Schlatter increases profit in the first half of 2017

The Schlatter Group's production capacities were well utilized in the first half of 2017, enabling it to post a substantial rise in net sales. At CHF 1.0 million (2016: CHF 0.4 million), the resulting operating profit (EBIT) was ahead of target. In the welding segment, however, the commissioning of new generations of plant led to increases in expenditure. Investment activity in the market for mesh welding systems was volatile, and rather lower in comparison with the prior year – especially in the high-volume reinforced mesh welding business. In the weaving segment there was a tentative revival in China. Though the weaving segment's capacity was well utilized, it lacked higher-margin products – and this significantly impacted profitability in the first half. Along with innovation projects, cost-cutting projects are still a high priority. Management still expects the result for the 2017 financial year as a whole to exceed that in the prior year.

The Schlatter Group posted an order intake of CHF 49.1 million in the first half of 2017 (H1 2016: CHF 65.3 million), generating net sales of CHF 47.4 million (H1 2016: CHF 39.8 million). Order backlog as at 30 June 2017 was CHF 50.9 million (31 December 2016: CHF 49.0 million). Schlatter's operating result (EBIT) of CHF 1.0 million in the first half of 2017 exceeded that of the prior year (H1 2016: CHF 0.4 million). Positive free cash flow of CHF 0.3 million was generated in the reporting period (H1 2016: CHF 7.7 million).

Markets

Systems for the manufacture of reinforcing mesh

Following a moderate recovery in the course of 2016, steel prices hardly changed during 2017 – with a fundamentally positive impact on the investment activity of mesh producers.

Surplus capacity in Europe has resulted in concentration and consolidation among our customers, and the market is increasingly dominated by large industrial groups. These are modernizing their production facilities, especially in northern Europe. As most of the resulting major investment projects had been placed in the previous financial year, the number of new projects in Europe decreased in the first half of 2017.

The reinforcing-mesh production systems business will continue to grapple with surplus capacity and heavy price pressure. State infrastructure projects in oil-producing countries are still being postponed as a result of low oil prices, which is depressing investment.

In some parts of the world there is evidence of rising demand for flexible, highly productive and rapidly retoolable reinforcing-mesh systems. In Central American countries and the emerging markets generally, there is a continuing need for high-performance machinery for standardised reinforcing mesh.

China is the world's largest consumer of construction steel. The construction industry, however, uses single-rod reinforcements almost exclusively – which is why mesh production still has only a subordinate role.

In Brazil, the most important South American market, the new installations segment came to a standstill as long ago as 2014 – and as yet there are no signs of recovery. In Russia the collapse of the rouble, the unstable political environment and the persistent economic crisis are still depressing investment sentiment.

Installations for the production of industrial mesh

Sales in Europe and the USA – two of the most important markets for industrial mesh – are at a satisfactory level. The MG950 generation of machines, which is flexible and can be quickly retooled, has been well received. There is increasing demand for integrated sector solutions for the production of a range of different end products.

In China there is an increasing need for automation in the production of industrial mesh, and this is finding expression in a moderate rise in demand for new and used Schlatter installations. We believe future sales will rise in this market. Investment activity in Russia remains at a low level.

Rail welding

Sales of rail welding systems are modest. While the overall market for stationary rail welding is steady, investment sentiment for mobile systems remains sluggish.

Weaving

The demand for paper clothing machines is directly dependent on global paper production. Following stagnation in 2015, Growth has returned at substantially faster rates in China (as well as elsewhere in Asia) and in Latin America than in western countries. There were declines at Print and Newspaper, but rises at Tissue and Packaging more than made up for them. Higher-performance installations for the production of paper clothing machines are absorbing the growth, and accordingly Schlatter expects stable sales but no significant growth.

Spare parts and services

Business in the spare parts and services field posted stable performance, contributing around 30 percent of the Group's net earnings. Schlatter has a large number of installations all over the world, The Group intends to exploit this potential, and it continues to work on implementing a package of measures to increase revenue in this field.

Welding segment

Order intake in the welding segment in the first half of 2017 was CHF 35.3 million (H1 2016: CHF 49.8 million). At CHF 40.2 million, net sales were substantially up on the prior year's figure (H1 2016: CHF 31.2 million). The order backlog at 30 June 2017 stood at CHF 37.4 million (31 December 2016: CHF 42.1 million).

Wire product area (reinforcing and industrial mesh)

In the last financial year Schlatter was able to benefit from the slight market recovery thanks to its development of new plant concepts for the production of reinforcing wire mesh. Furthermore, a major order was secured in the first half of the prior year, which mainly explains the decline in the order intake.

The rapid pace of innovation in product development was maintained in the first half of 2017. Numerous new-generation machines and installations are being commissioned in the 2017 financial year, leading to increased expenditure in the first half. The stabilization of these machine generations is well advanced, so future sales will generate higher earnings.

One example of the new generations of machines is the flexible MG800, which can be retooled automatically. It is being continuously refined for additional markets. One of our objectives is to be able to offer it at a lower price in less developed markets. We are also focusing on reducing production costs for the entire machine concept.

The expansion of the MG316 high-performance standard-mesh installation is complete, and stabilization has largely been achieved.

Introduced three years ago, the flexible and productive MG950 generation of industrial mesh machines now enjoys good stability and high demand. This generation of machines is also being continuously expanded on a modular basis for additional applications.

With the high-performance NS240 machine, which is used for the production of a variety of items including mobile fences, and the new, flexible MG700 mesh-fence machine, Schlatter has moved into a new market segment in the field of industrial wire mesh production.

Among other things we are focusing on cutting product costs by means of appropriate product architecture, reducing project throughput times, and responding more efficiently to customer-specific requirements and adjustments.

Rail welding product area

In the stationary segment of the rail welding product field, the Schlatter Group expects the market to remain stable rather than grow. Now that the technical revision of the AMS200 mobile rail welding system has been completed, no major developments are pending in this area.

Weaving segment

The weaving segment generated new orders to the value of CHF 13.8 million in the first half of 2017 (H1 2016: CHF 15.5 million). Net earnings reached a volume of CHF 7.2 million (H1 2016: CHF 8.6 million). The order backlog as at 30 June 2017 stood at CHF 13.5 million (31 December 2016: CHF 6.9 million).

Though the weaving segment's capacity was well utilized, it lacked higher-margin products – and this significantly impacted profitability in the first half. The result was also depressed by special charges due to the technical reworking of customer projects. A positive result is expected for the financial year as a whole, however.

Paper clothing machines
The BK860 model was successfully introduced on the market in the drying area, the last section of a paper machine. This extends the area of application of the BK860 from forming to dryer filter fabrics. Follow-up orders were generated for the heat setting installation, a core module in the finishing machines developed in 2016.

Wire weaving
The GD620 woven-wire screen assembly machine revised in 2016 was successfully introduced in the market, and several were delivered out in the first half of 2017. It is the world's first fully automatic installation for weaving 8 mm spring steel wire into a fine-meshed sieve. This creates the potential for further sales, making the wire weaving area a solid component of the weaving segment.

Production

Substantial funds were provided for investment in new machines and automation solutions in the component-manufacturing area of the Münster site. A revised manufacturing concept is being implemented and capacity utilization is being increased and optimized across the Group's entire range of components. This will make a significant contribution to cutting product costs in future.

Outlook

The successful innovation initiative of recent years, cost-cutting programmes and the improved market environment are helping to boost business at the Schlatter Group. Our assessment of the market environment is still positive at the moment, but cautiously so.

Order intake returned to normal in the first half of 2017 following above-average growth in the prior year. The marketing drive, which included the establishment of additional sales resources in the emerging markets and the opening of a sales and service facility in China, has been completed, and the implementation of the package of measures to expand the service business is on schedule.

Other focal points include efficiency drives to shorten throughput times in customer projects and make our organisation more flexible. Product cost-cutting projects continue to be given a high priority.

The Board of Directors and Group Management continue to expect the result for the current financial year to exceed that of the prior year.

Schlieren, 22 August 2017

Paul Zumbühl	Werner Schmidli
Chairman of the Board of Directors	Chief Executive Officer

Key figures of the Schlatter Group

		1st half of 2017	1st half of 2016	2nd half of 2016	2016
Net sales	**CHF million**	**47.4**	**39.8**	**50.7**	**90.5**
Change compared to previous year	%	19.1	–5.5	23.4	8.8
Operating result (EBIT)	**CHF million**	**1.0**	**0.4**	**0.7**	**1.1**
in % of net sales	%	2.1	1.0	1.4	1.2
Net result	**CHF million**	**1.3**	**0.1**	**0.4**	**0.5**
in % of net sales	%	2.8	0.2	0.8	0.6
Net result per registered share	**CHF**	**1.19**	**0.08**	**0.38**	**0.46**
Order intake	**CHF million**	**49.1**	**65.3**	**42.4**	**107.7**
Order backlog at period end	**CHF million**	**50.9**	**57.6**	**49.0**	**49.0**
Free cash flow[1]	**CHF million**	**0.3**	**7.7**		
Headcount at period end[2]	**FTEs**	**335**	**309**	**319**	
Average headcount	FTEs	326	309	314	
		30.6.2017	31.12.2016		
Interest-bearing liabilities	**CHF million**	**0.6**	**0.5**		
Net financial position (debt)[3]	**CHF million**	**14.4**	**14.0**		
Gearing[4]	**%**	**0.0**	**0.0**		
Current assets	**CHF million**	**52.1**	**48.1**		
Non-current assets	**CHF million**	**6.6**	**7.3**		
Liabilities	**CHF million**	**35.2**	**33.1**		
Equity	**CHF million**	**23.5**	**22.3**		
Equity ratio	**%**	**40.0**	**40.2**		

1 Free Cash Flow: cash flow from operating activites less purchase of property, plant and equipment, intangible assets and financial assets, plus sale of property, plant and equipment, intangible assets and financial assets

2 Total full-time equivalents incl. temporary employees, excl. apprentices

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

4 Gearing: net financial position divided by equity

Stock exchange

The registered shares of Schlatter Industries AG are traded on SIX Swiss Exchange under securities number (Valorennummer) 227731.
Telekurs STRN
Reuters STRN.S

Abridged consolidated half-year statements as at 30 June 2017

Consolidated balance sheet

Assets

CHF 1,000	**30.6.2017**	31.12.2016
Cash and cash equivalents	14,921	14,420
Current investments	150	77
Accounts receivable for goods and services	4,313	3,643
Current income tax receivables	29	153
Other receivables	1,910	2,496
Receivables from production orders in progress	17,638	13,952
Inventories	12,718	13,189
Accrued income	395	218
Current assets	**52,074**	**48,148**
Property, plant and equipment	4,529	4,928
Intangible assets	1,672	1 969
Financial assets	0	0
Deferred tax assets	380	364
Non-current assets	**6,581**	**7,261**
Total assets	**58,655**	**55,409**

Liabilities

CHF 1,000	**30.6.2017**	31.12.2016
Accounts payable for goods and services	6,133	6,718
Liabilities from production orders in progress	14,841	11,183
Current income tax liabilities	58	16
Other payables	4,357	4,955
Accrued liabilities	3,293	3,349
Financial debt	467	224
Current provisions	2,625	3,434
Current liabilities	**31,774**	**29,879**
Financial debt	158	240
Pension liabilities	2,903	2,704
Provisions	217	187
Deferred tax liabilities	108	119
Non-current liabilities	**3,386**	**3,250**
Total liabilities	**35,160**	**33,129**
Share capital	17,675	17,675
Capital reserves (agio)	1,767	1,767
Retained earnings	4,053	2,838
Total equity	**23,495**	**22,280**
Total liabilities and equity	**58,655**	**55,409**

Abridged consolidated half-year statements as at 30 June 2017

Consolidated income statement

CHF 1,000	1st half of 2017	1st half of 2016	2016
Net sales from goods and services	**47,387**	**39,797**	**90,486**
Other operating income	328	131	275
Change in semi-/finished goods, work in process	–591	–534	–2,816
Material and service expenses	–23,347	–16,955	–43,397
Personnel expenses	–17,324	–16,606	–32,758
Other operating expenses	–4,423	–4,374	–8,542
Depreciation and amortization	–1,056	–1,061	–2,182
Operating result (EBIT)	**974**	**398**	**1,066**
Financial income	828	620	1,279
Financial expenses	–334	–736	–1,579
Net result before tax	**1,468**	**282**	**766**
Income tax expenses	–155	–198	–260
Net result	**1,313**	**84**	**506**
Basic earnings per share (CHF)	**1.19**	**0.08**	0.46

Abridged consolidated half-year statements as at 30 June 2017

Consolidated statement of equity

CHF 1,000	Share capital	Capital reserves	Retained earnings	Total share capital
As at 31.12.2015	**17,675**	**11,526**	**–7,606**	**21,595**
Translation differences			125	**125**
Net result 1.1-30.6.2016			84	**84**
As at 30.6.2016	**17,675**	**11,526**	**–7,397**	**21,804**
As at 31.12.2016	**17,675**	**1,767**	**2,838**	**22,280**
Translation differences			–98	–98
Net result 1.1-30.6.2017			1,313	1,313
As at 30.6.2017	**17,675**	**1,767**	**4,053**	**23,495**

Abridged consolidated cash flow statement

CHF 1,000	**1st half of 2017**	1st half of 2016	2016
Cash flow from operating activities	**739**	8,087	12,468
Cash flow from investment activities	**–402**	–419	–582
Free cash flow	**337**	7,668	**11,886**
Cash flow from financing activities	**159**	–79	–116
Change in cash and cash equivalents	**496**	7,589	**11,770**
Cash and cash equivalents as at 1 January	**14,420**	2,644	2,644
Change in cash and cash equivalents	**496**	7,589	**11,770**
Impact of exchange rate on cash and cash equivalents	**5**	15	6
Cash and cash equivalents as at 30 June / 31 December	**14,921**	10,248	14,420

Abridged consolidated half-year statements as at 30 June 2017

Notes to the abridged consolidated half-year financial statements

1 Accounting principles

Basis for the preparation of the abridged consolidated half-year financial statements

The abridged consolidated half-year financial statements have been prepared in accordance with the provisions of Swiss company law and are in accordance with Swiss GAAP FER 31. The abridged consolidated half-year financial statements do not include all the details as they are included in the consolidated annual financial statements, and should be read in conjunction with the consolidated annual financial statements as at 31 December 2016. These abridged half-year financial statements have not been audited or reviewed by the auditors.

The preparation of the abridged consolidated half-year financial statements requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets, liabilities and contingent liabilities at the balance sheet date. The estimates and assumptions made by the management to the best of its knowledge and belief as of the balance sheet date may deviate from the actual circumstances in the future. In this case, the original estimates and assumptions will be adjusted to the respective reporting year in which the circumstances occurred.

The activities of the Schlatter Group are not subject to any significant seasonal fluctuations.

2 Segment information

			1st half of 2017
CHF 1,000	Welding	Weaving	**Total segments**
Net sales from plant business with third parties	27,682	5,238	**32,920**
Net sales from spare parts and service business with third parties	12,488	1,979	**14,467**
Total net sales	40,170	7,217	**47,387**
EBIT	1,881	–907	**974**

			1st half of 2016
CHF 1,000	Welding	Weaving	**Total segments**
Net sales from plant business with third parties	20,396	6,202	**26,598**
Net sales from spare parts and service business with third parties	10,801	2,398	**13,199**
Total net sales	31,197	8,600	**39,797**
EBIT	280	118	**398**

Abridged consolidated half-year statements as at 30 June 2017

3 Income statement

Thanks to the encouraging order backlog, net earnings for the first half of 2017 came in at CHF 47.4 million – substantially ahead of the same period of the prior year (H1 2016: CHF 39.8 million).

Excellent capacity utilization at the Münster and Schlieren sites incurred higher variable staff costs. Personnel expenses in the first half of 2017 thus came to CHF 17.3 million, exceeding the figure for the same period of the prior year (H1 2016: CHF 16.6 million).

Other operating expenses and depreciation and amortization remained at a similar level to the same period of 2016.

Financial income consists primarily of gains on currency forwards and a realized rate gain of CHF 0.4 million under a long-term customer project. Financial expense mainly includes interest expense and losses on currency forwards.

Income taxes include withholding tax of CHF 0.1 million on a dividend payment from a foreign subsidiary.

The consolidated result as at 30 June 2017 stood at CHF 1.3 million (30 June 2016: CHF 0.1 million).

4 Balance sheet

The net cash position improved slightly from CHF 14.0 million as at 31 December 2016 to 14.4 million.

Net assets from construction contracts rose to CHF 17.6 million (31 December 2016: CHF 14.0 million), while net liabilities from construction contracts rose to CHF 14.8 million (31 December 2016: CHF 11.2 million).

Shareholders' equity as at 30 June 2017 had risen to CHF 23.5 million (31 December 2016: CHF 22.3 million). Total assets as at 30 June 2017 were CHF 58.7 million, compared with CHF 55.4 million as at 31 December 2016. This results in an equity ratio of 40.1% (31 December 2016: 40.2%).

5 Free cash flow

In the first six months of the reporting period the Schlatter Group generated positive free cash flow of CHF 0.3 million (H1 2016: CHF 7.7 million). Net working capital rose to CHF 8.3 million in the first half (31 December 2016: 7.4 million). Investments remained unchanged year on year at CHF 0.4 million (H1 2016: CHF 0.4 million).

Abridged consolidated half-year statement as at 30 June 2017

6 Loan arrangements

The Schlatter Group holds loan agreements that are committed until 31 December 2017. The bank facilities (credit and contingency facilities) to maintain operating activities amount to CHF 22.75 million. Up to CHF 7.0 million of this may be used for short-term loans. The contingency facilities are partly tied to conditions related to Swiss Export Risk Insurance (SERV) counter guarantees. Total drawings may not exceed the CHF 22.75 million bank facility. The loans are tied to financial covenants (EBITDA).

No cash facilities had been drawn down as at 30 June 2017; drawings on the contingency facilities, however, amounted to CHF 13.2 million (31 December 2016: CHF 14.8 million).

7 Exchange rates

	30.6.2017	30.6.2016	31.12.2016	**1st half of 2017**	1st half of 2016	2016
CHF 1	Exchange rates at balance sheet date			Average rates		
1 EUR	**1.09**	1.09	1.07	**1.08**	1.10	1.09
1 USD	**0.96**	0.98	1.02	**0.99**	0.98	0.99
1 GBP	**1.25**	1.31	1.25	**1.25**	1.41	1.34
1 BRL	**0.29**	0.30	0.31	**0.31**	0.26	0.28
1 MYR	**0.22**	0.24	0.23	**0.23**	0.24	0.25
1 CNY	**0.14**	–	0.15	**0.14**	–	0.15

8 Earnings per share

	30.6.2017	30.6.2016	31.12.2016
Net result attributable to shareholders of Schlatter Industries AG (CHF 1,000)	**1,313**	84	506
Number of registered shares issued with a par value of CHF 16.00	**1,104,704**	1,104,704	1,104,704
Number of registered shares, weighted	**1,104,704**	1,104,704	1,104,704
Average number of registered shares held as treasury shares	**–**	–	–
Total average number of dividend-bearing registered shares	**1,104,704**	**1,104,704**	**1,104,704**
Basic earnings per share (CHF)	**1.19**	0.08	0.46

9 Events after the balance sheet date

The abridged consolidated half-year financial statements were authorized for issue by the Board of Directors on 10 August 2017.

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