Half-Year Report 2019

Think Asia. Think DKSH.

Contents

Key figures

Interim consolidated income statement				At CER[1]
in CHF millions	January – June 2019	January – June 2018	Change in %	Change in %
Net sales	5,618.6	5,671.1	(0.9)	(2.1)
Operating profit (EBIT)	110.7	139.5	(20.6)	(21.4)
Profit after tax	68.3	97.5	(29.9)	(30.9)
EBIT margin (in %)	2.0	2.5	-	-

Interim consolidated statement of financial position		
in CHF millions	June 30, 2019	December 31, 2018
Total assets	5,290.9	4,895.4
Equity attributable to the shareholders of the Group	1,666.2	1,710.4
Net operating capital (NOC)	1,463.6	1,236.3
Net cash	202.1	473.8
Return on net operating capital (RONOC) (in %)	16.4	21.3
Return on equity (ROE) (in %)	8.1	14.9

Earnings per share		
in CHF	January – June 2019	January – June 2018
Basic earnings per share	1.03	1.47
Diluted earnings per share	1.03	1.47

Other		
	June 30, 2019	December 31, 2018
Specialists	32,535	32,996

[1] Constant exchange rates (CER): 2019 figures converted at 2018 exchange rates.

Interim consolidated income statement (unaudited)

in CHF millions [1]	January – June 2019	January – June 2018
Net sales	5,618.6	5,671.1
Other income	12.5	16.3
Goods and materials purchased and consumables used	(4,855.8)	(4,888.7)
Employee benefit expenses	(343.4)	(334.5)
Depreciation, amortization and impairments	(67.5)	(19.6)
Other operating expenses	(255.0)	(306.3)
Share of profit of associates and joint ventures	1.3	1.2
Operating profit (EBIT)	**110.7**	**139.5**
Financial income	1.3	1.3
Financial expense	(17.8)	(5.0)
Profit before tax	**94.2**	**135.8**
Income tax expenses	(25.9)	(38.3)
Profit after tax	**68.3**	**97.5**
Attributable to		
Shareholders of the Group	67.2	95.4
Non-controlling interest	1.1	2.1
Earnings per share for profit attributable to the shareholders of the Group		
Basic earnings per share	1.03	1.47
Diluted earnings per share	1.03	1.47

[1] Except for earnings per share (in CHF).

Interim consolidated statement of comprehensive income (unaudited)

in CHF millions	January – June 2019	January – June 2018
Profit after tax	**68.3**	**97.5**
Other comprehensive income		
Net investment hedges, net of tax of CHF 0.0 million in current and prior period	(3.0)	(2.0)
Currency translation differences	12.5	1.5
Items that may be reclassified to profit or loss	**9.5**	**(0.5)**
Remeasurement gains on defined benefit plans, net of tax of CHF 0.0 million in current and prior period	0.1	0.1
Net gains/(losses) on equity instruments at fair value through other comprehensive income	(0.2)	(0.2)
Items that will not be reclassified to profit or loss	**(0.1)**	**(0.1)**
Other comprehensive income	**9.4**	**(0.6)**
Total comprehensive income	**77.7**	**96.9**
Attributable to		
Shareholders of the Group	76.4	91.9
Non-controlling interest	1.3	5.0

Interim consolidated statement of financial position (unaudited)

in CHF millions	June 30, 2019	December 31, 2018
Cash and cash equivalents	480.1	614.3
Trade receivables	2,228.1	2,219.1
Inventories	1,296.6	1,177.7
Prepaid expenses	41.8	48.8
Other receivables	407.4	403.5
Current income tax receivables	25.8	17.2
Current assets	**4,479.8**	**4,480.6**
Intangible assets	269.0	130.5
Other receivables	0.1	2.2
Property, plant and equipment	151.5	137.2
Right-of-use assets	238.1	-
Financial assets	59.0	58.5
Investments in associates and joint ventures	41.9	42.2
Retirement benefit assets	7.3	7.5
Deferred tax assets	44.2	36.7
Non-current assets	**811.1**	**414.8**
Total assets	**5,290.9**	**4,895.4**
Borrowings	96.7	57.3
Lease liabilities	71.7	-
Trade payables	2,531.4	2,436.1
Current income tax liabilities	25.8	24.9
Other payables and accrued expenses	437.7	476.4
Current provisions	4.2	3.4
Current liabilities	**3,167.5**	**2,998.1**
Borrowings	181.3	83.2
Lease liabilities	162.3	-
Other non-current liabilities	5.7	-
Deferred tax liabilities	17.4	13.2
Non-current provisions	4.5	5.3
Retirement benefit obligations	27.5	27.0
Non-current liabilities	**398.7**	**128.7**
Total liabilities	**3,566.2**	**3,126.8**
Share capital	6.5	6.5
Reserves and retained earnings	1,659.7	1,703.9
Equity attributable to the shareholders of the Group	**1,666.2**	**1,710.4**
Non-controlling interest	**58.5**	**58.2**
Total equity	**1,724.7**	**1,768.6**
Total equity and liabilities	**5,290.9**	**4,895.4**

Interim consolidated statement of changes in equity (unaudited)

in CHF millions	Share capital	Currency translation	Other reserves	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interest	Total equity
As of January 1, 2019	**6.5**	**(175.1)**	**234.2**	**1,644.8**	**1,710.4**	**58.2**	**1,768.6**
Profit after tax	-	-	-	67.2	67.2	1.1	68.3
Other comprehensive income	-	9.4	-	(0.2)	9.2	0.2	9.4
Total comprehensive income	**-**	**9.4**	**-**	**67.0**	**76.4**	**1.3**	**77.7**
Treasury shares[1]	-	-	-	(1.3)	(1.3)	-	(1.3)
Share-based payment transactions	-	-	-	1.0	1.0	-	1.0
Dividend	-	-	-	(120.3)	(120.3)	(1.0)	(121.3)
As of June 30, 2019	**6.5**	**(165.7)**	**234.2**	**1,591.2**	**1,666.2**	**58.5**	**1,724.7**

in CHF millions							
As of January 1, 2018	**6.5**	**(163.6)**	**234.2**	**1,499.3**	**1,576.4**	**57.3**	**1,633.7**
Profit after tax	-	-	-	95.4	95.4	2.1	97.5
Other comprehensive income	-	(3.4)	-	(0.1)	(3.5)	2.9	(0.6)
Total comprehensive income	**-**	**(3.4)**	**-**	**95.3**	**91.9**	**5.0**	**96.9**
Change in ownership	-	-	-	-	-	1.4	1.4
Treasury shares[1]	-	-	-	(1.0)	(1.0)	-	(1.0)
Share-based payment transactions	-	-	-	0.5	0.5	-	0.5
Dividend	-	-	-	(107.3)	(107.3)	-	(107.3)
As of June 30, 2018	**6.5**	**(167.0)**	**234.2**	**1,486.8**	**1,560.5**	**63.7**	**1,624.2**

[1] For treasury share transactions please see note 6.

Interim consolidated cash flow statement (unaudited)

in CHF millions	January – June 2019	January – June 2018
Profit before tax	**94.2**	**135.8**
Non-cash adjustments		
Depreciation, amortization and impairments on		
Property, plant and equipment	59.0	16.0
Intangible assets	8.5	3.6
Share-based payment transaction expense	1.0	0.5
Gain on sale of tangible assets, intangible assets	(0.2)	-
Financial income	(1.3)	(1.3)
Financial expense	17.8	5.0
Share of profit of associates and joint ventures	(1.3)	(1.2)
Change in provisions and other non-current liabilities	(0.2)	0.2
Change in other non-current assets	1.5	0.7
Working capital adjustments		
Decrease in trade and other receivables and prepayments	75.4	3.3
Increase in inventories	(67.9)	(66.0)
Increase/(decrease) in trade and other payables	(37.5)	31.1
Interest received	1.3	1.3
Interest paid	(10.7)	(3.5)
Taxes paid	(39.7)	(43.7)
Dividend received from associates and joint ventures	1.8	1.1
Net cash flows from operating activities	**101.7**	**82.9**
Proceeds from sale of property, plant and equipment	3.8	1.4
Purchase of property, plant and equipment	(25.2)	(12.2)
Proceeds from sale of intangible assets	0.1	-
Purchase of intangible assets	(1.8)	(1.1)
Proceeds from sale and repayment of financial assets	2.2	2.1
Acquisition of subsidiary net of cash	(175.1)	(1.1)
Net cash flows used in investing activities	**(196.0)**	**(10.9)**

in CHF millions	January – June 2019	January – June 2018
Proceeds from current and non-current borrowings	196.0	465.0
Repayment of current and non-current borrowings	(65.3)	(426.3)
Repayment of lease liabilities	(42.6)	-
Acquisition of non-controlling interest	(1.1)	-
Dividend paid	(120.3)	(107.3)
Dividend paid to non-controlling interest	(1.0)	-
Payments relating to net investment hedges	(4.2)	(1.1)
Treasury shares transactions	(2.4)	(1.0)
Net cash flows used in financing activities	**(40.9)**	**(70.7)**
Cash and cash equivalents, as of January 1	**614.3**	**443.1**
Effect of exchange rate changes	1.0	(2.0)
Net decrease in cash and cash equivalents	(135.2)	1.3
Cash and cash equivalents, as of June 30	**480.1**	**442.4**

Notes to the interim consolidated financial statements

1. General information

DKSH ("the Group") is a Market Expansion Services Group with a focus on Asia. DKSH helps other companies and brands to grow their business in new or existing markets.

The Group offers any combination of sourcing, marketing, sales, distribution and after-sales services. It provides business partners with expertise as well as on-the-ground logistics based on a comprehensive network of unique size and depth.

Business activities are organized into four specialized Business Units that mirror the Group's fields of expertise: Healthcare, Consumer Goods, Performance Materials and Technology.

DKSH Holding Ltd. is the parent company of DKSH Group. Since March 20, 2012 DKSH Holding Ltd.'s shares are listed on the SIX Swiss Exchange. The address of its registered office is Wiesenstrasse 8, 8008 Zurich, Switzerland.

These interim consolidated financial statements include the consolidated financial statements of the Group and its subsidiaries as of June 30, 2019. They were approved by the Board of Directors on July 15, 2019.

2. Basis of preparation and accounting policies

Basis of preparation
The interim consolidated financial statements for the six months ended June 30, 2019, are prepared in accordance with IAS 34. These interim consolidated statements do not include all of the information and disclosures required for the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS.

Accounting policies
The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2018, except for the adoption of new standards and amendments effective as of January 1, 2019, as described below. Other amendments to standards and interpretations that also became effective on January 1, 2019, have no impact on the interim consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

This is the first set of consolidated financial statements in which IFRS 16 has been applied.

New and amended standards and interpretations adopted
The Group has initially adopted IFRS 16 Leases from January 1, 2019. A number of other new amendments are effective from January 1, 2019, but they do not have a material effect on the Group's financial statements.

IFRS 16 "Leases": The new standard replaces IAS 17 and introduces a single, on-balance sheet accounting model for lessees and sets out the principles for the recognition, measurement, presentation and disclosure of leases. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. IFRS 16 did not have an impact for limited instances where the Group is the lessor.

At transition, the Group has applied IFRS 16 using the modified retrospective approach measuring the lease liability based on present value of the remaining lease payments discounted at the Group's incremental borrowing rate as at January 1, 2019 and the right-of-use asset as an equal amount adjusted for any accrued or prepaid amount recognized under IAS 17. Accordingly, the comparative information presented for 2018 has not been restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Group applied the practical expedients such as, exemption for leases with less than twelve-month of lease term, exclusion of initial direct cost from measuring the right-of-use asset, using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases various types of assets, including properties, vehicles and others. On transition to IFRS 16 the Group recognized additional right-of-use assets and additional lease liabilities as summarized below:

in CHF millions	**Total**
Right-of-use assets	258.2
Lease liabilities	250.8

The weighted average incremental borrowing rate applied when measuring the lease liabilities at January 1, 2019 was 3.0%.

As of June 30, 2019, the right-of-use assets and lease liabilities are CHF 238.1 million and CHF 234.0 million respectively. Also, in relation to those leases under IFRS 16, the Group has recognized depreciation and interest expense, instead of operating lease expense. During the six months ended June 30, 2019, the Group recognized CHF 42.4 million of depreciation charges and CHF 4.8 million of interest expense relating to these leases.

New accounting policies for leases

The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of the lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the lease term. Right-of-use assets are subject to impairment.

The Group initially recognizes lease liabilities measured at the present value of lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group has applied judgement to determine the lease term for some lease contacts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized. The Group's property leases principally relating to warehouse, office and shop facilities typically include an initial non-cancellable period with an option to renew for an additional fixed period.

The Group applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it reasonably certain not to be exercised.

Under some of its leases, the Group has the option to extend the lease for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. All relevant factors that create an economic incentive for it to exercise the renewal are considered. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that could affect the exercise.

3. Segment information

Operating segments

January – June 2019

in CHF millions	Healthcare	Consumer Goods	Performance Materials	Technology	Other/Elimi-nation	Group Total
Net sales	**2,930.0**	**1,985.7**	**504.2**	**198.7**	**-**	**5,618.6**
Depreciation, amortization and im-pairment	16.1	36.7	1.8	3.9	9.0	67.5
thereof: right-of-use assets	10.2	24.2	0.6	1.9	5.5	42.4
EBIT	**68.0**	**18.1**	**44.6**	**7.4**	**(27.4)**	**110.7**
Net finance costs						(16.5)
Profit before tax						**94.2**

January – June 2018

in CHF millions	Healthcare	Consumer Goods	Performance Materials	Technology	Other/Elimi-nation	Group Total
Net sales	**3,082.9**	**1,920.7**	**475.7**	**192.1**	**(0.3)**	**5,671.1**
Depreciation and amortization	8.2	5.9	1.0	1.4	3.1	19.6
EBIT	**79.7**	**34.1**	**39.7**	**8.7**	**(22.7)**	**139.5**
Net finance costs						(3.7)
Profit before tax						**135.8**

4. Impairment of asset

Following further deteriorating performance of eSweets, the Group has recalculated the recoverable amount of this cash-generating unit (CGU) as of June 30, 2019. A full impairment of goodwill resulted in a loss of CHF 3.4 million in the Business Unit Consumer Goods. In addition, a full impairment of other intangible assets of CHF 1.1 million related to eSweets was recognized.

The recoverable amount of this CGU was determined based on value-in-use calculations consistent with the methods used as of December 31, 2018. For details see note 14 of the Group's Annual Report.

There were no indications for impairment of any of the other CGUs.

5. Acquisitions

New acquisitions

During the first six months of 2019, the Group acquired the following businesses:

Business	Country of incorporation	Legal ownership	Effective date	Consolidation method	Employees
Auric Pacific Group	Malaysia, Singapore	100%	March 29, 2019	Full	435
SPC (Asset purchase)	Thailand	100%	April 5, 2019	Full	430
Dols International B.V.	Netherlands	100%	May 24, 2019	Full	7

Effective March 29, 2019, the Group purchased the shares of the Auric Pacific Group via various share transactions of subsidiaries, held by a public listed company. The Auric business activities include distribution of fast moving consumer goods, retailing, food manufacturing, restaurant management as well as food court management in Singapore and Malaysia.

Effective April 5, 2019, the Group purchased the business of SPC, a privately held company based in Thailand via asset purchase. SPC represents a technology distributor of scientific instrumentation of laboratory equipment and sector specific services for pharma, cosmetics and oil and gas companies in Thailand.

Effective May 24, 2019, the Group purchased the shares of Dols International B.V., a privately held company and specialty chemicals distributor based in the Netherland. Dols International focuses on marketing, sales and distribution of specialty chemicals in the Benelux.

From the dates of acquisition, the Auric business contributed net sales amounting to CHF 56.1 million and a combined profit after tax of CHF 2.9 million. Assuming the business had been acquired as of January 1, 2019, the contribution for the net sales would have been CHF 112.2 million with a corresponding profit after tax of CHF 5.9 million as of June 30, 2019.

From the dates of acquisition, the other acquired businesses contributed net sales amounting to CHF 9.2 million and a combined profit after tax of CHF 1.7 million. Assuming the business had been acquired as of January 1, 2019, the contribution for the net sales would have been CHF 21.1 million with a corresponding profit after tax of CHF 3.8 million as of June 30, 2019.

The goodwill of CHF 109.4 million relates to non-contractual supplier and customer relationships, synergies and footprint improvements. None of the goodwill is expected to be deductible for income tax purposes.

The contingent purchase price depends on the further development of the acquired businesses. The amount currently recognized reflects the present value of the most likely outcome of the amount to be paid.

The allocation of the purchase price was based upon a preliminary valuation, and the estimates and assumptions used are subject to change within the one-year measurement period.

The provisional fair values of the identifiable assets and liabilities relating to the acquisitions:

in CHF millions	Total fair value recognized on acquisition of Auric Group	Total fair value recognized on acquisition of SPC & Dols	Total fair value recognized on acquisitions
Assets			
Cash and cash equivalents	7.4	0.4	7.8
Trade receivables	46.9	1.3	48.2
Inventories	34.9	7.0	41.9
Other current assets	8.6	0.3	8.9
Intangible assets	34.8	6.5	41.3
Property, plant and equipment	2.4	2.8	5.2
Right-of-use assets	2.9	0.6	3.5
Deferred tax assets	1.0	-	1.0
Liabilities			
Trade payables	(31.0)	(1.3)	(32.3)
Current borrowings	(7.2)	-	(7.2)
Other current liabilities	(25.0)	(0.2)	(25.2)
Lease liabilities	(2.9)	(0.6)	(3.5)
Deferred tax liabilities	(4.8)	-	(4.8)
Net assets acquired	**68.0**	**16.8**	**84.8**
Goodwill on acquisitions	90.1	19.3	109.4
Purchase consideration	**158.1**	**36.1**	**194.2**
Contingent consideration	-	(11.3)	(11.3)
Purchase consideration paid in cash	**158.1**	**24.8**	**182.9**
Cash and cash equivalents acquired	7.4	0.4	7.8
Net cash outflow	**(150.7)**	**(24.4)**	**(175.1)**

Prior year acquisitions
During the first six months of 2018, the Group acquired shares in the following company:

Effective June 29, 2018, the Group purchased the assets of the beverage business of Davies Foods in New Zealand. The provisional fair values of identifiable assets relate to receivables of CHF 0.1 million, inventories of CHF 0.7 million, intangible assets of CHF 0.2 million and fixed assets of CHF 0.2 million.

6. Equity

There were no changes in share capital during the first six months of 2019 and 2018.

During the first six months of 2019, the Group purchased 39,442 treasury shares for CHF 2.5 million. The Group used 18,342 treasury shares (CHF 1.3 million) for vested share-based payment awards and 20,000 treasury shares (CHF 1.1 million) to settle a liability. 1,100 treasury shares were sold for an amount of CHF 0.1 million.

During the first six months of 2018, the Group purchased 12,000 treasury shares for CHF 1.0 million and used 7,800 for vested share-based awards.

An ordinary dividend of CHF 1.85 per registered share was paid during the 2019 interim period. Total dividend payments amounted to CHF 120.3 million. In 2018, a dividend of CHF 1.65 per registered share was paid, resulting in total dividend payments of CHF 107.3 million.

7. Financial instruments

Details of the carrying amounts and fair values of financial instruments by category and hierarchy levels are as follows:

in CHF millions[2]	Level[1]	June 30, 2019	December 31, 2018
Financial assets at fair value through profit and loss			
Derivative assets	2	6.3	3.8
Equity instruments	3	30.4	30.7
Total		**36.7**	**34.5**
Financial assets at fair value through other comprehensive income			
Other equity securities	1	3.1	3.5
Total		**3.1**	**3.5**
Financial assets at amortized cost[4]			
Cash and cash equivalents		480.1	614.3
Trade receivables		2,228.1	2,219.1
Other receivables[3]		353.0	355.8
Deposits to third party		19.6	18.1
Loans to third party		5.9	6.2
Total		**3,086.7**	**3,213.5**
Total financial assets		**3,126.5**	**3,251.5**
Financial liabilities at fair value through profit and loss			
Contingent consideration	3	11.3	-
Derivative liabilities	2	4.7	5.4
Total		**16.0**	**5.4**
Financial liabilities at amortized cost			
Borrowings		278.0	140.5
Lease liabilities		234.0	-
Other non-current liabilities		5.7	-
Trade payables		2,531.4	2,436.1
Other payables and accrued expenses[4]		167.0	118.4
Total		**3,216.1**	**2,695.0**
Total financial liabilities		**3,232.1**	**2,700.4**

1 Level 1: The fair value is based on quoted prices in active markets
Level 2: The fair value is based on observable market data, other than quoted prices
Level 3: The fair value is based on valuation techniques using non-observable data
2 Carrying amounts are equivalent to fair values for all financial assets and liabilities.
3 Excluding VAT and other tax receivables and derivative assets.
4 Excluding accrued expenses, VAT and other tax payables, derivative liabilities and contingent consideration liabilities.

8. Events after the reporting period

On July 1, 2019 the Group signed an agreement to acquire CTD in Australia. CTD provides sales, marketing and distribution services for consumer brands and generates annual net sales of approximate CHF 45 million.

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