strengthen the «Primalac» and «Swisslac» brands, we increased the marketing expenses in 2018, among other measures. The new market entries can be described as successful.

Bimbosan AG became part of the HOCHDORF Group at the end of April 2018. The well-established Swiss company generated turnover and earnings that were in line with expectations. The strong market position in the domestic market supports the internationalisation of the brand, which will start in Vietnam. The documents for the registration of the Bimbosan trademark in China have also been submitted.

Outlook

In 2019, we hope to register the trademarks for the Chinese market. However, according to a relatively new regulation, the production plants must first be audited again by the designated authorities. If the outcome of the audit is positive, we hope to be able to supply infant formula to the Chinese market again by 2020 at the latest.

As a result of the newly created capacities and sales efforts, we expect higher net revenue in 2019 compared with the previous year, in the range of CHF 220 – 240 million.

Pharmalys Laboratories SA aims to achieve controlled growth over the next few years with its «Primalac» and «Swisslac» brands. The challenge is to achieve sustainable growth while securing the liquidity situation.

In the 2019 financial year, *Bimbosan AG* will invest further in the long-standing Swiss brand both in Switzerland and abroad. We also expect sales to grow thanks to the ongoing internationalisation process.

Cereals & Ingredients

The net revenue generated by the Cereals & Ingredients Division in 2018 increased by 15% compared to the previous year. *Marbacher Ölmühle* was the main driver behind this growth. Overall, this division has successfully developed several new products and marketed them internationally. The financial year was shaped by the efficient and successful integration of



Zifru Trockenprodukte GmbH, acquired in November 2017, and *Snapz Foods AG*.

In the private label category, the Cereals & Ingredients Division of *HOCHDORF Swiss Nutrition Ltd* launched new Kids' Food products. In addition, the entire private label area was given a makeover resulting in a new, more colourful image, which is more representative of the underlying dynamism and spirit of innovation.

Marbacher Ölmühle GmbH and *Zifru Trockenprodukte GmbH* are well on track. They were able to gain new customers throughout the year and largely retain existing ones. *Marbacher Ölmühle*, for example, increased its net sales revenue from CHF 9.9 million to CHF 12.1 million (+22.8% compared to the previous year). Both companies also fared well in terms of the outstanding quality of their products: The hemp seed oil produced by *Marbacher Ölmühle*



won three out of three possible stars at the international Superior Taste Award, and the apricot kernel oil received two stars. Zifru Trockenprodukte GmbH submitted a product to this competition for the first time. The dried apple slices immediately won two stars.

While *HOCHDORF South Africa Ltd* managed to more than double its turnover of Afrikoa chocolate for another consecutive year, sales still remain at a relatively low level. Nevertheless, the quality of the products made by this company is excellent: The dark chocolate, containing 55% cocoa, received two out of three stars this summer from the jury of the international «Great Taste» awards.

Outlook

The Cereals & Ingredients Division is expected to step up its expansion plans. The focus will be on the private label sector as well as

the brands «Snapz» and «Afrikoa». The first major orders for Snapz products have been received from the US and China.

In the current financial year, the product segments baking mixtures, VIOGERM® wheat germ and extrudates will be subjected to an analysis. It is becoming evident that parts of the bakery business may have to be abandoned. Accordingly, the Cereals & Ingredients Division expects to generate lower net revenue in 2019 than in the previous year.

Annual financial statements of the HOCHDORF Group

HOCHDORF Group consolidated balance sheet as of 31 December

	2018		2017	
	CHF	in %	CHF	in %
Current assets	253,517,159	44.1%	278,680,359	47.9%
Non-current assets	321,713,349	55.9%	303,589,399	52.1%
Total assets	575,230,508	100.0%	582,269,757	100.0%
Current liabilities	111,247,942	19.3%	215,843,200	37.1%
Non-current liabilities	183,135,710	31.8%	57,144,520	9.8%
Shareholders' equity	280,846,857	48.8%	309,282,038	53.1%
Total liabilities and equity	575,230,508	100.0%	582,269,757	100.0%

HOCHDORF Group consolidated income statement

	2018		2017	
	CHF	in %	CHF	in %
	1.1.18 – 31.12.18		1.1.17 – 31.12.17	
Net sales revenue	561,030,694	97.9%	600,526,789	99.5%
Production revenue	572,789,560	100.0%	603,739,199	100.0%
Gross operating profit	171,819,773	30.0%	172,101,085	28.5%
Total operating expenses	-135,933,602	-23.7%	-116,381,972	-19.3%
EBITDA	35,886,170	6.3%	55,719,112	9.2%
EBIT	18,649,284	3.3%	42,616,120	7.1%
Net profit	8,656,119	1.5%	40,845,777	6.8%
Attributable to:				
Parent company shareholders	2,844,707	0.5%	25,894,285	4.3%
Minority interests	5,811,412	1.0%	14,951,493	2.5%
Net profit	8,656,119	1.5%	40,845,777	6.8%
Earnings per share (basic)	2.02		18.43	
Earnings per share (diluted)	1.39		12.22	

HOCHDORF Group consolidated cash flow statement

	2018 CHF	2017 CHF
	1.1.18 – 31.12.18	1.1.17 – 31.12.17
Cash flow from operating activities before changes in working capital	30,424,870	56,035,284
Change in net current assets	-111,703,601	-50,016,242
Cash flow from operating activities	-81,278,732	6,019,042
Cash flow from investing activities	-67,251,337	-90,097,521
Free cash flow	-148,530,069	-84,078,479
Cash flow from financing activities	115,760,605	79,924,218
Net change in cash and cash equivalents	-33,076,346	-3,847,492

Key figures for the HOCHDORF Holding Ltd share

		2018	2017	2016	2015
Share capital as of 31.12.	TCHF	14,348	14,348	14,348	14,348
Number of shares as of 31.12.	Units	1,434,760	1,434,760	1,434,760	1,434,760
Profit/loss (-) per share	CHF	2.02	18.43	14.12	11.73
EBIT per share	CHF	21.21	29.70	15.66	14.04
Equity per share	CHF	195.74	215.56	31.92	134.37
Dividend per share	CHF	4.00 ¹⁾	4.00	3.80	3.70
Price at close of trading as of 31.12	CHF	102.00	286.25	309.75	168.70
P/E (price/earning ratio) as of 31.12.		50.4	15.5	21.9	14.4
Dividend return	%	3.92	1.4	1.23	2.19

1) Proposal of the Board of Directors to the Annual General Meeting.

Annual financial statements of HOCHDORF Holding Ltd

Balance sheet of HOCHDORF Holding Ltd as at 31 December

	2018		2017	
	CHF	in %	CHF	in %
Current assets	7,360,870	1.2%	24,116,545	4.0%
Non-current assets	611,715,818	98.8%	571,562,997	96.0%
Total assets	619,076,687	100.0%	595,679,543	100.0%
Total liabilities	478,349,681	77.3%	441,485,740	74.1%
Shareholders' equity	140,727,007	22.7%	154,193,803	25.9%
Total liabilities and equity	619,076,687	100.0%	595,679,543	100.0%

HOCHDORF Holding Ltd income statement

	2018	2017
	CHF	CHF
	1.1.18 – 31.12.18	1.1.17 – 31.12.17
Income from equity investment	7,705,749	3,937,581
Other financial revenue	7,126,425	5,710,966
Other operating income	7,334	680
Total income	14,839,508	9,649,227
Financial expenses	-24,148,691	-5,769,179
Other operating expenses	-416,950	-501,245
Direct taxes	-54,363	-9,165
Total expenses	-24,620,004	-6,261,260
Result for the year	-9,780,496	3,387,968

HOCHDORF Holding Ltd is pursuing a dividend policy that focuses on continuity. With a view to the future and the non-recurring items from the sale of HOCHDORF Baltic Milk UAB, the Board of Directors therefore proposes a dividend from the capital contribution of CHF 4.00 per share, unchanged from the previous year.

HOCHDORF Holding Ltd proposed appropriation of available earnings

	2018 CHF	2017 CHF
	1.1.18 – 31.12.18	1.1.17 – 31.12.17
Profit carried forward	51,735,700	48,232,536
Change correction on balance of own shares from the previous year ¹⁾	140,060	115,197
Result current year	-9,780,496	3,387,968
Total available to Annual General Meeting	42,095,264	51,735,700
Motion concerning the proposed appropriation of available earnings		
Balance carried forward	42,095,264	51,735,700
Total appropriation of profit	42,095,264	51,735,700

1) No dividend will be paid on the «own shares» balance.

Proposal for the distribution of a dividend from reserves from capital investments

Reserves from capital investments	60,242,669	67,411,704
Capital investments from conversion of convertible bond ³⁾	0	-1,429,995
Conversion of reserves from capital investments to free reserves ²⁾	-5,739,040	-5,739,040
Remaining reserves from capital investments	54,503,629	60,242,669

2) CHF 4.00 (PY: CHF 4.00) in dividends per nominal CHF 10 of share capital from reserves from capital investments. The effective dividend payment amount is calculated on the effective balance of shares outstanding at the time of the dividend payment.

3) Incurred costs in connection with the mandatory convertible bond that was issued in March 2017.

Additional information

Financial calendar

12 April 2019	Annual General Meeting
18 April 2019	Dividend payment
20 August 2019	Half-yearly statement 2019

Investor newsletter

Information about the HOCHDORF Group can be found at www.hochdorf.com. In the Investor Relations web page, investors can also register for the newsletter.

2018 Annual Report

The complete 2018 Annual Report is available online in German and English at report.hochdorf.com. The original German version is binding.

Forward-looking statements

This annual report summary contains forward-looking statements about HOCHDORF, which are based on current assumptions, information and expectations. Unpredictable events and developments can lead to significant deviations.

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