

# Strategy "Evolve"

## Continuation of a Success Story

Siegfried at the end of 2015 successfully finalized the "Transform" strategy. During this phase characterized by impressive sales and earnings growth, the company became the worldwide leading supplier and service provider of chemically produced active pharmaceutical ingredients for the pharmaceutical industry. The follow-up strategy "Evolve" will continue the success story and the growth dynamics at a high level.

Siegfried launched the "Transform" strategy in the year 2010. Its main purpose was to achieve critical size and a leading competitive position. Economies of scale represent a significant success factor in the pharmaceutical supplier and services business. For instance, they permit us to provide our customers with more flexible production capacities and offer a wider technological portfolio. At the same time, we increasingly benefit from a portfolio effect that positively influences our risk profile. In this period, total sales grew from 314 million Swiss francs to 481 million in 2015. Market capitalization at the end of 2015 was 769 million francs or more

than double the value recorded at the beginning of the "Transform" period, providing the basis for further prosperity. End of 2017, Market capitalization reached even 1342 million Swiss francs.

### Targeted growth of drug substance business

In terms of "Transform" we widened our drug substance business concerning geographical location, customer base and production sites. The result speaks for itself: In 2010 we reported sales on drug substances of 252 million francs, which by the year 2016 grew by 121% to 558 million. We considerably expanded our

customer base and capacity thanks to the acquisition of the three BASF drug substance sites in Minden (Germany), Evionnaz (Switzerland) and St. Vulbas (France). The site in Nantong (China) started production in 2016 and produces a broad range of active pharmaceutical ingredients and intermediates, partly accompanied by further processing in Europe and the USA. This production network permits us to offer our customers the best possible site for each of their products. Consequently, our integrated production processes gained additional efficiency, which was further enhanced by

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## Interview on the "Evolve" Strategy with CEO Dr. Rudolf Hanko

**Mr. Hanko, the second year following the acquisition of BASF's pharmaceutical supply business and the enormous growth spurt that followed were characterized by a surge in sales and higher operating profit. Does that imply that you were able to convince all former BASF customers of Siegfried as their partner?**

It is a fact that we lost hardly a customer of BASF's former business, and the same goes for Hameln Pharma. Some of the volumes, which we have generated among newly acquired key customers, have partly even grown significantly. That cannot be taken for granted, and it is a testimony to the performance of our employees at all levels and in the various departments of the company. At the same time, we proved that we are capable of successfully integrating large-scale acquisitions. That is of equal importance as the ability to identify good targets.

**The operating margin has returned to the target range of 15–20%. Is that due only to synergies, or did you obtain better prices in the market?**

We were able to achieve noteworthy cost synergies as well as implement higher prices.

**Can we expect more in this regard? If yes, how do you proceed?**

Before our various acquisitions, I defined the target range of 15–20% because, as a rule, EBITDA suffer immediately following acquisitions. In the medium term, owing to the high levels of investment required in our business, we aim to reach the upper limit of the range. In the current year we are working hard on this. In concrete terms, we are continually searching for synergies among the sites in terms of, for instance, IT

and procurement. Moreover, we focus on our sites in Switzerland as our costs here compared to other Siegfried sites are significantly higher, while efficiency currently does not yet offset the difference. For this reason, we invested in new, modern facilities in Zofingen. Now the processes need to become more efficient. Furthermore, we can identify considerable potential in the use of resources.

**The "Evolve" strategy is following "Transform" and focuses on technology and finished dosage forms. Have you identified initial results?**

We are making good progress in terms of complementary technologies. The most important project that we are currently implementing is filling of biologically produced substances. For our company this is a significant step into the future. Concerning targeted acquisitions in the field of drug products we are proceeding in our proven manner. We will make an announcement once we have results; as the farmer says: "Don't count your chickens before they are laid".

**With the "Transform" strategy, your focus was very much on critical size. Is this topic no longer of significance owing to the current sales volume?**

Quite in the contrary, in an industry that is experiencing increasing consolidation, it is gaining relevance fast. Considering our current sales volume, we may be number one in terms of chemically manufactured drug substances, but that can change very quickly. As a strategic partner with a broad line-up, organic growth is insufficient to keep up with the pharmaceutical industry. Consequently, Siegfried remains open for acquisitions that make industrial sense and can be acquired at a reasonable price.



Dr. Rudolf Hanko  
Chief Executive Officer

**A brief look at the current year. What can shareholders expect?**

Siegfried will remain attractive for our shareholders because we are creating value with sound results and do not shy away from making big acquisitions as they come up and if they fit. This has a positive effect on the share price. At the same time, we are continually increasing our profit distribution to our shareholders as shown by the proposal to the Shareholders Meeting.

Please find the video interview with our CEO Dr. Rudolf Hanko at [report.siegfried.ch](http://report.siegfried.ch)



our new facility in Zofingen. Both facilities – Zofingen and Nantong – are consistently designed in accordance with the principle of vertical flow, allowing for an extremely flexible use of production capacity. Owing to low changeover and cleaning times, for instance, idle times are considerably reduced resulting in more attractive cost positions for our customers.

During implementation of “Transform”, we clearly strengthened the production of finished dosage forms. In 2012, we acquired Alliance Medical Products (AMP) in Irvine (USA) and in 2014 Hameln Pharma in Germany. Both sites specialize in sterile and aseptic filling, and they clearly increased sales and earnings since their integration into the Siegfried Group.

As a result of organic and acquisition-based growth the number of employees almost tripled in only a few years while global presence increased significantly. This required, and continues to require, great efforts with regard to the continued development of corporate and leadership cultures, which in the future will also belong to Siegfried’s everyday life.

#### “Evolve” is the natural continuation of “Transform”

“Siegfried’s central strategic goals for the future will remain the continued expansion of critical size and growth through entry into new and attractive segments of the CDMO market, either by means of organic growth or acquisitions. This will serve to maintain our high level of dynamics and continue to raise the company’s intrinsic value,” says Wolfgang Wienand, Chief Scientific and Strategy Officer. In a strongly fragmented and rapidly consolidating CDMO market, which makes high demands on quality and technological innovation, one cannot be satisfied with what has been achieved, but has to continue developing and to actively shape our business environment. New activities, such as aseptic filling of biologics (see “Well Positioned in a Dynamic Growth Market”, page 15), place

high demands on our employees’ knowledge and capabilities and their ability to learn new skills. Resting on our laurels is not an option for Siegfried – a highly demanding management task.

#### Consolidation as an integrated supplier (CDMO)

The core of the “Evolve” strategy aims to reinforce Siegfried’s position as the leading integrated supplier to the pharmaceutical industry. The related key areas are targeted expansion of existing business, improved product offer, and diversification into adjoining business segments. “Evolve,” therefore, continues to develop the existing with the aim to energetically drive forward the growth of sales and earnings. In figures, Siegfried in the medium term aims to increase sales to at least 900 million francs and the EBITDA margin to about 20%. In order to reach this ambitious goal, Siegfried seeks to significantly enhance high-margin production of finished dosage forms and enter new, attractive business areas. “We plan to reach this level of growth by optimizing internal structures and acquiring strategically suitable companies”, says Wolfgang Wienand.

#### Three strategic thrusts for continued growth

The measures chosen to implement the “Evolve” strategy essentially include three strategic thrusts:

1. **Organic growth initiatives** will make a significant contribution toward targeted growth and the expansion of critical size of sales. Siegfried focuses on the recently commenced plant expansion in Hameln, which serves the sterile filling of chemically produced APIs. The capacity includes production lines for ampoules and vials. The extensions permit technically challenging filling of sensitive bio-pharmaceutical APIs, which can be administered to patients only in liquid form via syringes. In view of above-average growth forecasts in this segment and the high entry barriers for competitors, Siegfried will participate in a market segment expected to remain attractive in the long run. A first step

in this direction is represented by the strategic partnership with Symphogen, a Danish bio-pharmaceutical company, in terms of which Siegfried Hameln produced the first biologics last year.

2. **An improved product range** for customers is to be achieved, especially, by means of worldwide expansion into solid finished drug dosage forms (tablets, capsules, powder). Today, Siegfried’s production in this area is based in Hal Far (Malta), while the corresponding pharmaceutical development is located in Zofingen. By means of an acquisition, either in the USA or in Europe, Siegfried aims to gain access to additional competitive capacity and formulation technologies. Siegfried plans to expand production capacity hand in hand with strengthening development competencies.

3. The third thrust of “Evolve” concerns the **diversification into adjoining business segments** through targeted investment in technological capabilities or the acquisition of companies focusing on technologies and market segments representing an addition to the Siegfried portfolio. As physical properties of APIs play a significant role in the receptivity of drugs by the human organism we plan, in the coming years, to invest in micronization (miniaturization of drug substance particles, e.g. powder), expansion of existing competencies in spray drying (drying process used in production of powders) or lyophilization (freeze drying) of demanding APIs. Moreover, we plan to establish additional facilities for work with highly effective substances.

## “Evolve” Strategy at a Glance: Fields of Action

### Growth

#### Strengthen offerings

- Expand global solid drug product footprint
- Expand overall presence with own production facilities (e.g. US)
- Enhance development setup

#### Grow within value chain of existing business

- Reach critical size in drug product sector
- Backward integration

#### Diversify into adjacent new business segments

- Enhance technology base (micronization, spray drying, lyophilization additional high-potent manufacturing capabilities)

## Hameln Prepares for the Future

In 2014, Hameln joined the Siegfried Group. In its short period of affiliation with our company, the site has developed extraordinarily well with regard to sales and profitability. In an exemplary way, Siegfried Hameln today reflects Siegfried’s power of innovation and strategic focus. The site specializes in filling of liquid dosage forms in vials or ampoules in a sterile or rather aseptic environment. This future-oriented segment is highly demanding in terms of technological and regulatory aspects, and its production process places extremely high demands on our facilities and employees. Last year, in the context of the “Evolve” strategy, Hameln began to invest in equipment serving to fill biologically produced APIs, so-called biologics. This is an attractive future-oriented market with above-average growth and earnings expectations, but high entry barriers.

Siegfried Hameln can benefit from its locational advantage as a number of life-science companies, universities and academic research centers are settled in the immediate vicinity and will serve as a recruitment base for talented future employees. The integration of filling for small molecules and that of biologics at one site will provide us with flexibility in the continued development of both business units. This is reflected, for instance, in the utilization and expansion of our analytical capacities.

A significant step toward the future was taken in May 2017 when Siegfried entered into a strategic partnership with the Danish bio-pharmaceutical company, Symphogen. The company specializes in the mixture of recombinant antibodies for therapeutic use and will cooperate with Siegfried Hameln concerning the filling of antibody products.

## What are Biologics?

Biologics are finished dosage forms with a complex structure and a high molecular weight produced by means of biotechnology and genetically engineered organisms. They can consist of proteins, nucleic acid, sugars, or combinations of these substances. Typical examples are medications used in the treatment of inflammatory auto-immune disorders, cancer or insulin for diabetes therapy.

