

Operational progress and a stronger emphasis on higher-margin products



Net sales for the Chemistry Division totalled CHF 60.2 million in 2014, a 1.7% improvement on the previous year. The division also achieved operational progress, and expanded its manufacture of higher-margin products. EBIT for the year was a substantial improvement on 2013.

Market environment

CPH's Chemistry Division is primarily active in the silicate chemistry sector. The molecular sieves and chromatography gels produced are used, respectively, to purify gaseous substances and in the separation of pharmaceutical agents. The division also produces deuterated solvents and fertilizer for the Swiss market.

Molecular sieves are used in industrial and chemical facilities and in the energy sector to purify ethanol, hydrogen, oxygen and natural gas. New sieves are required when a facility is first built, and existing sieves need to be replaced when they lose their adsorption capacity.

Mid-2014 saw Europe's economic recovery start to slow down. As a result, molecular sieve customers were reluctant to invest in new facilities, and tended to postpone any refurbishment of existing plant. Strong pricing pressures were also felt, especially from Asian competitors.

In North and South America the demand for molecular sieves stemmed largely from the shale gas and ethanol production sectors. While the ethanol boom has abated, and business there is largely focused on replacing existing sieves, further impetus is expected to be provided by the US economic recovery.

CPH also sees further potential for its products in the Middle East. But many of the countries that are active energy producers here are less than stable in political terms. Any tightening of the present sanctions against Russia in connection with the Ukraine conflict could also impact on the energy sector.

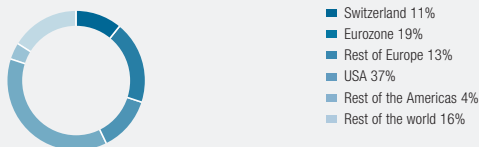
The growth momentum in China has also slowed somewhat. But the opportunities here are still intact, albeit at a lower level, and Asia's markets remain attractive. The specialist markets for chromatography gels and medicinal oxygen applications showed encouraging business trends.

Business development

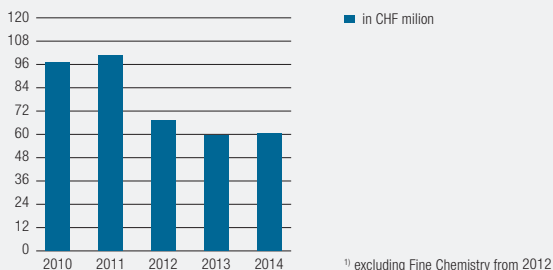
Net sales for the division amounted to CHF 60.2 million. The sales result was a 1.7% improvement on the previous year.

The volume business for the chemistry and energy sectors is highly price-sensitive, and many new competitors, especially from Asia, are muscling into the market. In response, the division launched a sales offensive in the course of the year, which showed positive results in the second six months. Various actions were also taken at both its operating sites to enhance its procurement and its efficiency and thus its competitive credentials.

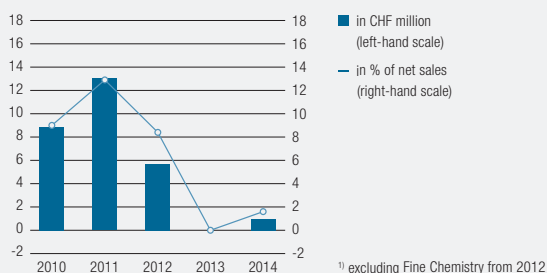
Chemistry net sales by region



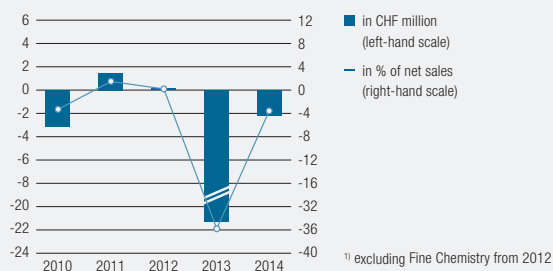
Chemistry net sales trends¹⁾



Chemistry EBITDA trends¹⁾



Chemistry EBIT trends¹⁾



As well as its high production costs, the strength of the Swiss franc is a major competitive disadvantage for the division in international terms. Capacities were not fully utilized at either location. The sole exception here was in the production of molecular sieves for the medicinal oxygen segment.

A shift was also seen – from Latin America to North America and Europe – in the proportions of the division's sales generated in its various geographical markets. The manufacture of mineral fertilizer for Fenaco, the Swiss market leader, and of solvents for chemical analysis applications both developed in line with expectations.

The efficiency enhancements achieved had a positive impact on bottom-line results. EBITDA for the year increased to CHF 1.0 million. EBIT was also improved, from 2013's CHF –5.3 million (before impairment) to CHF –2.2 million, thanks not least to the lower depreciation base following the prior year's tangible-asset impairment.

The division invested CHF 3.1 million (compared to CHF 4.3 million the previous year) in expanding its production of high-margin products. And as well as improving productivity, the division put a strong focus on enhancing its quality assurance processes. A total of 180 personnel were employed in the Chemistry Division at the end of 2014.

Strategy

The Chemistry Division is further increasing its focus on supplying higher-margin products for demanding applications. The molecular sieves used to purify medicinal oxygen are being required to fit into increasingly smaller mobile units. So product development here is moving towards small sieve particles, and to improving their adsorption credentials. The chromatography gel segment also has new products in the pipeline that offer better separation capabilities for pharmaceutical applications. And the division will continue its expansion unabated into the growing Chinese and Middle East markets.

Outlook

Business in 2015 will be strongly influenced by the changed currency rates. The massive increase in the Swiss franc's strength following the abolition of the minimum euro exchange rate will affect the division's 2015 results, which are likely to decline in both sales and EBIT terms.

After a hesitant recovery up to mid-2014, the European economy is now showing a sideways trend, with little sign yet of any rise in the demand for molecular sieves. In Asia the prospects remain bright; and the economic growth in North America will bolster demand. Energy prices fell substantially in the course of 2014, however; and this could adversely affect the shale gas sector, given the relatively high expense of exploiting this energy source.

The Chemistry Division expects to see sound development in 2015 of its higher-margin products. But the volume business is likely to remain tough, given the present pricing pressures.