Media Release 11 April 2017, 07.00 a.m.

Solid profitability despite lower earnings

- **Sales up by +1.8% to CHF 385 million**
- **Currency- and acquisition-adjusted sales drop by -2.6%**
- **Cyclical key account business depressed**
- **EBITDA dropped slightly with -2.6% to CHF 42.8 million**
- **EBIT margin at 7.4% below previous year's level (8.1%)**
- **Earnings per share fall by -5.7% to CHF 45.73**
- **Strong balance sheet despite intensive investment activities**
- **Solid return on invested capital (ROIC) of 9.6%**
- **Unchanged dividend at CHF 16.00 per bearer share proposed**
- **Outlook 2017: organic sales growth in the range of 0%-2%, increase of EBITDA margin**

Market changes and macroeconomics put brakes on growth

While Hügli had generated an average annual organic growth of +3.1% in the preceding three financial years, the financial year 2016 was marked by macroeconomic uncertainties, heightened competition and changes to distribution structures. Organic sales dropped by -2.6% based on sales losses relating mostly to the trade goods assortment, and for a lesser part to own products. Owing to slightly higher foreign currency rates (+0.8%) and an acquisition, Hügli still achieved a sales growth of +1.8% to CHF 385.2 million. The Group's strategy includes an annual sales increase of 5% in the medium-term, which in part rests on growth to be achieved by acquisitions of competitors in the consolidated core market, and by strategic round-off acquisitions. As of 1 January 2016, Hügli acquired a majority stake of 80% in the Dutch Bresc B.V. as part of a succession plan. Bresc has successfully specialised in the production and sale of chilled garlic and herb specialties for the European gastronomy and industry. In 2016, Bresc contributed CHF 13.7 million to Group sales.

Germany depressed, other segments on the up

In the largest country segment Germany, earnings unexpectedly underwent considerable changes due a sales drop in local currencies by -5.7% in 2016, after a growth period lasting three years with an average sales increase of +6% per year. There are numerous reasons for this. On the one hand, fewer promotional tenders from key accounts were won due to the heightened competition, and on the other hand, a number of production orders were actively discontinued because of their unsatisfactory margin. Even though a consistent cost management helped to keep operating costs in 2016 at a only slightly elevated level year-on-year, in spite of salary increases due to collective agreements, EBIT decreased markedly by -26% to CHF 12.6 million, causing the EBIT margin to drop from 7.3% in the previous year to 5.6%.

The country segment Switzerland/Rest of Western Europe recorded an organic sales growth of +1.2% overall, profiting from the positive development of Granovita Spain, acquired in 2015, and a pleasing sales increase in Italy. Due to the sustained strong Swiss Franc, the largest subsidiary in Switzerland only just managed to maintain its sales level. Hügli UK was faced with smaller order volumes of key account customers that resulted in diminishing sales. Thanks to an under-proportional increase of operating costs, the organic EBIT margin, at 9.6% in the previous year, went further up. Including the newly acquired Group company Bresc, the reported EBIT margin 2016 amounts to 10.1% overall.

The segment Eastern Europe (Czech Republic, Slovakia, Poland, Hungary) developed outstandingly well owing to a sales growth of +7.3% in local currencies carried by all divisions and countries. The ensuing improved production capacity uptake led to a pronounced EBIT increase of +30%. The EBIT margin newly attained 9.4%.

Private Label Retail / Consumer Brands declined, Food Industry in upturn

The Private Label Retail division (brands of the retail food trade) lost and actively cut back part of the sales volume it had built up in the previous two years (+14.5% in 2015 and +10.7% in 2014) in the course of optimising its product line. The sales decline of -3.2% in local currencies resulted mainly from the lack of promotional sales in the retail market Germany. The Consumer Brands division sales of Hügli's own organic brands were affected by the slowdown of the natural food market and the rising pressure from competition among meat replacement products. The division recorded an overall sales decline of -9.2% in 2016, based on the trade goods assortment alone, while sales of own products went up. The insourcing of production of former trade goods assists the division in expanding the value chain and strengthen the quality and profitability of the products. The Food Industry division achieved a very favourable sales development of +5.0% in the foodstuffs industry. Thanks to a well-filled innovative project pipeline, new orders from large food manufacturers were won. In the Food Service division, the performance of all DACH countries declined, especially Switzerland and Austria, whereas the EAST countries once again developed very well. Overall, the division just maintained the previous year's sales level (-0.2%).

Lack of sales depresses earnings, operating costs under control

In 2016, the organic gross margin came to stand slightly above the previous year's figure owing to shifts in the mix (higher share of own products, insourcing of trade goods). On a comparable basis, personnel expenses remained level with the previous year's figure. Due to the newly acquired Group subsidiary alone, the number of staff rose by +4.2% to 1'496 full-time equivalents as per the end of 2016. The other operating expenses increased owing to growth initiatives and improvement projects, mainly in the areas of production, IT, development and quality management. The reported EBIT thus dropped by -6.4% to CHF 28.6 million which corresponds to an EBIT margin of 7.4%. Owing to lower tax expenses, consolidated profits decreased by only -4.6% to CHF 22.3 million in the financial year 2016. The profit margin amounts to 5.8% of sales, compared to 6.2% achieved in the previous year.

Strong balance sheet despite intensive investment activities

In the past one and a half years, Hügli committed a lot of money and energy to a new plant (mixing plant with high-bay storage) in Radolfzell on Bodensee. We built a cutting-edge production plant for dry blend products in Europe. It will set new standards with regard to automation and quality assurance, and reduce future production costs through an increase in efficiency and the omission of logistics expenditures. The recognition of CHF 33 million for the under construction item in the balance sheet at the end of 2016 confirms that the new plant is a major project and comprises an essential part of Hügli's expenditures for tangible fixed assets in the past two years (CHF 30 million in 2016 and CHF 34 million in 2015). In addition, Hügli made several acquisitions in both years, which drove the cash flow from investment activities overall to a high CHF 39 million in 2016 and CHF 46 million in 2015. In the financial year, the entire investment amount was fortunately covered by the recorded cash flow from operating activities. Net debt rose slightly to CHF 75 million as per the end of

2016. The relevant key figure net debt to EBITDA ratio increased marginally from 1.5x to 1.8x in 2016. Despite the impact of acquired goodwill in equity, the equity ratio maintained its solid level of 53.7%. The return on invested capital (ROIC) was affected by the lower income and higher invested capital and dropped from 10.8% to 9.6% in 2016.
Measured against the weighted average cost of capital (WACC) of 7.0%, we achieved a lower but still solid value added of +2.6%.

Outlook 2017
The first quarter Q1 2017 shows with CHF 97.9 million sales that stands as expected below the previous year's level (CHF 104.6 million). The reason for this are aperiodic sales that were made last year in Q1, whereas in 2017 these sales will be made in April or the following months. Therefore, organic sales dropped by -3.7%.
For the financial year 2017, we anticipate that the economic environment will continue to be demanding due for the most part to a stagnant market and heightened competition. Our main objective is to outdo our competitors in meeting the high quality demands of our customers thanks to innovative products manufactured at cutting-edge automated production plants. Maintaining a consistent cost management is essential in all business areas. These measures aim to improve both earnings and free cash flow. In the full financial year 2017, we expect a moderate organic sales growth of 0%-2%, combined with an increase of the EBITDA margin above 11.1%, the value reported in 2016.

Unchanged dividend proposed
The Board of Directors will propose an unchanged dividend of CHF 16.00 per bearer share to shareholders at the ordinary General Meeting on 17 May 2017. This corresponds to a payout ratio of 35% of earnings per share.

Key financial indicators *in million CHF*	**2016**	**2015**	**Variance**
Sales	385.2	378.3	+1.8%
EBITDA	42.8	44.0	-2.6%
in % of sales	11.1%	11.6%	
EBIT	28.6	30.6	-6.4%
in % of sales	7.4%	8.1%	
Group net profit	22.3	23.3	-4.6%
in % of sales	5.8%	6.2%	
Cash flow from operating activities	38.4	41.2	-6.8%
Cash flow from investing activities	-38.7	-46.0	-16.1%
	31.12.2016	**31.12.2015**	
Net operating assets	252.3	240.1	+5.1%
Equity	157.5	153.6	+2.5%
in % of total assets	53.7%	54.8%	
Net debt	75.4	67.0	+12.7%
Gearing	0.48	0.44	
Return of invest. capital ROIC	9.6%	10.8%	
Earnings per share (in CHF)	45.73	48.49	-5.7%
Gross dividend (in CHF)	16.00	16.00	0.0%

Financial calendar

11 April 2017	07.00 a.m.	Media Release: Annual Report 2016 / Sales Q1 2017
	10.30 a.m.	Media / Analysts' Conference, Widder Hotel, Zurich
17 May 2017	04.30 p.m.	Annual General Meeting, Seeparksaal, Arbon
19 May 2017		Ex-dividend date
23 May 2017		Dividend payment (coupon no. 22)
18 August 2017	07.00 a.m.	Media Release: Half-Year Report 2017

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Hügli published its Annual Report 2016 today at 07.00 a.m. online at:
http://www.huegli.com/en/investor-relations/results-reports
Further financial information, information on corporate governance and on the Hügli share listed on the SIX Swiss Exchange (HUE / security no. 464795) can be retrieved from our Investor Relations website:
http://www.huegli.com/en/investor-relations

Hügli – Culinary expertise. Creativity. Speed.

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 delicatessen. Hügli caters to the kitchens of the professional out of home market (Food Service) and manufactures products for brand companies as well as for food retailers (Customer Solutions). With its flavour-adding semi-finished products, Hügli partners with food manufacturers (Food Ingredients) and sells own brands, mostly of organic quality, to consumers (Consumer Brands). More than 1'500 employees in 11 countries link Hügli directly with its customers, and generate annual sales of around CHF 380 million (EUR 350 million).