

## Schlatter records gratifying business development

Following the pandemic-related slump in orders the previous year, a clear recovery became evident in the markets of both the Schlatter Group segments – welding and weaving – in the 2021 financial year. The welding segment already returned to profitability in the first half of the year. The weaving segment remained in the loss zone overall, but improved its result significantly in the second half of the year. The financial year ended with an EBIT of CHF 5.7 million (prior year: CHF -4.9 million). In the welding segment, rising steel prices and the high level of capacity utilization at numerous customer factories led to a strong rise in orders for machinery and replacement parts. In the weaving segment, high capacity utilization on the part of our customers resulted in considerably more orders for machinery and replacement parts. In the Chinese market, which had likewise been characterized by a sluggish investment climate in the previous two years, there was a surge in orders for weaving machines for the production of paper machine clothing. Although the Swiss franc appreciated even further and therefore weighed on profitability, positive volume effects more than compensated. Schlatter ended the financial year with a strong order backlog, which gives it good visibility into the new financial year. For 2022, the company expects the order intake to level off and a further improvement in operating profitability.

Dear shareholder

In the 2021 financial year the Schlatter Group generated net sales of CHF 94.6 million (2020: CHF 78.8 million) and an order intake of CHF 135.5 million (2020: CHF 83.3 million). The order backlog as at 31 December 2021 stood at CHF 71.8 million (31.12.2020: CHF 30.8 million). This resulted in an operating result (EBIT) for the period under review of CHF 5.7 million (2020: CHF -4.9 million). The Group posted a net result of CHF 4.8 million (2020: CHF -5.5 million).

### Markets

#### Welding equipment markets

##### *Reinforcing mesh production systems*

With the outlook in the business for new systems for reinforcing mesh production having already improved significantly at the start of the year, the rise in steel prices – particularly in Europe and the US – then led to a strong increase in orders. These two regions have exhibited a more rapid economic recovery from the coronavirus-related recession than other countries in the world. The strong order intake of the Schlatter Group compared to prior years is heavily dominated by systems for the production of reinforcing mesh.

Thanks to high capacity utilization at our customers' factories, the replacement parts business also received a major boost. Although Schlatter is expecting the high order intake of the second half of the 2022 financial year to flatten off somewhat, it does not expect any serious weakening.

In a number of East European countries we are seeing increasing investment demand due to the economic recovery.

In Asia, the various regions have recovered much less strongly. A number of countries still have certain rigorous travel restrictions in place. Even when the economies of these countries open up completely, it will be some time before they recover fully from the economic consequences of the pandemic.

For quite a while now, the investment climate in South American markets has been muted. In many emerging markets, the weakness of local currencies makes investment more expensive, so customers are hesitating to purchase new systems.

#### *Industrial mesh production installations*

Europe and the USA are among the most important markets for industrial mesh. In addition to catch-up spending from the previous year, other trends are likewise having a positive effect. These include, for example, demand for end-to-end solutions in industrial areas such as cable carriers or warehouse storage grating production.

In the US market, there is increasing evidence of products previously made in China now being repatriated. The reasons for this phenomenon include steeper import tariffs, higher transport costs, and the more rapid availability of locally produced goods.

The industrial mesh market in Europe has largely recovered, and has returned to the levels recorded in 2019.

There is considerable modernization potential here. Many customers prefer to modernize their existing systems rather than buy new systems. Accordingly, demand for upgrades and retrofits is growing steadily.

All sorts of industries and areas of application can be targeted with systems for the production of industrial mesh. This product area is therefore less volatile than that of reinforcing mesh systems, as well as offering greater growth potential.

#### *Rail welding*

In the rail welding product area, there are opportunities above all in the emerging markets. In Western markets, by contrast, only a few new rail networks are entering into service. Generally speaking, the rail welding business is not cyclical, as the construction of railway networks is predominantly driven by government decision-making. For a few projects that were delayed as a result of the pandemic, sales negotiations are resuming.

India in particular will be investing substantially in the renewal of its railway network over the next few years. Schlatter therefore opened a local branch in the last financial year together with a long-standing distribution partner, and is now starting to localize the production of mobile rail welding systems. Not only will this lead to the adjustment of production costs to local needs, it will also address the issue of minimum local value creation, as required by the Indian government.

In the rail welding business area too, Schlatter is offering upgrades and modernization solutions, which account for a significant proportion of its service scope in both stationary and mobile rail welding machinery.

### **Weaving machine markets**

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

#### *Weaving machinery for the paper industry*

Whereas the paper industry was still holding back on machinery orders in the first half of the year against a backdrop of pandemic, the second half of 2021 saw Schlatter agree a large number of major weaving projects. Our customers are now seeing a high level of capacity utilization, and the sale of replacement parts is thus back at the level reported in 2019.

Schlatter offers a comprehensive spectrum of machinery along the entire value creation chain – winding machines (warping machines) that prepare the threads on canisters for weaving machines, weaving machinery for the production of various paper machine clothing weaves, and systems for the refinement of weaves. An increase in demand for machinery was recorded in all processing phases in the second half of the year. Pleasingly, customer interest in systems for the refinement of paper machine clothing weaves bounced back strongly after little investment was made in this area in previous years.

Investment activity is once again brisk in China, after customers in this market exhibited a reluctance to make new investments in previous years.

Many of our customers are currently exhibiting high capacity utilization, a need to modernize, and rationalization investments in new, high-quality machines. The paper requirement for newspapers and magazines is down, but production for brown and hygiene paper is on a constant rising trend. The increasing move away from plastic also has potential for paper use.

#### *Technical weaves*

Under the name C-Tec (Contactless), Schlatter has developed a new generation of machinery in the medium to high tension area, which permits applications for numerous other technical weaves such as filters and processing belts. The first machine of this type was introduced to numerous customers in the second half of the year, and attracted great interest. This will enable us over the next few years to build up a new business area to offset the pronounced volatility of the weaving machinery business with the paper industry. This new business area for Schlatter is attracting numerous enquiries, which are now undergoing technical investigations.

### *Wire weaving*

In the area of wire weaving systems, there is potential in particular for applications such as security grids, screens and mosquito grids. Schlatter has stepped up its marketing operations, as the wire weaving segment has not seen sufficient efforts in this area in recent years. However, winning back lost clients is proving more difficult than expected. That said, agreements for major projects are expected to be concluded in the coming financial year.

### **Replacement parts and services markets**

The business for replacement parts and services grew further in the 2021 financial year, and now accounts for 34% of all Schlatter Group sales.

### **Product development**

Once again, significant resources were invested in product development in the 2021 financial year, namely CHF 5.4 million (2020: CHF 5.6 million). Schlatter is benefiting from the fact that no cuts were made in product development even during the pandemic-related downturn. This continuity has helped greatly to increase the appeal of our products, which has in turn led to positive development in demand.

### *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 system configurations for new sales will be serviced on the basis of the new machine platform toolkit for mesh welding systems. As all on-site tests at customers were successful, the go-ahead was to initiate sales in this area.

Thanks to the new machine platform, our customers benefit from faster delivery times, higher spare part availability, greater system reliability, and appreciably higher service quality. Schlatter is thus able to significantly reduce both product costs and the complexity that stems from the breadth of the product portfolio.

The renewal of the machine platform is going hand in hand with application enhancements and performance improvements, which enable our customers to win new customers of their own and improve the capacity utilization of their machines and systems. Thanks to this long-term project, Schlatter has gained lasting competitive advantages for the wire area.

Meanwhile, in the welding segment we are additionally focusing on the further development of the MG950 generation of industrial mesh. As well as application enhancements and shorter set-up and conversion times, applications in the fencing area are being facilitated. Development work in this area also includes industry solutions for the likes of cable carriers, shopfitters and logistics systems.

The digitalization of our systems was continued under the Industrie 4.0 programme. Projects focusing on increasing customer benefits have been implemented – including data back-up solutions, digitalized machine set-up aids for industrial mesh facilities and a dashboard that has now been successfully realized. One key innovation is the changeover of machine control software and servicing software to a future-oriented platform. This project will take several years to complete. The replacement of 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 (C-Tec) 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 first generation of machines now run without any technical glitches, and fully meet the objectives set. Customer interest in this new generation of machines has been considerable. We have received numerous requests for application enhancements. Where expedient, these will be skilfully integrated into the platform.

Reducing the production costs of weaving machines for the paper industry and improving their performance are further priorities.

In the longer term, weaving machines for paper machine clothing and the new C-Tec generation machines for the production of technical weaves are to be brought together on a shared machine platform.

### **Welding segment**

Net sales in the welding segment in the 2021 financial year totalled CHF 79.0 million (2020: CHF 61.0 million). The order intake of CHF 112.3 million was significantly higher than the previous year (2020: CHF 64.9 million). The order backlog at the year-end amounted to CHF 58.7 million (31.12.2020: CHF 25.4 million).

The profitability of the welding segment was greatly reduced by disrupted supply chains and a lack of availability of key parts for machines and systems, as well as short-term price increases on the purchasing side and a further appreciation of the Swiss franc. However, these negative effects were more than offset by significantly higher sales volumes, the now high degree of maturity of new products, as well as productivity increases and the ongoing exploitation of new procurement markets.

The measures taken in recent years to improve productivity had a positive impact in the reporting year, as did our large investments in the development of new products and the strengthening of our market presence. The much higher project volumes were realized without any noticeable increase in fixed costs.

*Versatile new machine platform successfully launched*

The new mesh welding machine platform was successfully launched. In 2021, Schlatter's industrial mesh projects were based solely on the new platform modules. In the area of reinforcing mesh, the final modules will fully replace the existing modules in the 2022 financial year, with just a few exceptions.

*Reinforcing mesh production systems*

The wire area – the product area in which Schlatter generates the highest sales – recorded by far the largest growth in new orders, and a significant proportion of capacity utilization is thus already booked up for the current financial year.

*Industrial mesh production installations*

The business of producing industrial mesh is less volatile than that of reinforcing mesh systems, and by the end of 2021 had returned to the level recorded prior to the pandemic.

Application enhancements of the flexible, productive MG950 family of industrial mesh products are being continually rolled out and moved in the direction of sector solutions. Development work is focused on integrated system solutions for the manufacture of end products. These manufacturing concepts integrate machines and equipment not solely relating to mesh production.

*Strategic position in wire production systems strengthened*

The Schlatter Group acquired a majority stake of 51% in the Italian company Sokol Engineering S.r.l. with effect from 1 January 2022. This will have the effect of strengthening the company's strategic position in wire production systems, and is a further step towards becoming an end-to-end solution provider in the wire industry. This takeover will also benefit Schlatter customers as it will enhance the company's systems expertise. As a result of this acquisition, Schlatter will become a comprehensive contact partner covering the entire value creation chain.

*Digitalization drive continues*

Another of Schlatter's focal points is digitalization. A long-term project was launched here with the aim of renewing the control platform and user interface of the company's systems.

*Rail welding product area*

Competition in mobile rail-welding systems has intensified over the last few years, 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. Through the newly established joint venture in India with its distribution partner Maco, Schlatter is also seeking to gain a stronger foothold in the emerging markets and localize the business of mobile rail welding systems.

### *Outlook for the welding segment*

Given the current order intake, utilization of existing capacities in the welding segment in the 2022 financial year is already high. The recovery has been stronger and more rapid than expected. However, the lack of availability of certain materials remains a major challenge in this financial year too. Schlatter's aim is to work through the very high order backlog within the agreed delivery times. It will press on with innovations and continue to invest in product development to strengthen its market position. A further improvement in the result of this segment is being targeted.

### **Weaving segment**

Net sales in the weaving segment in the 2021 financial year were CHF 15.6 million (2020: CHF 17.8 million). The order intake of CHF 23.2 million was significantly higher than the previous year (2020: CHF 18.4 million). The order backlog at the year-end amounted to CHF 13.1 million (31.12.2020: CHF 5.4 million).

After the weaving segment reported a significant loss for the 2020 financial year despite adequate capacity utilization, measures were implemented in the first few months of the reporting year to eliminate the losses. At the Münster site these included a reduction in headcount, wage concessions by employees and the strengthening of the balance of Schlatter Deutschland & Co. KG by means of a debt waiver by the parent company.

Although the weaving segment closed the full year with a loss, it improved its result significantly in the second half of the year.

The Münster location is already reporting high levels of capacity utilization for the 2022 financial year, and it must now position itself strongly for the long term. To this end, a comprehensive programme of measures has been drawn up and is now being implemented.

### *Weaving machines for the production of paper machine clothing*

One priority is to reduce the production costs of weaving machines for the paper industry and to increase their level of performance. Among other things, costs will be reduced through comprehensive value analyses, internal process optimization in project implementation, and the development of procurement-oriented product designs.

### *New business area – technical textiles*

A product development project was launched in 2019 to enable us to enter new growth markets for the production of technical weaves (C-Tec) other than paper machine clothing for the paper industry. The first generation of machines now run without any technical hitches, and fully meet the objectives set. Customer interest in this new generation of machines has been considerable. We have received numerous requests for application enhancements. Where expedient, these will be skilfully integrated into the platform.

### *A common platform*

In the long term, weaving machines for paper machine clothing and the new C-Tec generation machines for the production of technical fabrics are to be brought together on a shared machine platform.

### *Wire weaving*

Winning back lost clients is proving a challenge, but Schlatter is nonetheless expecting to sign agreements for major projects in the 2022 financial year.

### *Spare parts and after-sales services*

Restructuring of after-sales in Münster will help consolidate this location's long-term orientation. This includes harmonizing the after-sales areas of the welding and weaving segments from an organizational standpoint, and stepping up the exploitation of synergies in the service portfolio.

### *Outlook for the weaving segment*

The weaving segment embarked on the 2022 financial year with a healthy order backlog. Taking into account the welding modules for reinforcing mesh systems and the machinery for producing mobile fences in Münster, capacity utilization at this location is already at a high level for the 2022 financial year. Losses here have been eliminated thanks to short-term measures, and the focus is now on the implementation of medium-term and long-term measures. Key aspects here include the marketing of the new technical C-Tec machine generation for technical weaves, cost reduction and performance improvement for weaving machinery, and flexibilization of the cost structure at the Münster location. The market for PMC weaving machines is strong at the moment, and the weaving segment as well as the Münster location should be able to achieve an improved result for 2022 when viewed over the year as a whole.

## **Acknowledgements**

The Schlatter Group has recovered from its pandemic-related sales slump, and was once again able to report a significant profit for the last financial year. We have made considerable efforts to secure lasting growth and profitability in all areas. In addition, the Münster location has been given a structural overhaul.

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

Unfortunately the current pandemic situation still does not allow us to hold the Annual General Meeting of May 3, 2022 in its usual form. It will therefore take place without the physical presence of shareholders. Voting will take place exclusively through the independent proxy. We thank you for your understanding. The full 2021 Annual Report can be found in PDF form at [www.schlattergroup.com](http://www.schlattergroup.com).



## Outlook

The Schlatter Group has successfully launched product innovations, greatly intensified marketing operations in regions where the company was previously under-represented, and substantially expanded its service business. The significant profit recorded in 2021 financial year also enabled the company to strengthen its capital base.

Markets in the most important regions have recovered significantly during the current financial year. The Schlatter Group ended the 2021 financial year with a strong order backlog, which ensures a high level of capacity utilization for the whole of the 2022 financial year. The priority now is the prompt implementation of customer projects, despite the challenging situation on the procurement side. Further points of focus include implementation of innovations, the marketing of C-Tec, and a further increase in profitability.

In view of the large order backlog as at 31 December 2021 and the measures we have initiated to reduce and flexibilize costs, we are aiming for a further increase in earnings.

The Board of Directors will submit a proposal to the Annual General Meeting on 3 May 2022 to waive a dividend distribution for the 2021 financial year.

Schlieren, 31 March 2022



Paul Zumbühl  
Chairman of the Board of Directors



Werner Schmidli  
Chief Executive Officer

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## Schlatter Group: key figures

		2021	2020
<b>Net sales</b>	CHF million	<b>94.6</b>	<b>78.8</b>
Change compared to previous year	%	20.0	-15.8
<b>Operating result (EBIT)</b>	CHF million	<b>5.7</b>	<b>-4.9</b>
in % of net sales	%	6.1	-6.2
<b>Net result (incl. minority interests)</b>	%	<b>4.9</b>	<b>-5.5</b>
in % of net sales	in percent	5.2	-7.0
<b>Net result (excl. minority interests)</b>	CHF million	<b>4.8</b>	<b>-5.5</b>
in % of net sales	%	5.1	-7.0
<b>Order intake</b>	CHF million	<b>135.5</b>	<b>83.3</b>
<b>Order backlog</b>	CHF million	<b>71.8</b>	<b>30.8</b>
<b>Headcount as at 31 December</b>	FTEs	<b>331</b>	<b>323</b>
(annual average)	FTEs	328	329
<b>Interest-bearing liabilities</b>	CHF million	<b>7.0</b>	<b>9.1</b>
<b>Net financial position (debt)<sup>1</sup></b>	CHF million	<b>8.1</b>	<b>-6.0</b>
<b>Gearing<sup>2</sup></b>	%	<b>0</b>	<b>25.5</b>
<b>Free cash flow<sup>3</sup></b>	CHF million	<b>14.0</b>	<b>-0.3</b>
<b>Current assets</b>	CHF million	<b>52.1</b>	<b>35.2</b>
<b>Non-current assets</b>	CHF million	<b>19.6</b>	<b>20.8</b>
<b>Liabilities</b>	CHF million	<b>43.5</b>	<b>32.6</b>
<b>Equity (incl. minority interests)</b>	CHF million	<b>28.2</b>	<b>23.4</b>
<b>Equity (excl. minority interests)</b>	CHF million	<b>28.1</b>	<b>23.4</b>
<b>Equity ratio (incl. minorities)</b>	%	<b>39.2</b>	<b>41.8</b>
<b>Return on equity (ROE)<sup>4</sup></b>	%	<b>19.0</b>	<b>-20.8</b>
<b>Key share figures</b>			
Share capital as at December 31	CHF 1000	17 675	17 675
Total registered shares	Number	1 104 704	1 104 704
of which entitled to dividend payments	Number	1 104 704	1 104 704
Net result per registered share <sup>5</sup>	CHF	4.36	-4.96
Equity per registered share <sup>5</sup>	CHF	25.43	21.20
Dividend per registered share	CHF	0 <sup>6</sup>	0
Payout ratio	%	0 <sup>6</sup>	0
<b>Share price development</b>			
High	CHF	29.6	37.80
Low	CHF	22.00	23.20
Year-end	CHF	23.00	29.40
<b>Market capitalization</b>			
High	CHF million	32.7	41.8
Low	CHF million	24.3	25.6
Year-end	CHF million	25.4	32.5

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

<sup>2</sup> Gearing: net debt divided by equity

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

<sup>4</sup> Net result divided by average equity

<sup>5</sup> Determined on the basis of dividend-entitled shares

<sup>6</sup> In accordance with the proposal submitted to the Annual General Meeting of May 3, 2022