

# Financial Report 2017

Following distinctive growth in the preceding years, the Siegfried Group reports a gratifying result for 2017. With sales of 750.5 million Swiss francs, the company has set a new record in its history of more than 140 years.

## Financial Commentary 2017



Dr. Reto Suter  
Chief Financial Officer

**Growth, widening of margins, significant increase in the operating cash flow and the free cash flow**

In the financial year 2017 Siegfried increased revenue to CHF 750.5 million (prior year CHF 717.7 million, +4.6% in CHF or 3.8% in local currencies). Scale effects and a favourable sales mix resulted in a significantly higher gross profit (CHF 138.8 million). The EBITDA (CHF 114.0 million), the EBIT (CHF 64.6 million) and the net profit (CHF 39.7 million) were also significantly higher than in the prior year. This sustained growth is reflected in a margin expansion at all levels: the EBITDA margin was 15.2% (prior year: 13.5%). The EBIT margin (8.6%, prior year 6.5%) and the net profit margin (5.3%, prior year 3.9%) have also improved.

The cash flow from operating activities rose significantly to CHF 84.4 million. Net of investments there remains a free cash flow of CHF 32.1 million.

**Strong disproportionate growth in EBITDA**

The revenue of CHF 750.5 million comprise sales in the field of Drug Substance of CHF 580.7 million (prior year CHF 557.9 million) and sales in the field of Drug Products of CHF 169.8 million (prior year CHF 159.8 million). The gross profit rose by 27.1% to CHF 138.8 million. The gross profit margin increased by 3.3% to 18.5%.

Marketing and sales costs increased slightly compared with the prior year to CHF 16.2 million. Research and development costs reflect the expansion of this discipline in the last year and have risen to CHF 25.6 million. Administration and general overhead costs increased to CHF 38.6 million.

The result is an EBITDA of CHF 114.0 million, a significant increase by 17.8%.

**Lower finance expenses, income taxes marked by external effects**

The financial result of CHF –8.3 million turns out much better than in the prior year (CHF –12.0 million). This is a consequence of lower financing costs of CHF 8.2 million (prior year CHF 12.6 million). Important here are above all the lower charges for debt interest and fees of CHF 3.7 million (prior year CHF 7.8 million).

In 2017 the tax expense amounted to CHF 16.6 million. It is significantly marked by external effects, above all a major tax rate reduction in the USA. As a result the group's expected average tax rate in the prior year of 21.3% falls this year to 17.9%. On the other hand there is a negative effect from the tax rate reduction. This represents 14.8% income tax percentage points, or half of the effective income tax rate for the current year of 29.4%.

Despite this non-recurring tax effect the net profit is higher at CHF 39.7 million, an increase of 42.4% compared with the prior year. The undiluted earnings per share (EPS) amount to CHF 10.01, the diluted earnings per share to CHF 9.71 (prior year EPS CHF 7.18, diluted EPS CHF 7.04).

### Key Figures

	2017	2016	Change CHF (LC)
<b>Net sales</b> (million CHF)	<b>750.5</b>	717.7	+4.6% (+3.8%)
<b>Gross profit</b> (million CHF)	<b>138.8</b>	109.2	27.1%
Gross profit margin (%)	18.5%	15.2%	
<b>EBITDA</b> (million CHF)	<b>114.0</b>	96.7	17.8%
EBITDA margin (%)	15.2%	13.5%	
<b>EBIT (operating result)</b> (million CHF)	<b>64.6</b>	46.7	38.2%
EBIT margin (%)	8.6%	6.5%	
<b>Net profit</b> (million CHF)	<b>39.7</b>	27.9	42.4%
Net profit-margin (%)	5.3%	3.9%	
Non-diluted earnings per share (CHF)	10.01	7.18	39.4%
Diluted earnings per share (CHF)	9.71	7.04	37.9%
<b>Cash flow from operating activities</b> (million CHF)	<b>84.4</b>	57.1	47.8%
<b>Free cash flow</b> (million CHF)	<b>32.1</b>	–11.1	390.0%
Investment in property, plant and equipment and intangible assets (million CHF)	52.8	68.4	–22.8%
	<b>December 31, 2017</b>	December 31, 2016	Change
<b>Equity</b> (million CHF)	<b>673.4</b>	660.7	1.9%
<b>Total assets</b> (million CHF)	<b>1 068.6</b>	1 021.4	4.6%
Equity ratio	63.0%	64.7%	
Employees (number of FTEs)	2 260	2 315	–2.4%

### Significant increase in the operating cash flow and the free cash flow

In 2017 Siegfried generated an operating cash flow after changes in net working capital of CHF 84.4 million (prior year CHF 57.1 million). This represents a major increase of 47.8%. During the course of the year inventories were reduced by CHF 1.2 million. During the year trade payables were extended by CHF 14.3 million. As in the prior year in the fourth quarter high sales were generated, so that at the year-end above average receivables were outstanding. In aggregate the net current assets grew by CHF 13.6 million.

Investments in fixed and intangible assets were lower than in the prior year and amounted to CHF 52.8 million (prior year CHF 68.4 million). After the past years with high investments, in 2017 the investment activity has by and large returned to normal.

In 2017 a net CHF 19.9 million was expended for the purchase of treasury shares. On October 2, 2017 RAG-Stiftung Beteiligungsgesellschaft mbH exercised its conversion right on the privately placed hybrid convertible loan amounting to CHF 60 million. The conversion did not require an increase in Siegfried Holding AG's share capital, because it was possible to service it out of the company's treasury shares. The equity base was strengthened by this conversion. Interest paid and bank expenses aggregated in 2017 to CHF 12.2 million. The distribution to the shareholders undertaken in April 2017 out of the capital contribution reserves was CHF 7.8 million.

At the end of the year Siegfried had more than CHF 34.1 million in cash and cash equivalents. The loans outstanding amounted to gross CHF 100.0 million. The net debt at the end of 2017 was CHF 65.9 million. At the end of the year the ratio of net debt to the EBITDA was 0.6, the equity ratio was 63.0%. Siegfried therefore has available the necessary debt capacity to finance further growth measures.

The Board of Directors will propose to the General Meeting to be held on April 20, 2018 a distribution out capital contribution reserves of CHF 2.40 per share, which based on the number of shares entitled to a dividend will result in a distribution of approx. CHF 9.9 million.



Dr. Reto Suter,  
CFO

## Consolidated Balance Sheet

In 1000 CHF (as of December 31)	Notes*	2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	500 209	488 234
Intangible assets	3	9 425	9 048
Investments in associated companies and joint ventures	4	475	473
Financial and other non-current assets	5	3 513	3 524
Employer contribution reserves	17	9 222	9 151
Deferred tax assets	6	32 246	42 803
<b>Total non-current assets</b>		<b>555 090</b>	<b>553 233</b>
<b>Current assets</b>			
Inventories	7	248 294	243 669
Trade receivables	8	189 160	155 771
Other current assets		35 403	29 029
Accrued income and prepaid expenses		6 034	7 115
Current income taxes		192	433
Derivative financial instruments	9	296	471
Cash and cash equivalents		34 137	31 636
<b>Total current assets</b>		<b>513 516</b>	<b>468 124</b>
<b>Total assets</b>		<b>1 068 606</b>	<b>1 021 357</b>
<b>Liabilities and equity</b>			
<b>Equity</b>			
Share capital		8 422	8 333
Treasury shares		-21 601	-51 787
Capital reserves		74 193	75 699
Hybrid capital		255 985	315 985
Retained earnings		356 385	312 506
<b>Total equity</b>		<b>673 384</b>	<b>660 736</b>
<b>Non-current liabilities</b>			
Non-current financial liabilities	12	100 000	91 107
Non-current provisions	13	16 951	25 105
Deferred tax liabilities	6	6 948	4 638
Other non-current liabilities	14	1 392	1 869
Non-current pension liabilities	17	122 201	114 268
<b>Total non-current liabilities</b>		<b>247 492</b>	<b>236 987</b>
<b>Current liabilities</b>			
Trade payables		71 316	55 336
Other current liabilities	16	19 221	18 017
Accrued expenses and deferred income	15	44 874	37 638
Derivative financial instruments	9	97	385
Current pension liabilities	17	406	136
Current provisions	13	6 917	9 669
Current income tax liabilities		4 899	2 453
<b>Total current liabilities</b>		<b>147 730</b>	<b>123 634</b>
<b>Total liabilities</b>		<b>395 222</b>	<b>360 621</b>
<b>Total liabilities and equity</b>		<b>1 068 606</b>	<b>1 021 357</b>

\* The Notes on pages 56–63 are an integral part of the Group Financial Statements.

## Consolidated Income Statement

In 1000 CHF (for the years ended December 31)	Notes*	2017	2016
Net sales	26	750 468	717 729
Cost of goods sold		-611 658	-608 509
<b>Gross profit</b>		<b>138 810</b>	<b>109 220</b>
Marketing and sales costs		-16 228	-16 028
Research and development costs		-25 631	-21 193
Administration and general overhead costs		-38 631	-31 488
Other operating income	19	6 264	6 239
Income of associated companies		-8	-36
<b>Operating result</b>		<b>64 576</b>	<b>46 714</b>
Financial income	20	35	25
Financial expenses	20	-8 208	-12 593
Exchange rate differences	20	-96	587
<b>Profit before income taxes</b>		<b>56 307</b>	<b>34 733</b>
Income taxes	6	-16 575	-6 827
<b>Net profit</b>		<b>39 732</b>	<b>27 906</b>
Non-diluted earnings per share (CHF)	21	10.01	7.18
Diluted earnings per share (CHF)	21	9.71	7.04

\* The Notes on pages 56–63 are an integral part of the Group Financial Statements.