Hügli Holding AG

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Hügli records EBIT margin of 8.6% on a difficult market

On a demanding market, Hügli recorded in 2011 revenues of CHF 332 million, which corresponds to organic revenue growth of +1.4%. Significant increases in the prices of raw materials led to an EBIT margin of 8.6%, which is within the strategic target corridor, however which is significantly lower than the top figure of 10.2% in the previous year. Profits fell from CHF 27.4 million in the previous year (higher due to one-off income) to CHF 19.5 million in 2011, which corresponds to a solid profit margin of 5.9%. In view of the intact perspectives for the future, the Board of Directors is proposing a dividend of CHF 15.50 per bearer share, unchanged compared to the previous year, which corresponds to a high disbursement ratio for Hügli of 38%.
The first quarter in 2012 showed a slow start with organic revenue growth of +2.3%. This is mainly due to two projects – adjustments to the product range and the reduction of sales structures in Italy – that aimed to increase return and affected revenue development. The strong equity ratio of 50.5%, the high level of investments in high-performance production equipment, and the systematic development of market potential are the foundations on which Hügli aims to record more dynamic organic revenue growth of +4% to +5% and a corresponding increase in operating income in the financial year 2012.

Difficult underlying conditions

During the first half of 2011 revenues were up +0.1%, still fighting to compare with the high figures from the previous year, however in the second half of the year its revenues surged up +2.6%. Organic revenue growth in 2011 as a whole totaled 1.4%, whereas revenues in the reporting currency fell to CHF 332 million, or down -10.8%. This was mostly due to the strong Swiss Franc, which caused currency translation losses of CHF 33 million, and also due to the removal of a product line in the previous year, taking CHF 12 million away from the total.

The difficult economic environment depressed, in particular, our largest division **Food Service** (gastronomy, corporate catering), in particular in Germany, Austria and Switzerland. Despite the fact that some markets were shrinking, our sales organization was at least able to keep revenues stable in 2011. Eastern European countries fared better than average on the whole, in particular the Czech Republic and Poland. However, substantial revenue losses were recorded in Italy, which led to the local Food Service sales organization being consolidated and partially reoriented. In total, revenues 2011 in this division were -0.6% lower.

Once again the **Private Label** division - sales to large retain companies using their own brands - made the largest contribution to growth, with organic revenue growth of +5.5% in 2011, double-digit growth in Eastern Europe, and a further successful expansion in the UK market. However, the largest national organization in Germany had to accept a temporary slight reduction in revenues, with the pace of growth increasing again significantly towards the end of 2011.

The **Industrial Foods** division fared well with organic growth of +2.4%, although the individual areas performed very differently. Consumer packaging for resellers enjoyed very positive growth, in particular in Germany, whereas business with semi-finished products for the processing industry fell.

The market for organic products in the **Health and Natural Food** division also exhibited greatly different characteristics. It was possible to compensate well for the relatively strong downturn on the health food market with excellent business expansion with natural food and food retailing. Revenues in this division grew in 2011 by +1.3% in local currency year-on-year.

The Group's geographic segments also exhibited very different growth. **Eastern Europe** performed quite well with organic growth of +9.2% (continued operations), however in particular the Czech Republic and Poland contributed excellent growth rates, whereas figures in Hungary fell due to the economic and regulatory situation. **Germany** was up moderately year-on-year at +1.2% organically, despite the market in its core segment (soups, sauces, bouillons) falling. In the **Switzerland/Rest of Western Europe** segment, the positive and negative peaks were the strongest. Revenue growth in the UK and Austria was pleasing. However, figures in Italy fell by a double-digit amount.

Earnings clearly depressed by increases in prices for raw materials
The consolidated income statement 2011 shows a downturn in revenues of -10.8% due to currency translation effects and disinvestments, despite stronger sales performance (volume effect: +0.3%). However, the gross margin from continued operations was clearly depressed, falling by 2.2 percentage points year-on-year. This was due to the clear leaps in prices for raw materials, whereas it was only possible to partially implement the necessary increases in selling prices and with a time lag. Thanks to strict cost management it was possible to cut operating costs in local currencies slightly on the whole compared to the previous year. The increases in prices for raw materials were thus also the main reason for the -24.7% downturn in EBIT to CHF 28.5 million, which corresponds to an EBIT margin of 8.6%. This figure was significantly lower than the previous year's top result of 10.2%, however in a long-term comparison it is in line with the average in recent years and is in the middle of the strategic target corridor. Profits fell from CHF 27.4 million in the previous year (higher due to one-off income) to CHF 19.5 million in 2011, which corresponds to a solid profit margin of 5.9%.

Strong equity ratio and high investments in production capacity
Hügli's balance sheet has become even stronger, and at the end of 2011 the equity ratio totaled 50.5%. This corresponds to equity increasing by +7.2% to CHF 119.7 million, while net debt only increased by +1.6% to CHF 69.9 million, and shows that the financing continues to be solid and balanced. Investments in state-of-the-art production buildings and high-performance machines totaled a high CHF 20.7 million in fiscal year 2011. This underscores the Hügli's confidence that it will be able to reinforce its market position still further in future, even though the ROIC will be temporarily depressed. A ROIC of 10.6% is still, however, significantly higher than the average cost of capital, and reflects the excellent value added and the attractive return on the capital employed.

Unchanged dividend

The Board of Directors is proposing a dividend of CHF 15.50, unchanged compared to the previous year, to the General Meeting on 23 May 2012. This corresponds to a disbursement ratio of 38%. This disbursement rate, which is in excess of the long-term corridor of 25% to 30% shows Hügli's confidence that it will be able to reinforce its earnings strength still further in the coming years based on a strong balance sheet and intact perspectives for the future. Based on the closing price of Hügli's shares on 31 December 2011 of CHF 567, this corresponds to a dividend return of 2.7%.

Outlook - Growth of 4% to 5% in 2012

Despite ongoing insecurities on the markets, Hügli can see additional organic growth potential, which it aims to systematically develop. In so doing, from 2012 the newly structured sales divisions will contribute to focusing on customer needs in an even more focused manner, be this in the Food Industry division (partner to the food industry for semi-finished products), the Brand Solutions division (products for sales-oriented branded companies) or the Consumer Brands division (sale and marketing of own brands, mostly in organic quality, to consumers). In addition, after the in-depth investment cycle of the past few years, all of Hügli's locations have a highly efficient machinery and optimized workflows in production and supply chain management.
The outlook for 2012 includes the forecast for solid revenue growth of 4% to 5%, however the prices for raw materials, which have stabilized at a high level, once again depress the gross margin for the new fiscal year, with the result that EBIT is only likely to increase proportionately.

The start into **2012** with the **first quarter** does not yet reflect this dynamic with an overall organic revenue growth of +2.3%. The Food Service division is down by -0.5% when compared to the previous year. Its result is affected by the reduction of sales structures and adjustments to the product range in Italy. This created a negative effect with more than -30% compared to the previous year, which must be covered by the country organisations that are showing the planned growth. Private Label further accelerated its growth to +13.8%, to which all countries contributed. Based on promising projects, the new key account divisions Food Industry and Brand Solutions anticipate higher growth for the entire year than the 0% and +1.2% they achieved in Q1 2012. The Consumer Brands division's brand business is still suffering from a shrinking health food market and totals -2.7%.
The geographic segment Eastern Europe continues to grow with an above-average rate of +8.2%. Germany showed further organic growth of +2.5%. The segment Switzerland / Rest of Western Europe comprises in its +0.1% the dynamic revenue increase of Hügli UK, now attaining a double digit rate, as well as the revenue losses of approximately one third that were caused by the necessary shrinking of the Food Service sales structures in Italy.

In addition, we are very confident that we will be able to achieve our strategic goal of recording organic revenue growth of more than 5% with an above-average increase in earnings. Opportunities on the market are also reviewed on an ongoing basis, with the aim of increasing the profitability of our infrastructure and sales capacity.

Financial key figures *in million CHF*	**2011**	**2010**	**Variance**
Sales	332.0	372.2	-10.8%
EBITDA	39.8	48.8	-18.3%
as % of sales	12.0%	13.1%	
EBIT	28.5	37.8	-24.7%
as % of sales	8.6%	10.2%	
Net Group profit	19.5	27.4	-28.8%
as % of sales	5.9%	7.3%	
Cash flow from operations	25.8	38.8	-33.4%
Capital expenditure	20.7	26.1	-20.5%
	31.12.2011	**31.12.2010**	
Net operating assets	204.0	195.7	+4.3%
Equity	119.7	111.7	+7.2%
as % of total assets	50.5%	48.2%	
Net debt	69.9	68.8	+1.6%
Gearing	0.58	0.62	
Return on invest. capital ROIC	10.6%	14.3%	
Earnings per share (CHF)	40.51	57.09	-29.0%
Dividend (in CHF)	15.50	15.50	0.0%

Agenda

12 April 2012	07:30 a.m.	Media Release: Annual Report 2011 / Sales Q1 2012
	10:30 a.m.	Media/Analysts' Conference, Widder Hotel, Zurich
23 May 2012	04.30 p.m.	Shareholders' Meeting, Seeparksaal, Arbon
25 May 2012		Ex-dividend date
31 May 2012		Dividend payment (coupon no. 17)
17 August 2012	07.30 a.m.	Media Release: Half-Year Report 2012

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This information and further financial details as well as the annual report, information on corporate governance and Hügli shares, can be found at our Investor Relations website: http://ir.huegli.com
Hügli is listed on the SIX Swiss Stock Exchange (HUE / Security number 464795).

Hügli – one group, many teams, one goal

Hügli was founded in Switzerland in 1935. Today it is one of the leading European food companies for the development, production and marketing of dry blends in the convenience segment such as soups, sauces, bouillons, ready to serve meals, desserts, functional food as well as Italian specialities. Hügli caters to the kitchens of the professional out of home market (Food Service), manufactures products for brand companies (Brand Solutions) as well as for food retailers (Private Label). With its flavour-adding semi-finished products, Hügli partners with food manufacturers (Food Industry) and sells own brands, mostly of organic quality, to consumers (Consumer Brands). 1300 employees in 9 countries link Hügli directly with its customers, and generate annual sales of more than CHF 330 million. ***www.huegli.com***