PHOENIX MECANO

Media release

Phoenix Mecano in H1 2019: Slight drop in sales and incoming orders, disproportionate decline in operating result – Package of measures adopted to boost earnings – Acquisitions to strengthen the Mechanical Components and Enclosures divisions

Kloten/Stein am Rhein, 15 August 2019. In a significantly more challenging global market environment, the Phoenix Mecano Group's sales and incoming orders fell slightly in the first half of 2019, with a disproportionate decline in operating result. The global economic slowdown and pronounced inventory cycles led to weaker demand for industrial components. Trade policy uncertainty between the US and China slowed development in the Asian and American furniture market.

Phoenix Mecano has already responded to these market developments. A package of measures to strategically adapt its structures was adopted by the Board of Directors on 14 August 2019. The measures are focused on the Mechanical Components and ELCOM/EMS divisions and include capacity adjustments, streamlining of product portfolios, site optimisations and responses to the ongoing China-US trade conflict. The Group expects one-off expenses in the range of €14-16 million, of which nearly half will affect the cash position. Immediate measures were already initiated in the second quarter, resulting in one-off expenses of €1.4 million in the 2019 half-yearly accounts. The management expects this package of measures to deliver sustained cost savings of around €10 million per year from 2021.

Phoenix Mecano is presenting its **financial statements according to Swiss GAAP FER for the first time** in H1 2019 (see media release of 24 May 2019). In the interests of comparability, the previous year's figures have been adjusted to the new accounting standard. This adjustment has a positive impact of €1.3 million on the result of the period for the first six months of 2018.

Consolidated gross sales fell by 3.7% in the first half of 2019, from €339.3 million to €326.8 million. On an organic basis and in local currency terms, the decline was 6.4%. Net sales totalled €323.9 million (previous year: €336.4 million). Incoming orders decreased by 6.8% from €349.9 million to €326.3 million. The book-to-bill ratio was 99.9% (previous year: 103.2%).

Adjusted for the aforementioned one-off expenses in the first half of 2019 as well as positive one-off items of €1.9 million in the previous year, the operating result was down by 37.3% from €28.7 million to €18.0 million. Operating cash flow declined by 27.5% from €39.9 million to €28.9 million. Without adjustments the operating result fell by 45.7% from €30.6 million to €16.6 million and operating cash flow by 34.1% from €41.8 million to €27.5 million.

The result of the period after taxes was €11.6 million, down 43.6% on the previous year (€20.5 million).

Development of the Group's divisions

In the **Enclosures** division, sales fell by 0.5% to €95.4 million. Corrected for currency effects, sales were down by 1.2%. Despite increasingly challenging conditions, sales in the core market of Germany held steady. Sales in Southeast Asia, a market heavily influenced by the oil and gas project business, also remained stable. The Americas recorded a 5.4% drop in sales.

Owing to future-oriented development expenses in human-machine interfaces (HMIs) and increases in staff costs, the operating result declined by 15.6% to €11.0 million, with a corresponding drop in operating margin from 13.6% to 11.5%.

To expand its technological expertise in the strategically important HMI business, Phoenix Mecano acquired all shares in CRE Rösler Electronic GmbH, based in Hohenlockstedt, Germany, with effect from 1 August 2019. The company generated sales of €6.5 million in 2018 and employs just under 50 people. CRE's product portfolio includes panel PCs in aluminium and stainless steel enclosures, panel monitors, embedded systems and industrial tablets for mobile applications. These customised products will perfectly complement the existing range of suspension systems and mechanical control enclosures manufactured by Phoenix Mecano subsidiary ROSE Systemtechnik, paving the way for innovative electronic automation solutions.

In the **Mechanical Components** division, gross sales fell by 3.5% to €167.0 million. On an organic basis and in local currency terms, the decline was 9.7%. The China-based furniture fittings manufacturer MyHome, acquired on 1 April 2019, contributed €9.8 million to these sales.

While overall global sales remained stable in the Rose & Krieger industrial segment, DewertOkin's furniture and care market saw sales decline. The volatility and uncertainty generated by the ongoing US-China tariff conflict demand a high degree of flexibility from all market participants. This means that permanent adjustments to global value chains and investment decisions are being put off for as long as possible. Previously implemented interim solutions are creating redundancies and additional costs in multi-level, international supply chains. Growth in the Americas and Asia has slowed.

The operating result decreased by 39.3% to €9.2 million while the operating margin fell from 8.7% to 5.5%. Owing to continuing weak demand in the European furniture market, personnel adjustments have been initiated. In addition, measures have been taken to cushion the effects of the aforementioned tariff conflict. This impacted the division's H1 result by a total of €1.2 million.

The integration of MyHome into the division is fully on track. MyHome will enable Phoenix Mecano, with its existing DewertOkin business area, to offer OEM customers complete systems comprising functional fittings and drive, sensor and control technology for intelligent comfort furniture solutions in the smart home environment. The Group holds a world leading position in this growth market.

In the **ELCOM/EMS** division, gross sales were down by 8.3% to €64.4 million, or 5.2% on an organic basis and in local currency terms. The largest business area, Electrotechnical Components, posted a double-digit decline in sales. This was the result of weaker demand in industrial end markets and time-limited inventory cycles in recent months. Sales in the Power Quality and Electronic Packaging business areas were maintained at the previous year's level.

The operating result was -€1.6 million, following an operating profit of €4.3 million the previous year or €2.4 million excluding the gain from the sale of Wijdeven Inductive Solutions BV. The Electrotechnical Components business area posted a loss due to the significant drop in sales and losses on inventories. Capacity adjustments have been initiated. The Power Quality business area also weighed on the division's result. Ongoing activities to boost efficiency and enhance cost structures are being stepped up in this area. In the profitable Electronic Packaging business area, customer postponements of project activities led to a lower half-year result.

Outlook

Since late 2018, geopolitical risks and trade policy uncertainty have been steadily increasing, weakening the already fragile state of global capital goods activity. Industrial purchasing managers' indices (PMIs) are declining in virtually all countries, with no suggestion of a recovery in the second half of the year.

Phoenix Mecano has already responded to this by implementing immediate measures and approving structural adjustments. At the same time, it continues to push ahead decisively with forward-looking growth initiatives.

The takeover of CRE Rösler puts the Enclosures division on a stronger technological footing. Systematic expansion of the existing product range in the promising HMI field will open up attractive growth opportunities.

The integration of MyHome into the Mechanical Components division is a key element in achieving strategic goals, and systematic efforts are under way to consolidate the market-leading position in system solutions and components for electrically adjustable upholstered furniture.

The Phoenix Mecano Group expects the economic situation to remain challenging in the second half of the year. However, the Group is underpinned by a solid balance sheet structure and the current gap in its operating results compared with the previous year is likely to shrink in percentage terms. The measures that have been adopted will further impact the 2019 year-end result. Even excluding these one-off items, Phoenix Mecano's management and Board of Directors expect the full-year operating result for 2019 to be below that of the previous year, in the range of €33-40 million.

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 15 August 2019.

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

Results first half of 2019 in figures (in EUR million)

	1-6 2018*	1-6 2019	in %
*From the start of 2019, the consolidated financial statements are being prepared in accordance with Swiss GAAP FER. The previous year has been adjusted accordingly to facilitate comparison with the current financial period.			
Incoming orders	349.9	326.3	-6.8
Gross sales	339.3	326.8	-3.7
per division:			
Enclosures	95.9	95.4	-0.5
Mechanical components	173.1	167.0	-3.5
ELCOM/EMS	70.3	64.4	-8.3
Net sales	336.4	323.9	-3.7
Operating cash flow	41.8	27.5	-34.1
Margin	12.3%	8.4%	
Operating result	30.6	16.6	-45.7
Margin	9.0%	5.1%	
per division:			
Enclosures	13.0	11.0	-15.6
	13.6%	11.5%	
Mechanical components	15.1	9.2	-39.3
	8.7%	5.5%	
ELCOM/EMS	4.3	-1.6	-136.2
	6.1%	-2.4%	
Other	-1.8	-2.0	-11.9
Result of the period	20.5	11.6	-43.6
Margin	6.1%	3.5%	