Media release

Phoenix Mecano in H1 2018: High-single-digit organic sales growth, double-digit growth in incoming orders – Disproportionate rise in profitability – ELCOM/EMS breaks even as planned

Kloten/Stein am Rhein, 16 August 2018. Phoenix Mecano increased its sales and incoming orders in the first half of the year. The Group was able to maintain and in some cases expand its market share in high-growth core markets. Growth was most pronounced in drive technology for the furniture and healthcare sector, where the positive demand trend in the Asian and American end markets continued. With the successful turnaround in the ELCOM/EMS division, the Group's operating result and result of the period showed markedly disproportionate growth.

Consolidated gross sales rose by 5.4% in the first half of 2018, from €322.0 million to €339.3 million. Corrected for currency effects, sales were up by 8.4%. Organic growth in local currency was 6.9%. Net sales totalled €336.4 million (previous year: €319.0 million). Incoming orders rose by 10.2% from €317.4 million to €349.9 million. The book-to-bill ratio was 103.2% (previous year: 98.6%).

The operating result increased by 34.5% from €21.0 million to €28.3 million and operating cash flow by 25.5% from €34.1 million to €42.8 million. Adjusted for one-off items, operating cash flow grew by 12.5% from €35.6 million to €40.0 million, and the operating result by 13.4% from €22.5 million to €25.5 million. The one-off items in the first half of 2017 related to non-recurring expenses, on balance, of €1.5 million. In 2018, a one-off gain of €2.8 million was generated in the second quarter through the sale of Wijdeven Inductive Solutions BV in the Netherlands (see media release of 3 May 2018).

The result of the period after taxes was €19.2 million, up 34.1% on the previous year (€14.3 million). The financial result fell by €1.5 million year-on-year, mainly due to exchange-rate changes and currency hedging costs. Net indebtedness was €44.1 million, compared with €45.1 million at 30 June 2017. This equates to 16.1% of equity.

Development of the Group's divisions

In the **Enclosures** division, sales grew by 2.1% in local currencies, while in the reporting currency they fell by 0.3% to €95.9 million. The operating result rose by 0.6% to €12.9 million, with a corresponding slight increase in the operating margin from 13.4% to 13.5%. In the core European market, sales increased by 2.2%. In Southeast Asia, sales fell by 11.7% following a 23.2% rise the previous year, mainly linked to the oil and gas project business. In the Americas, local-currency sales increased by 9.8%.

The **Mechanical Components** division increased its gross sales by 14.1% in local currencies and by 9.6% to €173.1 million in the reporting currency. Organic growth was 12.5%. The operating result increased by 4.5% to €14.2 million while the operating margin fell from 8.6% to 8.2%. The Rose & Krieger industrial segment contributed to the positive sales performance with system solutions and automation projects, mainly in the US and Germany. However, the division's main growth driver was the DewertOkin product area, which recorded double-digit growth rates in the Far East. Alongside the structural growth trend in motor-adjustable comfort and reclining furniture in end markets, the strategy of boosting value added by expanding capacity in China last year proved successful. This more than offset the lack of momentum in the European furniture and healthcare markets.

The **ELCOM/EMS** division recorded a 4.1% rise in gross sales in local currency and a 3.6% rise to €70.3 million in the reporting currency. Organic growth was 0.8%. The operating result was €2.9 million (previous year: -€3.1 million). This includes the aforementioned capital gain from the sale of Wijdeven Inductive Solutions BV in the Netherlands. Adjusted for this special item, the division achieved a break-even half-year result and significantly increased its adjusted operating cash flow to €5.3 million, up from €3.2 million the previous year.
In general, the ELCOM/EMS division had to contend with more bottlenecks in the availability of critical electrical components.

The Power Quality business area had a lower impact on the division's result than in the previous year. It focused on efficiency enhancement programmes at three production sites in Germany and the Czech Republic, and will continue to roll these out intensively in the coming months. As well as pursuing productivity goals, the business area also launched and systematically implemented a number of high-potential innovation projects. The project flow for high-precision instrument transformers for HVDC applications remained brisk.

In the profitable Electromechanical Components and Electronic Packaging business areas, sales and result developed positively. Electronic Packaging grew by expanding its range of custom industrial computer system components, thanks to the recent acquisition of Orion Technologies LLC in North America. The result was impacted by the integration of Orion Technologies LLC and the establishment of joint sales and engineering capacity in the US.

Outlook

The outlook for the global economy remains good, although global growth momentum is weakening. Central banks are introducing more restrictive monetary policies and latent trade conflicts are impacting the economic situation. The majority of the Purchasing Managers' Index values (IHS Markit PMI) of relevance to Phoenix Mecano have fallen recently, but they remain above the long-term averages, suggesting further economic growth.
Phoenix Mecano Group still has sustainable growth potential thanks to its strong market positioning close to customers, its high-quality product portfolio and innovative system solutions for a range of technical applications.

The punitive US tariffs being introduced on Chinese goods are likely to increase uncertainty in the comfort and healthcare furniture markets over the coming months. However, this will not affect the long-term trend in such furniture of increasing motorisation combined with innovative sensor and control technology, something that Phoenix Mecano, as a leading market player and innovator, will continue to benefit from. In addition, the Phoenix Mecano Group has a production and value-creation network unique among its competitors, enabling it to respond effectively in the short and medium term to changing global conditions in supply and logistics chains.

The management and Board of Directors expect the Group as a whole to achieve continued sales growth in the second half of 2018, although this could be less strong than in H1 owing to the above-mentioned economic indicators and growing uncertainties.

In the current environment, the Phoenix Mecano Group anticipates a 2018 operating result within the target range of €40-46 million indicated at the start of the year. This does not include the aforementioned one-off income.

A detailed semi-annual report will be available for downloading as a PDF file from our website http://www.phoenix-mecano.com/en/investor-relations/annual-reports/semi-annual-reports from 16 August 2018.

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Phoenix Mecano is a leading technology company active in the production of enclosures and industrial components.

Results first half of 2018 in figures (in EUR million)

	1-6 2017	1-6 2018	in %
Incoming orders	317.4	349.9	10.2
Gross sales	322.0	339.3	5.4
per division:			
Enclosures	96.2	95.9	-0.3
Mechanical components	158.0	173.1	9.6
ELCOM/EMS	67.8	70.3	3.6
Net sales	319.0	336.4	5.5
Operating cash flow	34.1	42.8	25.5
Margin	10.6%	12.6%	
Operating result	21.0	28.3	34.5
Margin	6.5%	8.3%	
per division:			
Enclosures	12.9	12.9	0.6
	13.4%	13.5%	
Mechanical components	13.6	14.2	4.5
	8.6%	8.2%	
ELCOM/EMS	-3.1	2.9	192.2
	-4.6%	4.1%	
Other	-2.4	-1.7	26.0
Result of the period	14.3	19.2	34.1
Margin	4.4%	5.6%	