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Schlatter Group increases net sales and profit

The Schlatter Group increased both net sales and profit in the 2017 financial year. The current robust health of the global economy and the major development initiatives of recent years are having a positive impact on investment sentiment among our customers and on our market penetration, and Schlatter has successfully gained market share with its newly launched products. Whereas the welding segment generated an impressive profit in the 2017 financial year, the weaving segment slipped back into the red. No fundamental change in the market environment is expected in 2018, and Schlatter's market position has been further strengthened by the product development drive. For the 2018 financial year, Schlatter is targeting profit in excess of the previous year, and both segments should contribute to this increase in profitability.

Ladies and Gentlemen

The Schlatter Group increased its net sales by 11.7 percent to CHF 101.1 million in the 2017 financial year (2016: CHF 90.5 million), and generated lower order intake than the previous year at CHF 94.6 million (2016: CHF 107.7 million). As at December 31, 2017, the order backlog stood at CHF 42.5 million (December 31, 2016: CHF 49.0 million). Schlatter Group is posting a positive operating result (EBIT) of CHF 2.5 million for the reporting period (2016: CHF 1.1 million). With a consolidated net result of CHF 2.9 million (2016: CHF 0.5 million), the Schlatter Group is closing the 2017 financial year with a profit that significantly outstrips the prior-year result.

Markets

Systems for the manufacture of reinforcing mesh

Compared to previous years, steel prices managed to hold up at a rather higher level in 2017 following on from the slight recovery in the 2016 financial year. Together with the generally robust health of the global economy, this had a positive effect on the investment activity of mesh producers. In oil-producing countries, the higher oil price is additionally feeding expectations that infrastructure projects postponed for prolonged periods in the past will now finally be realised.

Surplus capacity at mesh factories in Europe has given further impetus to consolidation and concentration initiatives on the part of our customers. The large industrial groups that dominate the market are modernising their production facilities, particularly in northern Europe. Schlatter has benefited from this development, winning a number of large orders over the last two years.

China is the world's largest consumer of construction steel. However, the local construction industry is almost entirely dominated by monorod reinforcements. While Schlatter is not expecting conventional mesh factories to grow, it is expecting a rise in the use of pre-fabricated concrete elements in which welded mesh plays an ever-increasing part. In south-east Asia we are seeing good demand for flexible, highly productive and rapidly upgradeable reinforcing mesh installations.

The new systems business in Brazil came to a standstill in 2014, but we are currently seeing a slight recovery in investment sentiment among customers in our key South American market. We won a number of projects during the 2017 financial year, which makes us cautiously optimistic with respect to future developments. In various Central American countries and the emerging markets generally, demand continues to be strong for high-performance machinery for standardised reinforcing mesh.

Installations for the production of industrial mesh
Numerous orders were once again generated with the MG950 product family, which was launched a few years ago and has been continuously developed ever since, thereby ensuring the establishment of a stable basis for business. Alongside Europe, the USA is one of the most important markets for industrial mesh.

In China, business potential in the area of systems for industrial mesh production is growing, as both the degree of automation and the emphasis on quality are on the rise. This is resulting in growing demand for reconditioned, used Schlatter systems on the one hand and for new systems projects on the other.

In Russia, we are seeing a gradual recovery in the area of systems for industrial mesh production.

Ever since 2016, Schlatter has selectively been investing additional money and resources in the marketing of mesh production systems in markets where it previously had only a low-key presence, such as the Middle East. In the 2017 financial year, the first significant sales were booked in these regions.

Rail welding

Sales of rail welding systems developed at a stable level. Growth in this profitable market is difficult to achieve, as Schlatter operates in a small niche and any expansion of the product offering would mean competing with major groups that enjoy an established, powerful market presence.

Equipment for the production of paper machine clothing and wire netting

The sales generated in the 2017 financial year were broadly on a par with the prior-year level. We have seen increasing demand in the Asia region, with the bulk of investment in new systems taking place in China. 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 the process of consolidation. This trend appears to have run its course, and local manufacturers in China are now enjoying a period of growth. Our machines for the production of paper machine clothing have become much more efficient compared to those of the competitors in recent years. Growth in both global and online trade, together with the decommissioning of old paper mills in China for environmental reasons, is likely to result in an increasing level of investment in this market. Other fields of application such as newsprint are in decline. The Schlatter Group believes the market has now stabilised, and anticipates order intake in the 2018 financial year at least matching the previous year's figure.

Spare parts and services

Business in the spare parts and services field posted stable performance, contributing around 30 percent of the Group's net sales. Schlatter has an enormous number of installations all over the world, and is increasingly looking to exploit existing potential in the wire area with a view to strengthening the after-sales business.

Product development

The Schlatter Group channelled significant financial resources into product development in 2017. In the reporting period, this investment amounted to CHF 5.1 million (2016: CHF 5.4 million). In the 2018 financial year, a broadly similar level of expenditure in product development is planned.

In the welding segment, the focus of innovation is on the wire product area (systems for the production of reinforcing and industrial mesh). Thanks to the development of a new machine platform, product costs are to be cut and the complexity resulting from the broad product portfolio reduced substantially. This project, which will unfold over the medium to long term, is expected to deliver lasting competitive advantages for the wire product area.

Product innovations such as the further development of the MG950 industrial mesh product family and the expansion of the MG800 systems family in the area of reinforcing mesh are further points of focus. For example, the MG800 systems family, which is characterised by high flexibility, high efficiency levels and short conversion times, is to be supplemented by a much more cost-effective variant in the lower performance area. Moreover, all prototype projects in the market are to be completed in 2018.

At the Münster site, weaving machines were brought into line with the latest technical advances. Among other things, this included the successful launch of the new BK860 generation of rapier weaving machines for the drying area. In addition, the range of finishing machines was enhanced with a number of functional improvements for the benefit of customers.

Substantial investment in production at the Münster location

A significant investment programme to overhaul production in Münster was approved in 2017. The new production machinery will for the most part enter into operation in the 2018 financial year. Parallel to this development, the manufacturing process will be increased from 2-shift to 3-shift production. This will allow Schlatter to produce a significant proportion of parts that have up until now been sourced externally itself, which should in turn improve both the gross margin and capacity utilisation. At the same time, assembly processes are being overhauled with a view to increasing productivity significantly.

Welding segment

In the welding segment, net sales rose to CHF 81.4 million in the 2017 financial year (2016: CHF 69.8 million). At CHF 73.8 million, order intake recorded a decline on the previous year (2016: CHF 86.7 million). The comparatively high order intake of the previous year included two large orders for a combined total of CHF 17.5 million. The order backlog at year-end amounted to CHF 34.5 million (December 31, 2016: CHF 42.1 million).

The cost-cutting measures implemented against a backdrop of the strong franc confirmed their impact once again. In addition, the slight weakening of the Swiss franc will boost the profitability of this segment in the 2018 financial year. Projects to reduce manufacturing and product costs have now established themselves as an ongoing task. The development of a new machine platform should have the effect of reducing complexity, as well as delivering a further, sustainable reduction in product costs.

Systems for the manufacture of reinforcing mesh

In the reinforcing mesh area, our largest in terms of sales, a slight recovery has taken hold in many markets around the world. Previously postponed modernisation and replacement investments on the part of customers have now been realised. Compared to the previous year, the volume of business processed has almost doubled, which has led to positive economies of scale and improved profitability.

Schlatter has reacted to the new business environment and changed needs of its customers by developing new plant concepts for the production of reinforcing wire mesh. For example, these include the new generation of the MG316 high-performance welding system and the MG800 system concept. The successful development of sales shows that these plant concepts are meeting customer needs.

Installations for the production of industrial mesh

The flexible and productive MG950 generation of machines with its enhanced application possibilities has established itself impressively in both Europe and the USA. The application possibilities of these machines for industrial mesh manufacture will now be further extended on a modular basis. The trend is currently heading in the direction of integrated system solutions for the manufacture of end products. These production concepts also integrate machines and systems that are not restricted to mesh production alone; this will significantly impact the development of this business area over the next few years.

One particular application within industrial mesh production is the manufacture of mesh fences. Schlatter has expanded its product portfolio further in recent years with the high-performance NS240 system, which can be used for (among other things) the manufacture of mesh fences, and with the MG700 mesh fencing system for flexible applications, thanks to which even more fencing products can be manufactured. As a parallel step to the development of the machine platform, a new systems family is to be created in the fencing mesh area with a view to covering customer needs even more comprehensively.

Rail welding product area

Thanks to its dominant position in the global market for static rail welding equipment, Schlatter was able to maintain its market share in the 2017 financial year. However, the market volume in this product area is much smaller than that of mesh machinery.

In the area of mobile rail welding systems, competition is on the rise, as a number of major international groups with a comprehensive offering in the area of track superstructure are now expanding their product portfolios into mobile rail welding. Not only do these groups have considerable market power across the entire track superstructure area, they also offer services such as contracting, proprietary leasing and the rental of systems.

One pleasing development is that the drive to generate sales of mobile rail welding systems in Russia, which was launched some time ago, appears to be delivering results again, with several transactions having been concluded recently. Schlatter is the first Western company to homologise mobile systems in Russia, and has received state approval accordingly. This homologisation is also applicable to all other CIS countries.

Outlook for welding segment

Given the current order intake, existing capacities in the welding segment are well utilised. Bottlenecks are particularly evident in the technical departments, as well as in the operationalisation of machinery sold. In addition to the implementation of measures to increase productivity and cut operating costs, measures likely to prove effective in the medium term continue to be prioritised. To this end, Schlatter is making targeted investments in market and product development. Considerable importance is also attached to strengthening after-sales services. For the welding segment, Schlatter's aim for the 2018 financial year is to achieve a broadly stable level of net sales and a higher profit.

Weaving segment

In the weaving segment, order intake remained unchanged at CHF 20.8 million (2016: CHF 21.0 million). Net sales amounted to CHF 19.7 million in the reporting year, which was slightly below the level of the previous year (2016: CHF 20.7 million). As at December 31, 2017, the order backlog stood at CHF 8.0 million (December 31, 2016: CHF 6.9 million).

Despite good capacity utilisation, this segment recorded a loss in the 2017 financial year. One reason for this development is a lack of finishing machines for technical textiles, which exhibit a higher level of profitability than weaving machines. A combination of product cost-cutting measures and a higher price level for weaving machines should see this segment return to profitability in 2018. In the 2017 financial year, net sales were primarily generated through machinery for the manufacture of paper machine clothing. The sales volume in the wire weaving machinery area accounted for some 15 percent of this segment's net sales in 2017, which represented a slight rise. Around a third of net sales at the Münster site is generated through the manufacture of parts and modules for the Schlieren site.

Weaving machinery for paper machine clothing (PMC)

The BK860 systems model in the drying area was successfully marketed to clients. This extends the area of application of the BK860 system type from form-sieving to dry sieving. Our customers are benefiting from a major productivity leap thanks to the higher number of revolutions offered by the BK860 for dry sieving. In the finishing area, a number of follow-up orders were booked in the 2017 financial year with the thermosetting system, which was developed in 2016 and offers superior process functionality as well as lower energy consumption.

Wire weaving

The GD620 woven-wire screen assembly machine overhauled in 2016 was successfully launched in the market, with the initial orders being delivered in the first half of 2017. This system represents the first solution offered worldwide for the fully-automatic weaving of 8mm spring steel wire for fine sieving. This has opened up new sales potential in the area of wire weaving.

O*utlook for weaving segment*

The Schlatter Group believes the market environment will prove favourable in the present financial year. Capacities in the weaving segment are well utilised. We are anticipating a significant rise in profitability, and expect this segment to return to profitability over the course of the current financial year. For 2018, Schlatter is looking to maintain net sales at the prior-year level and achieve a profit.

Changes to the Group Management

Where Group Management positions are concerned, Harald Reich was appointed Managing Director of Schlatter Deutschland GmbH & Co. KG and a member of Group Management as per January 1, 2017. Frank Schröter, the previous head of Schlatter's German business who had worked at the Münster site for 37 years, took early retirement at the end of June 2017. Michaela Wingeier, Head of Human Resources, has accepted a new challenge outside of the Schlatter Group and will leave the company with effect from July 31, 2018. We would like to thank Michaela Wingeier and Frank Schröter for their dedicated work and wish them all the best for the future.

There were no changes to the Board of Directors in the past financial year.

Acknowledgements

The Schlatter Group was confronted with a number of major challenges over the last few years. During this period, all stakeholders made important contributions to the Group’s long-term stabilisation. This commitment revealed its impact for the first time in the 2016 financial year, and has now been reflected in further pleasing progress in the 2017 financial year. On behalf of the Board of Directors and Group Management we would like to express to you, our shareholders, our gratitude for the trust you have shown in our company.

We very much look forward to welcoming you to the General Meeting in Schlieren on May 3, 2018. You can download the full 2017 Annual Report from our website www.schlattergroup.com or order it using the enclosed form.

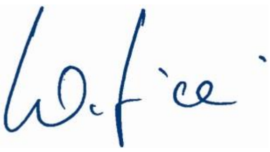
Outlook

The global sales and innovation initiatives of recent years as well as the positive sentiment evident in the markets are giving a boost to the Schlatter Group. Schlatter is well positioned for the 2018 financial year even though operating conditions remain challenging. Following an impressively strong inflow of new orders in 2016, order intake then normalised in the 2017 financial year. We are expecting a modest rise in the 2018 financial year. The marketing drive, which has included the establishment of additional sales resources in the emerging markets and the opening of a sales and service facility in China, is resulting in growing sales in these regions. The package of measures to expand the service business is likewise still being rolled out. Other areas of focus include product cost-cutting in both the welding and weaving segments. For the current 2018 financial year, the Board of Directors and Group Management are targeting an increase in consolidated profit compared to the previous year.

The Board of Directors will recommend to the General Meeting on May 3, 2018, that the company should not make a dividend payment for the 2017 financial year.

Schlieren, March 20, 2018

Paul Zumbühl
Chairman of the Board of Directors



Werner Schmidli
Chief Executive Officer

Key figures of the Schlatter Group

		2017	2016
Net sales	CHF million	**101.1**	**90.5**
Change compared to previous year	%	**11.7**	**8.8**
Operating result (EBIT)	CHF million	**2.5**	**1.1**
in % of net sales	%	2.5	1.2
Net result	CHF million	**2.9**	**0.5**
in % of net sales	%	2.8	0.6
Order intake	CHF million	**94.6**	**107.7**
Order backlog	CHF million	**42.5**	**49.0**
Headcount at period end	FTEs	**345**	**319**
Average headcount	FTEs	332	312
Net sales per employee	CHF 1,000	**305**	**290**
Interest-bearing liabilities	CHF million	**0.3**	**0.5**
Net financial position (debt)[1]	CHF million	**11.2**	**14.0**
Gearing[2]	%	**0.0**	**0.0**
Free cash flow[3]	CHF million	**–2.9**	**11.9**
Current assets	CHF million	**49.8**	**48.1**
Non-current assets	CHF million	**6.3**	**7.3**
Liabilities	CHF million	**30.7**	**33.1**
Equity	CHF million	**25.4**	**22.3**
Equity ratio	%	**45.3**	**40.2**
Return on equity (ROE)[4]	%	**12.1**	**2.3**
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.	1,104,704	1,104,704
Net result per registered share[5]	CHF	2.60	0.46
Equity per registered share[5]	CHF	23.03	20.17
Dividend per registered share	CHF	0[6]	0
Payout ratio	%	0[6]	0
Share price development			
High	CHF	58.00	44.00
Low	CHF	38.00	29.20
Year-end	CHF	47.75	38.75
Market capitalization			
High	CHF million	64.1	48.6
Low	CHF million	42.0	32.3
Year-end	CHF million	52.7	42.8

[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 3, 2018

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2017 Annual Report of Schlatter Industries AG

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