Schlatter increases net sales and earnings

Demand for Schlatter products normalized in the 2023 financial year. In particular, demand for reinforcing mesh production systems and weaving machinery for the paper industry dropped following a period of market overheating. By contrast, after-sales volumes continued to grow, while the number of industrial mesh production systems and rail welding systems sold increased significantly. Our suppliers' delivery problems eased in the second half of the year, but the resulting backlogs weighed on productivity and caused substantial additional costs. Prices of sourced materials largely stabilized at a higher level, while further appreciation of the Swiss franc put additional pressure on earnings. Net sales were 16.4% higher year on year and the operating result (EBIT) was also higher at CHF 7.1 million (financial year 2022: CHF 5.5 million). The Schlatter Group closed the 2023 financial year with a large order backlog, with the result that capacities in the 2024 financial year will largely be utilized. Uncertainty was the dominant factor in various markets and product areas. Although we view market developments with a degree of caution, we firmly believe there are opportunities available. For the 2024 financial year, the Schlatter Group is aiming for a further increase in earnings on lower net sales.

Dear shareholder

In the 2023 financial year, the Schlatter Group generated net sales of CHF 128.6 million (2022: CHF 110.5 million) and order intake of CHF 113.1 million (2022: CHF 128.1 million). The order backlog as at 31.12.2023 stood at CHF 73.9 million (31.12.2022: CHF 89.4 million). The operating result (EBIT) for the period under review was CHF 7.1 million (2022: CHF 5.5 million). Consolidated net profit stood at CHF 5.1 million (2022: CHF 3.5 million).

Markets

Welding equipment markets

Reinforcing mesh production systems

Rising interest rates, higher production and energy costs, as well as the downturn in global construction activity, weakened demand for reinforcing mesh production systems in the 2023 financial year. There had also been evidence of overheating in a large number of markets in prior periods, resulting in a build-up of capacity that exceeds current requirements.

However, the second half of 2023 showed a slight recovery in incoming orders for reinforcing mesh production systems. Orders came largely from markets in Europe and North America. In Asia and the South American markets, by contrast, the willingness to invest remains limited.

We expect welding equipment markets for reinforcing mesh production systems to recover slightly from a low level in the 2024 financial year.

Industrial mesh production systems
Europe and the US are among the most important markets for industrial mesh. The industrial mesh business is expanding at a modest rate, although an unexpectedly sharp increase in orders was recorded in the 2023 financial year.

Industrial mesh production systems are aimed at a range of industries and have numerous areas of application. We are also seeing continued demand for end-to-end industry solutions for the production of cable trays, storage grids and shopfitting, offering additional potential going forward.

In the US market there is increasing evidence that products previously made in China are now being repatriated. The reasons for this include steeper import tariffs, higher transport costs, and the more rapid availability of goods produced locally. At the same time, it is evident that Chinese industrial mesh manufacturers are increasingly relocating production capacity to South-East Asia, which could provide positive impetus for Schlatter's industrial mesh business.

Mesh welding system modernizations
Modernization is an area with great potential. At a time of economic uncertainty, customers prefer to modernize their existing systems rather than buying new, so there is a good level of demand for upgrades.

Rail welding
Order intake in the rail welding product area was pleasing in the 2023 financial year and picked up considerably compared with the previous years. Sales came largely from outside Europe. The market for stationary rail welding machines developed particularly well in the 2023 financial year.

Generally speaking, the rail welding business is not cyclical: the construction of railway networks is predominantly driven by government decision-making. Order intake was significantly above expected volumes, with orders set to normalize again at a lower level in the 2024 financial year.

There are major opportunities in the rail welding product area, especially in the emerging markets. In Western markets, by contrast, few new rail lines are being constructed.

Schlatter also offers upgrades and modernization solutions in the rail welding business area. These account for a significant proportion of its work in the fields of both stationary and mobile rail welding machinery.

Weaving machine markets

The market situation in the weaving segment showed a satisfactory performance in the first half of 2023, although few orders were recorded in the second half of the year.

Weaving machinery for the paper industry
The high order intake in the previous periods and in the first half of 2023 was dominated by the Chinese market and exceeded Schlatter's capacity. As a result, delivery times had to be extended.

The boom triggered by local Chinese customers in previous periods came to an end in mid-2023. It can be assumed that the upcoming deliveries for the forming section in particular will result in overcapacity on the Chinese market, initiating a consolidation phase. As for the downstream sections of a paper machine, there is persistent demand for machinery used to produce press felt and dryer fabrics.

Demand for paper for writing, newspapers and magazines is continuing to decline, although the overall market is growing slightly thanks to production for brown and hygiene paper.

Order intake in 2024 will depend largely on whether Western customers increase their investment volumes. This is currently evident in the case of refurbishment work, but not yet in new machinery projects. However, there are opportunities for major projects in new markets, fulfilment of which would guarantee planning certainty into the first half of 2025. Thanks to the persistently high order backlog, utilization of capacity in the weaving segment in the 2024 financial year is largely guaranteed.

Technical fabrics
Under the C-Tec (contactless) brand, Schlatter has developed a new generation of machinery in the medium to high-tension area that permits applications in other industrial areas, including liquid filtration, processing belts, membrane construction, sun protection and flexible containers, as well as in the paper industry. The new generation of machinery was presented to a broader customer base for the first time at the ITMA 2023 trade show in Milan and garnered considerable interest. Building up a new business area over the next few years will require deeper knowledge of the market, customers and applications. Medium-term, the target market has the potential to develop into an important pillar.

Wire weaving
There is potential for wire weaving systems, especially in fields of application such as sieves, security grilles and mosquito screens. Schlatter will expand its machinery portfolio on an order-related basis in order to continue capturing potential. A number of major projects are at the selling stage, and we therefore anticipate an increase in volumes in the 2024 financial year.

Spare parts and services markets

The spare parts and services business remained buoyant thanks to our customers' good capacity utilization and is still making a key contribution to the Schlatter Group's net sales. Our active after-sales strategy is geared to further growth in this area.

Product development

Significant funds of CHF 5.0 million (2022: CHF 4.5 million) were invested in product development in the 2023 financial year.

Welding
While product development in past years focused on reinforcing mesh systems, resources are now being increasingly allocated to the industrial mesh sector and the digitalization of our machinery and systems.

Product developments for mesh welding systems are confined almost exclusively to the expansion of the machinery platform. The machinery platform enables our customers to benefit from faster delivery times, rapid availability of spare parts, greater reliability and improved service quality. With the machinery platform, Schlatter is thus able to significantly reduce both product costs and the complexity that stems from the breadth of the broad product portfolio.

The MG950 – the latest generation of industrial mesh systems – now covers solutions and applications in the fencing segment, too. This firstly enables the production of new types of fence; and secondly, the existing machinery concept for fence production has now been integrated into and replaced by the machinery platform of the MG950 industrial mesh generation. In addition, complete solutions for industries such as cable trays, shopfitting and logistics systems are under development.

A more advanced, key innovation is the transition of machine control and operating software for mesh welding systems to a forward-looking machinery platform. The replacement of existing operating software will simplify machine operation and significantly increase system availability. The project will take several years, but important milestones have already been reached.

Furthermore, a number of "Industry 4.0" projects have been finalised, among them a dashboard, data back-up solutions for customers, and data connections for customer ERP and MIS systems.

In the rail area, various incremental developments have been completed, including controlled cooling of rails following welding. Maintaining our expertise in relation to both complex welding technology and differing global standards is key.

Weaving

A new generation of machines has been developed to enable us to enter new growth markets for the production of technical fabrics (C-Tec) with a width of under 10 metres in the medium to high tension range. Applications of these technical fabrics include liquid filtration, processing belts, membrane construction, sun protection and flexible containers. The new development will be used to build an additional pillar to the PMC market and complement the product portfolio in weaving. Using a configurable machinery platform, the aim is to cover a broad applications area in which fabric tension and machine breadth can be scaled. Initial prototypes have already been successfully manufactured and installed at customer sites following the launch at ITMA 2023 in Milan. Technical upgrades and optimizations are currently being implemented in consultation with customers.

A further priority is a reduction in production costs for the existing product portfolio in weaving, particularly for the paper industry. The findings gained through the development of C-Tec can be incorporated into the existing product programme, with the aim of continuously increasing the productivity and energy efficiency of machines.

The wire weaving product programme is being steadily upgraded. Developments are firstly aimed at updating the technology and secondly at expanding application opportunities to include additional products such as mesh yarn screens for the PMC market. The aim of the extended applications is to capture new target markets.

In order to increase product reliability, digital technologies are being developed and implemented for recording purposes, visualization and predictive recommendations for action. At the same time, digitalization is intended to create the basis for new business models.

Welding segment

Key performance indicators

Order intake: CHF 95.0 million (2022: CHF 99.9 million).

Net sales: CHF 100.8 million (2022: CHF 96.0 million).

Order backlog: CHF 56.7 million (31 December 2022: CHF 62.5 million).

The welding segment recorded lower yet satisfactory order intake on a year-on-year basis. The fall-off in orders for reinforcing mesh production systems was sufficiently offset by good order intake in rail welding machinery as well as industrial mesh production systems.

The availability of core components for machinery and systems eased significantly. The shortage of components – especially electrical and control components – resulted in delays to machinery deliveries. This situation led to a backlog in the delivery of systems which, contrary to our expectations, had still not been eliminated by the end of 2023. Schlatter expects this backlog to be worked through in the first half of 2024.

Purchase prices for parts and components largely stabilized at a higher level. As machines and systems are sold at fixed prices, margins too are becoming more predictable again. Due to persistently long project lead times, the impact of price increases is subject to a time lag.

Reinforcing mesh production systems
In mesh production systems, key modules were replaced by the new machinery platform. At the same time, control software was upgraded to the latest generation. This posed a major challenge – particularly in the case of large-scale systems such as our MG800, the high-performance, flexible system for reinforcing mesh production.

With wire production machinery (cold-rolling systems), Schlatter took a further step towards becoming a comprehensive solutions provider with expanded system competence in matting manufacture. This enabled us to generate added value for our customers as well as for Schlatter itself.

Industrial mesh production systems
The industrial mesh production systems business is less volatile than that of reinforcing mesh equipment. It is achieving moderate growth and making constant contributions to sales and earnings.

Applications of the flexible, productive MG950 family of industrial mesh products are undergoing continual expansion. As of the beginning of the 2023 financial year, the existing machine concepts for fencing production were integrated into the machine platform of the MG950 industrial mesh product family. The expansion and development of industry solutions was systematically pursued.

Digitalisation drive continues
An advanced, key innovation is the transition of machine control and operating software for mesh welding systems to a forward-looking machinery platform. The replacement of existing operating software will simplify machine operation and significantly increase system availability. Important milestones were reached, among them a dashboard, data back-up solutions for customers, and data connections for customer ERP and MIS systems.

Rail welding product area
The market for rail welding machinery developed well in the 2023 financial year – both in the stationary and the mobile areas.

The complex, differing worldwide requirements and standards for rail welding pose a challenge. This calls for extensive experience as well as specific expertise in both theory and practice. Our customers are insisting that compliant welding as required for track approval must be part of the machinery commissioning and that it be carried out by Schlatter. Schlatter therefore intends to build up corresponding human resources. Expertise in the field of rail welding needs to be extended further.

Schlatter also gained a stronger foothold in the emerging markets through the joint venture in India. It built the first local mobile system in India, the welding head being supplied from Switzerland. The plan is to gain approval in India or in neighbouring countries.

As well as enabling production costs to be aligned with local requirements, this also creates the minimum level of value added required by the Indian government in this sector.

After-sales
Digitalization drive continues in after-sales. To ensure a comprehensive service offering, new projects were implemented that are firstly aimed at the provision of new services and secondly at making our processes simpler and more transparent with the introduction of comprehensive software, thus enabling us to serve our customers better.

Outlook for the welding segment
Given the current order backlog, existing capacities in the welding segment in the 2024 financial year are already well utilized. The aim now is to eliminate the backlog that has built up in the processing of customer projects.

Order intake in the welding segment shows a product mix with higher margins and fewer technical risks. The market situation is uncertain, but does offer opportunities in all areas. The further appreciation of the Swiss franc is a disadvantage, given that there is still substantial Swiss franc exposure at the Schlieren site. Our aim is to further increase earnings in the welding segment in the 2024 financial year.

Weaving segment

Key performance indicators

Order intake: CHF 18.1 million (2022: CHF 28.2 million).

Net sales: CHF 27.8 million (2022: CHF 14.5 million).

Order backlog: CHF 17.2 million (31 December 2022: CHF 26.9 million).

The above-average level of demand in previous periods was driven by orders from China. The Chinese market is now in a saturation phase, and incoming orders have returned to normal.

Despite significantly higher material costs and increases in official wage rates, the Münster site increased its sales and earnings in the 2023 financial year. The site is set to operate at full capacity in the 2024 financial year and it will continue to use this period to implement the measures aimed at making the cost structure more flexible.

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 productivity. Production costs are being reduced through comprehensive value analyses, internal process optimization in project implementation and the development of procurement-led product designs.

Technical textiles business area
Under the C-Tec (contactless) brand, Schlatter has developed a new generation of machinery in the medium to high tension range which permits applications in other industrial areas, including liquid filtration, processing belts, membrane construction, sun protection and flexible containers, as well as in the paper industry. The new development will be used to build additional pillars to the PMC market and complement the product portfolio in weaving. Using a configurable machinery platform, the aim is to cover a broad applications area in which fabric tension and machine breadth can be scaled. Initial prototypes have already been successfully produced and installed at customers' premises. Technical upgrades and optimizations are currently being implemented in consultation with customers.

We believe the target market is significant in the medium term. Building up a new business area over the next few years will require deeper knowledge of the market, customers and applications.

Wire weaving
Schlatter was awarded major projects in the 2023 financial year and sees potential to increase sales in the future, too, thanks to more intensive marketing. The wire weaving product programme is to be upgraded continuously in technical terms. Developments are aimed at expanding potential applications to include additional products and thus capture new markets.

Spare parts and after-sales services
In after-sales, Schlatter is employing additional measures to increase sales. The number of inspections of installed machines at our customers' sites may be increased in order to grow the volume of spare-part sales. In addition, inspections provide an opportunity to offer customers more energy-efficient solutions. The intention is to train digital commissioning engineers at the Münster site in order to reduce excessive travel times and lengthy deployments on site and at the same time strengthen remote services.

Outlook for the weaving segment
The weaving segment started the 2024 financial year with a good order backlog. Taking account of the welding modules for reinforcing mesh production systems and machinery for producing mobile fences in Münster, capacity utilization at this location is already at a healthy level for the 2024 financial year. The cost of materials has risen significantly, and wages are subject to substantial increases due to the collective wage agreement with IG Metall. Prices of sold machines are fixed during lengthy project lead times. The challenge therefore lies in increasing profitability. To that end, a comprehensive package of measures has been drawn up and is currently being implemented.

Other key focal points are the marketing of the C-Tec machinery generation for technical fabrics, reducing costs and increasing the productivity weaving machines, as well as making the cost structure at the Münster site more flexible. Order volumes have started to normalize following an above-average volume of incoming orders in the previous periods. The product mix of order backlog and cost increases will impact on earnings. Thanks to the measures taken, however, we are seeking to offset much of this negative impact.

Acknowledgements

The Schlatter Group has made great efforts in all areas to ensure sustainable growth and profit. Despite the challenging environment, which has a strong impact on profitability, Schlatter was able to increase sales and operating profit.

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

We look forward to welcoming you to the General Meeting in Schlieren on 7 May 2024 and to answering any questions you may have. The full 2023 Annual Report is available as a PDF on our website at www.schlattergroup.com.

Outlook

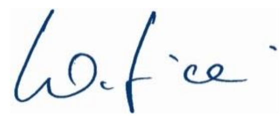
The Schlatter Group has successfully launched product innovations, stepped up its marketing effort and expanded its service business. The profit earned in the 2023 financial year has been used to strengthen our equity capital, permitting a dividend to once again be paid.

In the welding segment, demand within the largest product area of reinforcing mesh has fallen significantly; however, the decline was offset by the rail and industrial mesh product areas. A normalization has likewise taken place in the weaving segment following the boom phase in China. The Schlatter Group ended the 2023 financial year with a high order backlog, which largely ensures capacity utilization for the 2024 financial year. The timely implementation of customer projects has priority. Now that the situation on the procurement markets has largely returned to normal, the persistent backlog in the welding segment must be cleared as quickly as possible. Our other priorities include implementing innovations, marketing C-Tec and increasing profitability.

The Schlatter Group expects net sales to be slightly lower in the 2024 financial year. On the other hand, we are aiming to increase the operating result (EBIT).

At the annual general meeting on 7 May 2024, the Board of Directors will propose the payment of capital reserves of CHF 1.00 per share for the 2023 financial year, instead of a dividend (previous year: dividend of CHF 0.50). The advantage is that such a distribution is tax-free for natural persons who have their tax domicile in Switzerland. For that purpose, the Board of Directors will be proposing a capital reduction by means of a par-value reduction.

Schlieren, 28 March 2024



Paul Zumbühl
Chairman of the Board of Directors

Werner Schmidli
Chief Executive Officer

The German version of the 2024 shareholders is binding.

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Schlatter Group: key figures

		2023	2022
Net sales	CHF million	128.6	110.5
Change compared to previous year	%	16.4	16.7
Operating result (EBIT)	CHF million	7.1	5.5
in % of net sales	%	5.5	5.0
Net result (incl. minority interests)	CHF million	5.1	3.5
in % of net sales	%	4.0	3.1
Net result (excl. minority interests)	CHF million	5.9	3.4
in % of net sales	%	4.6	3.1
Order intake	CHF million	113.1	128.1
Order backlog	CHF million	73.9	89.4
Headcount as at December 31	FTEs	368	357
Annual average	FTEs	366	338
Interest-bearing liabilities	CHF million	5.4	7.2
Net financial position (debt)[1]	CHF million	8.0	1.7
Gearing[2]	%	0.0	0.0
Free cash flow[3]	CHF million	6.8	-6.5
Current assets	CHF million	65.8	61.7
Non-current assets	CHF million	18.4	19.1
Liabilities	CHF million	48.7	49.5
Equity (incl. minority interests)	CHF million	35.4	31.3
Equity (excl. minority interests)	CHF million	35.9	31.2
Equity ratio (incl. minorities)	%	42.7	38.5
Return on equity (ROE)[4]	%	15.3	11.6
Key share figures			
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[5]	CHF	5.33	3.10
Equity per registered share[5]	CHF	32.57	28.20
Dividend per registered share	CHF	1.00	0.50
Payout ratio[6]	%	18.76	16.11
Share price development			
High	CHF	26.00	30.60
Low	CHF	21.00	20.20
Year-end	CHF	25.80	25.00
Market capitalization			
High	CHF million	28.7	33.8
Low	CHF million	23.2	22.3
Year-end	CHF million	28.5	27.6

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

[2] Gearing: net debt divided by equity

[3] Cash flow from operations less purchases of tangible assets and intangible assets plus sale of tangible assets and intangible assets

[4] Net result divided by average equity

[5] Determined on the basis of dividend-entitled shares

[6] Instead of a dividend, the Board of Directors will propose a capital reduction with the release of funds for the distribution of capital reserves at the Annual General Meeting on May 7, 2024.