

Schlatter posts a loss in the 2020 financial year Nascent market recovery towards the year-end

Both the Schlatter Group segments – welding and weaving – made a positive start to the 2020 financial year, despite order backlogs that were lower than in previous years. But the effects of the coronavirus pandemic, especially in the first half of the year, led to a significant operating loss. However, this was reduced substantially by a moderate market recovery that set in during the second half. The financial year ended with EBIT of CHF -4.9 million (prior year: CHF 1.0 million). Many of our mesh welding customers were forced to shut down their operations for extended periods, leading to a collapse in demand for systems and spare parts. The renewed strength of the Swiss franc was an additional drag on profitability in this segment. In the weaving segment a number of projects that were close to being finalised in the spring were postponed because of the lockdown. We moved into our new Münster site in May 2020. As expected, the move incurred one-off costs and involved a time-limited production stoppage. The after-sales area recovered almost completely in the second half of the year, and the demand for systems increased again – especially towards the year-end. Schlatter expects the market recovery to continue in the 2021 financial year.

Dear shareholder

The Schlatter Group achieved net sales of CHF 78.8 million in the 2020 financial year (2019: CHF 93.6 million) and an order intake of CHF 83.3 million (2019: CHF 74.8 million). The order backlog as at 31.12.2020 stood at CHF 30.8 million (31.12.2019: CHF 26.4 million). This resulted in a negative operating result (EBIT) for the period under review of CHF -4.9 million (2019: CHF 1.0 million). The Group posted a net result of CHF -5.5 CHF for the 2020 financial year (2019: CHF 0.5 million).

Markets

Reinforcing mesh production systems

The outlook for new systems business for reinforcing mesh production improved significantly at the beginning of the year, but the coronavirus pandemic triggered an abrupt halt in investment as many of our customers in numerous markets closed down their operations on official instructions. Most of our customers have now resumed production at good rates of capacity utilisation, and this has also led to a recovery in the spare-parts business. A moderate recovery in systems business for reinforcing mesh production began in the fourth quarter of 2020. Schlatter expects this trend to continue in the 2021 financial year.

We currently believe the European region will recover from the coronavirus recession rather faster than the rest of the world. West European markets may have less potential in future, though, as consolidation among European customers – especially in northern Europe – has led to the modernisation of production facilities. Since capacity has been expanded, less is being invested in these regions.

We detect a stable investment demand in some East European countries despite the coronavirus pandemic.

In numerous emerging markets, the weakness of local currencies is making companies reluctant to invest.

Many customers in Asia are considering new investment projects. Although business travel is restricted at present, we expect more contracts to be concluded in these regions as soon as it picks up.

In the USA, investment projects for reinforcing mesh production are currently on hold.

Industrial mesh production installations

Europe and the USA are among the most important markets for industrial mesh. The coronavirus crisis has led to a reduction in the number of new plants. New contracts in the US market remain fairly thin on the ground at present, though there has been a significant increase in project enquiries. European markets offer greater opportunities in the short term.

There is great potential in modernisation. Especially when times are hard, many customers prefer to modernise their existing systems rather than buy new plant. This makes upgrades and retrofits more important and benefits the field of industrial mesh production systems, which play an important role in many different industries. The range of possible applications is thus very diverse, making the business less volatile and creating growth opportunities.

Rail welding

There are opportunities in the rail-welding product area, especially in emerging markets. The coronavirus pandemic has delayed projects and sales negotiations, however, while some customers prefer to modernise rather than buy new – and Schlatter can offer them what they need in both stationary and mobile rail welding machines. India in particular will invest substantially in renewing its rail network in the next few years, and Schlatter has decided to establish a local presence there together with our long-standing distribution partner. The aim is to carry out the necessary localisations and to market rail-welding systems on the spot.

Weaving

At the beginning of the year the weaving area was about to finalise a large number of projects, but new plant sales slowed down significantly because of the effects of the coronavirus pandemic. Some weaving customers shut their facilities down during lockdowns. However, production has now been ramped up again, enabling Schlatter to sell a number of systems. Sales of spare parts have also risen, though not yet to pre-pandemic levels.

Many of our customers are currently seeing high capacity utilisation, modernisation backlogs and rationalisation investments in new, high-quality machines. The paper requirement for newspapers and magazines is down, though production for brown and hygiene paper is on a constant rising trend. The increasing move away from plastic also has potential for paper use.

In the area of wire weaving systems, there is potential in particular for applications such as security grids, screens and mosquito grids. Schlatter has improved its marketing activities. The restructuring of the sales organisation in this area as at 1 January 2020 has proved successful.

The overall market situation for the weaving segment is better than it was in past years.

Spare parts and services

Business with spare parts and services went well in the first two months, but it collapsed from March as customers closed their facilities. Demand picked up again in June, however, and expectations of an improvement in the second half of 2020 were largely fulfilled. The spare parts and services business is extremely important, as Schlatter has a large number of installed systems throughout the world. It contributes around 30 per cent of the Schlatter Group's net sales.

Product development

The Schlatter Group invested a total of CHF 5.6 million in product development in the 2020 financial year, the same as in the prior year. In spite of the coronavirus pandemic, Schlatter did not make any cutbacks in this area, so it can emerge from this crisis stronger than before.

Welding

Innovation in the welding segment focuses on the product area of reinforcing and industrial mesh production systems. The development of the new machine platform is well advanced, and configurations of core platform modules such as the welding machine are currently being trialled by customers. Among the benefits enjoyed by our customers are higher quality, faster delivery times, higher spare part availability, greater system reliability and significantly higher service quality.

Schlatter can thus significantly reduce both product costs and the complexity that stems from the breadth of the product portfolio. The renewal of the machine platform is accompanied by application enhancements and performance improvements, enabling our customers to win new customers of their own and to improve the capacity utilisation of their machines and systems. Unfolding over the medium to long term, this project is expected to deliver lasting competitive advantages for the wire product area.

We continue to focus on the further development of the MG950 industrial mesh generation. As well as application enhancements and shorter set-up and conversion times, supplementary applications in the fencing area are possible. The continuing development of the MG950 also focuses on the conceptual implementation of sector solutions – for cable carriers and logistics systems, for example.

The enhancement of the MG800 systems family in the reinforcing mesh area, with lower-cost system designs, is one of the focal points in the area of reinforcing mesh production systems.

The digitalisation of our systems was continued under the Industrie 4.0 programme. The first projects were implemented, focusing on increasing customer benefits – among them data back-up solutions, digitalised machine set-up aids for industrial mesh facilities and a dashboard. The renewal of machine control and operating software will be an important point. The existing machine-control software has reached the limits of its performance and complexity, so replacing existing operating software will simplify machine operation and significantly increase system availability.

Weaving

A product development project was launched in 2019 to enable us to enter new growth markets for the production of technical weaves other than paper machine clothing for the paper industry. Schlatter expects this to reduce its dependence on the volatile market for weaving machines used in the production of paper machine clothing, and hence to generate additional growth. The major technical challenges have been overcome, and these new machines will come on the market towards the end of 2021.

Reducing the production costs of weaving machines for the paper industry is a further priority.

New site in Münster completed on schedule

The new site in Münster was completed on schedule in the first quarter of 2020, and Schlatter was able to move into the premises in the second quarter. This new build enables us to configure corporate processes for maximum effect, ultimately leading to a rise in productivity. Numerous improvements are currently being carried out on the new site.

Welding segment

Net sales in the welding segment in the 2020 financial year totalled CHF 61.0 million (2019: CHF 77.3 million). The order intake rose to CHF 64.9 million (2019: CHF 61.3 million) while the order backlog at the year-end stood at CHF 25.4 million (31.12.2019: CHF 21.5 million).

Because of the decline in sales in the 2019 financial year, the Schlatter Group had already introduced a package of measures towards the end of that year to cut costs and raise productivity on the Schlieren site. Those measures took effect in the second half of 2020, reducing the pandemic's negative effects on net sales.

The measures taken to increase productivity in past years, our heavy investment in new product development and the measures taken to strengthen our market presence give us cause for confidence. Despite the challenges of the pandemic, Schlatter increased its order intake in the welding segment by the end of the 2020 financial year and could thus start the new financial year with a higher order backlog.

Versatile new machine platform

Initial versions of the new machine platform for welding reinforcing and industrial mesh were successfully trialled by customers. Schlatter continues to invest substantial capacities in the development of this modular machine platform. Among the benefits enjoyed by our customers are higher product quality, faster delivery times, higher spare part availability, greater reliability and improved service quality. Schlatter can thus significantly reduce both product costs and the complexity that stems from the breadth of the product portfolio. Only the new platform welding machines will be used for industrial mesh projects in the new financial year, while in the reinforcing mesh area the replacement process will not be completed until the year-end.

The platform's modular structure appeals to the most diverse industries and application areas. Besides their numerous application enhancements, these industrial mesh facilities can also produce other types of fencing.

Reinforcing mesh production systems

Wire is the product area with the highest turnover for Schlatter, and it was the area most impacted by the decline in orders – but a nascent recovery, especially towards the year-end, enabled numerous orders to be secured. We expect this moderate recovery to continue, with higher sales in the current financial year – though still below the levels of previous years.

The MG800 machine, a flexible, high-performance systems concept for reinforcing mesh production in small batches, has reached a high degree of maturity. It is now being extended to cover other application areas. Schlatter also wishes to penetrate lower performance ranges.

Industrial mesh production installations

The industrial mesh production business is growing, and it is less volatile than reinforcing mesh production. Schlatter is unlocking additional potential by enhancing possible applications.

Application enhancements of the flexible, productive MG950 family of industrial mesh products have moved it in the direction of sector solutions. The direction of development focuses on integrated system solutions for the manufacture of end products. These manufacturing concepts also integrate machines and equipment not solely relating to mesh production.

The digitalisation drive continues

Another of Schlatter's focal points is the digitalisation area, in which a long-term project was launched to renew the system control platform and user interface.

Rail welding product area

Schlatter's strong positioning in the global market for stationary rail-welding installations once more enabled us to complete significant projects in the 2020 financial year. Competition in mobile rail-welding systems has once again intensified, as large corporations that are very active in track superstructure have extended their product portfolios into this market. Our mobile rail-welding systems are designed primarily for West European markets. However, as few new railways are being built in these regions, sales are declining.

Outlook for the welding segment

With the current order backlog, capacities in the welding segment are better utilised than they were at the beginning of the period under review. Moreover, the Schlatter Group believes that the 2021 financial year will see a continuing moderate market recovery. Schlatter will press on with innovations and continue to invest in product development to strengthen its market position.

Weaving segment

Net sales in the weaving segment in the 2020 financial year were CHF 17.8 million (2019: CHF 16.3 million). The order intake rose to CHF 18.4 million (2019: CHF 13.5 million). The order backlog at the year-end stood at CHF 5.4 million (31.12.2019: CHF 4.9 million).

The substantial loss in the weaving segment was caused by a pandemic-related decline in sales from the sale of spare parts and new installations, a high cost base, inflexible costs, low productivity, and the expenditure associated with the move to the new site.

Weaving machines for the production of paper machine clothing

A major priority is to reduce the production costs of weaving machines for the paper industry. Examples of how this is achieved include comprehensive value analyses, internal process optimisation in project implementation, and the development of procurement-oriented product designs.

Development of new business fields in the technical textiles area

A prototype of this new machine concept will be commissioned on a customer's premises in the second quarter of 2021. Sales of the new-concept machine are scheduled to commence during the third quarter of 2021.

Reorganisation of wire weaving sales

The Schlatter Group has reorganised sales of its wire weaving machines. Since the 2020 financial year the mesh welding sales organisation has been responsible for this function. This significantly increases selling power, and market synergies with industrial mesh customers are exploited to greater effect. Initial successes have already been achieved.

Spare parts and after-sales services

After-sales business is also an important component in the weaving segment. A package of measures to expand is currently being implemented step by step.

Outlook for the weaving segment

The weaving segment embarked on the 2021 financial year with a good order backlog, but despite its adequate capacity utilisation the site is posting losses. In the initial months of the new financial year measures to eliminate these losses are being developed as a top priority. Besides the introduction of new weaving machines for additional technical applications, reducing the cost base will be a key focus in the current financial year. The Board of Directors has adopted a programme designed to reduce the Münster site's cost base and increase its flexibility so that it is better able to cope with market fluctuations in future. This will incur one-off expenses that will burden the annual accounts in 2021.

Acknowledgements

The Schlatter Group has continually grown its sales in past years, also making significant progress in terms of EBIT and net income. Orders declined even during the 2019 financial year, and although a market recovery took place towards the end of that year, this development was abruptly halted by the effects of measures taken in the year under review to combat the coronavirus pandemic. In the welding segment comprehensive measures were initiated at the end of 2019, resulting in this segment being well set up for 2021. In the weaving segment the priority is to reduce the cost base substantially and make it more flexible.

On behalf of the Board of Directors and Group Management we offer you, our shareholders, heartfelt thanks for the trust that you have placed in the Schlatter company and in our work.

Unfortunately the current pandemic situation does not allow us to hold the Annual General Meeting on 4 May 2021 in its usual form. It will therefore take place without the physical presence of shareholders. Voting will take place exclusively through the independent proxy. Thank you for your forbearance. You can download the complete 2020 Annual Report from our website www.schlattergroup.com, or order a copy using the attached form.

Outlook

The Schlatter Group has successfully launched product innovations, intensified marketing operations in regions where we were previously under-represented, and substantially expanded our service business.

The decline in net sales and the overall result due to the extraordinary situation in the 2020 financial year has presented us with challenges that we are actively meeting, for example with comprehensive cost-cutting measures affecting both segments, with the reduction of capacities at our largest sites, and with measures to increase productivity that are already in the course of implementation.

Measures that were planned for the medium term are being consistently continued. These include the above-average investments in product development, and intensive marketing that will help to strengthen our market position.

In view of the high order backlog as at 31.12.2020 and the measures we have initiated, we are aiming for a significant increase in sales. The measures taken throughout the world to combat the coronavirus crisis had a negative impact on the 2020 annual accounts, and they may even lead to the postponement of customer projects in 2021 – which would negatively impact the annual accounts for 2021. The Board of Directors has resolved to reduce the cost base at the Münster site and improve its flexibility, thus making it better able to cope with market fluctuations in future. This will incur one-off expenses that will burden the annual accounts in 2021.

The Board of Directors will submit a proposal to the Annual General Meeting on 4 May 2021 to waive a dividend distribution for the 2020 financial year.

Schlieren, 30 March 2021



Paul Zumbühl
Chairman of the Board of Directors



Werner Schmidli
Chief Executive Officer

Key figures of the Schlatter Group

		2020	2019
Net sales	CHF million	78.8	93.6
Change compared to previous year	%	-15.8	-16.0
Operating result (EBIT)	CHF million	-4.9	1.0
In % of net sales	%	-6.2	1.0
Net result	CHF million	-5.5	0.5
In % of net sales	%	-7.0	0.5
Order intake	CHF million	83.3	74.8
Order backlog	CHF million	30.8	26.4
Headcount at period end	FTEs	323	344
Average headcount	FTEs	329	362
Interest-bearing liabilities	CHF million	9.1	9.0
Net financial position (debt)¹	CHF million	-6.0	-5.5
Gearing²	%	25.5	18.8
Free cash flow³	CHF million	-0.3	-17.9
Current assets	CHF million	35.2	39.7
Non-current assets	CHF million	20.8	18.6
Liabilities	CHF million	32.6	29.0
Equity	CHF million	23.4	29.3
Equity ratio	%	41.8	50.2
Return on equity (ROE)⁴	%	-20.8	1.8
Key share figures			
Share capital as of December 31	CHF 1000	17 675	17 675
Total registered shares	No.	1 104 704	1 104 704
Registered shares entitled to dividend payment	No.	1 104 704	1 104 704
Net result per registered share ⁵	CHF	-4.96	0.46
Equity per registered share ⁵	CHF	21.20	26.49
Dividend per registered share	CHF	0 ⁶	0
Payout ratio	%	0 ⁶	0
Share price development			
High	CHF	37.80	46.80
Low	CHF	23.20	31.20
Year-end	CHF	29.40	35.80
Market capitalization			
High	CHF million	41.8	51.7
Low	CHF million	25.6	34.5
Year-end	CHF million	32.5	39.5

¹ Net financial position (debt): cash and cash equivalents less interest-bearing liabilities

² Gearing: net debt divided by equity

³ Cash flow from operating activities less purchase of tangible fixed assets and intangible assets plus sale of tangible fixed assets and intangible assets

⁴ Net result divided by average equity

⁵ Determined on the basis of dividend-entitled shares

⁶ In accordance to the proposal to the Annual General Meeting of May 4, 2021

Annual report 2020 of Schlatter Industries AG**Order form**

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