

Schlatter: High order backlog, higher costs weigh on result

Demand for Schlatter products once again rose sharply in the first half of the 2022 financial year, but as expected, fewer orders were placed in the second half. In particular, demand for reinforcing mesh systems declined in the second half of the year after markets overheated. There was a further volume increase in the after-sales area, on the other hand, and weaving machines for the paper industry recorded above-average demand. Our suppliers experienced delivery difficulties that slowed down our sales performance and weakened productivity. Rising prices of purchased materials and higher energy costs weighed on the result. Net earnings increased by 16.7%, while operating profit (EBIT) for the 2022 financial year was CHF 5.5 million – almost unchanged from the previous year (2021: CHF 5.7 million). The Schlatter Group ended the 2022 financial year with a substantial order backlog, which was once again higher than the previous year. Capacities in the 2023 financial year will be fully utilised. Demand for our products will normalise.

Dear shareholder

In the 2022 financial year the Schlatter Group generated net earnings of CHF 110.5 million (2021: CHF 94.6 million) and an order intake of CHF 128.1 million (2021: CHF 135.5 million). The order backlog as at 31.12.2022 stood at CHF 89.4 million (31.12.2021: CHF 71.8 million). This resulted in an operating result (EBIT) for the period under review of CHF 5.5 million (2021: CHF 5.7 million). The Group posted a consolidated profit of CHF 3.4 million (2021: CHF 4.8 million).

Markets

Welding equipment markets

Reinforcing mesh production systems

Demand for reinforcing mesh systems – exceptionally strong until the middle of the 2022 financial year – weakened as expected in the second half. The decline was due to falling steel prices, higher production and energy costs and rising interest rates.

The Schlatter Group's order intake was high throughout the 2022 financial year in comparison with previous years, largely thanks to sales of reinforcing mesh production systems in Europe and North America. The investment climate in Asia and the South American markets remained much less favourable. The weakness of local currencies in many emerging markets has pushed up investment costs, making customers hesitate to purchase new systems.

Our replacement-parts business was boosted by high capacity utilisation at our customers' factories. Schlatter expects demand for spare parts to level off at a satisfactory level in the 2023 financial year. No significant weakening is expected.

Industrial mesh production systems

Europe and the USA are among the most important markets for industrial mesh. The industrial mesh business is growing moderately, but it has not experienced a rise and fall in demand comparable to reinforcing mesh.

All sorts of industries and numerous possible application areas can be targeted with industrial mesh production systems. There is potential in complete solutions for industries such as the production of cable trays or storage grids.

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.

Mesh welding system modernisations

There is great potential in modernisation. Many customers are modernising their existing mesh welding systems rather than buying new, so there is a good level of demand for upgrades.

Rail welding

There are opportunities in the rail welding product area, especially in the emerging markets. In Western markets, by contrast, few new rail lines are being constructed. Generally speaking, the rail welding business is not cyclical: the construction of railway networks is predominantly driven by government decision-making. The market for stationary rail-welding machines developed particularly well in the 2022 financial year.

In India the subsidiary that we opened last year jointly with our long-standing sales partner has started production of the country's first mobile rail welding system. The welding head is provided by Schlatter from Switzerland. Not only will this lead to an adjustment of production costs to local needs, it will also address the issue of minimum local value creation required by the Indian state in this business sector.

Schlatter also offers upgrades and modernisation 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 was positive in the past financial year.

Weaving machinery for the paper industry

Numerous weaving projects were completed in 2022. The high order intake was dominated by the Chinese market. Our customers are producing at high levels of capacity utilisation, and sales of replacement parts are buoyant.

Schlatter markets an extensive range of machinery for all links in the value chain, and demand for machinery in all processing phases was brisk. Following several years of weak investment in systems for the refinement of paper machine clothing weaves, there has been a gratifying bounce-back in customer interest.

The paper requirement for newspapers and magazines is down, but production of brown and hygiene paper is on a constant rising trend. The increasing move away from plastic also has potential for paper consumption.

Schlatter expects an attractive order intake for 2023, but at a significantly lower level. Capacities in the Weaving segment will remain fully utilised until some time in the 2024 financial year.

Technical fabrics

Under the C-Tec (Contactless) brand, Schlatter has developed a new generation of machinery in the medium to high-tension area that can be used not only in the paper industry, but also in other industrial applications. The first of these machines have already be sold. The first presentation of this new generation of machines to a broader customer base will take place at the leading ITMA 2023 trade fair in Milan in June.

Wire weaving

In the area of wire weaving systems there is particular potential for applications such as security grilles, sieves and mosquito screens. Schlatter is investing in regaining a strong market position, and we have already achieved considerable success in the past financial year.

Replacement-part and services markets

After continuing its growth in the 2022 financial year, the replacement-part and services business now accounts for 31% of all Schlatter Group revenue.

Product development

Significant funds of CHF 4.5 million (2021: CHF 5.4 million) were invested in product development in the 2022 financial year. The reason why investment in product development was lower than in the previous year is that personnel resources were needed to handle customer projects due to the high order intake. Schlatter intends to increase expenditure on new product development once again 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.

Product developments for mesh welding machines are confined almost exclusively to the expansion of the machine platform. Our machine platform enables customers to benefit from faster delivery times, higher spare-part availability, greater reliability and improved 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 latest generation of MG950 industrial mesh machines will in future cover all solutions in the fencing sector. On the one hand this enables new types of fencing to be produced – while on the other, the previous machine concept for fencing production will be integrated into the platform of the MG950 industrial mesh generation and superseded. In addition, complete solutions for industries such as cable trays, shopfitting and logistics systems are under development.

One key innovation is the changeover of machine control and operating software to a future-oriented platform. The replacement of existing operating software will simplify machine operation and significantly increase system availability. This project will take several years, but important milestones have already been reached.

Furthermore, projects that come under the heading "Industry 4.0" have been finalised or are in the final phase, among them a dashboard, data back-up solutions for customers, and digitalised machine set-up aids for industrial mesh facilities.

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) in the medium to high tension range. Applications of these technical fabrics include filters and process belts.

Technical improvements and upgrades are currently being implemented.

We are also focusing on reducing the production costs of weaving machines for the paper industry and improving their performance.

Welding segment

Key performance indicators:

Order intake: CHF 99.9 million (2021: CHF 112.0 million).

Net earnings: CHF 96.0 million (2021: CHF 79.0 million).

Order backlog: CHF 62.5 million (2021: CHF 58.7 million).

As in the previous year, the Welding segment achieved an above-average order intake – but its profitability 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 the further appreciation of the Swiss franc. Since machines and systems are sold at fixed prices, the effect of price increases is delayed. Economies of scale due to the higher net earnings partly made up for this.

Shortages of components, especially electrical and control parts, have led to delays in system deliveries. Schlatter expects to start catching up on the backlog of delayed machines and systems in the second half of the 2023 financial year.

Reinforcing mesh production systems

Wire – the product area in which Schlatter generates the highest revenue – recorded by far the largest growth in new orders, securing capacity utilisation in the 2023 financial year to a significant extent.

The new machine platform also replaced all existing modules in the area of reinforcement grids.

Schlatter has been offering wire production systems (cold rolling mills) since 1 January 2022, thus taking a further step towards becoming a comprehensive solution provider with expanded system competence in matting manufacture. To this end, a majority shareholding of 51% was acquired in an Italian manufacturer of cold rolling systems.

The current challenge is the timely delivery and commissioning of the high order backlog.

Industrial mesh production systems

Industrial mesh manufacturing is less volatile than the reinforcing mesh equipment business. 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 will be integrated into the machine platform of the MG950 industrial mesh product family.

Digitalisation drive continues

Another of Schlatter's focal points is digitalisation. Important milestones were reached, for example, in the renewal of the control platform and user interface for mesh welding systems.

Rail welding product area

In track construction Schlatter continues to focus on the niche area of resistance welding.

Through the joint venture in India (formerly its Maco distribution partner), Schlatter has also gained a firmer foothold in the emerging markets. An initial local mobile system is currently being built in India, the welding head being supplied from Switzerland.

The market for stationary rail-welding machines developed particularly well in the past financial year.

All over the world, the requirements and standards for rail welding are variable and very demanding. More and more of our customers are insisting that compliant welding as required for track approval must be part of the machine commissioning and be carried out by Schlatter. We intend to treat this trend as an opportunity, further expanding our expertise in the field of rail welding.

Outlook for the welding segment

Given the current order intake, existing capacities in the welding segment in the 2023 financial year are very well utilised. The poor availability of parts has built up a backlog in the processing of customer projects, which must now be eliminated as far as possible. Delivery delays can no longer be avoided. We believe the situation will ease somewhat in the second half of the year.

Most sale prices of machinery and systems are fixed, but the procurement costs of parts and components have risen – and increasing the margin despite this will be a challenge. Although the order intake is expected to be lower after overheating in the product area of equipment for the production of reinforcing mesh, this decline will not have any impact on capacity utilisation or on the result in the 2023 financial year.

Weaving segment

Key performance indicators:

Order intake: CHF 28.2 million (2021: CHF 23.2 million).

Net earnings: CHF 14.4 million (2021: CHF 15.6 million).

Order backlog: CHF 26.9 million (31.12.2021: CHF 13.1 million).

The measures introduced in the previous year at the site in Münster (Germany) are bearing fruit. Despite disrupted supply chains and significantly higher material costs, the site was able to end the 2022 financial year with a profit.

Capacity at the Münster site will be fully utilised in the 2023 financial year. It will use the time to make the cost structure more flexible. To this end a programme of measures has been drawn up, and they are now being implemented.

On the one hand the above-average order intake was dominated by orders from China, while on the other, sales of machines for the thermal treatment of paper machine clothing were also above average. Order intake can be expected to return to normal as fewer orders are placed in China in future.

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 improve their performance. One way in which costs will be reduced is through comprehensive value analyses, internal process optimisation in project implementation, and the development of procurement-oriented product designs.

The technical textiles business area

Schlatter has developed a new generation of machines to enable us to enter new growth markets for the production of technical fabrics (C-Tec) other than paper machine clothing for the paper industry. Our objective over the next few years is to build up a business area to offset the pronounced volatility of the weaving machinery business for the paper industry.

Wire weaving

Having concluded significant projects in the 2022 financial year, Schlatter also sees potential for more intensive marketing efforts to increase sales in this area.

Spare parts and after-sales services

The after-sales area in Münster was restructured to consolidate this site's long-term orientation. To this end the Weaving service centre was created to give customers comprehensive support. The organisation offers worldwide support in the area of spare parts, services, inspections and advice. The product range was also supplemented with numerous new service modules. In organisational terms the Weaving service centre works closely with the service centre in the Welding segment, one objective being to take greater advantage of synergies in the service portfolio.

Outlook for the weaving segment

The weaving segment started the 2023 financial year with a healthy order backlog. Taking account of the welding modules for reinforcing mesh systems and the machinery for producing mobile fences in Münster, capacity utilisation at this location is already at a high level for the 2023 financial year. Material costs have increased significantly, and wages are subject to substantial increases due to the collective agreement with IG Metall. The sale prices of the machines, on the other hand, are fixed. Expected higher sales will partly make up for this, but increasing profitability will be a challenge.

The focus remains on marketing the technical C-Tec machine generation for technical fabrics, reducing costs and increasing the performance of the weaving machines, as well as making the cost structure at the Münster site more flexible. Following the above-average order intake in the past financial year, Schlatter expects the order volume to return to normal in the 2023 financial year. With existing and expected orders, capacities are well utilised in the 2023 financial year and for much of the following year.

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 maintain operating profit.

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.

We look forward to welcoming you to the General Meeting in Schlieren on 4 May 2023, and to answering any questions you may have. The full 2022 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 efforts and expanded its service business. The profit earned in the 2022 financial year has strengthened equity capital, permitting a dividend to be paid.

In the first half of 2022 demand in some markets was very strong – indeed overheated, triggering a correction in the second half. The Schlatter Group ended the 2022 financial year with a strong

order backlog, which ensures that capacity utilisation will be high throughout the 2023 financial year. The timely implementation of customer projects has priority. Now that the situation on the procurement markets has normalised somewhat, the backlog must be cleared as quickly as possible. Our other priorities include implementing innovations, marketing C-Tec and increasing profitability.

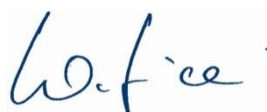
The Schlatter Group expects net earnings to be slightly higher in the 2023 financial year. Though the cost situation remains tense, a slight increase in the operating result (EBIT) is expected.

At the annual general meeting on 4 May 2023 the Board of Directors will propose the payment of a dividend of CHF 0.50 per share for the 2022 financial year (previous year: CHF 0.0).

Schlieren, 31 March 2023



Paul Zumbühl
Chairman of the Board of Directors



Werner Schmidli
Chief Executive Officer

The German version of the 2023 shareholders' letter is binding.

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Schlatter Group: key figures

		2022	2021
Net sales	CHF million	110.5	94.6
Change compared to previous year	%	16.7	20.0
Operating result (EBIT)	CHF million	5.5	5.7
in % of net sales	%	5.0	6.1
Net result (incl. minority interest)	CHF million	3.5	4.9
in % of net sales	%	3.1	5.2
Net result (excl. minority interest)	CHF million	3.4	4.8
in % of net sales	%	3.1	5.1
Order intake	CHF million	128.1	135.5
Order backlog	CHF million	89.4	71.8
Headcount as at 31 December	FTEs	357	331
Annual average	FTEs	338	328
Interest-bearing liabilities	CHF million	7.2	7.0
Net financial position (debt)¹	CHF million	1.7	8.1
Gearing²	%	0	0
Free cash flow³	CHF million	-6.5	14.0
Current assets	CHF million	61.7	52.1
Non-current assets	CHF million	19.1	19.6
Liabilities	CHF million	49.5	43.5
Equity (incl. minority interests)	CHF million	31.3	28.2
Equity (excl. minority interests)	CHF million	31.2	28.1
Equity ratio (incl. minorities)	%	38.5	39.2
Return on equity (ROE)⁴	%	11.6	19.0
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	3.10	4.36
Equity per registered share ⁵	CHF	28.20	25.43
Dividend per registered share ⁶	CHF	0.50	0
Payout ratio ⁶	%	16.11	0
Share price development			
High	CHF	30.60	29.60
Low	CHF	20.20	22.00
Year-end	CHF	25.00	23.00
Market capitalization			
High	CHF million	33.8	32.7
Low	CHF million	22.3	24.3
Year-end	CHF million	27.6	25.4

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

² Gearing: Net debt divides by equity

³ Cash flow from operating activities less purchase 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 In accordance with the proposal submitted to the Annual General Meeting of May 4, 2023