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Schlatter Group achieves positive operating result and will strengthen the balance sheet in 2015

The Schlatter Group confirms its targets for the financial year 2014. Despite a low order backlog at the end of 2013 and a loss in the first half-year in 2014, the year closed with a positive operating result. Order intake and order backlog improved significantly over the previous year. For 2015 no substantial change in demand is expected. The significant weakening of the Euro is, however, likely to cause a loss in the current business year of up to a mid-range single digit million. In order to give the Schlatter Group time to adapt to the changed currency situation, the balance sheet will be strengthened with a capital increase.

Dear shareholders

In 2014, the Schlatter Group recorded an order intake of CHF 104.7 million (2013: CHF 84.0 million). The Group achieved net sales of CHF 89.5 million (2013: CHF 96.9 million) and had an order backlog of CHF 42.2 million at the end of the year (31.12.2013: CHF 27.1 million). The figures indicate the recovery of the investment confidence of customers, which in particular in the first half of the financial year lead to strong growth in order intake levels in the welding segment. As expected the weaving segment recorded a decline in order intake. With the operating result (EBIT) of CHF 0.7 million (2013: CHF 0.2 million) the Schlatter Group built on the positive result of the previous year. The net result for the reporting period amounted to CHF –0.2 million (2013: CHF –0.4 million).

The Schlatter Group has made significant progress in recent years and with a high pace of innovation in product development will regain market share within the next few years and position itself for the long term. For 2015 no substantial change in demand is expected. The significant weakening of the Euro is, however, likely to cause a loss in the current business year of up to a mid-range single digit million. Comprehensive measures to offset the currency-related effects were immediately initiated. Also planned is a strengthening of equity to the amount of at least CHF 10 million, which will be guaranteed by a major shareholder. With the implementation of these measures, the Schlatter Group strives for at least break-even in the financial year 2016 the secure connection

Markets

In the European core markets of the reinforcement and industrial mesh manufacturing plant product range, the effects of the economic and financial crisis are still noticeable. Slight optimism prevails in the northern EU countries, where again some major investment projects are in progress. A real recovery in these regions in the next few years can, however, still not be expected. Taking all markets into account, investment confidence in the first half of 2014, nevertheless increased strongly compared to the second half of 2013.

Schlatter has succeeded in increasing its order intake significantly with new advanced plant concepts. In Central America and South-east Asia a high demand for welding plants was recorded. After years of major growth in Brazil this important South American market is currently stagnating. In Russia, the collapse of the Rouble has led to an extremely low willingness to invest, even though large demand for new mesh welding plant should be present. The region of China has taken a subordinate role in the mesh welding plant product area in the past. Despite currently declining economic growth, the development of the construction industry could open up new opportunities in this market in the coming years. The strengthened US economy primarily offers potential in the industrial mesh plant area, which Schlatter will actively exploit in 2015.

For the rail track welding product range a constant demand can be assumed. Added to this, new sales opportunities are repeatedly opening up in emerging markets.

In the weaving segment demand decreased in 2014 as expected. The market is on a downward trend since the consolidation process of paper mills still progresses. Investments are limited to replacement investments and refurbishment, but capacity is not expanded. The Schlatter group therefore is not expecting a recovery in 2015.

Business with spare parts and maintenance services continued to develop positively, contributing approximately 25 percent of the net sales of the Schlatter Group.

Focus on profitable growth and higher value added

Despite lower net sales, slightly positive results were achieved in both segments. In Schlieren substantial operational improvements were implemented, whereby the focus is clearly now on the implementation of the product roadmap for the reinforcement and industrial mesh manufacturing plant product range. Net sales of the welding segment reduced to CHF 69.9 million (2013: CHF 73.7 million), and the segment achieved an operating result of CHF 0.1 million (2013: CHF 0.2 million). In Münster the net profit decreased again to CHF 19.6 million (2013: CHF 23.2 million). With the benefit of a flexible cost structure, the timely introduction of a cost saving program and efforts aimed at in-sourcing of externally manufactured parts, added value and utilisation could be improved in 2014. Substantial investment was also made in Münster in two new production centres to increase productivity. Despite the decline in sales, the weaving segment reported an operating result (EBIT) of CHF 0.6 million (2013: CHF 0.04 million).

Due to measures already implemented on the cost and product side, as well as the significantly higher order backlog compared to the previous year, the Schlatter Group made a strong start in the new financial year. To succeed globally, the Schlatter Group has to grow. As 2015 progresses, it is important to continue to secure the order intake and implement the product and development roadmap.

In the reinforcement and industrial mesh manufacturing plant product range, the roadmap is being implemented with highest priority. The current focus is on the largest market segment of reinforcing mesh, where the pace of innovation must be increased. In addition, projects are to be implemented in the interest of increasing gross margins, efficiency and productivity. The urgency has become more acute with the weakening of the Euro.

Investments in new products

Once again in the 2014 financial year the Schlatter Group invested significantly human and financial resources in new development and improvement in all product areas. This allowed two new plant concepts in the reinforcing mesh plant area to be successfully placed and sold in the market. The weaving segment successfully developed its existing systems further.

Continuity in Group management

After a large proportion of the Group management positions have been newly appointed in recent years, there were no changes in management in the financial year 2014.

Outlook

Operations

In financial year 2014, the Schlatter Group made significant progress with its cost improvement measures and increase in the pace of innovation. The aim is to increase net sales in the coming years and to further improve the operating result. The implementation of efficiency and cost improvement measures and the successes achieved in implementing the development and product roadmap will help ensure that Schlatter can increase the profit margin and regain market share. However, some patience is required until the market position is significantly strengthened. The efficient implementation of major development projects is of central importance here. Therefore, a special development budget is planned to accelerate the implementation of the development plan for the financial year 2015. The allocated resources will be charged to the income statement for the current financial year.

Due to the significant weakening of the Euro, the Board of Schlatter Industries AG revised the targets for the Schlatter Group for the business year 2015. Despite the current good utilization capacity, the exchange rate situation is likely to cause a loss of up to a mid-range single digit million. The Schlatter Group immediately initiated comprehensive measures to offset the currency-related effects and is aiming for a minimum of break-even in the fiscal year 2016.

Planned strengthening of capital guaranteed by main shareholder

Despite the successes and improved returns achieved over the past two years, a sustainable strengthening of the balance sheet could not be realised. The currency turmoil has led to an additional weakening of the balance sheet: on the one hand, operational business is burdened (transaction effect), on the other hand, the upheaval causes a damaging depreciation of assets (translation effect). Thus the risk capability of the balance sheet and a sustainable positioning of the Schlatter Group have been severely reduced. One of the major shareholders has therefore guaranteed an increase in capital of at least CHF 10 million; the details thereof will be communicated in the coming weeks. Thus the Schlatter Group will have sufficient time to adapt to the changed exchange rate situation.

Annual General Meeting 2015

At the Annual General Meeting on May 5, 2015, the Board of Directors will propose to forego a dividend payment for the financial year 2014.

Thank you!

We would like to express our sincere thanks to our shareholders for the trust you have placed in the Schlatter Group. We would be pleased to welcome you at the AGM on May 5, 2015, in Schlieren.

The full version of the 2014 Annual Report is available on our website www.schlattergroup.com or can be ordered using the attached form.

Schlieren, March 13, 2015

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

Schlatter Group key figures

		2014	2013[1]
Net sales	CHF million	**89.5**	**96.9**
Change compared to previous year	%	–7.7	–16.1
Operating result (EBIT)	CHF million	**0.7**	**0.2**
in % of net sales	%	0.8	0.2
Net result	CHF million	**–0.2**	**–0.4**
in % of net sales	%	**–0.2**	–0.4
Order intake	CHF million	**104.7**	**84.0**
Order backlog	CHF million	**42.2**	**27.1**
Headcount as of December 31	FTEs	**313**	**313**
Average headcount	FTEs	309	323
Net sales per employee	CHF 1,000	**290**	**300**
Interest-bearing liabilities	CHF million	**11.3**	**7.3**
Net financial position[2]	CHF million	**–7.9**	**–3.0**
Gearing[3]	%	**–57.1**	**–21.5**
Free cash flow[4]	CHF million	**–4.6**	**–2.7**
Current assets	CHF million	**38.0**	**36.9**
Non-current assets	CHF million	**11.2**	**12.6**
Liabilities	CHF million	**35.3**	**35.5**
Equity	CHF million	**13.9**	**14.0**
Equity ratio	%	**28.2**	**28.2**
Return on equity (ROE)[5]	%	**–1.3**	**–2.8**
Share data			
Share capital as of December 31	CHF 1,000	13,465	13,465
Total registered shares	number	426,250	426,250
of which entitled to dividend payments	number	426,081	426,081
Net result per registered share[6]	CHF	–0.42	–0.93
Equity per registered share[6]	CHF	32.54	32.81
Dividend per registered share	CHF	0[7]	0
Payout ratio	%	0[7]	0
Share price development			
High	CHF	159.00	210.00
Low	CHF	108.00	110.00
Year-end	CHF	140.00	149.50
Market capitalization			
High	CHF million	67.8	89.5
Low	CHF million	46.0	46.9
Year-end	CHF million	59.7	63.7

[1] Restatement 2013 due to an incorrect disclosure of a financial liability in connection with a reduction in rent granted for 2012 and 2013 with redemption over the remaining lease term and an effect on EBIT of TCHF –403
[2] Net financial position: cash and cash equivalents less interest-bearing liabilities
[3] Gearing: net financial position divided by equity; negative gearing = 0
[4] Cash flow from operating activities less purchase of tangible fixed assets and intangible assets, plus sale of tangible fixed assets and intangible assets
[5] Net result divided by average equity
[6] Determined on the basis of dividend-entitled shares
[7] In accordance with the proposal to the Annual General Meeting of May 5, 2015

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2014 Annual Report of Schlatter Industries AG

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