

Packaging expanding in the growing Asian markets



The Packaging Division is expanding into Asia and building a film production facility in Wujiang near Shanghai, China. Net sales for 2014 rose 1.2% - in line with market trends - to CHF 117.8 million, though the EBIT of CHF 5.1 million was a year-on-year decline.

Market environment

The European pharmaceuticals sector, which is the prime sales market of CPH's Packaging Division, saw a slowdown in its growth in 2014. Overall demand for blister packs rose by less than 1%. Above-average growth rates are still being seen in the emerging markets, however, especially in Asia and Latin America. The Chinese government is actively promoting medication manufacture, and has tightened up its production quality requirements with the aim of supplying high-quality pharmaceutical products not only to the domestic market but also (and increasingly) to international markets.

The molecules being developed by the pharmaceuticals industry are becoming ever more complex, while more and more medications are being distributed to all the world's various climate zones. Both these trends put greater demands on the barrier credentials of the blister packagings in which these products are supplied. Perlen Packaging holds a unique selling proposition in the high-barrier-film segment, and continues to specifically expand and refine this product range.

Consolidation is under way in the Packaging Division's sales and procurement markets. One Italian competitor is currently in insolvency proceedings, and two European suppliers of raw PVC materials have been acquired by competitors from Mexico and the USA.

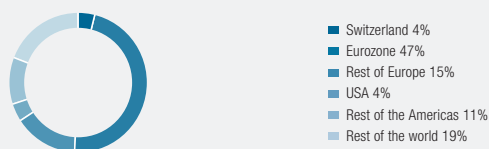
Business development

The Packaging Division raised its total sales volume by 3.7% in 2014, in line with global market growth. Net sales amounted to CHF 117.8 million, up 1.2%. While sales for Europe were slightly below their 2013 levels, the division derived particular benefit from the growth in North and South America. In Asia, by contrast, sales growth fell short of market trends. The division has now resolved to build its own PVC film production plant in China, to better exploit the opportunities there and tap into local markets.

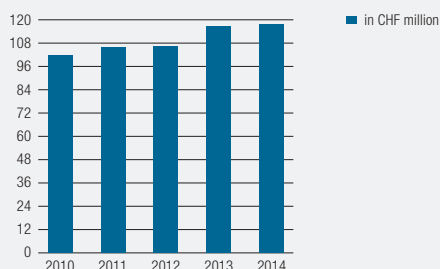
The geographical breakdown of sales saw only minimal shifts. Europe's share slipped from 68% to 66%, while that of Asia and the Americas rose from 32% to 34%. Perlen Packaging is one of the world's top three producers of PVC films for blister packs, with over 20% of the European market.

With strategic projects under development and higher personnel costs, the CHF 10.7 million EBITDA for the year was 17.1% down on 2013. EBIT was also correspondingly lower at CHF 5.1 million, a 29.1% decline; and the division's EBIT margin slipped accordingly from 6.1% to 4.3%.

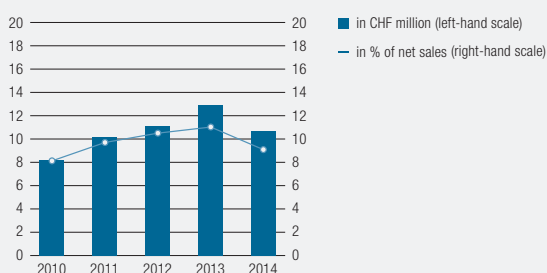
Packaging net sales by region



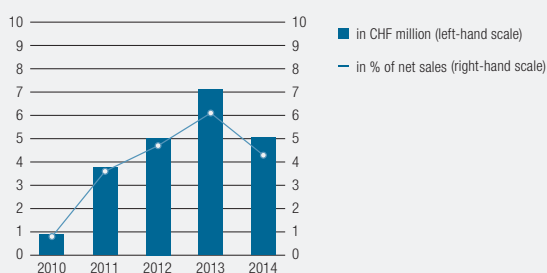
Packaging net sales trends



Packaging EBITDA trends



Packaging EBIT trends



The Packaging Division invested CHF 4.4 million in tangible fixed assets in 2014, largely in advance payments on the new Chinese facility. Perlen Packaging acquired a 17 000-square-metre site in Wujiang, near Shanghai, on a leasehold basis in the course of the year, and also founded a new subsidiary, Perlen Packaging (Suzhou) Co. Ltd. Divisional workforce numbers stood at 307 at year-end (2013: 304).

Strategy

Perlen Packaging is the only film manufacturer with a clear focus on the pharmaceuticals sector, and covers the full range of products from PVC monofilms to coated PVdC films with the strongest barrier qualities. The division puts a strong emphasis on developing, manufacturing and distributing high-margin films with high and top barrier credentials.

2014 also saw the successful launch of the new PERLALUX® Ultra protect product. This is the first time Perlen Packaging has entered the ultra-high-barrier film market with a PVdC-based blister film: in the past, the market has been the preserve of all-aluminium blister products. Some 13% of the division's net sales for 2014 stemmed from higher-margin products brought to market in the previous five years.

Perlen Packaging is well positioned in Europe, and is one of the three market leaders. But the continent's pharmaceuticals markets show only low-single-digit growth, while low-double-digit growth is expected from the emerging markets in the next few years. Proximity to local markets is vital to success. And this is why the division resolved in 2014 to build a new film production plant in Wujiang, near Shanghai. The first sod will be cut here in the first quarter of 2015, and the first products should be delivered to local Asian markets in 2016. In the medium term, the development of these capacities in China should free up capacity at the Perlen site to permit further growth. Perlen Packaging also earned the Silver ASCO Award in 2014 for successfully conducting its earnings enhancement project over the past few years.

Outlook

Healthcare remains one of the world's key markets, its growth driven by overweight and ageing populations in the industrialized nations. To this can be added the urbanization in emerging economies, which is making health services available to more of the population. The global demand for medication is projected to grow by 4-7% a year between now and 2018, though with regional variations: double-digit growth is expected for Asia and Latin America, and 2-4% for Europe and the USA. The demand for blister packs should grow even more strongly, as oral medicine is the most popular form. The growth in the emerging markets could increase pricing pressures, too, as generic medications are particularly prevalent in these regions.

The Packaging Division expects to increase its net sales and EBIT in 2015 in local-currency terms. But any progress here will be nullified by the Swiss National Bank's abolition of the minimum euro exchange rate and the resulting strengthening of the franc. Work will also continue on the new Chinese plant, while further efficiency-enhancing investments are also planned for the division's other production sites.