PHOENIX MECANO

Media release

Phoenix Mecano January-September 2017: Growth trend in incoming orders and sales continues – Disproportionate increase in profitability before one-off items – ELCOM/EMS division cost optimisation programme fully launched

Kloten/Stein am Rhein, 31 October 2017. Phoenix Mecano, the specialist in enclosures and industrial components, generated high single-digit growth in sales and incoming orders in the first nine months of 2017. Its operating result, adjusted for one-off items, grew disproportionately.

The Group benefited from the sustained high volume of investment in Germany, its most important European industrial market. In Asia and North America, dynamic demand for drive technology for comfort and healthcare furniture led to attractive growth rates. The ELCOM/EMS division saw an increase in sales and in operating cash flow adjusted for one-off items. Implementation of the previously announced package of cost-optimisation measures is already well advanced.

Consolidated gross sales rose by 9.4% from €434.5 million to €475.2 million. Corrected for currency effects, sales were up by 10.1%. Organic growth was 7.8%. Net sales totalled €470.8 million (previous year: €430.5 million). Incoming orders increased by 8.3% from €432.6 million to €468.4 million, corresponding to a book-to-bill ratio of 98.6% (previous year: 99.6%).

Operating cash flow adjusted for one-off expenses increased by 15.6% from €47.2 million to €54.6 million, while the adjusted operating result grew by 17.3% from €28.7 million to €33.7 million. At the time of the H1 2017 results, a performance enhancement package for the ELCOM/EMS division was announced, with a planned volume of €8-9 million. It includes a streamlining of the product portfolio and production infrastructure as well as the integration of acquisition Ismet into the ELCOM/EMS division. Including the third quarter a total of €7.5 million for one-off expenses has been incurred so far, and the Group expects this to increase by a further €1.5 million or so in the fourth quarter. Not adjusted operating cash flow (EBITDA) increased by 2.1% from €47.3 million to €48.3 million while the non-adjusted operating result (EBIT) fell by 9.2% from €28.9 million to €26.2 million.

The result of the period after taxes was €17.4 million, down 9.9% on the previous year (€19.2 million). The financial result improved by €0.9 million year-on-year. The tax rate in the reporting period was 31.9%, compared with 29.2% the previous year. The increase is attributable to the one-off items that have only limited tax effects.

Development of the Group's divisions

In the **Enclosures division**, gross sales rose from €132.1 million to €142.2 million (up 7.7%). The operating result increased by 24.2% to €19.2 million. This took the operating margin to 13.5%, up from 11.7% the previous year.
Generally high investment confidence in Europe fuelled a positive trend in what remains the division's most important market region. Germany, the single most important market, as well as Russia and Eastern Europe experienced above-average growth. In Asia, too, there was a high growth momentum thanks to intensive project activity in the oil and gas-sector. The division recorded a slight downturn in Italy and the Swiss market.

The Mechanical Components division increased its gross sales by 10.8% to €232.1 million. Its operating result rose by a slightly disproportionate 11.6% up to €20.1 million. The margin stood at 8.7%, compared with 8.6% the previous year.

Both of the division's product areas contributed to this positive development.

Rose+Krieger benefited from brisk demand for custom machine building and industrial components for automation solutions, especially in Germany and Eastern Europe. In India and China, growth was driven primarily by applications for profile assembly systems in lean production and logistics systems for retailers.

At DewertOkin, the growth trend in ergonomic, electrically adjustable comfort furniture continued unabated in both Asia and the United States. For this reason, investments have been made in capacity expansion over the past 12 months. The official inauguration of the new development and production centre in Jiaxing, China, in September 2017 marked another milestone in an ongoing success story. The centre develops state-of-the-art drive systems for the global market using highly efficient processes and state-of-the-art infrastructure, and also manufactures, finally assembles and tests the required components.

The ELCOM/EMS division increased its gross sales by 8.5% to €100.9 million. Adjusted for acquisitions, growth was 1.6%. The operating result was -€10.3 million (previous year: -€4.6 million). This includes the aforementioned one-off expenses of €7.5 million as well as amortisation on acquisition-related intangible assets totalling €3.4 million. Operating cash flow before one-off expenses improved once again, rising to €4.9 million from €3.5 million a year ago.

The first major steps in implementing the radical package of measures to boost performance and optimise costs throughout the division have been completed. The focus is on rationalisation measures and relocation and integration operations in the Power Quality area. These activities are being coordinated centrally and ambitiously rolled out at multiple locations concurrently. Further components of the announced package will be ready for implementation by the end of the year, bringing the one-off expenses to the upper end of the €8-9 million range.

The division's generally profitable product areas saw positive trends in gross sales in Europe. Electromechanical Components grew in Asia, while the Electronic Packaging area recorded acquisition-related growth in North America (acquisition of Orion).

Outlook

According to experts at the Kiel Institute for the World Economy (IfW), nearly all major economies are showing signs of a continued upturn. Echoing this conclusion, the Centre for European Economic Research (ZEW) indicator for economic expectations rose again in October.

As a global business, Phoenix Mecano is benefiting from this positive situation on world markets. Its strategic focus will remain on expanding its position in its established markets and moving into future-oriented industries, in particular railway, medical, energy and automation technology.

The main operational focus for management is the ELCOM/EMS division. As part of the ongoing global consolidation of facilities, production capacity is being adjusted, manufacturing technologies and development activities pooled, logistics and sales structures pared down and product ranges streamlined. Following its successful transformation, ELCOM/EMS will be positioned to grow profitably with a streamlined product portfolio of electromechanical components, components for high-performance computer systems and inductors of various performance classes. Promising market opportunities lie in the technological challenges of the energy transition and power supply decentralisation and in system controls, as well as the unstoppable trend of digitalisation.

The Phoenix Mecano Group will continue to make further progress in sales in the current quarter, although sales are usually less buoyant towards the end of the financial year. The management and Board of Directors therefore expect a full-year operating result before one-off expenses at the upper end of the €36-40 million target range envisaged at the start of the year. In the best-case scenario, this value could even be slightly exceeded.

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Results Q1 – Q3 2017 in figures (in EUR million)

	1-9 2016	1-9 2017	in %
Incoming orders	432.6	468.4	8.3
Gross sales	434.5	475.2	9.4
per division:			
Enclosures	132.1	142.2	7.7
Mechanical components	209.4	232.1	10.8
ELCOM/EMS	93.0	100.9	8.5
Net sales	430.5	470.8	9.4
Operating cash flow	47.3	48.3	2.1
Margin	10.9%	10.2%	
Operating result	28.9	26.2	-9.2
Margin	6.6%	5.5%	
per division:			
Enclosures	15.5	19.2	24.2
	11.7%	13.5%	
Mechanical components	18.0	20.1	11.6
	8.6%	8.7%	
ELCOM/EMS	-4.6	-10.3	-123.9
	-4.9%	-10.2%	
Other	0.0	-2.8	
Result of the period	19.2	17.4	-9.9
Margin	4.4%	3.7%	

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Results Q3 2017 in figures (in EUR million)

	7-9 2016	7-9 2017	in %
Incoming orders	143.1	151.0	5.5
Gross sales	142.1	153.2	7.8
per division:			
Enclosures	42.7	46.0	7.6
Mechanical components	67.0	74.1	10.7
ELCOM/EMS	32.4	33.1	2.0
Net sales	140.8	151.8	7.8
Operating cash flow	14.9	14.2	-4.6
Margin	10.5%	9.3%	
Operating result	8.3	5.2	-37.2
Margin	5.8%	3.4%	
per division:			
Enclosures	5.1	6.3	24.8
	11.9%	13.8%	
Mechanical components	5.3	6.5	22.3
	7.9%	8.8%	
ELCOM/EMS	-1.6	-7.2	-360.6
	-4.8%	-21.7%	
Other	-0.5	-0.4	15.6
Result of the period	5.5	3.1	-44.9
Margin	3.9%	2.0%	