



# Half-Year 2014 Analyst and Investor Presentation

**DKSH Holding Ltd.**

August 11, 2014

**Think Asia. Think DKSH.**

# Welcome to the DKSH Half-Year 2014 Analyst and Investor Presentation



# H1 2014: Growth in a challenging market environment

In CHF millions	At constant exchange rates <sup>1</sup>		In CHF		In CHF
	H1 2014	Δ in %	H1 2014	Δ in %	
<b>Net sales</b>	<b>5,071.8</b>	<b>6.7%</b>	4,618.4	(2.9%)	4,754.5
<b>Operating profit (EBIT)</b>	<b>144.8</b>	<b>1.4%</b>	131.4	(8.0%)	142.8
<b>Profit after tax</b>	<b>99.8</b>	<b>(4.9%)</b>	91.7	(12.6%)	104.9
<b>Free cash flow</b>	<b>166.7</b>	<b>(2.4%)</b>	136.7	(20.0%)	170.8
<b>Earnings per share (in CHF)</b>	-	-	1.41	(11.9%)	1.60
<b>Employees at year-end<sup>2</sup></b>	-	-	27,159	1.7%	26,693

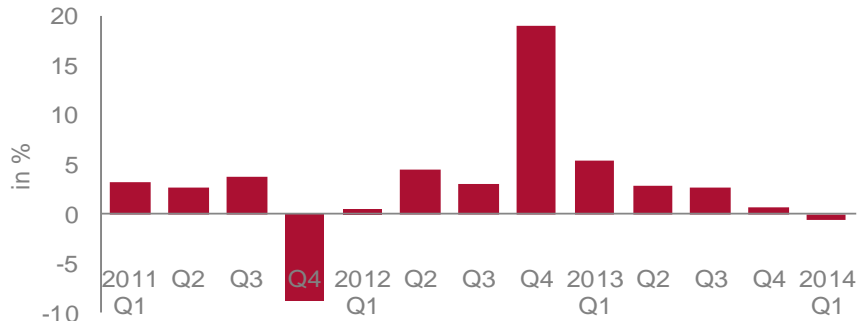
**DKSH continues to grow in a challenging market environment in the first half-year of 2014**

<sup>1</sup> Constant exchange rates: 2014 figures converted at 2013 exchange rates

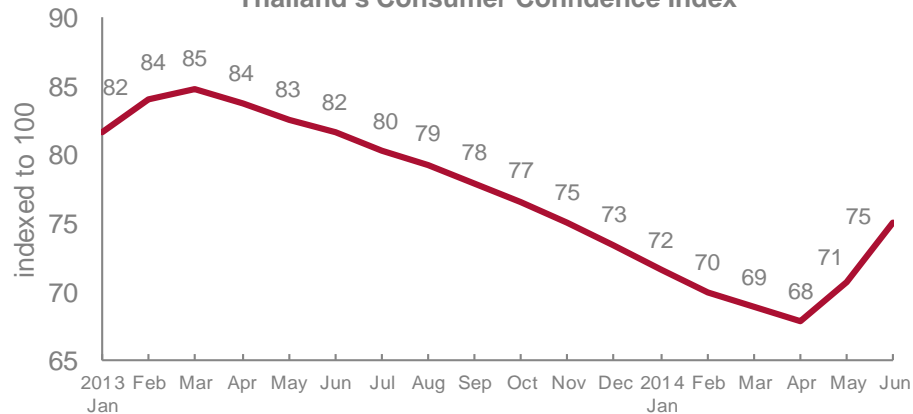
<sup>2</sup> As of December 31, 2013

# Update on Thailand

Thailand Real GDP Growth (year-on-year in %)<sup>1</sup>



Thailand's Consumer Confidence Index<sup>2</sup>



## Comments

- Political unrest more profound and enduring than expected at the beginning of the year
- Temporarily lower demand for consumer goods and for higher-margin luxury and lifestyle products as well as reduced industrial investments
- Current situation does not allow for providing an accurate forecast for 2014 yet
- Military regime stabilizes the situation
- First signs of an economic recovery in Thailand:
  - Recently improved consumer confidence
  - Higher growth forecasts for the Thai economy

## First signs of an economic recovery

<sup>1</sup> Bloomberg, National Economic Development Board (Thailand), July 2014

<sup>2</sup> Bloomberg, University of Thai Chamber of Commerce, July 2014

## Track record

### Highlights H1 2014

Further net sales growth – despite challenging market environment

EBIT at constant exchange rates slightly above last year's level

RONOC of 23.9% and return on equity of 14.0% remain at high level

Completed two strategic bolt-on acquisitions

Number of specialists rises by 1.7% to 27,159

**Performance reflects unique business model**

## Strategy for growth

### Net sales growth driven by organic growth and bolt-on acquisitions

- Organic growth
  - Expanding business with existing clients and customers
  - Multiplying success stories from country to country
  - New business development
- Bolt-on acquisitions
  - Glory, Macao (Healthcare)
  - Zeus Química, Spain and Portugal (Performance Materials)
- Strengthen service offering



**DKSH drives further consolidation of fast-growing yet highly fragmented industry**

## Industry with promising growth potential



### Market Expansion Services (MES)

- Still considerable growth potential in DKSH's addressable markets
- Growth drivers:
  - Rise of the middle class in emerging markets
  - Stronger inner-Asian trade
  - Trend towards outsourcing

**MES growth premium is driven by an increase in the outsourcing rate**

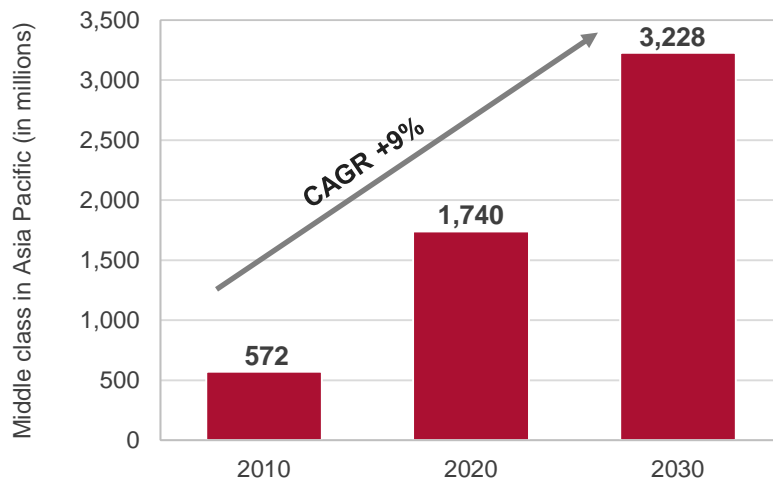
# Rapidly growing middle class in Asia

## Growing middle class in Asia Pacific<sup>1</sup>

APAC middle class  
in % of the global  
middle class



- By 2030 middle class is expected to grow sixfold<sup>1</sup>
- Growing middle class driving demand for local and international products
- DKSH is well positioned to benefit from these trends:
  - Direct positive impact on consumer spending
  - Indirect positive impact on industrial sectors



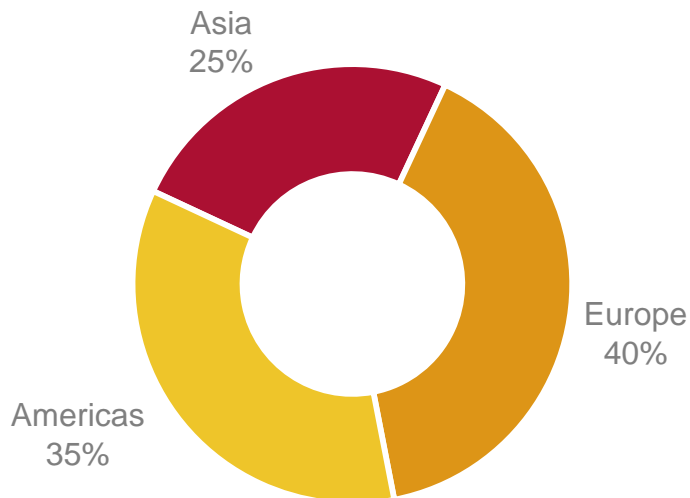
**From the "extended workbench" of the West to attractive domestic sales markets**

<sup>1</sup> UnctadSTAT, Roland Berger Strategy Consultants, March 2013



## Strong inner-Asian trade

### Origin of DKSH's key clients



- Asia Pacific is today already the second largest trading area after Europe, having overtaken North America<sup>1</sup>
- Inner-Asian trade is expected to rapidly grow as trade barriers between Asian nations decline (e.g. in ASEAN) and local consumer markets develop fast
- Out of our 400 major clients, already 25% are of Asian origin

**DKSH enables and benefits from growing inner-Asian trade**

<sup>1</sup> Roland Berger Strategy Consultants, March 2013

## Trend towards outsourcing

- Asia as a target region for companies seeking to grow their business
- Strong focus on core competencies – R&D, marketing and manufacturing – leads to increasing demand for outsourcing services related to market entry and expansion
- Because of increased uncertainty and complexity in some Asian markets, clients are increasingly outsourcing sales and distribution of their products in Asia to transparent and reliable partners like DKSH. This further drives our Business Development activities
- DKSH is a reliable partner for the successful, rapid and low-risk expansion to and within Asia



**Focus on core competencies leads to increasing demand for Market Expansion Services**

## Solid net sales growth, further value creation

Financials					Comments
(In CHF millions)	At constant exchange rate <sup>1</sup>		In CHF		In CHF
	H1 2014	Δ in %	H1 2014	Δ in %	H1 2013
<b>Net sales</b>	<b>5,071.8</b>	<b>6.7%</b>	4,618.4	(2.9%)	4,754.5
<b>EBIT</b>	<b>144.8</b>	<b>1.4%</b>	131.4	(8.0%)	142.8
<b>Profit after tax</b>	<b>99.8</b>	<b>(4.9%)</b>	91.7	(12.6%)	104.9
<b>RONOC</b>			23.9%		25.2%
<b>Return on equity</b>			14.0%		17.0%

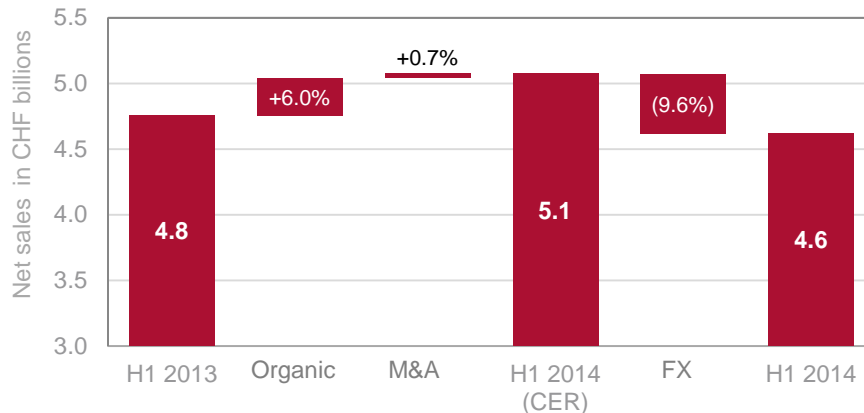
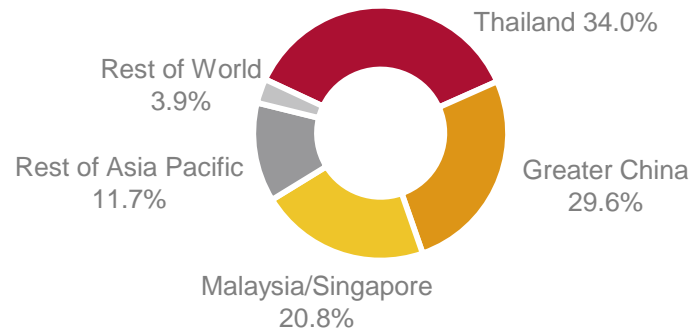
- Net sales growth of 6.7% at constant exchange rates
- EBIT increase of 1.4% at constant exchange rates despite the challenging political situation in our main market Thailand
- Profit after tax has been impacted by profit hedging costs
- RONOC and return on equity remain on high level

**Sustainable value creation with solid net sales growth**

<sup>1</sup> Constant exchange rates: 2014 figures converted at 2013 exchange rates

# Solid organic growth

## Net sales by region and breakdown



## Comments

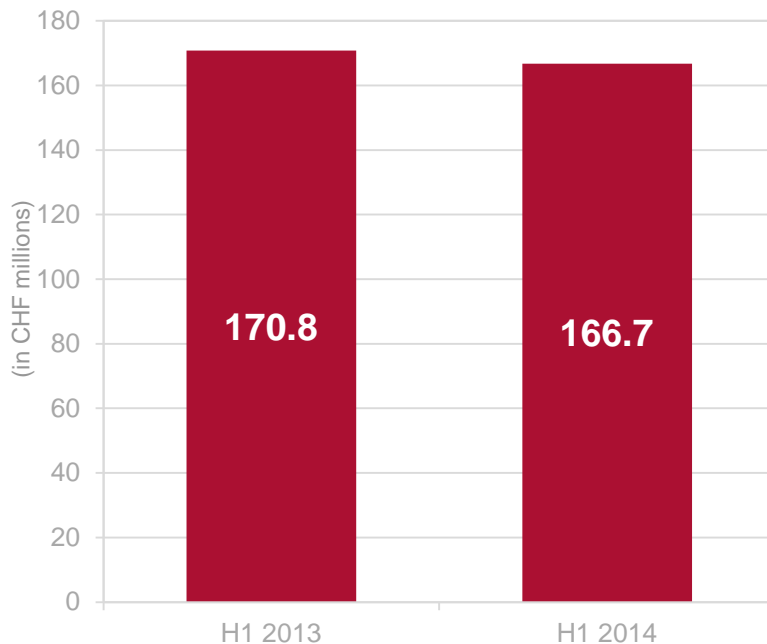
- Deeply rooted in one of the world's fastest growing markets: 96.1% of net sales generated in Asia Pacific
- Net sales growth of 6.7% at constant exchange rates<sup>1</sup>, mainly driven by:
  - 6.0% organic growth
  - 0.7%-points of net sales growth from acquisitions
- Strong impact from FX changes of 9.6%-points

**Deeply rooted in one of the world's fastest growing markets**

<sup>1</sup> Constant exchange rates: 2014 figures converted at 2013 exchange rates

# Free cash flow

## Free cash flow (EBITDA - Capex - $\Delta$ SWC<sup>1</sup>)



## Comments

- Although net sales grew in the first six months of 2014, free cash flow achieved, at constant exchange rates, CHF 166.7 million thanks to sound working capital management and thereby almost reached the high level of last year
- Result: balance sheet further strengthened
  - Low counterparty risk is a competitive edge for client negotiations

## Solid Free cash flow

<sup>1</sup> Specific working capital (SWC) = Trade receivables + Inventory - Trade payables

## Business Unit Consumer Goods

Financials					
(in CHF millions)	At constant exchange rates <sup>1</sup>		In CHF		In CHF
	H1 2014	Δ in %	H1 2014	Δ in %	H1 2013
<b>Net sales</b>	<b>2,134.5</b>	<b>1.9%</b>	1,932.3	(7.7%)	2,094.3
<b>EBIT</b>	<b>65.7</b>	<b>(17.8%)</b>	58.7	(26.5%)	79.9
EBIT margin	3.1%		3.0%		3.8%

## Comments

- Achieving net sales growth despite challenging market environment
  - Fast moving consumer goods for daily consumption with positive development
  - Demand for premium products declined
- Temporary lower demand for higher-margin luxury and lifestyle goods in Thailand and China over-proportionally impacted profitability

**Net sales growth despite challenging market environment**

<sup>1</sup> Constant exchange rates: 2014 figures converted at 2013 exchange rates

## Business Unit Healthcare

Financials					
(in CHF millions)	At constant exchange rates <sup>1</sup>		In CHF		In CHF
	H1 2014	Δ in %	H1 2014	Δ in %	H1 2013
<b>Net sales</b>	<b>2,348.8</b>	<b>11.9%</b>	2,143.8	2.2%	2,098.4
<b>EBIT</b>	<b>72.1</b>	<b>29.9%</b>	68.1	22.7%	55.5
EBIT margin	3.1%		3.2%		2.6%

- ### Comments
- Excellent net sales growth of 11.9% and outstanding EBIT increase of 29.9% both at constant exchange rates
  - Solid organic growth in all markets
    - Increased volumes with existing clients
    - Rolling out success stories from country to country
    - New business development
  - Economies of scale resulted in significant increase in profitability
  - Bolt-on acquisition of Glory in Macao

**Business Unit Healthcare showing best performance in the first-half year of 2014**

<sup>1</sup> Constant exchange rates: 2014 figures converted at 2013 exchange rates

## Business Unit Performance Materials

Financials					
(in CHF millions)	At constant exchange rates <sup>1</sup>		In CHF		In CHF
	H1 2014	Δ in %	H1 2014	Δ in %	H1 2013
<b>Net sales</b>	<b>413.4</b>	<b>4.9%</b>	381.7	(3.1%)	394.1
<b>EBIT</b>	<b>30.7</b>	<b>5.5%</b>	28.0	(3.8%)	29.1
EBIT margin	7.4%		7.3%		7.4%

- ### Comments
- Solid net sales growth of 4.9% at constant exchange rates
  - Substantial decline of Thai industrial production, consumption and exports as well as currency-related price adjustments for specialty raw materials in Japan impacted results
  - Price adjustments in Japan step-by-step successfully implemented and customer base retained. Full effect visible mid-term
  - Acquisition of Zeus Química in Spain and Portugal strengthens market position in Europe and complements market leadership in Asia

### Solid results

<sup>1</sup> Constant exchange rates: 2014 figures converted at 2013 exchange rates



## Business Unit Technology

Financials					
(in CHF millions)	At constant exchange rates <sup>1</sup>		In CHF		In CHF
	H1 2014	Δ in %	H1 2014	Δ in %	H1 2013
<b>Net sales</b>	175.4	3.2%	160.8	(5.4%)	169.9
<b>EBIT</b>	4.5	(26.2%)	4.5	(26.2%)	6.1
EBIT margin	2.6%		2.8%		3.6%

- | Comments   |
|--|
| <ul style="list-style-type: none"> <li>• Business Unit Technology with net sales growth of 3.2% at constant exchange rates</li> <li>• Substantially lower government-funded and private sector investment activities in Thailand</li> <li>• EBIT decline mainly attributable to the postponement of investment projects in Thailand</li> <li>• Successful integration of Primatek (acquired in 2013) in Indonesia</li> </ul> |

### Mixed performance in Technology

<sup>1</sup> Constant exchange rates: 2014 figures converted at 2013 exchange rates

## Changing Free Cash Flow definition with full-year 2014 results

Existing and new definition of Free Cash Flow	Comments
<p><b>Existing definition Free Cash Flow</b>            FCF = EBITDA            +/- Change in Specific Working Capital<sup>1</sup>            - CAPEX</p>	<ul style="list-style-type: none"> <li>• Changing Free Cash Flow definition with full-year 2014 results</li> <li>• Advantages of the new definition:               <ul style="list-style-type: none"> <li>– Easier understandable for shareholders</li> <li>– Identical with cash flow statement as shown in the half-year reports and Annual Reports</li> <li>– Excludes FX-related, i.e. non-monetary, changes of Specific Working Capital</li> </ul> </li> </ul>
<p><b>New definition Free Cash Flow</b>            FCF = Cash Flow from Operations            - Capex</p>	

**New definition increases transparency**

<sup>1</sup> Specific working capital (SWC) = Trade receivables + Inventory - Trade payables

## Remain cautiously optimistic

- Situation in Thailand has stabilized in recent weeks – potential trend reversal
- Further enhanced the targeted service offering and support for Japanese companies aiming to enter South East Asia
- Acquisition of healthcare distributor Glory in Macao allows us to serve both Hong Kong and Macao out of one hand
- Acquisition of Zeus Química in Spain and Portugal strengthens market position in Europe and complements market leadership in Asia
- From today's perspective, we expect to achieve a 2014 result which is above the record year 2013<sup>1</sup>



**Further cemented leading market position of DKSH**

<sup>1</sup> Assuming constant exchange rates

## Attractive business model with three major growth drivers

**1** Growing middle class in Asia

**2** Increasing inner-Asian trade

**3** Trend towards outsourcing

**Long-term trends support our business model**

**Organic growth coupled with selected bolt-on acquisitions**

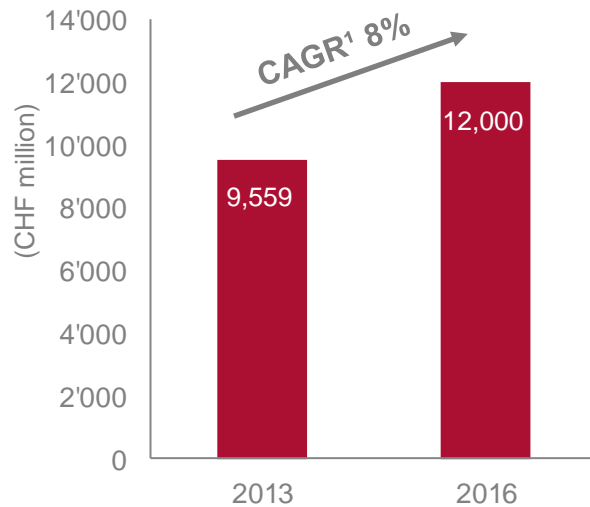
**Expect to achieve a 2014 result above the record year 2013<sup>1</sup>**

<sup>1</sup> Assuming constant exchange rates

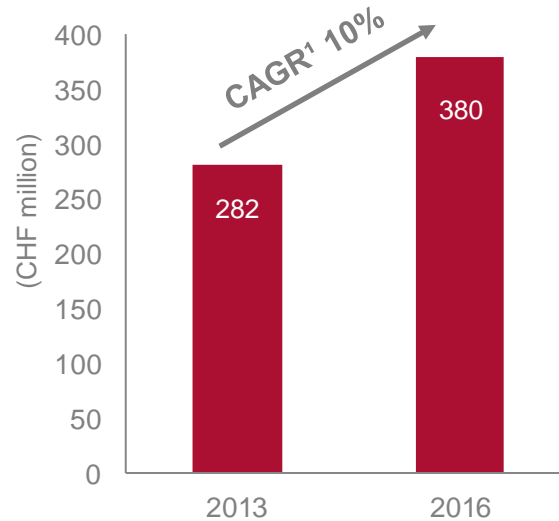
# Three-year targets up to 2016<sup>1</sup>

**Double-digit profitable growth until 2016 at constant exchange rates**

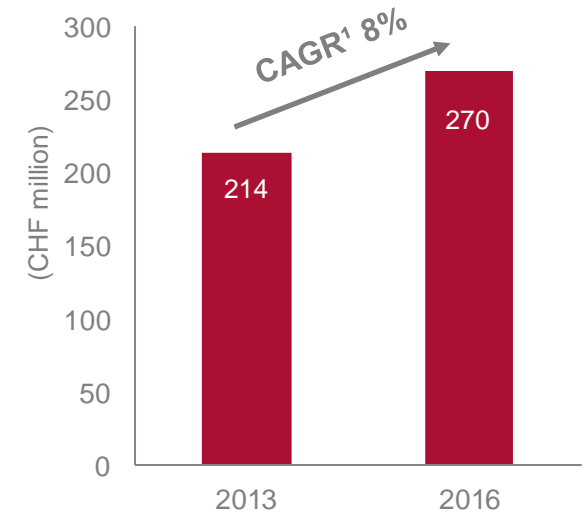
## Net sales



## EBIT



## Profit after tax



**CAGR of 8% in net sales and 10% in EBIT until 2016 expected<sup>1</sup>**

<sup>1</sup> Assuming constant exchange rates



Thank you for your attention.

Think Asia. Think DKSH.

# Appendix

## Development of selected exchange rates in H1 2014

Unit	H1 2014	H1 2013	Δ in %
1 AUD	0.81	0.95	-14.2%
100 CNY	14.32	15.19	-5.7%
100 HKD	11.49	12.07	-4.8%
100 JPY	0.87	0.98	-11.3%
100 MYR	27.46	30.44	-9.8%
100 PHP	2.01	2.26	-10.9%
1 SGD	0.71	0.75	-6.2%
100 THB	2.74	3.14	-12.8%

### Comments

- Weakness in Asian currencies reduced net sales for the first half-year of 2014 in total by 9.6%
- Constant exchange rates ensure comparability of first half-year 2014 results

**Constant exchange rates ensure comparability of first half-year 2014 results**



## Disclaimer

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