Schlatter Group increases net sales and profit

The Schlatter Group succeeded in increasing both net sales and profit in the 2018 financial year. The great efforts put into development in past years and the sound state of the global economy during the reporting period had a positive impact on market success and the investment willingness of our customers. While the Welding Segment generated a substantial profit in 2018, the Weaving Segment fell just short of the break-even point. In the 2019 financial year, we expect our customers to be more reluctant to invest, resulting in a slight decline in new orders. The Schlatter Group is targeting a profit above the previous year's level, with both segments contributing proportionately to the increase in profit.

Ladies and gentlemen

In the 2018 financial year the Schlatter Group increased net sales by 10.2 percent to CHF 111.5 million (2017: CHF 101.1 million), generating an order intake of CHF 114.2 million: 20.7 percent more than in the previous year (2017: CHF 94.6 million). As at 31.12.2018 the order backlog stood at CHF 45.2 million (31.12.2017: CHF 42.5 million). Schlatter is reporting a positive operating result (EBIT) of CHF 3.8 million for the 2018 reporting period (2017: CHF 2.5 million). With a consolidated net result of CHF 3.7 million (2017: CHF 2.9 million), the Group's profit for the 2018 financial year exceeded that of the previous year.

Markets

Systems for the manufacture of reinforcing mesh

Steel prices maintained their high level in 2018, with positive effects on investment activity. However, the protectionist measures taken by the USA and Europe, together with the countermeasures taken by China, are negatively impacting confidence and investment willingness.The slightly higher oil price had raised expectations in oil-producing countries that it would be possible to implement infrastructure projects that had previously been significantly postponed. These investment projects have, however not yet been implemented.

The major industrial groups dominating the European market have modernised their production facilities, especially in northern Europe, and Schlatter benefited from this development. We expect a decline in orders in Europe, our most important market, as mesh producers have substantially expanded their capacities in the recent times. Production output remains high, though, with a positive impact on Schlatter's after-sales activities.

China is the world's largest consumer of construction steel. In the construction industry, however, monorod reinforcements are almost exclusively used. The use of prefabricated concrete elements, in which welded mesh is also used, is increasing. Schlatter's reinforcing mesh production facilities are, however, difficult to address in China.

In South-East Asia flexible reinforcing mesh machines which can be rapidly retooled and are thus more productive are increasingly been deployed. At present, investment sentiment in this product area in these markets is sluggish.

In some regions of South America the demand for new plants has developed steadily, as expected. Following a partial recovery in the new installations segment in Brazil in 2017, it failed to meet expectations in the 2018 financial year.

In a number of Central American countries and the emerging markets generally, there is still strong demand for high-performance machinery for standardised reinforcing mesh.

On the whole we expect a moderate decline in orders in this product area in the 2019 financial year.

Installations for the production of industrial mesh
Introduced a few years ago and continually refined since, the MG950 product family provides a stable business foundation. Alongside Europe, the USA is one of the most important markets for industrial mesh.

In China the potential in the field of industrial mesh production facilities is growing as the degree of automation and quality standards rise. Today, used Schlatter systems in particular can be addressed in this market.

Initial indications of a recovery in the area of industrial mesh production in Russia have attenuated.

Rail welding

Stationary rail-welding systems sold well, though sales of mobile systems were sluggish. Very few new rail routes are being constructed in Schlatter's established markets in Western Europe, and major corporations which have set themselves up as global suppliers in the track superstructure field in recent years are extremely powerful in the market.

Equipment for the production of paper-machine clothing and wire mesh

China in particular saw investment in new facilities in previous years. But in the 2018 financial year the trade war with the USA created great uncertainty, making Chinese customers very reluctant to invest. Opportunities exist in Japan and India, where the improved overall environment is having a positive impact on investment activity.

In Western markets the focus of customer activities remains on the optimisation of existing production sites. In previous years the market exhibited a volatile, declining trend as paper mills continued their consolidation.

We believe there is potential in the more focused marketing of wire netting production machines. There is a growing demand for applications such as security trellis, sieves and mosquito screens especially.

Even though new orders for plant producing paper-machine clothing and wire netting are likely to be generally slack in the 2019 financial year, Schlatter plans a moderate increase in its sales volume.

Spare parts and services

Our customers' good capacity utilisation and the introduction of new services helped to increase net sales of spare parts and services. Schlatter has an enormous number of installations all over the world, which will be exploited in order to further expand the after-sales area.

Product development

The Schlatter Group invested substantial financial resources in product development in 2018: CHF 4.9 million (2017: CHF 5.1 million). Spending of a similar order of magnitude is also planned for the 2019 financial year on further product development.

Innovation in the Welding Segment focuses on the product area plants for the production of reinforcing and industrial mesh. The development of the machine platform has made further progress. The objective is a substantial reduction in product costs, and reduce the complexity caused by the wide product portfolio. This medium to long-term project is intended to create sustainable competitive advantages for the Wire Division. The first prototypes of individual modules will be built in 2019..

Other highlights included the further development of the MG950 industrial mesh generation and the expansion of the MG800 product family in the field of reinforcing mesh. Characterised by great flexibility, high performance and short retooling times, the MG800 product family will be supplemented with a low-cost, more basic model.

In the area of digitalisation, the first projects under the keyword "Industrie 4.0" will be implemented, which aim to increase customer benefits. They include data backup solutions for customers and digitalised set-up aids for industrial mesh plant.

The Münster site has technically state-of-the-art weaving machines, and projects to cut product costs have been initiated. Following detailed market research, a development roadmap has been prepared to enable the Münster site to reduce in the medium term its dependence on the volatile business of weaving machines for the production of paper machine clothing, and enter the growing market segments for the production of technical textiles.

Major investments in a new site and in manufacturing in Münster

Most of the new manufacturing machines at the Münster site started operations in the 2018 financial year. Productivity is being constantly increased, and manufacturing has switched from 2-shift to 3-shift operation. This will enable to manufacture a significant number of previously externally purchased parts internally, which will further improve gross margin and capacity utilization. The improvement of assembly processes is also aimed at significantly increasing productivity and shortening lead times.

The previous production site in Münster was leased, and the lessor gave notice of termination. Schlatter then decided to build a new facility in Münster's industrial zone. The move into the new factory is scheduled for mid-2020. In the new facility, Schlatter can optimally configure its corporate processes, which should enable a further increase in productivity.

Welding Segment

Net sales in the Welding Segment in the 2018 financial year rose by 12.8 percent to CHF 91.8 million (2017: CHF 81.4 million). At CHF 94.8 million, order intake was ahead of the previous year by a sizeable 28.5 percent (2017: CHF 73.8 million). The order backlog at the year-end stood at CHF 37.5 million (31.12.2017: CHF 34.5 million).

Once again the cost-cutting measures implemented in past years, heavy investment in new product development and measures taken to reinforce presence in the market have confirmed their impact on profitability. With the development of a new machine platform for the product area "Plants for the production of reinforcement and industrial mesh", Schlatter aims to reduce complexity and sustainably reduce product costs..

Systems for the manufacture of reinforcing mesh
In "reinforcing mesh", our strongest-selling product area, the recovery that began in the previous year continued in many of our markets. Postponed modernisation and replacement investments on the part of customers have now been realised. The transaction volume was up on the previous year, leading to positive economies of scale and a corresponding improvement in profitability. Additional costs associated with the introduction of the MG800 product generation depressed profits. The MG800 is a very flexible and powerful technical concept for the production of reinforcing mesh in small batches.

Installations for the production of industrial mesh
The flexible and productive MG950 machine generation features modular application extensions. The general trend is in the direction of integrated system solutions for end-product manufacture. These manufacturing concepts also integrate machines and equipment that do not solely relate to mesh production.

One application within industrial mesh production is the manufacture of mesh fences. In parallel with the development of the machine platform, a new product family in the area of mesh fences will be created to even better meet customer needs.

Rail welding product area
Schlatter's strong position throughout the world in the market for stationary rail-welding equipment enabled us to maintain our market share in the 2018 financial year and bring several projects to a successful conclusion. However, the market volume in this product area is much smaller than that for mesh machinery.

Competition has increased in the area of mobile rail-welding systems because major corporations that are active in every aspect of track superstructure have expanded their product portfolios to include mobile rail welding. In this product area, Schlatter's mobile rail-welding systems focus closely on Western European markets. As there are virtually no new rail routes in Western Europe, sales are in decline.

Outlook for the Welding Segment
The current order backlog means that existing capacities in the Welding Segment are well utilised. Together with the implementation of measures to increase productivity and reduce production costs, other measures effective in the medium term have priority. To this end Schlatter is selectively investing in the development of products and markets. Considerable importance is also attached to strengthening after-sales services. Even though Schlatter expects net sales in the Welding Segment to be lower in the 2019 financial year, we are still targeting higher profit than in the previous year.

Weaving Segment

At CHF 19.4 million, order intake in the Weaving Segment was below the previous year's level (2017: CHF 20.8 million). Net sales in the year under review were unchanged at CHF 19.7 million (2017: CHF 19.7 million). The order backlog as at 31.12.2018 stood at CHF 7.7 million (31.12.2017: CHF 8.0 million).

After a significant loss in the previous year, the Weaving Segment generated a result in the 2018 financial year that fell just short of the break-even. Measures to reduce product costs and an improved price level for weaving machines will contribute to a clear return to profitability in 2019. The bulk of net sales in the 2018 financial year was generated by machines for the production of paper machine clothing. The wire-weaving area accounted for 10.9 percent of the segment's net sales in the reporting period.

Due to the good order intake in the product area of reinforcement mesh systems, the Münster location achieved around 40 percent of its net sales with the production of parts and modules for the Schlieren location. In-house production volumes are being increased by insourcing manufactured parts. This will be complemented by the introduction of organisational elements of lean production systems.

Development of new business areas in the field of technical textiles

The volatile market for weaving machines for the production of paper machine clothing causes severe fluctuations in capacity utilisation at the Münster site. Product development projects will be launched in 2019 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 volatile market for weaving machines for the production of paper machine clothing, and also to generate additional growth.

The paper machine clothing area

In the paper machine clothing area, the focus in the 2018 financial year was on reducing the product costs of wide weaving machines. Initial measures have already been taken in customer projects, but the bulk of the implementation will take place in 2019.

Outlook for the Weaving Segment

The Schlatter Group believes the market environment will remain largely unchanged in the new financial year. Capacity utilisation at the Münster site is satisfactory. In the 2019 financial year, the site will focus on increasing operational excellence in various corporate areas. The Weaving Segment is targeting net sales in 2019 above the previous year's level, putting it substantially in profit.

Acknowledgements

Over the past years, the Schlatter Group has faced major challenges. All stakeholders have done a great deal to bring the Group long-term stability. This commitment is having an impact, and in the last few years Schlatter's earnings have steadily improved. On behalf of the Board of Directors and Group Management, we thank you, our valued shareholders, for the trust that you place in our corporate group.

We look forward to welcoming you to the Annual General Meeting in Schlieren on May 14, 2019. You can download the full 2018 Annual Report from our website www.schlattergroup.com, or order it using the attached form.

Outlook

Successful product innovations in recent years and the positive mood in the markets have helped to boost business at the Schlatter Group. The sales campaigns, for example the intensive marketing efforts in regions where Schlatter had previously been under-represented, resulted in increased sales in these markets. Moreover, implementation of the package of measures to expand the service business is continuing. Other focal points include cutting product costs in both the Welding and Weaving segments.

Though the overall environment remains challenging, Schlatter is in good shape. Given the above-average strength of new orders in 2018, they are likely to decline slightly in the 2019 financial year. For the current financial year the Board of Directors and Group Management are targeting group earnings above those of the previous year.

The Board of Directors will recommend to the Annual General Meeting on May 14, 2019, that the company should not make a dividend payment for the 2018 financial year.

Schlieren, March 19, 2019

Paul Zumbühl
Chairman of the Board of Directors

Werner Schmidli
Chief Executive Officer

Key figures of the Schlatter Group

		2018	2017
Net sales	CHF million	**111.5**	**101.1**
Change compared to previous year	%	**10.2**	**11.7**
Operating result (EBIT)	CHF million	**3.8**	**2.5**
in % of net sales	%	3.4	2.5
Net result	CHF million	**3.7**	**2.9**
in % of net sales	%	3.3	2.8
Order intake	CHF million	**114.2**	**94.6**
Order backlog	CHF million	**45.2**	**42.5**
Headcount at period end	FTEs	**373**	**345**
Average headcount	FTEs	357	332
Interest-bearing liabilities	CHF million	**1.1**	**0.3**
Net financial position (debt)[1]	CHF million	**12.4**	**11.2**
Gearing[2]	%	**0.0**	**0.0**
Free cash flow[3]	CHF million	**2.2**	**–2.9**
Current assets	CHF million	**51.4**	**49.8**
Non-current assets	CHF million	**7.3**	**6.3**
Liabilities	CHF million	**29.8**	**30.7**
Equity	CHF million	**28.9**	**25.4**
Equity ratio	%	**49.2**	**45.3**
Return on equity (ROE)[4]	%	**13.7**	**12.1**
Key share figures			
Share capital as of December 31	CHF 1,000	17,675	17,675
Total registered shares	No.	1,104,704	1,104,704
Registered shares entitled to dividend payments	No.	1,104 ,04	1,104,704
Net result per registered share[5]	CHF	3.36	2.60
Equity per registered share[5]	CHF	26.16	23.03
Dividend per registered share	CHF	0[6]	0
Payout ratio	%	0[6]	0
Share price development			
High	CHF	50.50	58.00
Low	CHF	32.40	38.00
Year-end	CHF	32.40	47.75
Market capitalization			
High	CHF million	55.8	64.1
Low	CHF million	35.8	42.0
Year-end	CHF million	35.8	52.7

1 Net financial position (debt): cash and cash equivalents less interest-bearing liabilities
2 Gearing: net financial position divided by equity
3 Cash flow from operating activites 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 to the proposal to the Annual General Meeting of May 14, 2019

the secure connection

2018 Annual Report of Schlatter Industries AG

Please send me/us:

____________copy/copies of the Annual Report in German

☐ Ms. ☐ Mr.

First name, last name ________________________________

Company ________________________________

Street/P.O. Box ________________________________

Postcode and town ________________________________

Country ________________________________

Please send your order to:

Fax	+41 44 732 71 88
E-Mail	ruth.hermann@schlattergroup.com
Mail address	Schlatter Industries AG Ruth Hermann Brandstrasse 24 CH-8952 Schlieren

Schlatter Industries AG

Brandstrasse 24
8952 Schlieren | Switzerland
T +41 44 732 71 11
F +41 44 732 45 50
www.schlattergroup.com