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Sales at a new high

Despite some initial project delays, Bachem had a successful start to the new year and achieved solid results in the first half. The company scored further gains in the second half, boosting sales to 261.6 million CHF, a new record for the seventh year in a row. Sales exceeded the previous year's figure by 25.1 million CHF (10.6%). Unlike in the prior-year period, exchange rate movements had no relevant impact on translation of local-currency (LC) sales gains of 10.5%.

Vista's contribution to sales more than doubles

As reported earlier, several expansion projects were undertaken at the Vista plant, California, acquired with American Peptide Company (APC). The resulting impacts on production capacity again limited sales growth in the year under review. Given ramp-up difficulties and an appraisal of risks against opportunities in the second half, management deliberately passed up certain short-term sales opportunities, choosing instead to pursue sustainable job security and product quality by waiting to bring a portion of the newly built production capacity online. Nevertheless, the contribution of the plant (acquired in 2015) to total sales more than doubled over the previous year. Successful utilization of the capacity mentioned above should enable further significant gains in the coming year.

Generics as stable pillar of business

Sales of generics amounted to 112.9 million CHF, underscoring their status as a bedrock of stability within the Group's product portfolio with a share of roughly 43% of total sales. Generics sales grew 5.4% over the year-back period. By regions, Europe saw especially encouraging gains of approximately 24%. North America, by contrast, remained below expectations following the previous year's growth spurt. The current order backlog and close customer relationships further confirm the continuing stability of this product group.

New vitality in research chemicals

The research chemicals business unit again delivered a strong performance following the previous year's product line purge. Catalog products and custom synthesis performed well in the face of a challenging, highly competitive market, growing by a substantial 23% to 31.9 million CHF. Bachem's Competence Center for Custom Synthesis in St. Helens, UK, reaffirmed and solidified its strong position in global competition in research chemicals. The activities taken over from APC also contributed to the gratifying performance.

New Chemical Entities as growth driver

In the New Chemical Entities (NCEs) business, the first half of 2017 saw gains of 24%, setting the stage for a highly successful year overall. Thanks to a diversified, high-quality project portfolio and an appealing range of services for NCEs, sales remained strong in the second half, resulting in overall growth of over 15% versus the prior year. In particular, sales in the Europe region surged roughly 32%, underscoring its outstanding operating performance and competitive edge. Despite the previously mentioned bottlenecks due to the expansion of one of the two plants in California, NCE sales in the North America region likewise exceeded those of the already strong year-back period by about 2% in local currencies. The expansion in both regions highlights Bachem's excellent starting position and solid foundation for further sustained growth.

A promising project portfolio

Bachem's NCE project portfolio saw further milestones in 2017. At year-end, Group companies in Europe and North America were working with customers on some 250 development projects in all stages of development. The large number of products in Phase II and III clinical trials remain important and promising, providing

Bachem with an outstanding platform for a successful future.

Sales breakdown by product category

The active pharmaceutical ingredients (APIs) product category again delivered strong growth in 2017. This is a key category for the growth of the Group as a whole. The performance of research chemicals was equally striking following the previous year's product line purge, with a very encouraging rise in sales.

in million CHF	2017	Change in local currency	Change in CHF	As % of total sales
API Products	229.7	+9.0%	+9.1%	87.8%
Research Chemicals	31.9	+22.5%	+23.0%	12.2%
Total sales	261.6	+10.5%	+10.6%	100.0%

The categories' share of total sales – 87.8% for APIs and 12.2% for research chemicals – remained nearly unchanged from the previous year.

Geographic breakdown

Geographically, overall sales performance was quite pleasing in both Europe and the United States. North America's share of sales declined somewhat due to the delays in the United States mentioned above.

in million CHF	2017	Change in local currency	Change in CHF	As % of total sales
Europe	174.6	+15.5%	+16.0%	66.7%
North America	87.0	+1.8%	+1.3%	33.3%
Total sales	261.6	+10.5%	+10.6%	100.0%

Order backlog is excellent

Overall, Bachem further strengthened its lead over the competition in a market environment that remains challenging. Demand for peptide-based therapeutic agents remained firm, and the current order backlog is excellent. With increasing utilization of available resources, especially in the plant acquired from APC in the United States, the company is exceptionally well placed for further growth.

EBIT up despite friction

Bachem's operating profit (EBIT) grew by 12.3% to 50.6 million CHF during the period under review. This includes a 0.4 million CHF gain from the disposal of a building in the United States. The sale was undertaken as part of a strategy of focusing expansion plans on the Vista site, California, where a suitable building was

acquired to replace it. Due to the delays mentioned above and planned production downtime, the plant in Vista was not able to fully utilize the newly built capacity. As in the previous year, the facility's contribution to EBIT was still negative. Despite this friction Bachem widened its EBIT margin to 19.3% (previous year: 19.1%). Operating profit before depreciation and amortization (EBITDA) came to 71.5 million CHF (previous year: 64.8 million CHF), for an EBITDA margin of 27.3%.

Currency translation effects mildly positive

In the income statement, the divergent exchange rate trends of the US dollar and euro against the Swiss franc had a slightly positive aggregate impact on performance in Swiss francs at EBIT level. The currency effect on the top line was a positive 0.4 million CHF, on EBIT a similar 0.5 million CHF.

Gross profit up 7.1%

Rising demand again necessitated more hiring at various production units in 2017. Higher personnel costs were only partially offset by cost-cutting and, in some cases, high capacity utilization. Moreover, delays in the issuing of permits – along with the aforementioned expansion work and production downtime at the Vista plant, California – caused a temporary drop in capacity utilization and a corresponding absorption of fixed costs. Various organizational measures were undertaken in the United States to permanently enhance operational excellence and strengthen management both numerically and in terms of expertise. Cost of goods sold for the full year was 178.9 million CHF or 68.4% of sales (H1 2017: 68.6%, 2016: 67.3%). Despite these negative factors, the company successfully boosted gross profit for the year by a nominal 5.5 million CHF (+7.1%), continuing the gratifying performance of previous years.

Quality and partnership matter

The know-how and experience of our people are crucial to the Bachem Group's success. In an environment of increasingly complex projects and growing regulatory demands, Bachem and its customers can count on qualified and experienced specialists to get the job done. With vast knowledge and untiring dedication, they are able to meet the most stringent expectations of quality and partnership day in and day out.

More jobs added

Thanks to the strong business performance and high overall capacity utilization, Bachem created a total of 79 new jobs through the end of 2017. As of December 31, 2017, the Bachem Group employed a total of 1101 people in 1057 full-time equivalent positions. As the market leader and as a socially conscious employer, Bachem offers employees unique opportunities to work in interdisciplinary teams and, together with customers, contribute actively to the success of exciting, groundbreaking projects such as developing new therapeutic agents for more effective treatment of diseases.

Personnel costs up as anticipated

Staff costs were again the Group's largest single expense item in 2017. Along with raises and the new jobs created during the year under review, the workforce expansion in the second half of the previous year was the major factor in this expected cost increase. Total personnel expenses for the period amounted to 126.8 million CHF (previous year: 113.3 million CHF).

Marketing & sales stable

The company again exhibited at all major trade shows, cultivated an extensive, ambitious project portfolio and supported customers as "Pioneering Partner for Peptides" during the year under review. Despite all this, marketing and sales costs of 14.0 million CHF remained slightly below the previous year's figure (14.2 million CHF). In light of the encouraging growth in sales, this expense category's share of gross sales therefore fell to 5.4% (previous year: 6.0%).

Research & development according to plan

In research and development (R&D), the Group recorded expenses of 1.9 million CHF (previous year: 1.6 million CHF), leaving this item slightly below the projected typical yearly outlay of roughly 2 million CHF. This amount includes amortization of previously capitalized development costs for new generics in the amount of approximately 107 kCHF. As in previous periods, Bachem in 2017 directly recognized costs incurred at production units for process optimization and scale-ups, along with development costs for new generic samples, in "cost of goods sold."

General administrative costs slightly higher

General administrative costs amounted to 18.0 million CHF, an increase of 0.4 million CHF (+2.2%) over the previous year. Implementation of the new Group-wide

ERP (Enterprise Resource Planning) system placed heavy burdens on internal service units including IT, Finance and HR. The temporary staff expansion this entailed gave rise to added expenses. This expense category also reflects the addition of a new, fifth member to the Corporate Executive Committee from April 1, 2017, onward.

Depreciation and amortization up

At 20.9 million CHF, regular depreciation and amortization was 1.2 million CHF higher than the prior-year figure. This was due primarily to the commissioning of new production capacity at all locations in Switzerland, Britain and the United States. No impairments were recognized during the period under review.

Currency translation effects impact net profit

In contrast to the prior-year period's positive contribution, currency translation effects had a significant negative effect on net income for the year under review. This is largely attributed to the valuation at the balance sheet date of USD loans granted to subsidiaries by the holding company. Overall, exchange rate movements resulted in a consolidated exchange rate result of -1.8 million CHF (previous year: +1.2 million CHF). Posting net income of 41.8 million CHF, the company slightly exceeded the previous year's result despite these significant negative effects. Net income before currency translation effects, by contrast, rose significantly.

Interest expense slightly higher

With interest rates still low but with significantly higher funding needs, interest rate expense rose to 0.3 million CHF (previous year: 0.2 million CHF).

Tax rate remains low

The net income figure includes income taxes of 6.6 million CHF (previous year: 4.7 million CHF). In consequence of the US tax reform and of tax credits and allowances, the Group's resulting tax rate was 13.6% (previous year: 10.2%). In future periods Bachem anticipates a Group tax rate in the neighborhood of 18%.

Cash flow diminished by net current assets

Cash flow from operating activities before changes in net current assets was 65.8 million CHF in fiscal year 2017, an increase of 6.1 million CHF (+10.3%) from the previous year. Cash flow-relevant capital held in net current assets increased by a total of 30.0 million CHF in comparison. This was due mainly to the growth-

related increase in inventories of intermediates and finished goods and work in process of 21.9 million CHF. Further items include the cash flow-relevant increase of 6.6 million CHF in trade receivables, the 1.9 million CHF decline in trade payables and the net 0.4 million CHF decrease in other current receivables and liabilities including relevant accruals and deferrals.

Investments for further growth

With gross capital expenditures in property, plant and equipment of approximately 45 million CHF, the Group again sent a clear signal of future growth in 2017. Together with investments in intangible assets and the previously mentioned disposal of a building at the Torrance location, California, the resulting cash flow from investment activities came to -45.4 million CHF. Along with capacity expansion and replacements, the company focused particularly on automation and compliance. This is a further confirmation of Bachem's long-term commitment to social responsibility and its focus on job security and environmental protection even while growing.

Higher corresponding funding needs

Due to the increase in the dividend to 2.50 CHF (previous year: 2.25 CHF), the dividend distribution of 33.9 million CHF was once again higher than in the previous year (30.5 million CHF). A total of 55.1 million CHF of the financial liabilities reported in the previous year were repaid in the first half of the year. At year-end, the company had aggregate outstanding loans of 84.6 million CHF with three banks. Dividends in the amount of 10.0 million CHF remained outstanding as a loan from Ingo Finanz AG. Consequently, total loan liabilities owed to third and related parties amounted to 94.6 million CHF on the reporting date of December 31, 2017. Cash flow from financing activities amounted to +7.7 million CHF.

Cash and cash equivalents of 17.3 million CHF

Cash and cash equivalents in the consolidated cash flow statement decreased by 1.9 million CHF. Total cash holdings as defined in the cash flow statement amounted to 17.3 million CHF at year-end.

Capital base remains solid

With an equity ratio of 68.7% (previous year: 73.6%), Bachem remains extremely solidly financed. This sound capital base is a guarantee of independence and flexibility as the Group pursues its strategic goals while adhering to its own business priorities and values.

Shares again outperform the market

Over the course of the 2017 fiscal year, the price of Bachem shares (BANB) traded on SIX Swiss Exchange rose by over 70% from 90.30 CHF to 154.00 CHF. This marks the third consecutive year that Bachem has clearly outperformed the SPI (+19.9%) and the SMI (+14.1%). The lowest closing price during the year was 91.80 CHF at the beginning of the year, and the highest closing price was 154.00 CHF, recorded at the end of the year.

Dividend increase proposed

Despite the negative currency translation effects described above, Bachem's earnings per share (EPS) rose slightly from 3.04 CHF to 3.08 CHF. The Board of Directors will therefore propose a 10% dividend increase to 2.75 CHF (previous year: 2.50 CHF) to the Annual General Meeting in April 2018.