

Bachem Group Half-Year Results 2009

Cautious restraint with new projects and development delays in the biotech industry lead to a decline in sales - EBIT margin remains within the long-term target range

- Basic business with ongoing projects and generics remains stable
- Compared with the first half of 2008, overall sales are down 7.6% in CHF and 8.1% in local currencies
- Sales of ready-to-use formulations and further services for NCEs increased by almost 10%
- EBIT margin at 30.1%; net income margin increased to 31.6% thanks to a one-time tax effect
- Long-term prospects remain positive

	First half-year 2009	First half-year 2008	Change in CHF (in LC) %
Sales (in CHF M)	91.2	98.7	-7.6 (-8.1)
Operating Income (EBIT) (in CHF M)	27.4	36.6	-25.1 (-23.7)
Operating Income (EBIT) in % of sales	30.1%	37.1%	
Net income (in CHF M)	28.8	29.3	-1.5
Net income in % of sales	31.6%	29.7%	
Basic earnings per share in CHF	2.15	2.19	-1.8

Bubendorf, Switzerland, August 14, 2009 - Sales of the Bachem Group (SIX: BANB) reached CHF 91.2 million in the first half of 2009 and were thus 7.6% down on strong sales in the corresponding period of the previous year. In local currencies, the dip in sales amounted to 8.1%. As compared to the second half of 2008, sales declined by 5.3% in CHF and 5.7% in local currencies.

Rolf Nyfeler, CEO of Bachem, commented: "Measured against the general market development, Bachem has prevailed thanks to its excellent product portfolio and achieved further growth in individual business areas. However, the consequences of the global financial crisis on some of its customers have now, after a certain time lag, also affected Europe. For the full year 2009 we expect total sales at last year's level and an EBIT-margin within the medium term range of 30% to 35%."

Trends in the most important business areas

A reduction of business activities was primarily noticed with respect to new and early phase projects. In the biotech sector, in particular, the difficulty of taking up new funds has led companies to postpone the start of new projects and delay ongoing development work in order to reduce the cash burn. Also in established pharmaceutical companies, research spending and projects have come under increasing scrutiny. In the case of ongoing projects, only slight decreases in sales were observed despite a generally stronger focus by customers on inventory optimization.

In geographic terms, it was found that, following the USA with its decline in sales of 10.3% in local currencies, the current economic situation has now affected Europe, which saw a decrease in sales of 6.8% in local currencies.

In research chemicals including custom synthesis the cautiousness of customers was notable. Sales in this area fell by 16.2% in CHF or 15.7% in local currencies. By contrast, active pharmaceutical ingredients (APIs) posted a significantly lower decrease of 5.4% in CHF or 6.1% in local currencies. Specifically sales of NCEs supplied for clinical phase II and III projects remained relatively stable. The sales of long standing core generics achieved a level similar to the prior year period. The utilization of production capacity at Sochinaz and the corresponding plants in Bubendorf both remain at a high level. Clinalfa, the brand under which Bachem supplies ready-to-use formulations for clinical studies, as well as further services for NCEs, actually achieved an increase in sales of almost 10%.

Operating Margin Remains over 30%

As a result of the sales development, the EBIT margin for the first six months fell to 30.1% (first half of 2008: 37.1%) but still retains a high and above average level, within the medium term target range of 30% to 35%. The currency-adjusted EBIT margin amounted to 30.8%. In absolute figures, the EBIT in the first 6 months of 2009 stood at CHF 27.4 million.

While Europe continues to record excellent margins, the weak result in the USA reflects the dampened demand in the biotech industry and consequently inadequate capacity utilization. Also, the continued delay of one major product in the USA due to the customer's high stock levels has further contributed to this result.

The largest cost block - the cost of goods sold (COGS) - showed a sales-related decrease of CHF 0.8 million to CHF 43.4 million. In percent of sales, the COGS increased from 44.8% to 47.6%. Gross profit in the first half of 2009 thus amounted to CHF 47.8 million with a gross profit margin of 52.4% (first half of 2008: CHF 54.5 million and 55.2%, respectively).

Marketing and sales costs rose slightly from CHF 5.4 million to CHF 5.7 million and amounted to 6.2% of sales (first half of 2008: 5.4%). With the Corporate Executive Committee function for marketing and sales, which was newly created at the beginning of 2009, Bachem is in the process of specifically expanding this department with the aim of steadily opening up the international markets for its specialty products. Research and development costs increased by CHF 0.9 million to CHF 3.5 million, which corresponds to 3.8% of sales.

In the first half of 2009, the number of employees with Bachem increased by 14 to 736 full-time equivalents (FTEs). In Switzerland, 22 new positions were created in the first few months at the Bubendorf site and seven at Sochinaz. Further hires at both sites have been postponed for the time being. Two new vacancies were filled at Bachem UK. Staffing levels in the USA were reduced by 17 FTEs in view of the market situation. Personnel costs in the first half of 2009 amounted to CHF 40.8 million or 44.7% of sales (first half of 2008: CHF 36.2 million or 36.7% of sales).

Depreciation and amortization increased from 6.2% to 7.9% of sales in the first half of 2009 as a result of the high level of investment activity in the last year and thus amounted in the first six months of 2009 to CHF 7.2 million compared with CHF 6.1 million in the same period of 2008.

Net Income Margin Increased to 31.6%

A net income of CHF 28.8 million was achieved in the first half of 2009. Compared with the previous year, this corresponds to a slight fall of 1.5%. The net income margin was increased from 29.7% to 31.6%. Earnings per share (EPS) amounted to CHF 2.15 (first half of 2008: CHF 2.19).

The loss from associated companies increased slightly from CHF 1.1 million to CHF 1.4 million in the period under review. At minus CHF 0.3 million, the financial result was almost neutral.

The final judgment concerning the taxable treatment of royalties by the relevant tax authorities resulted in a one-time tax income of CHF 7.5 million and will have a positive impact on the future tax rate. The ordinary tax expense during the first half of 2009 amounted to CHF 4.3 million, which would correspond to a tax rate of 16.8%. This one-time positive effect led to an overall tax income of CHF 3.2 million in the period under review.

Cash Flow and Investments

Cash flow from operating activities in the first half of 2009 improved from CHF 12.1 million to CHF 18.7 million. This includes an increase in the net current assets by CHF 13.4 million. This increase was CHF 11.5 million lower than in the corresponding period of the previous year, which was the major contributor to the improvement in operating cash flow.

At CHF 19.3 million, investments in property, plant and equipment, as well as in intangible assets, were about the same in the first half of 2009 as in the first half of 2008. However, a markedly lower volume of investment will be seen in the whole of 2009 than in the previous year. Of the investments in property, plant and equipment and in intangible assets, CHF 15.0 million went to Bachem AG, CHF 2.3 million to Sochinaz SA, CHF 1.2 million to Bachem UK and CHF 0.8 million to Bachem USA. Furthermore, securities to the value of CHF 2.7 million were sold in the first half of 2009.

In the area of financing activities, a dividend of CHF 21.3 million was paid.

Overall, these activities led to a decrease of CHF 18.8 million in cash and cash equivalents to CHF 16.6 million.



Outlook

The life-science industry and the market for Bachem products and services continue to provide excellent future prospects even though effects such as the financial crisis can slow down development in the short term. The decline in sales thus is in no way accompanied by increasing payment deficits, which is a sign of the structural stability of customers and their industries. The minor fluctuations with NCEs in advanced stages of development and marketed APIs, including generics, also suggest that the demand for effective medicines and efforts to introduce innovative products to the market remain undaunted.

Accordingly, in the first half of 2009, Bachem also succeeded in concluding important agreements, such as that with Debiopharm. In view of the cost pressures in the healthcare system, the good position of Bachem in generics and peptide-based NCEs with participation in over 100 development projects is proving a strength. This provides a cushion in times of crisis when start-up companies are exposed to relatively high risks. Against this background, Bachem remains convinced that sales growth over 5 years will average between 8% and 12% in local currencies.

With an improvement of business performance in the second half of the year, Bachem expects for the whole of 2009 to post sales within the range of the previous year. Through new distribution partnerships, the company intends to increase its market coverage in the USA and to win new international customers.

In addition to the efforts of achieving sustainable sales growth, the main focus is on the long-term protection of the operating margin. Accordingly, continuous measures are being pursued to increase efficiency. The medium to long-term investments required for the business will be continued but with caution and, notably, personnel costs will be strictly controlled. This will create the conditions for achieving an EBIT margin within the mid-term target range of 30% to 35% for the full year of 2009.

About Bachem

Bachem is an independent, technology-based, public biochemicals company providing full service to the pharma and biotech industry. Bachem is specialized in the process development and the manufacturing of peptides and complex organic molecules as active pharmaceutical ingredients (APIs), as well as innovative biochemicals for research purposes. With headquarters in Bubendorf, Switzerland, and affiliates in Europe and the US, Bachem works on a global scale and holds a leading position in the field of peptides.

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