

## Difficult start to first half-year of 2010 for the Bachem Group

### Positive sales trend thanks to acquisition of projects and recovery of demand

- Postponed assignments and orders slow down the start to the year and send sales down 17.1% in local currencies during the first half of 2010
- Positive sales trend in the course of the year with 25% sales increase for second quarter compared with the first three months of 2010
- The sales decline as well as the staff and infrastructure costs required for sustainable success lead to a temporary fall in EBIT (5.8 million CHF, -78.7%) and EBIT-margin (7.9%)
- Net income thanks to proceeds from sale of stake in Polyphor at 18.8 million CHF
- With a marked increase in sales and reduced costs, a substantially higher operating income margin is expected for the second semester

### Key figures first half-year 2010

	<b>First half-year 2010</b>	First half-year 2009	Change in CHF (in LC) %	
Sales (in MCHF)	<b>73.9</b>	91.2	<b>-18.9%</b>	<b>(-17.1%)</b>
EBIT (in MCHF)	<b>5.8</b>	27.4	<b>-78.7%</b>	<b>(-75.1%)</b>
EBIT in % of sales	<b>7.9%</b>	30.1%		
Net income (in MCHF)	<b>18.8</b>	28.8	<b>-34.9%</b>	
Net income in % of sales	<b>25.4%</b>	31.6%		
Earnings per share (EPS - in CHF)	<b>1.39</b>	2.15	<b>-35.3%</b>	
Cash flow from operating activities (in MCHF)	<b>14.6</b>	18.7	<b>-21.9%</b>	

Bubendorf, Switzerland, August 20, 2010 – In the first half of 2010, sales of the Bachem Group (SIX: BANB) fell to 73.9 million CHF as a result of the difficult market conditions.

### Trends in the most important business areas

Generics in particular showed a sales decline of 27.4% in local currencies (LC) as a result of various factors, such as delayed approval of some medicines, inventory reductions by customers and increasing competition.

Sales of New Chemical Entities (NCEs) were below those in the first half of 2009 as a result of project delays and concentration in R&D. Customers from the biotech segment continue to report difficulties raising capital. Nevertheless, Bachem succeeded in acquiring additional NCE projects and enlarging the portfolio from 120 to 128 projects. Orders were secured for a series of new organic and highly potent NCEs for the second half-year. The services for NCEs continued to develop positively.

For Research Chemicals, a very gratifying increase in non-GMP syntheses and a sales growth among catalog products contrasted with weaker demand for GMP projects in the early stage of development. With a slight increase in sales, immunology products again proved resistant to economic fluctuations, a sign of the sustained demand for innovative offers in this market.

In geographic terms, Europe too is now heavily affected by sales declines. The weakening of the negative trend in the USA suggests a quicker recovery in this important market.

Rolf Nyfeler, CEO of Bachem, commented: *“Following the difficult start at the beginning of this year, demand has clearly gained momentum across all segments from month to month. We expect this trend to continue for the second half of the year. At the same time we focus on consistent cost management and measures to increase efficiency. However, we need to assume that sales and results of the Group for 2010 overall will remain below those of the previous year – albeit with positive prospects for the years to come.”*

### **EBIT margin temporarily falls to 7.9%**

In light of the sales gap in the first half-year, the operating income fell to 5.8 million CHF for the first six months. This corresponds to an EBIT margin that lies well below the result of the same period last year. The main reason for this collapse is not only the unsatisfactory sales development, but also the decision by Bachem not to take radical measures in human resources and fixed assets in view of a strategy that is geared to long-term success.

Only with highly qualified personnel and state-of-the art production methods are the acquisition of attractive projects and long-lasting partnerships possible. This is essential to maintain satisfied customers and the expected level of growth. Bachem will adhere to its high quality standards even if individual companies try to benefit from the economic situation in the short term on the basis of low prices.

The difficult situation at present is taken into account with a restrictive approach to the filling of vacancies, general cost savings and targeted improvements in production processes. In the first half-year, this resulted in economies with 21 full-time equivalents, and, by the end of the year, it will be more than 30.

The systematically pursued reduction in inventory increases, the additional depreciation charges from the investments of previous years and also a temporarily unfavorable product mix impacted the costs of goods sold. Gross profit was at 25.6 million CHF resulting in a gross margin of 34.6%.

One-off costs for the periodical reprint of the Bachem catalog resulted in a slight rise of marketing and sales costs rose to 6.1 million CHF. By contrast, research and development costs fell slightly to 3.2 million CHF. General administration costs fell sharply by 0.8 million CHF to 10.6 million. Bachem will continue to cast a critical eye over potential cost savings and will take advantage of any opportunities to this effect.

### **Net profit margin at 25.4%**

Thanks to the realized gain of around 17.5 million CHF from the previously announced sale of Bachem's stake in Polyphor AG, the net income in the first half of 2010 reached 18.8 million CHF despite the weak operating performance and a net profit margin that was still a high 25.4%.

## **Cash flow and investments**

The cash flow from operating activities amounted to 14.6 million CHF, or 19.7% of sales, in the first half of 2010. Thanks to a reduction in the capital tied to net current assets of about 0.9 million CHF compared with the end of year versus an increase of 13.4 million CHF in the corresponding period of the previous year, a large part of the sales related gap could be offset.

The investments in fixed assets during the first half of 2010 lay at the reduced level envisaged. Thanks to the investments of previous years, Bachem has a modern infrastructure that enables it also to competitively produce larger volume orders.

In the field of financing activities, the dividend distribution was somewhat lower than in the previous year. Part of the dividend was converted into a general business loan.

With a sound equity ratio of currently 77.1%, Bachem will continue also in the future to be independent and flexible in pursuit of its strategic objectives while preserving its own priorities and values.

## **Outlook**

Against the background of an increasing recovery in demand in the course of the year and based on the current situation as regards orders, an increase in project inquiries and forthcoming marketing authorization decisions by the regulatory authorities, Bachem expects a marked easing of the situation by the end of 2010. However, it has to be assumed that sales and the operating performance of the Group for 2010 overall will remain below those of the previous year.

For the mid- to long-term perspective, Bachem sees an average annual sales growth between 6% and 10% over 5 years in local currencies in view of the promising prospects for its range of products and services. In the medium term, Bachem strives to return to an EBIT margin of at least 25%. The timing of the recovery depends primarily on external factors such as the financing situation of biotech customers or the decisions of the regulatory authorities.

To achieve its objectives, Bachem is also seeking to further enhance organizational efficiency. Against the background of forthcoming investments in a shared ERP platform and further savings potential, it is planned to bring the Swiss sites in Bubendorf and Vionnaz under a common management. In custom syntheses in the non-GMP area, activities are concentrated in the very successful competence center in St. Helens, UK. These measures will allow an even more efficient customer service and will make a further contribution toward securing corporate financial objectives.



## **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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