

Media release

Phoenix Mecano January-September 2016: Growth in incoming orders and sales – Disproportionately high increase in profitability – ELCOM/EMS division realignment continuous to be on track

Kloten/Stein am Rhein, 26 October 2016. Phoenix Mecano, the specialist in enclosures and industrial components, generated growth in all key indicators in the first nine months of 2016. Sales and incoming orders saw low single-digit growth and the increase in operating result was disproportionately high. All of this was achieved in a distinctly challenging market environment. In Europe, the sideways trend observed since the start of the year persisted, while attractive growth rates were recorded in Asia. American business continued to suffer from sluggish investment in the energy sector, and the trend towards offshoring from the USA to Asia further affected the Mechanical Components division. However, Phoenix Mecano succeeded in offsetting these volumes within the Group thanks to its strong market presence in China.

Cumulative consolidated gross sales as at September 2016 rose by 3.2% from €421.0 million to €434.5 million. Corrected for negative currency effects, sales were up by 5.0%. Excluding effects from changes to the scope of consolidation, growth was 1.5%. Net sales totalled €430.5 million (previous year: €417.0 million). Incoming orders rose by 0.6% from €430.0 million to €432.6 million, corresponding to a book-to-bill ratio of 99.6%.

Operating cash flow (EBITDA) rose by 3.0% from €45.9 million to €47.3 million and operating result (EBIT) by 7.1% from €27.0 million to €28.9 million.

The result of the period after taxes was €19.2 million, up 9.1% on the previous year (€17.6 million).

The tax rate in the reporting period was 29.2%, compared with 28.8% the previous year.

Development of the Group's divisions

In the **Enclosures division**, gross sales remained unchanged at €132.1 million. The operating result fell by 8.9%, with a corresponding decline in operating margin from 12.9% to 11.7%.

Lack of investment confidence in Europe, which remains the division's biggest market, led to a slightly negative overall trend in this region. While many customers in sales discussions and at trade fairs seem generally confident, there is unlikely to be any immediate upturn in momentum in Europe in the current environment, also

bearing in mind the ECB's hitherto largely ineffective attempts at stimulation. Phoenix Mecano saw a negative trend in the Swiss market, which has still not recovered from last year's franc shock. Germany, the most important market in Europe, has recently showed signs of a slight slowdown, while the Indian, Chinese and South Korean markets experienced encouraging growth.

The Mechanical Components division saw its gross sales increase by 3.6% to €209.4 million. The operating result rose by a disproportionately high 6.8%. The margin stood at 8.6%, compared with 8.4% the previous year.

This positive performance is driven by two main factors. On the one hand, the steady trend in the Rose+Krieger product area in Europe and Asia continued. Rose+Krieger develops, manufactures and sells a range of industrial components used in the automation technology and custom machine building sectors. These include profile assembly systems, pipe connection elements, linear units and electrical lifting columns. Rose+Krieger is benefiting from the megatrends towards factory automation and lean production, as its components support cutting-edge, fully and partially automated production concepts in a highly flexible way.

On the other hand, there is a continued growth trend in ergonomic, electrically adjustable comfort and healthcare furniture. As well as adjusters for seats and beds, subsidiary DewertOkin also develops and manufactures massage components, USB charging stations, modern battery technology and lighting and safety features for this latest-generation furniture. The main sales region is the US market, but Europe and Asia are also key target markets.

The ELCOM/EMS division increased its gross sales by 7.3% to €93.0 million. Adjusted for acquisitions, growth was -0.8%. The operating result was -€4.6 million (previous year: -€4.3 million).

The division's realignment remains on track. Streamlining measures as well as integration costs linked to the acquisition of ismet GmbH (D) on 1 July 2016 led to one-off items totalling €2.0 million. In addition, the amortisation of acquisition-related intangible assets in the division is generating non-cash expenses of €2.6 million. A significant increase in incoming orders for instrument transformers, although some of which will not feed through into sales until 2017, confirms that the right strategy has been adopted. By contrast, there are signs of a market-related slowdown affecting the electromechanical components and electronic packaging product areas, which nonetheless remain profitable overall. Consequently, the target of a breakeven operating result for the division this year will likely only be met in 2017.

Outlook

Over the summer months, current geopolitical uncertainties left their mark on the industrial capital goods markets, which are important for Phoenix Mecano.

A reluctance to invest due to the Brexit vote, the upcoming US elections, the recent flare-up in the Syria crisis and associated impact on the West's relationship with

Russia and the continuing sluggish growth in the Chinese industrial sector require maximum efforts to safeguard the growth that is so important for the development of our Group into the future.

As well as working hard to develop its established markets, therefore, Phoenix Mecano is concentrating on opening up potential new areas offering sound future prospects for the Group. To this end, it is focusing on a number of key initiatives to achieve the desired growth. For the Mechanical Components division, this means the electrically adjustable comfort and healthcare furniture markets, including the development of new electronic features for enhanced consumer experience. In the ELCOM/EMS division, the emphasis is on expanding our range of instrument transformers of various performance classes, which play a central role in adapting power networks to cope with the challenges of the energy transition. The Enclosures division is focusing on expanding its range of customised and application-specific enclosures, with an emphasis on explosion-proof products and products with optimised maintenance and ergonomics.

These initiatives continue to require concerted efforts and increased investments. At the same time, we are pushing ahead rigorously with streamlining and profitability measures in low-return activities, particularly in the ELCOM/EMS division. In addition to necessary restructuring measures, this entails bolt-on acquisitions during the current year designed to strengthen our product portfolio and achieve the critical mass required by the market. The costs associated with these future-proofing measures will impact the 2016 annual result. Against this backdrop, the management and Board of Directors of the Phoenix Mecano Group expect the operating result for the year as a whole to be at the lower end of the €34-40 million range indicated at the start of the year.

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Results Q1 – Q3 2016 in figures (in EUR million)

	<u>1-9 2015</u>	<u>1-9 2016</u>	<u>in %</u>
Incoming orders	430.0	432.6	0.6
Gross sales	421.0	434.5	3.2
per division:			
Enclosures	132.1	132.1	0.0
Mechanical components	202.2	209.4	3.6
ELCOM/EMS	86.7	93.0	7.3
Net sales	417.0	430.5	3.2
Operating cash flow	45.9	47.3	3.0
Margin	10.9%	10.9%	
Operating result	27.0	28.9	7.1
Margin	6.4%	6.6%	
per division:			
Enclosures	17.0	15.5	-8.9
	12.9%	11.7%	
Mechanical components	16.9	18.0	6.8
	8.4%	8.6%	
ELCOM/EMS	-4.3	-4.6	-6.8
	-4.9%	-4.9%	
Other	-2.6	0.0	98.8
Result of the period	17.6	19.2	9.1
Margin	4.2%	4.4%	

Results Q3 2016 in figures (in EUR million)

	<u>7-9 2015</u>	<u>7-9 2016</u>	<u>in %</u>
Incoming orders	130.5	143.1	9.7
Gross sales	139.4	142.1	2.0
per division:			
Enclosures	43.1	42.7	-0.9
Mechanical components	66.1	67.0	1.4
ELCOM/EMS	30.2	32.4	7.4
Net sales	138.0	140.8	2.0
Operating cash flow	16.9	14.9	-11.9
Margin	12.1%	10.5%	
Operating result	10.5	8.3	-21.1
Margin	7.5%	5.8%	
per division:			
Enclosures	6.1	5.1	-16.6
	14.1%	11.9%	
Mechanical components	6.2	5.3	-15.0
	9.4%	7.9%	
ELCOM/EMS	-1.0	-1.6	-51.0
	-3.4%	-4.8%	
Other	-0.8	-0.5	33.0
Result of the period	7.5	5.5	-26.4
Margin	5.4%	3.9%	