

Packaging further expands and improves earnings result



The Packaging Division increased its net sales 9.2% to CHF 130.2 million and raised its EBIT for the year by 6.1% to CHF 9.6 million. The division is also continuing its international expansion with the acquisition of a shareholding in Sekoya of Brazil.

Strategy

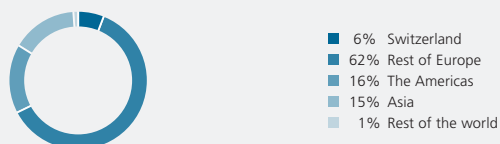
The Packaging Division offers the pharmaceuticals industry a full range of films for medicinal blister packs. As a full-service supplier, the division produces and distributes both PVC monofilms and coated PVdC films with a range of barrier credentials. Perlen Packaging is one of the world's top three suppliers in this market, and is the leader in the high-barrier film field.

Its customers in the pharmaceuticals sector are active all over the globe, and expects the same local presence from their suppliers, too. To this end, Perlen Packaging maintains production facilities on various continents. Its German operation manufactures PVC films, which are used partly in packagings that need to withstand physical forces, and partly – in coated form – to protect medicines from humidity and other atmospheric influences. The division's Swiss and Chinese operations produce coated PVdC films, while its US operation is a film finishing facility. The Chinese operation, which began in 2016, was further ramped up in 2017 with the transfer of work orders for the Asian market from Switzerland to the new Suzhou site. The Chinese workforce had grown to 38 by year-end.

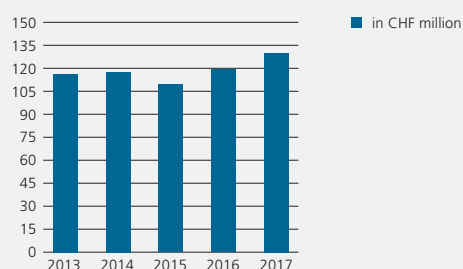
The pharmaceuticals markets are showing double-digit growth rates in various Asian countries. These markets should now be served by the division's China operation. It is not only in Asia, however, but also in Latin America that standards of living, incomes and the demand for medicines are all on the rise. In response to this trend, Perlen Packaging has resolved to expand its presence in the Latin American market, by acquiring a majority shareholding in Sekoya of Brazil as of 1 January 2018. Sekoya is a long-standing local distribution partner and operates its own film finishing plant in Anapolis.

The focus on the division's product development front is on specializing in films with high and extremely high barrier credentials. Perlen Packaging is also renowned for its innovative flair. The proportion of the division's products that had been launched in the previous five years rose to 18% in 2017. The new BLISTair disposable inhaler, which made its debut during the year (see Pages 22/23), is another example of the applications of high-barrier films. The BLISTair earned three distinctions in 2017: the CPhI Pharma Award for "Best Drug Delivery Device", the German Packaging Award in the "Functionality and Convenience" category and the Central Switzerland Chamber of Commerce & Industry's Innovation Award.

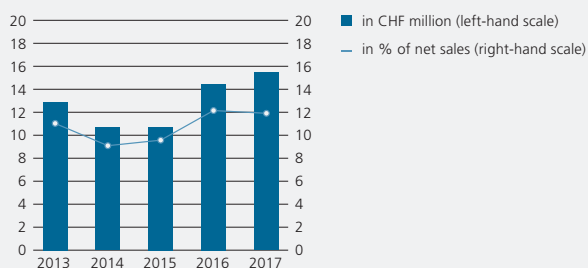
Packaging net sales by region



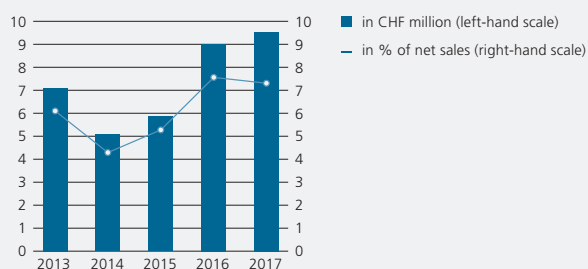
Packaging net sales trends



Packaging EBITDA trends



Packaging EBIT trends



Market environment

The demand for blister packs rose some 4% to 6% worldwide in 2017, though with strong regional variations. Against expectations, which had projected a decline for the region, Europe saw year-on-year growth, but at a slower pace than in the emerging markets. With agents becoming ever more complex and products being distributed in all climate zones, the specifications required of high-barrier films also continued to rise.

Business development

The Packaging Division increased its film sales volumes by 7.2% in 2017. With higher-barrier films increasing their share thereof, net sales rose an even higher 9.2% to CHF 130.2 million. Europe's share of such sales rose from the 67% of 2016 to 68%, and the division's share of the European market also increased to over 26%.

Facilities in Europe were fully utilized. The higher-value product mix had a positive impact on earnings, too. Despite the dampening effect in cost terms of ramping up production in China and the higher price of the raw material ethylene, EBITDA for the year was raised 7.7% to CHF 15.5 million, and the EBIT of CHF 9.6 million was a 6.1% improvement on the previous record result of 2016. EBIT margin amounted to 7.3%. The division invested a total of CHF 4.7 million in tangible fixed assets. Employee numbers rose from 350 to 363, partly as a result of increased regulatory requirements.

Outlook

The prospects remain rosy for the healthcare sector. The demand for medicines and medical services will further increase – not least in view of higher life expectancies, medical advances and rising purchasing power. In global terms, the demand for pharmaceutical packagings is expected to rise by some 6% in 2018. For the emerging economies, where large parts of the population only gain access to medicines through rising wealth levels, double-digit growth is expected.

For 2018 the Packaging Division plans a further transfer of production to China and the integration of the new Brazilian facility. Investments in tangible fixed assets are expected to amount to CHF 8.2 million. The division expects to report higher net sales for the year and a further improvement in its operating result.