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## **New sales record**

Following a strong first semester of 2019, Bachem had already laid solid foundations for a very successful full fiscal year. In the second half of the year, the Group surpassed the record sales figure of the prior year period by some 8 million CHF. At 179.2 million CHF, Bachem set a new record for sales in a single semester, increasing sales for the year as a whole for the ninth successive year to a new record level of 313.7 million CHF. Compared to the previous year's figure, this represents an increase of 31.2 million CHF or 11.0%. Exchange rate movements enhanced the impressive result, with a moderately positive impact on the translation of sales gains in local currencies (LC) of 10.8%.

## **Generics sales impress**

Generics sales amounted to 137.4 million CHF. With a share of more than 40% of total sales, they confirmed their position as a solid foundation in the Group's product portfolio and impressed with excellent growth figures. Compared to the prior year period, sales of generics rose by 23.6 million CHF (+21.2% in LC). Both regions, Europe/Asia and North America, developed very positively. The drivers of this growth were sales increases with existing products in a challenging – but, for Bachem, advantageous – market environment, and approvals of generics with innovative new dosage forms. The existing sale agreements as well as close, long-standing customer relationships proved a reliable basis for the continuing stability of this product group and the realization of existing growth potential.

## **Research chemicals perform convincingly**

Bachem's Competence Center for Custom Synthesis in St. Helens, UK, once again confirmed its globally strong position in research chemicals. Catalog products and custom synthesis performed well in the face of a challenging, highly competitive market environment. The business with cosmetics and diagnostics developed very strongly in 2019, benefiting from customer relationships successfully built up over many years. Unlike in the previous year, periodic large orders involving catalog bulk products and custom synthesis relating to NCE drug substance development provided an additional growth stimulus of more than 24%.

## **New Chemical Entities proving stable**

After a successful start to the fiscal year, expectations were high for the second half. All indications pointed to double-digit growth compared to the prior year. However, Bachem was unable to achieve this objective due to unforeseen project delays on the customer side. NCE sales in 2019 were broadly in line with the previous year, although there were significant regional differences here. In Europe/Asia, sales in LC were some 44% down on the previous year, whereas in North America they gained about 21% in 2019 after already having risen by more than 60% the previous year. Once again, the cross-period project delays and postponements that are typical of NCE drug substance developments impacted on sales results. Moreover, Bachem also generated sales in connection with NCE in the custom synthesis and services areas in the reporting period. When these sales are included, the Group recorded a solid growth of 6.6%.

## **Promising project portfolio**

Bachem continued the successful development of its project portfolio in fiscal 2019. At the year-end, Group companies in Europe, North America and Asia were working with customers on some 150 NCE projects in all stages of development. The large number of projects in clinical stages II and III is important and remains highly promising. These projects will serve as an outstanding foundation for Bachem's future success. Following the gratifying approvals in the reporting year, Bachem is expecting to be able to support clients in the successful submission of new NCE and generics over the coming years too.

### Sales breakdown by product category

The API product category once again delivered strong growth in 2019. This is a key category for the growth of the Group as a whole. Research chemicals also performed strongly at operating level, benefiting additionally from the intermittent occurrence of bulk sales and custom syntheses in connection with toxicology studies for NCE development projects.

in million CHF	2019	Change in local currency	Change in CHF	As % of total sales
API Products	276.6	+9.3%	+9.5%	88.2%
Research Chemicals	37.1	+23.6%	+24.4%	11.8%
Total net sales	313.7	+10.8%	+11.0%	100.0%

In keeping with this development, the sales proportions – 88.2% for APIs and 11.8% for research chemicals – temporarily shifted away from APIs. Given its targeted growth in the API product category, Bachem is expecting research chemical sales as a proportion of total sales to decline slightly in the future.

### Geographical breakdown

Geographically, overall sales performance in the North America region was extremely pleasing. This region increased sales by some 36 million CHF in 2019, achieving a new annual sales record of more than 155 million CHF. Thanks to this impressive performance, the proportion of sales accounted for by North America rose once again, almost drawing level with that of Europe/Asia. By contrast, this very balanced picture did not match the weighting by region of product origin. Here it was the production locations in Switzerland that once again dominated.

in million CHF	2019	Change in local currency	Change in CHF	As % of total sales
Europe/Asia	158.6	-2.2%	-3.0%	50.5%
North America	155.1	+29.0%	+30.3%	49.5%
Total net sales	313.7	+10.8%	+11.0%	100.0%

### Excellent order backlog

The demand for peptide-based drug substances remains strong, as evidenced by the excellent order backlog. In a persistently challenging market environment, Bachem managed to further strengthen its lead over the competition in 2019. Thanks to the broad-based project portfolio, the Group exceeded its growth target of 6–10%, despite a number of project delays and postponements. The efficient use and utilization of free resources, invest-

ment in additional capacities, and the ongoing optimization of operating processes, including their automation, provide an outstanding basis for further growth.

### Disproportionately high increase in EBIT

Bachem's operating profit (EBIT) grew by 13.8% to 62.4 million CHF during the period under review. Moreover, Bachem reported an EBIT margin of 19.9% (previous year: 19.4%). Operating profit before depreciation and amortization (EBITDA) came to 87.2 million CHF (previous year: 77.9 million CHF). This corresponds to an EBITDA margin of 27.8% (previous year: 27.6%).

### Marginal currency impact

In the income statement, the exchange rate trends of the US dollar, the euro, the British pound and the Japanese yen against the Swiss franc had a marginal aggregate impact on performance in Swiss francs at EBIT level. For 2019 as a whole, Bachem recorded a slightly positive currency effect on sales (+0.7 million CHF), and a slightly negative effect on EBIT (-0.3 million CHF).

### Sharp rise in gross profit

The costs of goods sold in the year under review totaled 221.2 million CHF, or a stable 70.5% of sales. Further improvements in capacity planning and cost absorption, together with the ramping-up of "Operational Excellence" and process automation, give Bachem additional potential for a further increase in profitability in response to rising personnel costs and the increasing workload to implement regulatory requirements. Overall, Bachem managed to stabilize its gross profit margin at a high 29.5% in 2019, while at the same time significantly increasing nominal gross profit by 9.2 million CHF (+11.1%).

### Quality and partnership matter

The know-how and experience of our people are crucial to the Bachem Group's success. Every day, Bachem's qualified and experienced specialists commit themselves and their profound knowledge to the implementation of the company's high standards of quality and partnership.

**Additional job creation**

Bachem's strong business performance and very high capacity utilization enabled the company to create a total of 117 new jobs by the end of 2019. As of December 31, 2019, the Bachem Group employed a total of 1257 people in 1209 full-time equivalent positions.

**Higher staff costs**

In addition to the newly created jobs in the reporting year, pay increases and the increase in headcount in the previous year had the effect of increasing staff costs. Total personnel expenses for the period amounted to 145.9 million CHF (previous year: 134.9 million CHF).

**Marketing & sales strengthened**

At 15.8 million CHF, marketing and sales costs saw a significant rise on the previous year (13.9 million CHF). As a percentage of total sales, these expenses increased slightly to 5.0% (previous year: 4.9%). The main causes of the rise in expenses were the expansion of the new Tokyo subsidiary, strategic hiring in the sales organization, and higher IT expenses. The company once again exhibited successfully at all major trade shows, showcasing an extensive, ambitious project portfolio. In addition, new jobs and activities in connection with the build-up of the oligonucleotides product area contributed to the increase in expenses.

**High capacity utilization in research & development**

In research and development (R&D), the Group recorded expenses of 1.7 million CHF, unchanged on the previous year. This amount includes amortization of previously capitalized development costs for new generics amounting to a total of 69 kCHF. As a result, this item remains slightly below the projected typical yearly outlay of roughly 2 million CHF. The main factors here were the relevant departments' very high capacity utilization and the prioritization of customer orders at the expense of internal projects. In 2019, as in previous periods, Bachem directly recognized costs incurred at production units for process optimization and scale-ups, along with development costs for new generic samples, in the cost of goods sold.

**General administration costs slightly lower**

Administration costs totaled 13.6 million CHF in 2019, a decline of 0.3 million CHF (-2.3%) on the previous year. Accordingly, costs as a proportion of sales declined to 4.3% (previous year: 4.9%). The Corporate Executive Committee is reviewing the development of administra-

tion costs on an ongoing basis, and does not see the decline in the reporting year as indicative of a general downtrend in costs. Rather, the company's growth is leading to higher demands – and hence rising expenses – in the Finance, HR, and IT areas. These costs are passed on and reported internally according to the areas where they were incurred.

**Higher depreciation and amortization**

At 24.9 million CHF, regular depreciation and amortization was 1.8 million CHF higher than the prior year figure. This was due primarily to the commissioning of new production capacity at all locations in Switzerland, the UK, and the US. No impairments were recognized during the period under review.

**Sharp increase in net income**

In contrast to the slight tailwind in the prior year, currency translation effects had a significantly negative impact on net income in the year under review. The valuation at the balance sheet date of USD loans granted to subsidiaries by the holding company was the major factor here. Overall, exchange rate movements resulted in a consolidated exchange rate loss of 1.6 million CHF (previous year: gain of 0.4 million CHF). With net income of 54.2 million CHF, the company easily surpassed the previous year's result by 7.5 million CHF (+16.1%), despite the negative foreign currency impact.

**Slightly lower interest expense**

Against a backdrop of persistently low interest rates and a reduced funding requirement due to the capital increase implemented in the first semester of 2019, interest expense declined to 0.4 million CHF (previous year: 0.5 million CHF).

**Tax rate impacted by one-time effects**

The net income figure reflects income taxes of 6.2 million CHF (previous year: 8.0 million CHF). Due to tax credits and allowances, as well as one-time effects, the Group's resulting tax rate was 10.3% (previous year: 14.6%). The adjustment of the deferred tax rate as a result of the Swiss tax reform had a major impact here. Bachem is currently anticipating a future Group tax rate of 15–18%.

**Cash flow from operating activities more than doubles**

Cash flow from operating activities before changes in net current assets was 80.8 million CHF in fiscal 2019,

which is equivalent to an increase of 7.5 million CHF (+10.3%) over the previous year. At the same time, cash flow-relevant capital held in net current assets increased by a total of 16.5 million CHF. The primary driver of this development was the growth-related increase in inventories of 24.4 million CHF. In addition to stocking up on semi-finished and finished goods as well as work in progress, Bachem also increased its buffer inventories of the raw materials that are crucial to production. The other positions related to the cash flow relevant increase in trade receivables along with other current receivables, prepaid expenses and accrued income amounting to 4.2 million CHF, and the increase in trade payables along with other current liabilities, accrued expenses and deferred income of 12.1 million CHF. Cash flow from operating activities recorded a year-on-year rise of 38.5 million CHF (+149.3%) to 64.3 million CHF.

### Growth-focused investment

The Group continued to pursue its growth strategy in 2019, with cash flow-relevant investments in property, plant and equipment of approximately 28.8 million CHF. Together with investments in intangible assets, the resulting cash flow from investing activities came to -30.6 million CHF. In addition to capacity expansion and substitute procurement, the company continues to focus above all on automation, compliance, and safety and environmental protection.

### Successful capital increase

Bachem successfully carried out a capital increase during the first half of 2019, issuing 400 000 new shares at an issue price of 120.00 CHF each. Net of all costs, the transaction resulted in cash flow from capital increase in the amount of 47.1 million CHF. The new funds will be used to redeem financial liabilities. In the first half of the year, Bachem repaid loans amounting to 150.0 million CHF that had been taken out the previous year. By year-end, the company had raised loans from five banks totaling 106.8 million CHF, of which 60.0 million CHF has a term of three years. With the dividend held at CHF 2.75 per share, the payout of 27.4 million CHF under the heading of financing activities remained broadly at the previous year's level. Of this total, dividends in the amount of 10.0 million CHF remained outstanding for a short time as a loan to Ingro Finanz AG, but had been repaid by mid-year. Consequently, only loan liabilities owed to third parties of 106.8 million CHF existed on the reporting date of December 31, 2019. The significant reduction in total loan liabilities is also reflected in cash

flow from financing activities, which amounted to -34.3 million CHF.

### Cash and cash equivalents of 21.4 million CHF

Cash and cash equivalents in the consolidated cash flow statement decreased by 0.9 million CHF. Total cash holdings as defined in the cash flow statement amounted to 21.4 million CHF at year-end.

### Extremely robust capital base

As a result of the capital increase mentioned above and the reduction in financial liabilities, Bachem reported a very solid equity ratio of 69.2% as per December 31, 2019 – a significantly higher figure than at the end of 2018 (62.5%), and one that provides the Group with an extremely robust capital base. This will serve as a guarantee of independence and flexibility going forward, as the Group pursues its strategic goals while adhering to its own priorities and values.

### Share price surges

During the 2019 fiscal year, the price of Bachem shares (BANB) traded on SIX Swiss Exchange rose by more than 36%, from 113.60 CHF to 154.80 CHF. In other words, Bachem shares once again outperformed both the SMI (+26.0%) and the SPI (+30.6%). The highest closing price during the year was 158.60 CHF on December 23, 2019, while the lowest closing price was 107.20 CHF on February 21, 2019.

### Planned dividend increase

Bachem's earnings per share (EPS) rose from 3.43 CHF to 3.91 CHF during the fiscal year. The Board of Directors will propose an increased dividend of 3.00 CHF per share to the Annual General Meeting in April 2020 (previous year: 2.75 CHF). Half of the distribution will come from the reserves from capital contribution.