Schlatter records a loss for the first half of 2020

Despite a lower order intake than in previous years, the Schlatter Group enjoyed a positive start to the 2020 financial year in its two segments, welding and weaving. However, the repercussions of the coronavirus pandemic resulted in significantly lower net sales than had been expected for the first half of 2020, as well as an operating loss (EBIT) of CHF -3.6 million (H1 2019: CHF 1.9 million). Net sales in the welding segment collapsed as a result of the coronavirus protection measures implemented worldwide from March onwards. Numerous customer factories in the mesh area had to shut down operations for a prolonged period, which led to a slump in sales in the area of systems and spare parts. Profitability in this segment was additionally dragged down by the resurgence of the Swiss franc. In the weaving segment, a number of projects that were on the verge of contract signing were postponed as a result of lockdowns. The new site in Münster was occupied in May 2020. As anticipated, the relocation involved a number of one-off costs as well as a production outage for a limited period of time. The market environment remains uncertain and volatile, and will depend greatly on the further development of the pandemic.

In the first half of 2020, the Schlatter Group recorded an order intake of CHF 39.1 million (H1 2019: CHF 43.1 million) and net sales of CHF 36.6 million (H1 2019: CHF 54.7 million). The order backlog stood at CHF 28.8 million as at 30 June 2020 (31.12.2019: CHF 26.4 million). For the first half of the year, the Schlatter Group posted an operating loss (EBIT) of CHF -3.6 million (H1 2019: CHF 1.9 million). The net result for the first half of 2020 was CHF -4.0 million (H1 2019: CHF 1.4 million).

Markets

Systems for the manufacture of reinforcing mesh

While the prospects for the plant business involving new systems for the manufacture of reinforcing mesh improved significantly at the start of the year, the coronavirus pandemic – which led to numerous factory shutdowns by official decree in many markets – saw this business tem-

porarily grind to a halt. Production has now picked up again at the factories of various customers, which in turn has seen the spare parts business regain momentum.
The Schlatter Group is expecting an initial recovery in the plant business for the manufacture of reinforcing mesh over the course of the 2021 financial year.

Schlatter currently expects the European region to recover more quickly from the coronavirus-induced recession than the rest of the world. However, western European markets can be expected to shrink somewhat in the future, as a number of consolidations among European customers – particularly in production sites in northern Europe – has resulted in the modernisation of factories. As capacity has now been expanded, less is being invested in these regions.

In a number of eastern European countries, we are seeing evidence of investment demand developing stably, despite the coronavirus pandemic.

By contrast, the emerging markets will take a while longer to overcome the consequences of the pandemic and once again be in a position to invest. Many of these countries have experienced a weakening of their currency, which has made companies reluctant to invest. Particularly in Brazil and a number of central American countries, the recovery of investment in reinforcing mesh systems is likely to be some way off.

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

In the US too, investment projects are currently being postponed.

Systems for the manufacture of industrial mesh
Europe and the US are among the most important markets for industrial mesh. The number of new plants has declined for pandemic-related reasons. A considerable amount of investment restraint is currently evident in the US market, whereas European markets present greater opportunities.

Modernisation is an area of considerable potential. Many customers prefer – particularly at times of economic difficulty – to modernise existing plants rather than purchase new systems. As a result, the importance of upgrades and retrofits has increased. This works in favour of the area of plants for the production of industrial mesh. The industrial mesh production business is aimed at many different industries, and offers all sorts of application possibilities. This makes it less volatile, as well as highly promising in terms of growth potential.

Rail welding

Opportunities are still apparent in the rail welding product area, particularly in emerging markets such as India, for example. As a result of the coronavirus pandemic, however, both projects and sales negotiations have stalled, or customers have prioritised modernisation solutions, for which Schlatter can offer both stationary and mobile welding machinery.

Weaving

The weaving area was on the verge of signing contracts for numerous projects at the start of the year, but the sale of new plants slowed significantly as a result of the coronavirus pandemic and its repercussions. A number of weaving customers shut down their factories altogether during lockdown. Production is now once again being ramped up, however, with spare part sales set to increase over the coming months.

For many of our customers we are currently witnessing high capacity utilisation, a need for modernisation, and rationalisation investments in new high-quality machines. Although demand for newspaper and magazine paper is declining, the production of brown and tissue papers continues to grow.

The overall market situation for this segment now appears to be better than in previous years.

Spare parts and services

The spare parts and services business performed well in the first two months of the year, but slumped from March onwards due to factory closures. However, a recovery in demand was apparent by June, and Schlatter is anticipating further improvement in the second half of 2020. The spare parts and services business is extremely important, as Schlatter has a large number of installed systems around the world. Indeed, this area accounts for around 30 percent of the Schlatter Group’s net sales.

Welding segment cuts product costs and implements innovations

Key figures
Order intake: CHF 28.4 million (H1 2019: CHF 33.9 million)
Net sales: CHF 30.0 million (H1 2019: CHF 44.7 million)
Order backlog: CHF 19.9 million (31.12.2019: CHF 21.5 million)

The welding segment had already introduced a package of measures to cut costs and increase productivity at the end of the 2019 financial year, and the effects of these measures are being felt in 2020. At the Schlieren site, additional credit lines were secured as a result of the coronavirus pandemic. The first prototype for a new machine platform has been delivered, and digitalisation is being driven forward.

The welding segment has reported a loss for the first half of 2020, driven by a combination of lower sales of new plants and spare parts for coronavirus-related reasons along with lower profitability due to the resurgence of the Swiss franc.

In response to the decline in sales in the 2019 financial year, the Schlatter Group introduced a comprehensive package of measures at its Schlieren site towards the end of the year with the aim of cutting costs and boosting productivity. The effect of the initiated measures will be felt in the second half of 2020.

New, highly versatile machine platform
A prototype of the new machine platform for the welding of reinforcing mesh has been delivered. Although the commissioning of this platform had to be paused as a result of the coronavirus pandemic, it has now been resumed. Schlatter is continuing to devote significant capacity to the development of this modular machine platform. The aim is to significantly reduce the complexity resulting from the (existing) broad product portfolio and to cut product costs.

With this modular-based platform, Schlatter is targeting numerous different industries and areas of application. In addition to numerous application expansions, further types of fencing can also be produced on industrial mesh systems.

The industrial mesh production business is growing, and is less volatile than the production of reinforcing mesh systems. Schlatter is creating further potential in this area through the expansion of application possibilities. This project, which will unfold over the medium to long term, is expected to deliver lasting competitive advantages for the wire product area.

Digitalisation being driven forward

Another of Schlatter's priorities is the area of digitalisation. For example, the company has launched a long-term project to renew the control platform and user interface of its systems.

Welding segment outlook

For the second half of 2020, the Schlatter Group is anticipating a recessionary environment followed by a gradual recovery in 2021. Schlatter will drive forward its innovations over the coming months and continue to invest in product development in order to be in a strong position when the upturn arrives.

Weaving segment drives forward innovation in new market areas

Order intake: CHF 10.7 million (H1 2019: CHF 9.1 million)
Net sales: CHF 6.6 million (H1 2019: CHF 10.0 million)
Order backlog: CHF 9.0 million (31.12.2019: CHF 4.9 million)

In the weaving segment, a number of significant customer projects were postponed for coronavirus-related reasons. The new site in Münster was occupied in May 2020. As anticipated, the relocation entailed costs as well as a production outage for a limited period of time. The further development of new business areas in the sphere of technical textiles is being driven forward. Measures to cut costs and increase profitability are currently being implemented.

The weaving segment has reported a loss for the first half of 2020. This is attributable to a high cost base, a pandemic-related decline in sales of spare parts and new systems, and the costs associated with the relocation. The focus over the coming months will lie on the further development of the new business area involving technical textiles, the cutting of costs, and the boosting of productivity at the Münster site.

Move to new location

Schlatter moved into its new premises in Münster in May 2020. This new site will enable Schlatter to streamline its production processes and increase productivity.

Development of new business fields in the technical textiles area

The volatile market for weaving machines for the production of paper machine clothing is leading to sharp fluctuations in capacity utilisation at the Münster site.

A product development project launched in 2019 will enable us to enter growth markets for the production of other technical weaves, the aim here being to reduce Schlatter's dependence on the volatile market for weaving machines for the production of paper machine clothing and to generate growth. The main technical challenges have been successfully surmounted, and a prototype is scheduled to be launched with a customer in the first quarter of 2021.

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

Sale of wire weaving restructured

The Schlatter Group has restructured the sales function for its wire weaving machines. The mesh welding sales organisation is now responsible for sales in this area. This will considerably increase this area’s selling power while facilitating the leveraging of market synergies with the company’s industrial mesh customers.

Spare parts and after-sales services

The after-sales business also forms an important part of the weaving segment’s activities. A package of measures to expand this business is currently in implementation.

Weaving segment outlook

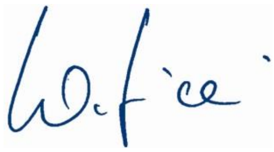
The weaving segment has entered the second half of 2020 with a significantly higher order backlog. The company is therefore expecting a marked increase in net sales and an improvement in profitability in the second half of the year. Efforts to boost productivity and cut costs are continuing.

Outlook

The Schlatter Group will continue to invest significant resources in product development with a view to consolidating its market position and being in good shape to take advantage of the up-turn. Comprehensive measures are currently being implemented, including the sales offensive to reinforce marketing activities, cost-cutting and productivity enhancement measures, and service initiatives.

The market environment remains uncertain and volatile, and will depend greatly on the further development of the pandemic. A recovery of the Group's markets is anticipated in 2021. The Board of Directors and management also expect the Schlatter Group to report a loss for the second half of 2020.

Schlieren, 18 August 2020



Paul Zumbühl
Chairman of the Board of Directors

Werner Schmidli
Chief Executive Officer

Key figures of the Schlatter Group

		1st half of 2020	1st half of 2019	2nd half of 2019	2019
Net sales	CHF million	**36.6**	**54.7**	**38.9**	**93.6**
Change from previous year	%	-33.1	2.0	-32.7	-16.0
Operating performance [1]	CHF million	**32.6**	**53.6**	**41.8**	**95.5**
Change from previous year	%	-39.3	0.8	-28.5	-14.6
Operating result (EBIT)	CHF million	**-3.6**	**1.9**	**-0.9**	**1.0**
in % of net sales	%	-10.0	3.4	-2.3	1.0
Consolidated net result	CHF million	**-4.0**	**1.4**	**-0.9**	**0.5**
in % of net sales	%	-10.9	2.5	-2.2	0.5
Consolidated net result per registered	CHF	**-3.60**	**1.23**	**-0.77**	**0.46**
Order intake	CHF million	**39.1**	**43.1**	**31.7**	**74.8**
Order backlog at period end	CHF million	**28.8**	**33.6**	**26.4**	**26.4**
Free cash flow [2]	CHF million	**-2.5**	**-12.5**		
Headcount at period end [3]	FTEs	**325**	**364**	**344**	
Average headcount	FTEs	**334**	367	353	

		30.06.2020	31.12.2019
Interest-bearing liabilities	CHF m	**10.6**	**9.0**
Net financial assets/(debt) [4]	CHF m	**-8.1**	**-5.5**
Gearing [5]	%	**32.3**	**18.8**
Current assets	CHF m	**36.7**	**39.7**
Non-current assets	CHF m	**21.1**	**18.6**
Liabilities	CHF m	**32.8**	**29.0**
Equity	CHF m	**25.0**	**29.3**
Equity ratio	%	**43.2**	**50.2**

1 Operating performance: net sales from goods and services plus other operating income plus change in inventories of finished/unfinished goods, work in progress

2 Free cash flow: cash flow from operating activities less the purchase of tangible, intangible and financial assets, plus sale of tangible, intangible and financial assets

3 Total full-time positions incl. temporary employees, excluding apprentices

4 Net financial assets (debt): cash and cash equivalents less interest-bearing liabilities

5 Gearing: net debt 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 2020

Consolidated balance sheet

Assets

CHF 1 000	**30.06.2020**	**31.12.2019**
Cash and cash equivalents	2 566	3 486
Current investments	89	79
Accounts receivable for goods and services	4 240	5 419
Current income tax receivables	35	28
Other receivables	2 341	2 791
Receivables from production orders in progress	10 455	7 684
Inventories	16 060	19 902
Accrued income	899	257
Current assets	**36 685**	**39 646**
Property, plant and equipment	19 634	16 969
Intangible assets	1 069	1 193
Deferred tax assets	401	461
Non-current assets	**21 104**	**18 623**
Total assets	**57 789**	**58 269**

Liabilities

CHF 1 000	**30.06.2020**	**31.12.2019**
Accounts payable for goods and services	3 874	4 869
Liabilities from production orders in progress	6 974	4 147
Current income tax liabilities	16	18
Other payables	2 292	2 051
Accrued liabilities	3 547	2 696
Financial debt	2 941	3 165
Current provisions	1 061	1 925
Current liabilities	**20 705**	**18 871**
Financial debt	7 707	5 822
Pension liabilities	4 140	4 046
Provisions	173	195
Deferred tax liabilities	72	76
Non-current liabilities	**12 092**	**10 139**
Total liabilities	**32 797**	**29 010**
Share capital	17 675	17 675
Capital reserves (agio)	1 767	1 767
Retained earnings	5 550	9 817
Total equity	**24 992**	**29 259**
Total liabilities and equity	**57 789**	**58 269**

Abridged consolidated half-year statement as at 30 June 2020

Consolidated income statement

CHF 1 000	1st half of 2020	1st half of 2019	2019
Net sales from goods and services	**36 613**	**54 713**	**93 624**
Other operating income	152	161	380
Change in semi-/finished goods, work in progress	- 4 186	- 1 229	1 448
Material and service expenses	- 14 286	- 26 030	- 45 683
Peronnel expenses	- 16 862	- 19 848	- 37 771
Other operating expenses	- 4 403	- 4 999	- 9 309
Depreciation and amortisation	- 671	- 897	- 1 723
Operating result (EBIT)	**- 3 643**	**1 871**	**966**
Financial income	612	304	830
Financial expenses	- 874	- 618	- 1 354
Net result before tax	**- 3 905**	**1 557**	**442**
Income tax expenses	- 74	- 194	71
Net result	**- 3 979**	**1 363**	**513**
Basic earnings per share (CHF)	- 3.60	1.23	0.46

Abridged consolidated half-year statement as at 30 June 2020

Consolidated statement of equity

CHF 1 000	Share capital	Capital reserves	Retained earnings	**Total share capital**
As at 31.12.2018	**17 675**	**1 767**	**9 461**	**28 903**
Translation differences			- 68	**- 68**
Net result 01.01.-30.06.2019			1 363	**1 363**
As at 30.06.2019	**17 675**	**1 767**	**10 756**	**30 198**
As at 31.12.2019	**17 675**	**1 767**	**9 956**	**29 398**
Translation differences			- 427	**- 427**
Net result 01.01.-30.06.2020			- 3 979	**- 3 979**
As at 30.06.2020	**17 675**	**1 767**	**5 550**	**24 992**

Abridged consolidated cash flow statement

CHF 1 000	**1st half of 2020**	1st half of 2019	2019
Cash flow from operating activities	975	- 5 097	- 4 669
Cash flow from investment activities	- 3 517	- 7 377	- 13 273
Free cash flow	**- 2 542**	**- 12 474**	**- 17 942**
Cash flow from financing activities	1 675	1 327	7 998
Change in cash and cash equivalents	**- 867**	**- 11 147**	**- 9 944**
Cash and cash equivalents as at 1 January	3 486	13 469	13 469
Change in cash and cash equivalents	- 863	- 11 151	- 9 944
Impact of exchange rate on cash and cash equivalents	- 57	- 7	- 39
Cash and cash equivalents as at 30 June / 31 December	2 566	2 311	3 486

Abridged consolidated half-year statement as at 30 June 2020

Notes to the abridged consolidated half-year statement

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 2019. These abridged halfyear 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 2020
CHF 1 000	Welding	Weaving	**Total segments**
Net sales from plant business with third parties	18 105	4 459	**22 564**
Net sales from spare parts & service business with third parties	11 898	2 151	**14 049**
Total net sales	30 003	6 610	**36 613**
EBIT	-2 583	-1 060	**-3 643**

			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**

Abridged consolidated half-year statement as at 30 June 2020

3 Income statement

Net sales decreased to CHF 36.6 million in the first half of 2020 compared to the same period of the previous year (H1 2019: CHF 54.7 million). Operating performance slumped to CHF 32.6 million (H1 2019: CHF 53.6 million).

At CHF 16.9 million, personnel expenses in the first half of 2020 were significantly lower than in the same period of the previous year (H1 2019: CHF 19.8 million). Due to the lower capacity utilisation, personnel costs were reduced by approximately 15%.

Other operating expenses also fell to CHF 4.4 million (H1 2019: CHF 5.0 million); depreciation and amortisation amounted to CHF 0.7 million (H1 2019: CHF 0.9 million).

Financial income consists mainly of gains on forward exchange contracts. Financial expenses mainly include losses from forward exchange transactions and interest expenses.

The tax result mainly includes deferred tax expenses incurred by foreign subsidiaries.

The net result for the first half of 2020 is CHF -4.0 million (H1 2019: CHF 1.4 million).

4 Balance sheet

Net debt as of 31 December 2019 of CHF -5.5 million increased to CHF -8.1 million in the first half of 2020. This is mainly due to the final investments in the new production facility in Münster. Receivables from production orders in progress increased to CHF 10.5 million (31.12.2019: CHF 7.7 million); at the same time, liabilities from production orders in progress increased to CHF 7.0 million (31.12.2019: CHF 4.1 million).

Equity decreased to CHF 25.0 million as at 30 June 2020 (31.12.2019: CHF 29.3 million). The balance sheet total as at 30 June 2020 was CHF 57.8 million compared to CHF 58.3 million as at 31 December 2019. This results in an equity ratio of 43.2% (31.12.2019: 50.2%).

5 Free cash flow

The Group generated a positive operating cash flow of CHF 0.9 million. A significant contribution was made by the reduction in net working capital to CHF 17.3 million (31.12.2019: CHF 22.3 million). Investments in non-current assets amounted to CHF 3.5 million (H1 2019: CHF 7.4 million), resulting in a free cash flow of CHF -2.5 million (H1 2019: CHF -12.5 million).

6 Loan arrangements

The Schlatter Group holds loan agreements that are committed until 31 December 2020. The bank facilities (credit and contingent facilities) to maintain operating activities amount to CHF 22.75 million. These can be used for short-term loans up to the amount of CHF 4.5 million. The interest rate is 3.5% p.a. (previous period: 3.5% p.a.). The contingent facilities are partly tied to conditions related to Swiss Export Risk Insurance (SERV) counter guarantees. Total drawings may not exceed the bank facility of CHF 22.75 million. The loans are tied to financial covenants (EBITDA and equity) that were breached as at 30 June 2020. The lending banks have agreed to maintain the loans.

In connection with the Covid 19 support measures of the Swiss government, additional loans for Schlatter Industries AG in the amount of CHF 7.5 million were secured. CHF 0.5 million are 100% guaranteed and the remaining CHF 7.0 million are 85% guaranteed by the Swiss Confederation, 7.5% by the lending banks and 7.5% by two major shareholders. The two shareholders will be paid a fee of 3.5% p.a. for the guarantee.

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 June 2020 cash facilities had been drawn down to CHF 2.5 million (31.12.2019: CHF 2.7 million); drawings on the contingency facilities amounted to CHF 10.0 million (31.12.2019: CHF 5.2 million).

7 Exchange rates

	30.06.2020	30.06.2019	31.12.2019	**1st half of 2020**	1st half of 2019	2019
CHF 1	Exchange rates at balance sheet date			Average rates		
1 EUR	**1.07**	1.11	1.09	**1.06**	1.13	1.11
1 USD	**0.95**	0.98	0.97	**0.97**	1.00	0.99
1 GBP	**1.17**	1.24	1.27	**1.22**	1.29	1.27
1 BRL	**0.18**	0.25	0.24	**0.20**	0.26	0.25
1 MYR	**0.22**	0.24	0.24	**0.23**	0.24	0.24
1 CNY	**0.13**	0.14	0.14	**0.14**	0.15	0.14

Abridged consolidated half-year statement as at 30 June 2020

8 Earnings per share

CHF 1 000	**30.06.2020**	30.06.2019	31.12.2019
Net result attributable to shareholders of Schlatter Industries AG (CHF 1 000)	- 3 979	1 363	513
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 shares	**1 104 704**	**1 104 704**	**1 104 704**
Basic earnings per share (CHF)	**- 3.60**	1.23	0.46

9 Events after the balance sheet date

The abridged consolidated half-year financial statements were authorised for issue by the Board of Directors on 6 August 2020.

The German version of the half-year report 2020 is binding.

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