

Chemistry Division realigns its strategy and continues to internationalize



The Chemistry Division raised its annual net sales 10.9% to CHF 69.3 million and posted a positive operating result. The partial relocation of production from Switzerland to China and to Bosnia and Herzegovina strengthens the division's competitive credentials.

Strategy

2016 was a year of strategic realignment for CPH's Chemistry Division. The sale of the Uetikon operating site to Canton Zurich heralded the end of the manufacture of chemical products beside Lake Zurich after almost 200 years. The strength of the Swiss franc and pricing pressures had increasingly compromised the competitiveness of the division's Swiss-manufactured products over the past few years.

With a view to tapping more effectively into the growing Asian markets, the Chemistry Division acquired a majority shareholding in China-based molecular sieve manufacturer Jiangsu ALSIO Technology, which has been integrated into the Zeochem Group and has had its results consolidated since March 2016. The foundations were also laid in the course of 2016 for the current production in Switzerland of standard molecular sieves to be transferred to the newly-acquired Chinese facilities.

In acquiring ALSIO the Chemistry Division not only enlarged its standard product range: it can now newly offer extrudates and binder-free products, too. The acquisition has also prompted modifications to the division's Asian sales organization, including the establishment of a new sales office in Shanghai and the appointment of a new General Manager South East Asia, based in Singapore.

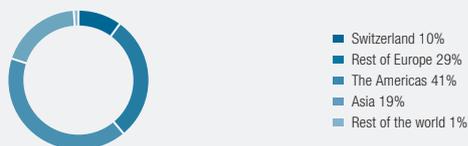
The production of molecular sieve powders, chromatography gels and special zeolites will be transferred at the end of 2017 from its present Swiss location to the newly-founded Zeochem d.o.o. based in Bosnia and Herzegovina. To this end, the Chemistry Division has procured a 5 500-square-metre site in the town of Zvornik, and will be investing almost CHF 10 million into building a new production facility thereon. The new plant will be extremely close to Alumina, one of its key suppliers, and will employ some 40 personnel.

The present manufacture of deuterated solvents and high-performance gels will remain in Switzerland along with the division's overall management and further service functions. These will all move to a new location in Rütli, southeast of Zurich. The present fertilizer production will cease in mid-2017. The strategic realignment will give the Chemistry Division production facilities in the USA, China, Bosnia and Herzegovina and Switzerland, from which it will be well placed to exploit global growth opportunities.

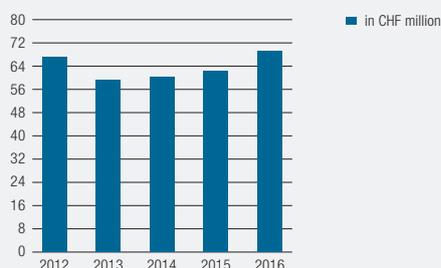
Market environment

The market demand for molecular sieves showed wide-ranging trends in 2016 depending on their field of application. In the key energy sector, where the sieves are used to purify natural gas and ethanol, energy prices increased slightly, but still remained extremely low compared

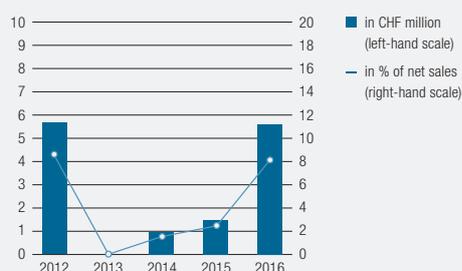
Chemistry net sales by region



Chemistry net sales trends



Chemistry EBITDA trends



Chemistry EBIT trends



with their 2014 levels. As a result, few new facilities were built, and the energy providers deferred the replenishment of their existing facilities.

The demand for molecular sieves in the medicinal oxygen and air separation sectors, by contrast, increased substantially. The year also saw the prices rise for the lithium-based products used here: supplies of lithium have become scarcer, owing to the strong competing demand for the production of batteries for the automobile sector.

In geographical terms the Asian markets recorded the strongest growth rates in 2016. Demand in Europe and the USA proved more moderate, in line with the weaker general economic growth.

Business development

The division posted net sales for 2016 of CHF 69.3 million, a 10.9% improvement on the previous year. The increase is attributable to the first-time consolidation of the new ALSIO subsidiary. The Swiss and US production facilities for the high-value product segments were also well utilized throughout the year, and this, too, had a positive impact on earnings results. The division's US plant continued to invest in expanding its capacity and enhancing its efficiency. Total investments in tangible assets for the year (including the ALSIO purchase) amounted to CHF 22.9 million, compared with CHF 2.2 million for 2015.

The ALSIO acquisition has already reduced production costs. And this, together with the higher proportion of high-value products sold and increased overall sales volumes, delivered an EBITDA for the year of CHF 5.6 million, a 271.4% improvement on 2015. Annual EBIT amounted to CHF 1.6 million, a CHF 3.4 million improvement that brought the division back into the black in earnings terms and produced an EBIT margin of 2.3%.

Employee numbers rose from 182 in 2015 to 280. The increase is due to the ALSIO acquisition.

Outlook

The Chemistry Division will continue to pursue its strategic repositioning in international terms. This will mean shifting production from Uetikon to the USA, to the recently-acquired Chinese manufacturing facility and to the two new production plants still to be built in Bosnia and Herzegovina and Switzerland. At the same time, capacities for producing higher-value products will be further expanded at the US facility. The division plans total investments here of some CHF 17 million. The realignment will also be accompanied by an intensification of sales activities in the growth markets. All in all, the division expects to post further year-on-year improvements in both its net sales and its operating result for 2017.