Schlatter confirms results for first half of 2019

The Schlatter Group generated slightly higher net sales in the first half of 2019 compared with the previous year. The operating result (EBIT) was up slightly on the prior-year period at CHF 1.9 million (H1 2018: CHF 1.6 million). In the welding segment, the profitability of customer projects improved and the products developed over the last few years have reached a high level of maturity. The weaving segment saw a decline in net sales that prevented the Münster site in Germany from reaching the profit zone. With the trade tariffs introduced in various regions inhibiting investment in mesh welding and weaving systems, order intake in the first half of the year fell sharply. Our customers' capacity utilisation rates are high in all product areas, however, and this is having a positive knock-on effect on after-sales business. In spite of the lower order intake, we expect the profitability of the welding segment to improve in the second half of the year. The weaving segment is likely to post a considerable loss owing to weak order intake.

In the first half of 2019, the Schlatter Group reported an order intake of CHF 43.1 million (H1 2018: CHF 59.4 million) and generated net sales of CHF 54.7 million (H1 2018: CHF 53.7 million). The order backlog stood at CHF 33.6 million as at 30 June 2019 (31 December 2018: CHF 45.2 million). Schlatter's operating result (EBIT) for the first half of 2019 was up on the previous year to CHF 1.9 million (H1 2018: CHF 1.6 million). The net result for the first half of 2019 was CHF 1.4 million (H1 2018: CHF 1.8 million).

Markets

Systems for the manufacture of reinforcing mesh

The global economy was in a less robust state in the reporting period, causing our customers to hold back with investments. With capacity utilisation remaining high, however, it is too early to talk of a longer-term downturn in the mesh product customer segment. The sound economic environment in the preceding years combined with a process of concentration and consolidation among our customers in Europe led to production facilities being modernised, particularly in northern Europe. Since capacity has been expanded, less is being invested in these regions.

We are observing increased investment activity in a number of eastern European countries.

In Central American countries and the emerging markets generally, there is a continuing need for high-performance machinery for standardised reinforcing mesh. The emerging markets are growth drivers in welding systems for reinforcing mesh, but cannot compensate for fall-offs in other markets.

In China, the construction industry uses single-rod reinforcements almost exclusively, which is why mesh production still has only a subordinate role. On infrastructure projects in particular, there is a continuing trend towards prefabricated concrete elements.

In Brazil – the key South American market – a slow recovery appears to be under way, though it is not yet reflected in a recovery in orders.

The USA is of less significance than other markets in the field of welding systems for reinforcing mesh, but investment levels here remain satisfactory.

Installations for the production fo industrial mesh
Sales in Europe and the USA – two of the most important markets for industrial mesh – are at a satisfactory level. In particular, the flexible, rapidly retoolable and continually enhanced MG950 generation of machines has been well received. Demand for integrated sector solutions for the production of a range of different end products is on the rise.

In China, there is an increasing need for automation in the production of industrial mesh. In previous periods this was reflected in a moderate rise in demand for new and used Schlatter installations. Currently, however, customers are showing constraint when it comes to investment plans.

Rail welding
In the stationary segment of the rail welding product area, the Schlatter Group expects the market to remain stable with opportunities in some emerging markets. Investments in the area of mobile rail welding remain somewhat subdued.

Weaving
The demand for paper machine clothing is directly dependent on global paper production. At many customer companies, we are currently witnessing high capacity utilisation, a modernisation backlog and rationalisation investments in new high-quality machines. The driver here is the large number of new paper machines being installed across the entire Asian region.

In particular, the production of brown and tissue papers continues to expand, while demand for newspaper and magazine paper is declining.

Although conditions are generally favourable, our customers are putting off investment decisions. An increasing number of investment projects have been announced for the 2020 financial year.

Spare parts and services

Business in the spare parts and services field was on a positive trend, contributing around 30 percent of the Group's net sales. Schlatter has a large number of installations all over the world. The Group intends to exploit this potential and is drawing up another package of measures to increase sales in this field.

Welding segment

Order intake in the welding segment came to CHF 33.9 million in the first half of 2019 (H1 2018: CHF 49.8 million). Net sales were up on the prior-year period to CHF 44.7 million (H1 2018: CHF 42.3 million). The order backlog stood at CHF 26.7 million as at 30 June 2019 (31 December 2018: CHF 37.5 million).

Sizeable resources continued to be invested in the development of a new, modular machine platform. The thinking behind this is to significantly reduce the complexity resulting from the broad product portfolio and to cut production costs as well as satisfy customer needs better. In the second half of 2019, the initial core modules of a mesh welding plant – and especially the welding machine – are to be deployed for the first time in a customer project. Following a sufficiently conclusive trial phase in productive operation, these modules will later be used on a wide scale. This project, which will unfold over the medium to long term, is expected to deliver lasting competitive advantages for the wire product area.

Introduced several years ago, the flexible and productive MG950 generation of industrial mesh machines now enjoys good stability and high demand. This generation of machines is also being continuously expanded on a modular basis for additional applications and enhanced to create sector solutions.

In the area of digitisation, "Industry 4.0" projects are being driven forward with the goal of increasing customer value. They include, for instance, the provision of information systems to evaluate operating data from our installations, data backup solutions, and digitised positioning aids for industrial mesh installations.

Further priorities are cost-cutting projects in the area of procurement as well as initiatives to increase productivity.

Weaving segment

The weaving segment achieved an order intake of CHF 9.1 million in the first half of 2019 (H1 2018: CHF 9.6 million). Net sales reached a volume of CHF 10.0 million (H1 2018: CHF 11.3 million). The order backlog stood at CHF 6.9 million as at 30 June 2019 (31 December 2018: CHF 7.7 million).

The weaving segment dropped back to operational break-even in the first half of the year. This was due to the insufficient profitability of customer projects, a too high cost base and a lack of orders in the profitable product areas. The cost-cutting and productivity enhancement measures already initiated will not be enough to bring the weaving segment into the profit zone in the current financial year. More far-reaching measures depend on how the market and the order intake situation develop in the second half of the year.

Development of new business fields in the area of technical textiles
The volatile market for weaving machines for the production of paper machine clothing is causing significant fluctuations in capacity utilisation at the Münster site. Product development projects were launched in the first half of the year to facilitate the entry into growth markets for the production of technical textiles outside the paper industry. Schlatter expects this to reduce its dependence on the unsteady market for weaving machines used in the production of paper machine clothing and hence to generate additional growth. Plans are in the pipeline to build a prototype for these machines in the 2020 financial year.

A further priority is increased modularisation and a reduction in the production costs of weaving machines for the paper industry.

Sales efforts were stepped up in the wire weaving field. Machines for the production of security and mosquito-repellent fabrics in particular are in high demand.

Packages of measures to expand after-sales business are being implemented.

Outlook

The innovation initiative pursued in recent years has given the Schlatter Group a boost, and the cost-cutting programmes are having a positive impact. On the other hand, the current uncertain market environment is resulting in a lower order intake. While the welding segment will continue to see an increase in profitability, the weaving segment requires time and further measures to achieve a turnaround.

Wide-scale projects are under way, including the sales offensive to reinforce marketing activities, cost-cutting and productivity enhancement measures, as well as service initiatives. In spite of the current uncertain market environment and the accompanying decrease in the order volumes, the Schlatter Group will continue to invest in product development at a high level.

For the current financial year, the Board of Directors and the management expect the welding segment increasing profitability and the weaving segment posting a loss.

Schlieren, 20 August 2019

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

Key figures of the Schlatter Group

		1st half of 2019	1st half of 2018	2nd half of 2018	2018
Net sales	CHF million	**54.7**	**53.7**	**57.8**	**111.5**
Change compared to previous year	%	**2.0**	13.2	7.6	10.2
Operating result (EBIT)	CHF million	**1.9**	**1.6**	**2.1**	**3.8**
in % of net sales	%	**3.4**	3.0	3.7	3.4
Net result	CHF million	**1.4**	**1.8**	**1.9**	**3.7**
in % of net sales	%	**2.5**	3.4	3.3	3.3
Net result per registered share	CHF	**1.23**	**1.66**	**1.71**	**3.37**
Order intake	CHF million	**43.1**	**59.4**	**54.8**	**114.2**
Order backlog at period end	CHF million	**33.6**	**48.2**	**45.2**	**45.2**
Free cash flow [1]	CHF million	**-12.5**	**2.0**		
Headcount at period end [2]	FTEs	**364**	**356**	**373**	
Average headcount	FTEs	**367**	348	368	
		30.6.2019	31.12.2018		
Interest-bearing liabilities	CHF million	**2.4**	**1.1**		
Net financial position (debt) [3]	CHF million	**-0.1**	**12.4**		
Gearing [4]	%	**0.2**	**0.0**		
Current assets	CHF million	**46.3**	**51.4**		
Non-current assets	CHF million	**13.4**	**7.3**		
Liabilities	CHF million	**29.5**	**29.8**		
Equity	CHF million	**30.2**	**28.9**		
Equity ratio	%	**50.6**	**49.2**		

[1] Free Cash Flow: cash flow from operating activities less purchase of property, plant and equipment, intangible assets and financial assets, plus sale of property, plant and equipment, intangible assets and financial assets

[2] Total full-time equivalents incl. temporary employees, excl. apprentices

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

[4] Gearing: net financial position 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 2019

Consolidated balance sheet

Assets

CHF 1 000	30.6.2019	31.12.2018
Cash and cash equivalents	2 311	13 469
Current investments	79	97
Accounts reivable for goods and services	4 919	4 957
Current income tax receivables	40	49
Other receivables	3 236	2 612
Receivables from production orders in progress	18 147	14 248
Inventories	17 223	15 882
Accrued income	317	134
Current assets	**46 272**	**51 448**
Property, plant and equipment	12 028	5 663
Intangible assets	1 230	1 272
Deferred tax assets	191	348
Non-current assets	**13 449**	**7 283**
Total assets	**59 721**	**58 731**

Liabilities

CHF 1 000	30.6.2019	31.12.2018
Accounts payable for goods and services	7 611	6 990
Liabilities from production orders in progress	5 111	9 743
Current income tax liabilities	20	19
Other payables	3 255	2 893
Accrued liabilities	4 288	3 309
Financial debt	1 592	256
Current provisions	2 665	1 735
Current liabilities	**24 542**	**24 945**
Financial debt	790	799
Pension liabilities	3 864	3 735
Provisions	201	228
Deferred tax liabilities	126	121
Non-current liabilities	**4 981**	**4 883**
Total liabilities	**29 523**	**29 828**
Share capital	17 675	17 675
Capital reserves (agio)	1 767	1 767
Retained earnings	10 756	9 461
Total equity	**30 198**	**28 903**
Total liabilities and equity	**59 721**	**58 731**

Abridged consolidated half-year statement as at 30 June 2019

Consolidated income statement

CHF 1 000	1st half of 2019	1st half of 2018	2018
Net sales from goods and services	**54 713**	**53 654**	**111 473**
Other operating income	161	245	532
Change in semi-/finished goods, work in progress	- 1 229	- 662	- 272
Material and service expenses	- 26 030	- 26 833	- 58 466
Personnel expenses	- 19 848	- 19 262	- 38 497
Other operating expenses	- 4 999	- 4 822	- 9 387
Depreciation and amortisation	- 897	- 697	- 1 623
Operating result (EBIT)	**1 871**	**1 623**	**3 760**
Financial income	304	811	1 202
Financial expenses	- 618	- 690	- 1 328
Net result before tax	**1 557**	**1 744**	**3 634**
Income tax expenses	- 194	90	86
Net result	**1 363**	**1 834**	**3 720**
Basic earnings per share (CHF)	1.23	1.66	3.37

Abridged consolidated half-year statement as at 30 June 2019

Consolidated statement of equity

CHF 1 000	Share capital	Capital reserves	Retained earnings	**Total share capital**
As at 31.12.2017	**17 675**	**1 767**	**5 993**	**25 435**
Translation differences			- 162	**- 162**
Net result 1.1-30.6.2018			1 834	**1 834**
As at 30.6.2018	**17 675**	**1 767**	**7 665**	**27 107**
As at 31.12.2018	**17 675**	**1 767**	**9 461**	**28 903**
Translation differences			- 68	**- 68**
Net result 1.1-30.6.2019			1 363	**1 363**
As at 30.6.2019	**17 675**	**1 767**	**10 756**	**30 198**

Abridged consolidated cash flow statement

CHF 1 000	**1st half of 2019**	1st half of 2018	2018
Cash flow from operating activities	**- 5 097**	2 629	3 794
Cash flow from investment activities	**- 7 377**	- 594	- 1 634
Free cash flow	**- 12 474**	**2 035**	**2 160**
Cash flow from financing activities	**1 327**	20	- 91
Change in cash and cash equivalents	**- 11 147**	**2 055**	**2 069**
Cash and cash equivalents as at 1 January	**13 469**	11 460	11 460
Change in cash and cash equivalents	**- 11 151**	2 055	2 069
Impact of exchange rate on cash and cash equivalents	**- 7**	- 6	- 60
Cash and cash equivalents as at 30 June / 31 December	**2 311**	13 509	13 469

Abridged consolidated half-year statement as at 30 June 2019

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 2018. These abridged half-year 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 Segment information

			1st half of 2019
CHF 1 000	Welding	Weaving	Total segments
Net sales from plant business with third parties	30 865	7 535	**38 400**
Net sales from spare parts & service business with third parties	13 850	2 463	**16 313**
Total net sales	44 715	9 998	**54 713**
EBIT	1 829	42	**1 871**

			1st half of 2018
CHF 1 000	Welding	Weaving	Total segments
Net sales from plant business with third parties	28 865	9 163	**38 028**
Net sales from spare parts & service business with third parties	13 482	2 144	**15 626**
Total net sales	42 347	11 307	**53 654**
EBIT	1 194	429	**1 623**

Abridged consolidated half-year statement as at 30 June 2019

3 Income statement

Net sales increased to CHF 54.7 million in the first half of 2019 compared to the same period of the previous year (H1 2018: CHF 53.7 million).

Personnel expenses were higher at CHF 19.8 million in the first half of 2019 than in the same period of the previous year (H1 2018: CHF 19.3 million). The reasons for this are higher personnel resources deployed in various growth and development projects and the annual wage increases.

Other operating expenses increased to CHF 5.0 million (H1 2018: CHF 4.8 million); depreciation and amortization increased to CHF 0.9 million (H1 2018: CHF 0.7 million). The increase in depreciation is attributable to investments made in the previous year in new production machinery.

Financial income mainly consists of gains from forward exchange transactions. Financial expenses mainly comprise losses from forward exchange transactions and interest expenses.

The tax result primarily includes deferred tax expenses incurred by a foreign subsidiary.

The consolidated result for the first half of 2019 is CHF 1.4 million (H1 2018: CHF 1.8 million).

4 Balance sheet

Net financial assets as at 31.12.2018 of CHF 12.4 developed into net debt of CHF -0.1 million in the first half of 2019. The outflow of liquidity is mainly attributable to the investment of CHF 6.0 million in the construction of a new production facility in Münster. On the other hand, net assets from construction contracts increased to CHF 18.1 million (31.12.2018: CHF 14.2 million); at the same time, net liabilities from construction contracts decreased to CHF 5.1 million (31.12.2018: CHF 9.7 million).

A cautious assessment of project risks led to an increase in provisions of CHF 0.9 million in the first half of the year.

Equity increased to CHF 30.2 million as at 30.6.2019 (31.12.2018: CHF 28.9 million). Total assets as at 30.6.2019 were CHF 59.7 million compared to CHF 58.7 million as at 31.12.2018. This results in an equity ratio of 50.6% (31.12.2018: 49.2%).

5 Free cash flow

In the first six months of the reporting period, the Schlatter Group generated a free cash flow of CHF -12.5 million (H1 2018: CHF 2.0 million.). The reasons for the change are the investment of CHF 6.0 million in the new production facility in Münster and the increase in net working capital to CHF 23.6 million (31.12.2018: CHF 14.9 million). Investments in fixed assets increased to CHF 7.4 million due to the new construction project (H1 2018: CHF 0.6 million).

Abridged consolidated half-year statement as at 30 June 2019

6 Loan arrangements

The Schlatter Group holds loan agreements that are committed until 31 December 2018. The bank facilities (credit and contingency facilities) to maintain operating activities amount to CHF 22.75 million. Up to CHF 4.5 million of this may be used for short-term loans. The interest rate is 3.5% p.a. (prior period: 3.5% p.a.). The contingency facilities are partly tied to conditions related to Swiss Export Risk Insurance (SERV) counter guarantees. Total drawings may not exceed the CHF 22.75 million bank facility. The loans are tied to financial covenants (EBITDA and Equity) which have been complied with so far.

In addition, the Schlatter Group has secured by a land charge a loan from a local bank to the amount of EUR 7.0 million to finance the new production facility in Münster/Germany. Schlatter Industries AG has signed a joint liability as global debtor alongside the borrower Schlatter Deutschland GmbH & Co. KG, for claims from the loan agreement to which the lender is due by the borrower.

As at 30.6.2019 cash facilities had been drawn down to CHF 1.5 million (31.12.2018: CHF 0 million); drawings on the contingency facilities amounted to CHF 9.7 million (31.12.2018: CHF 7.7 million).

7 Exchange rates

	30.6.2019	30.6.2018	31.12.2018	**1st half of 2019**	1st half of 2018	2018
CHF 1	Exchange rates at balance sheet date			Average rates		
1 EUR	**1.11**	1.15	1.12	**1.13**	1.17	1.15
1 USD	**0.98**	0.99	0.99	**1.00**	0.97	0.98
1 GBP	**1.24**	1.31	1.25	**1.29**	1.33	1.30
1 BRL	**0.25**	0.26	0.26	**0.26**	0.29	0.27
1 MYR	**0.24**	0.25	0.24	**0.24**	0.24	0.24
1 CNY	**0.14**	0.15	0.14	**0.15**	0.15	0.15

8 Earnings per share

	30.6.2019	30.6.2018	31.12.2018
Net result attributable to shareholders of Schlatter Industries AG (CHF 1 000)	**1 363**	1 834	3 720
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 share	**1 104 704**	**1 104 704**	**1 104 704**
Basic earnings per share (CHF)	**1.23**	1.66	3.37

Abridged consolidated half-year statement as at 30 June 2019

9 Events after the balance sheet date

The abridged consolidated half-year financial statements were authorised for issue by the Board of Directors on 8.8.2019.

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