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Schlatter Group in the financial year 2013: Successfully redimensioned

In 2013, the Schlatter Group created a solid basis for a sustainable recovery with its redimensioning. Compared to the previous year, it recorded lower values for order intake, net sales and order backlog. However, it reached an important milestone with a positive operating result of CHF 0.6 million and a net result of CHF 0.02 million.

Dear shareholders

In 2013, the Schlatter Group recorded an order intake of CHF 84.0 million (2012: CHF 104.6 million). It achieved net sales of CHF 96.9 million (CHF 115.5 million) and had an order backlog of CHF 27.1 million (CHF 40.0 million) at the end of the year under review. The numbers show the effects of the redimensioning of the Schlatter Group and the discontinuing of business activities on the one hand, but on the other hand, they also reflect the decreasing willingness of our customers to invest in the second half of the financial year. The achievement of a positive operating result (EBIT) of CHF 0.6 million (CHF –22.0 million) is an important milestone. The Schlatter Group has created the basis to reposition itself successfully in the long term. The Schlatter Group shows a net result of CHF 0.02 million (CHF –22.4 million) for the period under review.

Markets

The European core markets of the Schlatter Group in the Wire product sector are still affected by the economic and financial crisis. In the next years we do not expect substantial recovery in these areas. The willingness to invest decreased even further in the second half of 2013 or partially came to a complete standstill. A high demand for mesh welding plants in some Southern and Central American countries such as Brazil and Mexico, in parts of Asia and increasingly in Russia has been recorded. However, growth in these regions is significantly lower than would be required to compensate for the decline in demand in Europe. Furthermore, different, more affordable plant concepts are often in demand in the new regions when compared to previous demand from Western Europe.

The expected downturn in the demand for weaving machines for the paper industry in China as well as rail welding machines has occurred in the year under review. Some major customers in the Weaving segment may place replacement investments but are not likely to expand their capacities significantly. Constant demand is expected in the Rail Welding product sector, while taking into account that the Chinese government has partially revised its projects for the construction of high-speed train lines.

The business with spare parts and services, which contributes significantly to the net sales of the Schlatter Group, has developed very positively.

The first milestone has been reached

The two sites Schlieren and Münster have been redimensioned extensively. In Münster (Weaving segment) net sales CHF 23.2 million (2012: CHF 45.1 million) were almost halved. Thanks to a flexible cost structure and the early introduction of a cost-savings program, a balanced operative result could be maintained in 2013. Substantial operative improvements were implemented in Schlieren (Welding segment). Net sales of the Welding segment increased by 4.7% from CHF 70.4 million to CHF 73.7 million; the operating result is CHF 0.6 million (CHF –20.9 million).

With its redimensioning, the Schlatter Group has adapted to the current market capacities. To position the Group successfully in the long term, further tasks need to be completed. Particularly, Schlatter needs to grow again to be able to operate globally. The sector wire plants for the reinforcement mesh industry needs to make up the technological deficit created in previous years. This is particularly important since the reinforcement mesh industry represents the largest market segment. For this reason an extensive product and development roadmap was developed in the year under review, which will be implemented consequently in the coming years.

We are convinced that we are positioned correctly with our company size despite the current slow order intake. The primary goal is to secure the order intake for 2014 and to implement the product and development road map. In addition, a number of projects have been initiated with the goal to increase the gross margin, the efficiency, productivity and flexibility.

Operating holding company implemented

With the aim of simplifying the Group structure and to strengthen the equity base of the Schlatter Industries AG in the long term, a change to an operating holding company was implemented at the start of the year under review. To do this, the Schlatter Holding AG took over the Schlatter Industries AG on January 1, 2013, through merger by absorption (parent-subsidiary merger) and changed its name to "Schlatter Industries AG."

Changes in the Group Management

In June of the year under review, Roland Kasper took over the management of the Operations department. The operations and production engineer, who had been employed by the Rieter Group for ten years in various management positions, replaced Peter Möller who decided to take on a new professional challenge.

Welding segment

The willingness to invest of our European customers in the Welding segment has not improved in 2013. While the order intake decreased to CHF 61.0 million from CHF 68.5 million in the previous year, the segment achieved higher net sales with CHF 73.7 million compared to the previous year (2012: CHF 70.4 million). The order backlog at year-end amounted to CHF 15.4 million (CHF 28.0 million). In 2013, the Welding segment recorded a positive operating result (EBIT) of CHF 0.6 million (CHF –20.9 million). The balanced result is a significant improvement.

In the Wire product sector, the area with the largest turnover, plants for reinforcement mesh, faces overcapacity and substantial price pressure. Our long-term assessment of these markets remains positive. However, a reorientation is necessary to continue running the business successfully. The foundations for this have been laid by compiling a long-term development road map which is particularly designed to close the technological gap in the area of plants for reinforcement mesh. In the area of plants for industrial mesh, Schlatter introduced two important, innovative plant concepts to the market in the year under review in order to strengthen the leading market position in this area. Because of the positive customer feedback for the prototypes, we expect orders for the new plant concepts already in 2014.

Thanks to its worldwide dominating market position for stationary rail welding plants, Schlatter managed to maintain its market share in the financial year 2013. The growth of previous years can be traced back to the increase in capacity of the Chinese high-speed train lines. The Schlatter Group expects a stable market but not another boom phase. In the area of mobile welding systems, both competitive and price pressure have increased. The prototype of a new mobile rail welding machine was delivered in 2013. This new machine generation is supposed to strengthen the position in the market for mobile systems. Thanks to partnerships built up in previous years, the first mobile welding system was delivered to Russia. The positive feedback from Russian Railways and the successfully passed certification for the Russian rail network make us confident that further orders will follow.

With the current order intake, all capacities available after redimensioning in the Welding segment will be working at full capacity in almost all areas. The price level, which has a negative impact on the margins, continues to be unsatisfactory. A balanced result has been achieved with the implemented measures. To sustainably increase profitability, the cost base must be further improved and efficiency as well as productivity must be increased. Furthermore, the Welding segment needs to grow to reach critical size.

Weaving segment

The target markets for the Weaving segment decreased much more significantly in the financial year 2013 than expected. Unlike in previous years, no major projects were awarded in the period under review. The order intake decreased to CHF 23.0 million (2012: CHF 36.1 million) and net sales were reduced by almost half to CHF 23.2 million (CHF 45.1 million). However, because of the timely introduction of restructuring measures at the end of 2012 and the cost flexibility created in previous years, a balanced operating result (EBIT) of CHF 0.04 million (CHF –0.4 million) could be achieved. With CHF 11.7 million, the order backlog at the end of 2013 was approximately at the level of the previous year (CHF 12.0 million).

The new developments launched to the market in the product area of PMC weaving (paper machine clothing) in previous years have lived up to expectations and are used by various customers. Two interesting projects in the Wire Welding segment were acquired and shipped.

Due to the sharp downturn in sales and the connected reduction in personnel levels, various processes were reorganized. Inter-departmental processes were merged using so called "clustering". This increased the working efficiency. At the end of 2013, the Board approved investments into two new, state-of-the-art 5-axis processing machines for the production segment. Due to a concentration of the Group's production at the site in Münster, a significant increase in productivity was achieved in production after introducing the new machines.

The markets for the Weaving segment are currently going through a consolidation phase. China should again have the biggest potential in 2014 and build up further capacities in the coming years to account for the growing paper consumption. However, its dominance should weaken. A stronger development in North America and Europe is to be expected once more. After our globally operating customers spent the previous years predominantly building and expanding their Chinese sites, we expect that they will now start to invest in projects in North America and Europe again.

Outlook

The Schlatter Group has operatively created a solid starting position. However, a little bit of patience is required until we have strengthened our market position sustainably. To achieve this, the efficient realization of important development projects will play an important role. We assume that we will achieve a better profit margin due to the introduced efficiency and cost improvement measures. It is our declared aim to increase net sales of the Schlatter Group sustainably again in the long term to improve the operative results further. Taking into account the low order backlog at year-end, a loss will be recorded in the first half of 2014. However, the Board and Group Management assume a positive result for the financial year 2014.

At the Annual General Meeting on May 6, 2014, the Board of Directors will propose to forego a dividend payment for the financial year 2013.

Thanks

We would like to express our sincere thanks to our shareholders for the trust you have placed in the Schlatter Group. We would be very pleased to welcome you to the Annual General Meeting on May 6, 2014, in Schlieren.

The full version of the 2013 Annual Report is available on our website www.schlattergroup.com or can be ordered using the attached form.

Schlieren, March 13, 2014

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

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Schlatter Group key figures

		2013	2012
Net sales	CHF million	**96.9**	**115.5**
Change compared to previous year	%	–16.1	–1.9
Operating result (EBIT)	CHF million	**0.6**	**–22.0**
in % of net sales	%	0.6	–19.0
Net result	CHF million	**0.02**	**–22.4**
in % of net sales	%	0.0	–19.4
Order intake	CHF million	**84.0**	**104.6**
Order backlog	CHF million	**27.1**	**40.0**
Headcount as of December 31	FTEs	**313**	**357**
Average headcount	FTEs	323	424
Net sales per employee	CHF 1,000	**300**	**272**
Interest-bearing liabilities	CHF million	**6.5**	**6.3**
Net financial position[1]	CHF million	**–2.2**	**0.7**
Gearing[2]	%	**14.9**	**0.0**
Free cash flow[3]	CHF million	**–2.5**	**–13.0**
Current assets	CHF million	**37.3**	**46.5**
Non-current assets	CHF million	**12.6**	**13.7**
Liabilities	CHF million	**35.1**	**45.3**
Equity	CHF million	**14.8**	**14.9**
Equity ratio	%	**29.7**	**24.7**
Return on equity (ROE)[4]	%	**0.2**	**–85.2**
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[5]	CHF	0.06	–52.54
Equity per registered share[5]	CHF	34.70	34.90
Dividend per registered share	CHF	0[6]	0
Payout ratio	%	0[6]	0
Share price development			
High	CHF	210.00	237.40
Low	CHF	110.00	106.00
Year-end	CHF	149.50	113.80
Market capitalization			
High	CHF million	89.5	101.2
Low	CHF million	46.9	45.2
Year-end	CHF million	63.7	48.5

1 Net financial position: cash and cash equivalents less interest-bearing liabilities
2 Gearing: net financial position divided by equity; negative gearing = 0
3 Cash flow from operating activities less purchase of tangible fixed assets and intangible assets, plus sale of tangible fixed 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 to the Annual General Meeting of May 6, 2014

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2013 Annual Report of Schlatter Industries AG

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