Schlatter Group returns to profit in the first half of 2021

The Schlatter Group has returned to profitability, making a positive start to the 2021 financial year in both its welding and weaving segments. Demand for Schlatter products slumped in the past financial year because of the pandemic, but it recovered in many regions in the first half of this year. The welding segment is benefiting from pent-up customer demand for sales of new systems and spare parts and, although the weaving segment still has lost ground to make up in this regard, net sales rose substantially and operating profit (EBIT) came to CHF 1.6 million in the first half of 2021 (first half of 2020: CHF -3.6 million). The markets in Europe and the USA in particular contributed to the improvement. In Asia pandemic-related travel restrictions continue to hamper sales and plant commissioning. Most of our customers are producing at full capacity again after the numerous plant shutdowns in the previous year, so after-sales business has also returned to pre-pandemic levels. The market environment in the welding segment is positive, and there are also promising projects on the market in the weaving segment.

The Schlatter Group posted an order intake of CHF 59.6 million in the first half of 2021, a substantial increase on the same period of the previous year (first half of 2020: CHF 39.1 million). Net sales were up by about 22% at CHF 44.8 million (first half of 2020: CHF 36.6 million).

At CHF 45.5 million, the order backlog as at 30 June 2021 is also a significant 48% higher than in the previous year (31.12.2020: CHF 30.8 million). Operating profit (EBIT) for the first half of 2021 totalled CHF 1.6 million, compared with a loss of CHF -3.6 million in the first half of 2020. For the first half of the year the Schlatter Group is reporting positive consolidated net result of CHF 1.9 million (first half of 2020: CHF -4.0 million).

Markets

Reinforcing mesh production systems

After last year's pandemic-related slump in systems business for new reinforcing mesh production plants, order intake improved in the first quarter of 2021 and recovered fully in the second. Except in a few regions, our customers are once more producing at high capacity utilisation – and spare parts business has also returned to pre-pandemic levels as a result. In Asia we continue to post losses: these are due on the one hand to travel restrictions, and on the other to the renewed, officially ordained pandemic-related shutdown of our company in Malaysia. This has an impact on plant commissioning in the region and also on our used machinery business, as the Schlatter Group's Malaysian company reconditions used machinery.

The Schlatter Group had anticipated a recovery in systems business for reinforcing mesh production in Western Europe, and it took place somewhat earlier than expected. The market in the Eastern European countries is still restrained.

As expected, the emerging markets will take longer to overcome the consequences of the pandemic and regain the ability to invest. Many countries' currencies, having weakened in the previous year, have not recovered, leading to reluctance to invest.

In China reinforcing mesh is increasingly being used instead of single rods, especially for industrial prefabricated concrete elements for state infrastructure projects.

Major reinforcing mesh projects in the USA were secured in the first half of 2021.

Industrial mesh production installations

Europe and the USA are among the most important markets for industrial mesh. The number of new installations has recovered, in Europe first and foremost. The recovery in the US market, though a little sluggish, is basically positive.

Modernisation still offers significant potential. Many customers, especially when times are hard, prefer to modernise their existing systems rather than buy new – so upgrades and retrofits continue to be of great importance.

The production of industrial mesh offers a wide variety of applications in different industries, making this business less volatile and creating opportunities for growth.

Rail welding

There are opportunities in the rail welding product area, especially in emerging markets. Projects and sales negotiations that were delayed by the pandemic can now be resumed. Schlatter offers modernisation facilities for both stationary and mobile rail welding machines.

Weaving

Sales of new equipment slowed significantly as a result of the pandemic and its impact last year. All our weaving customers have ramped up production again, and sales of spare parts are back to pre-pandemic levels.

Even though our customers' capacity utilisation is currently high and they need to modernise and invest in new, high-quality machines, they were reluctant to approve investments in the first half of the year. Some substantial investments are still being deferred.

The paper requirement for newspapers and magazines is down, though production for brown and hygiene paper is on a constant rising trend. The quality of fabrics for paper machine clothing is constantly being improved, which means that their use is extended – so higher paper consumption does not lead to a higher demand for weaving machines for the production of paper machine clothing.

Spare parts and services

Although the spare parts and services business slumped during the pandemic because of plant closures, sales are now back to pre-pandemic levels. Schlatter expects sales for the year as a whole to be significantly higher than last year. The spare parts and services business is extremely important, as Schlatter has a large number of installed systems all over the world. It contributes around 30 per cent of the Schlatter Group's net sales.

Welding segment increases volume and posts significant profits

Key performance indicators:

Order intake: CHF 52.0 million (first half of 2020: CHF 28.4 million).

Net sales: CHF 37.3 million (first half of 2020: CHF 30.0 million).

Order backlog: CHF 40.2 million (31.12.2020: CHF 25.4 million).

Order intake in the welding segment recovered in the first quarter of 2021, and rose significantly once again in the second quarter. The first prototypes of the new machine platform have been well received, and no significant technical problems have occurred. The digitalisation drive continues.

The weaving segment returned to profit in the first half of 2021. The higher number of sales of new plants and spare parts contributed to this. There is lost ground to be made up in sales of new equipment and spare parts after last year's pandemic-related slump from the second quarter onwards. The challenge lies in the supply chains of our suppliers, which are currently interrupted, as well as in price increases for bought-in components.

Market success for versatile machine platform

The new machine platform for the "Welding" core module was sold to several customers and tested by them under production conditions. All tests were successful, so the machine platform for this core module now replaces all previous welding machines. Other modules have also been converted to this machine platform. Schlatter continues to invest significant capacities in the development of this modular machine platform. It greatly reduces the complexity inherent in the breadth of the previous product portfolio, thus bringing about substantial cost savings.

The platform's modular structure appeals to the most diverse industries and application areas. In addition to their numerous application enhancements, these industrial mesh facilities can also produce other types of fencing. Schlatter is opening up additional potential by expanding possible applications.

The digitalisation drive continues

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

Outlook for the welding segment

The Schlatter Group expects the environment in the second half of 2021 to be positive. In the coming months Schlatter will profitably work through the high order backlog, and continue to invest in product development.

Weaving segment restructured and about to enter new market segments

Key performance indicators:
Order intake: CHF 7.6 million (first half of 2020: CHF 10.7 million).
Net sales: CHF 7.5 million (first half of 2020: CHF 6.6 million).
Order backlog: CHF 5.4 million (31.12.2020: CHF 5.4 million).

In the weaving segment some customer projects at the Münster site that had been postponed owing to the pandemic were approved, but order intake in the first half of 2021 was still below expectations. The development of new business areas in the field of technical textiles continued, and the new generation of machines is about to be launched on the market. Measures to reduce costs and increase profitability are being implemented.

The weaving segment posted a loss in the first half of 2021. The reasons for this were insufficient sales and an excessive cost base due to high product costs. Comprehensive measures to reduce the cost base and make it more flexible are currently being implemented, including a reduction in the headcount and temporary salary cuts.

Development of new business fields in the technical textiles area
The volatile market for weaving machines for paper machine clothing production is causing substantial fluctuations in capacity utilisation at the Münster site.

A development project that will enable us to enter growth markets for the production of other technical fabrics was launched in 2019. The development of the new generation of machines is nearing completion, and marketing and initial customer demonstrations will begin at the Münster site in August 2021. 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.

Reducing the production costs of weaving machines for the paper industry is a further priority. This project will be prioritised after the market launch of the new generation of technical weaving machines, and it will include a completely new product design. Development will begin in the first quarter of 2022.

Wire weaving

The first fruits of the Schlatter Group's reorganisation of its wire weaving machine sales can now be seen. Targeted product developments are now being approved for the further growth of this business area, which has been less highly prioritised in recent years.

Spare parts and after-sales services

After-sales business is also important in the weaving segment, and a package of measures to expand it has been initiated. The two after-sales organisations in Münster and Schlieren are to be merged to make better use of synergies.

Outlook for the weaving segment

The order backlog in the weaving segment was below expectations at the end of the first half of the year, leading us to expect increases in both orders and sales in the second half. Capacity utilisation at the Münster site, the competency centre for weaving, is currently driven by orders for reinforcing mesh modules from Schlieren and the demand for machines to manufacture mobile fences. Work continues on raising productivity and cutting costs, but the return to profitability will not be achieved before the 2022 financial year.

Outlook

Markets in the welding segment have recovered from last year's pandemic-related slump, but the weaving segment still has lost ground to make up. The Schlatter Group continues to invest significant resources in product development to improve its market position. Comprehensive measures currently being implemented include intensified marketing, projects to cut costs and improve productivity, and initiatives in the service business.

The market environment in the welding segment remains positive, at least over the next few months, and in the weaving segment there are major projects in the pipeline that Schlatter hopes to secure. The success of the new technical weaving machine will be ground-breaking for the Münster site.

The Board of Directors and management expect the Schlatter Group to post a profit in the second half of 2021 as well, whereas the weaving segment is not set to break even before the next financial year.

Schlieren, 17 August 2021

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

Key figures of the Schlatter Group

		1st half of 2021	1st half of 2020	2nd half of 2020	2020
Net sales	CHF million	**44.8**	**36.6**	**42.2**	**78.8**
Change from previous year	%	22.4	-33.1	8.5	-15.8
Operating performance[1]	CHF million	**45.7**	**32.6**	**40.9**	**73.5**
Change from previous year	%	40.2	-39.3	-2.2	-23.0
Operating result (EBIT)	CHF million	**1.6**	**-3.6**	**-1.3**	**-4.9**
in % of net sales	%	3.5	-10.0	-2.3	-6.2
Consolidated net result (incl. minorities)	CHF million	**1.9**	**-4.0**	**-1.5**	**-5.5**
in % of net sales	%	4.2	-10.9	-2.2	-7.0
Consolidated net result (excl. minorities)	CHF million	**1.9**	**-4.0**	**-1.5**	**-5.5**
in % of net sales	%	4.2	-10.9	-2.2	-7.0
Consolidated net result per registered share	CHF	**1.70**	**-3.60**	**-0.77**	**-4.96**
Order intake	CHF million	**59.6**	**39.1**	**44.2**	**83.3**
Order backlog at period end	CHF million	**45.5**	**28.8**	**30.8**	**30.8**
Free cash flow [2]	CHF million	**4.5**	**-2.5**		
Headcount at period end [3]	FTE	**328**	**325**	**323**	
Average headcount	FTE	**325**	334	325	

		30.06.2021	31.12.2020
Interest-bearing liabilities	CHF million	**8.4**	**9.1**
Net financial assets/(debt) [4]	CHF million	**-1.8**	**-6.0**
Gearing [5]	%	**7.0**	**25.5**
Current assets	CHF million	**40.4**	**35.2**
Non-current assets	CHF million	**20.8**	**20.8**
Liabilities	CHF million	**35.8**	**32.6**
Equity (incl. minorities)	CHF million	**25.4**	**23.4**
Equity (excl. minorities)	CHF million	**25.4**	**23.4**
Equity ratio (incl. minorities)	%	**41.5**	**41.8**

1 Operating performance: net sales from goods and services plus other operating income plus change in inventories of finished/unfinished goods, work in progress

2 Free cash flow: cash flow from operating activities less the purchase of tangible, intangible and financial assets, plus sale of tangible, intangible and financial assets

3 Total full-time positions incl. Temporary employees, excluding apprentices

4 Net financial assets (debt): cash and cash equivalents less interest-bearing liabilities

5 Gearing: Net debt 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 statement as at 30 June 2021

Consolidated balance sheet

Assets

CHF 1000	**30.06.2021**	**31.12.2020**
Cash and cash equivalents	6 617	3 164
Current investments	79	157
Accounts receivable for goods and services	5 576	4 222
Current income tax receivables	31	30
Other receivables	2 029	1 875
Receivables from production orders in progress	9 626	11 587
Inventories	16 019	14 021
Accrued income	428	128
Current assets	**40 405**	**35 184**
Property, plant and equipment	19 515	19 664
Intangible assets	855	930
Deferred tax assets	443	206
Non-current assets	**20 813**	**20 800**
Total assets	**61 218**	**55 984**

Liabilities

CHF 1000	**30.06.2021**	**31.12.2020**
Accounts payable for goods and services	6 484	5 697
Liabilities from production orders in progress	9 997	8 755
Other payables	1 340	1 539
Accrued liabilities	3 773	2 084
Financial debt	1 442	1 974
Current provisions	1 044	935
Current liabilities	**24 080**	**20 984**
Financial debt	6 961	7 152
Pension liabilities	4 507	4 209
Provisions	167	155
Deferred tax liabilities	68	64
Non-current liabilities	**11 703**	**11 580**
Total liabilities	**35 783**	**32 564**
Share capital	17 675	17 675
Capital reserves (agio)	1 767	1 767
Retained earnings	5 935	3 978
Equity of shareholders of Schlatter Industries AG	**25 377**	**23 420**
Minorities	**58**	**0**
Total equity	**25 435**	**23 420**
Total liabilities and equity	**61 218**	**55 984**

Abridged consolidated half-year statement as at 30 June 2021

Consolidated income statement

CHF 1000	1st half of 2021	1st half of 2020	2020
Net sales from goods and services	**44 798**	**36 613**	**78 786**
Other operating income	303	152	339
Change in semi-/finished goods, work in progress	634	- 4 186	- 3 076
Material and service expenses	- 22 316	- 14 286	- 39 548
Personnel expenses	- 17 262	- 16 862	- 31 935
Other operating expenses	- 3 781	- 4 403	- 8 098
Depreciation and amortisation	- 793	- 671	- 1 390
Operating result (EBIT)	**1 583**	**- 3 643**	**- 4 922**
Financial income	384	612	1 053
Financial expenses	- 295	- 874	- 1 331
Net result before tax	**1 672**	**- 3 905**	**- 5 200**
Income tax expenses	199	- 74	- 277
Net result	**1 871**	**- 3 979**	**- 5 477**
thereof shareholders of Schlatter Industries AG	1 873	- 3 979	- 5 477
thereof minorities	- 2	0	0
Basic earnings per registered share (CHF)	1.70	- 3.60	- 4.96

Abridged consolidated half-year statement as at 30 June 2021

Consolidated statement of equity

CHF 1000	Share capital	Capital reserves	Retai-ned earnings	**Equity share-holders Schlatter Ind. AG**	Minori-ties	**Total share capital**
As at 31.12.2019	**17 675**	**1 767**	**9 956**	**29 398**	**0**	**29 398**
Translation differences			- 427	**- 427**		**- 427**
Net result 01.01-30.06.2020			- 3 979	**- 3 979**		**- 3 979**
As at 30.06.2020	**17 675**	**1 767**	**5 550**	**24 992**	**0**	**24 992**
As at 31.12.2020	**17 675**	**1 767**	**3 978**	**23 420**	**0**	**23 420**
Change in scope of consolidation				**0**	**60**	**60**
Translation differences			84	**84**		**84**
Net result 01.01-30.06.2021			1 873	**1 873**	**- 2**	**1 871**
As at 30.06.2021	**17 675**	**1 767**	**5 935**	**25 377**	**58**	**25 435**

Abridged consolidated cash flow statement

CHF 1000	**1st half of 2021**	1st half of 2020	2020
Cash flow from operating activities	4 591	975	3 694
Cash flow from investment activities	- 133	- 3 517	- 3 975
Free cash flow	**4 458**	**- 2 542**	**- 281**
Cash flow from financing activities	- 1 035	1 675	10
Change in cash and cash equivalents	**3 423**	**- 867**	**- 271**
Cash and cash equivalents as at 1 January	3 164	3 486	3 486
Change in cash and cash equivalents	3 423	- 863	- 271
Impact of exchange rate on cash and cash equivalents	30	- 57	- 51
Cash and cash equivalents as at 30 June / 31 December	6 617	2 566	3 164

Notes to the abridged consolidated half-year statement

1 Accounting principles

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

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 2020. These abridged halfyear 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 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 Change in the scope of consolidation

As at 30 June 2021, Schlatter Maco (India) Private Limited, which was founded in cash in the first half of 2021 and in which Schlatter Industries AG holds a 51% stake or TCHF 60, was fully consolidated for the first time.

3 Segment information

			1st half of 2021
CHF 1000	Welding	Weaving	**Total segments**
Net sales from plant business with third parties	22 859	5 172	**28 031**
Net sales from spare parts & service business with third parties	14 403	2 364	**16 767**
Notal net sales	37 262	7 536	**44 798**
EBIT	2 320	- 737	**1 583**

Abridged consolidated half-year statement as at 30 June 2021

CHF 1000	Welding	Weaving	1st half of 2020 **Total segments**
Net sales from plant business with third parties	18 105	4 459	**22 564**
Net sales from spare parts & service business with third parties	11 898	2 151	**14 049**
Total net sales	30 003	6 610	**36 613**
EBIT	-2 583	-1 060	**-3 643**

4 Income statement

Net sales increased to CHF 44.8 million in the first half of 2021 compared to the same period of the previous year (first half of 2020: CHF 36.6 million). The operating performance rose to CHF 45.7 million (first half of 2020: CHF 32.6 million).

Due to the higher capacity utilisation in the first half of 2021, personnel expenses at CHF 17.3 million were slightly higher than in the same period of the previous year (first half of 2020: CHF 16.9 million). This includes a positive contribution of CHF 0.4 million from salary waivers and CHF 0.2 million in severance cost at the Münster/DE site.

Other operating expenses decreased to CHF 3.8 million (first half of 2020: CHF 4.4 million), which is mainly due to the elimination of relocation and, in part, rental costs at the Münster site. Depreciation and amortisation amounted to CHF 0.8 million (first half of 2020: CHF 0.7 million).

The financial income is mainly composed of gains from forward exchange transactions. Financial costs mainly include losses from forward exchange transactions and interest expenses.

The tax result mainly includes deferred tax income that arose at foreign subsidiaries.

In the first half of 2021, the Group generated a profit of CHF 1.9 million (first half of 2020: loss of CHF -4.0 million).

5 Balance sheet

The net debt of CHF -6.0 million as at 31 December 2020 was reduced to CHF -1.8 million in the first half of 2021. Receivables from production orders in progress decreased to CHF 9.6 million (31.12.2020: CHF 11.6 million); at the same time, liabilities from production orders in progess increased to CHF 10.0 million (31.12.2020: CHF 8.8 million).

Equity increased to CHF 25.4 million as at 30 June 2021 (31.12.2020: CHF 23.4 million). Total assets as at 30 June 2021 amounted to CHF 61.2 million compared to CHF 56.0 million as at 31 December 2020, resulting in an equity ratio of 41.5% (31.12.2020: 41.8%).

6 Free cash flow

A positive operating cash flow of CHF 4.6 million was generated. The positive net result and a reduction in net working capital to CHF 12.1 million (31.12.2020: CHF 13.8 million) contributed to this. Investments in fixed assets amounted to CHF 0.1 million (first half of 2020: CHF 3.5 million), resulting in a free cash flow of CHF 4.5 million (first half of 2020: CHF -2.5 million).

7 Loan arrangements

The Schlatter Group's loans are secured until 31 December 2022. The amount available for short-term loans is reduced by CHF 0.325 million at the end of each quarter to CHF 3.2 million as at 31 December 2021 (previous year: CHF 4.5 million). Thus, the bank limits (credit and contingent limits) for maintaining the operating business amount to CHF 21.45 million as at 31 December 2021 (previous year: CHF 22.75 million).

For 2022, bank limits (credit and contingent limits) of CHF 20.93 million will still be available, whereby the amount available for short-term loans will again be reduced by CHF 0.325 million per quarter, so that CHF 1.9 million will still be available for short-term loans as at 31 December 2022. The interest rate is 3.5% per annum. (previous year: 3.5% p.a.).

The contingent limits are partly tied to conditions in connection with bond guarantees from Swiss Export Risk Insurance (SERV). The total utilisation may not exceed the bank limit of CHF 22.75 million in 2021 and CHF 20.93 million in 2022. The loans are subject to financial covenants (EBITDA and equity).

In spring 2020, Covid19 loans in the amount of CHF 7.5 million were secured. These Covid19 loans will be reduced by CHF 0.5 million per quarter from the second quarter of 2021. The interest rate on the loans is zero for the first CHF 0.5 million and currently 0.5% p.a. for the excess amount. These loans are 85% guaranteed by the Swiss Confederation. The remaining 15% is guaranteed in equal parts by the house banks UBS and ZKB as well as by two major shareholders. These two shareholders will receive a guarantee commission of 3.5% p.a. for their share at the end of the term.

For the duration of the drawdown of the Covid19 loans, the company may only make replacement investments in fixed assets, may not distribute any dividends or royalties and may not make any repayments of capital contributions. There are also further restrictions on the granting and repayment of loans to group companies and owners.

In addition, there is a mortgage secured by a local German bank for the company property in Münster/DE in the amount of EUR 6.4 million (31.12.2020: EUR 6.6 million). For this purpose, Schlatter Industries AG had to assume joint and several liability with the borrower Schlatter Deutschland GmbH & Co. KG for claims to which the lender is entitled from the borrower under the loan agreement.

As at the reporting date of 30 June 2021, credit limits of CHF 0.5 million were used (31.12.2020: CHF 1.2 million).

Abridged consolidated half-year statement as at 30 June 2021

8 Exchange rates

	30.06.2021	30.06.2020	31.12.2020	1st half of 2021	1st half of 2020	2020
CHF 1	Exchange rates at balance sheet date			Average rates		
1 EUR	**1.10**	1.07	1.08	**1.09**	1.06	1.07
1 USD	**0.92**	0.95	0.88	**0.91**	0.97	0.94
1 GBP	**1.28**	1.17	1.20	**1.26**	1.22	1.20
1 BRL	**0.19**	0.18	0.17	**0.17**	0.20	0.19
1 MYR	**0.22**	0.22	0.22	**0.22**	0.23	0.22
1 CNY	**0.14**	0.13	0.14	**0.14**	0.14	0.14
1 INR	**0.12**	---	---	**0.12**	---	---

9 Earnings per share

CHF 1000	30.06.2021	30.06.2020	31.12.2020
Net result attributable to shareholders of Schlatter Industries AG (CHF 1000)	1 873	-3 979	-5 477
No. of registered shares issued with a par value of CHF 16.00	1 104 704	1 104 704	1 104 704
No. of registered shares, weighted	1 104 704	1 104 704	1 104 704
Average no. of registered shares held as treasury shares	0	0	0
Total average no. of dividend-bearing registered shares	**1 104 704**	**1 104 704**	**1 104 704**
Basic earnings per registered share (CHF)	1.70	-3.60	-4.96

10 Events after the balance sheet date

The abridged consolidated half-year financial statements were authorised for issue by the Board of Directors on 10 August 2021.

Schlatter Industries AG

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