Media release on financial year 2019 and Q1 2020

Phoenix Mecano financial year 2019: Acquisition-related sales growth of 4.5% – Year-on-year drop in operating result and result of the period – Performance enhancement programme on track – Improvement in earnings situation in H2

Q1 2020: Growth of 3.7% – Organic sales -3.2% – Incoming orders up 2.8% organically – Sales and result increasingly hit by COVID-19 crisis

Kloten/Stein am Rhein, 16 April 2020. The Phoenix Mecano Group's consolidated gross sales increased by 4.5% in 2019, from EUR 650.8 million to EUR 680.0 million. In organic, local-currency terms, they were down by 2.2%. The China-based furniture fittings manufacturer Haining My Home Mechanism Co., Ltd., acquired on 1 April 2019, contributed EUR 37.5 million to sales.

Following the switch to Swiss GAAP FER accounting standards, the previous year's figures have been adjusted for the sake of comparability.

Operating result

The performance enhancement programme launched in 2019 resulted in one-off expenses of EUR 16.2 million. Adjusted for these expenses and an exceptional income of EUR 1.9 million in 2018, the operating result fell by 20.1% from EUR 49.5 million to EUR 39.5 million and the operating cash flow by 13.8% from EUR 72.1 million to EUR 62.1 million. Thanks to increasing business momentum and the measures taken to boost performance, the Group achieved an adjusted operating result in the second half of the year that was on a par with the previous year's level. On an annual basis, the operating result including one-off items was down by 54.5% from EUR 51.3 million to EUR 23.4 million, while the operating cash flow fell by 34.0% from EUR 74.0 million to EUR 48.8 million.

Result of the period

The result of the period fell by 61.5% from EUR 36.1 million to EUR 13.9 million, and the net margin from 5.5% to 2.0%.

Equity ratio and net indebtedness

The equity ratio declined from 59.1% to 44.5% due to the offsetting of acquisition-related goodwill against equity. However, this is still well above the target minimum equity ratio of 40%. Net indebtedness at the end of 2019 was EUR 88.1 million (previous year EUR 33.9 million). Taking out a five-year promissory note loan of EUR 30 million eased pressure on existing credit lines and strengthened the Group's financial flexibility.

Division results

The **Enclosures** division recorded a 1.4% increase in gross sales to EUR 189.3 million. Organic, local-currency sales were down by -1.3%. The operating result fell by 13.0% to EUR 19.5 million. A slightly lower gross profit margin, increased development expenses, staff cost increases and underutilised manufacturing facilities at a number of sites impacted the result.

Gross sales in the **Mechanical Components** division rose by 10.0% to EUR 360.6 million, but fell 2.3% in organic, local-currency terms. A package of measures to adjust capacity and streamline the product portfolio and to respond to the US-China trade dispute had a negative impact of EUR 9.7 million on the division's 2019 result. Excluding these one-off expenses, the operating result decreased by 16.5% to EUR 21.2 million. Including one-off expenses, there was an operating profit of EUR 11.5 million (down 54.8%).

Gross sales in the **ELCOM/EMS** division dropped by 4.6% to EUR 130.1 million. In organic, local-currency terms, they were down by 3.3%. Adjusted for one-off expenses linked to a comprehensive package of measures to boost performance as well as the gain from the sale of a Group company in 2018, the division posted an operating profit of EUR 1.5 million, compared with EUR 4.9 million the previous year. Including one-off expenses, it made an operating loss of EUR 4.7 million.

First quarter of 2020

Over the first quarter, the first negative effects of the COVID-19 pandemic became more acute and the global economic situation deteriorated rapidly. Owing to the extended holidays after Chinese New Year and the rigorous quarantine measures, the Phoenix Mecano Group's sites in China only generated around half of their usual output in Q1.

So far in the COVID-19 crisis, Phoenix Mecano has benefited from the fact that Group companies have a high level of vertical integration on the procurement side, which shields them from short-term supply shortages. Also, their status as suppliers of system-critical components for some applications has enabled them to obtain special permits to continue operating at reduced production capacity.

The Phoenix Mecano Group's gross sales in Q1 2020 were EUR 162.5 million (previous year EUR 156.7 million), an increase of 3.7%. In local currency and excluding consolidation effects, sales were down by 3.2%.

Incoming orders rose by 9.2% year-on-year to EUR 171.8 million (previous year EUR 157.3 million). In local currency and excluding consolidation effects, incoming orders increased by 2.8%. The whole-quarter book-to-bill ratio of 105.8% suggests a continuation of the positive sales trend. However, this has to be set against the backdrop of the escalating COVID-19 crisis, with the monthly book-to-bill ratio for March dropping well below 100%.

Owing to staff cost increases and a lower gross profit, the operating result fell by a disproportionately high 42.9% to EUR 6.0 million, from EUR 10.6 million in the same quarter last year. The operating margin was 3.7% (previous year 6.8%). The operating result includes subsequent one-off expenses of EUR 0.5 million from the 2019 performance enhancement programme, divided up roughly 50/50 between the Mechanical Components and ELCOM/EMS divisions. The programme will be completed in 2020 regardless of the current crisis. The result of the period was EUR 1.2 million, down 84.8% year-on-year.

The **Enclosures** division generated gross sales of EUR 48.1 million, a decrease of 2.2% (or 5.6% in organic, local-currency terms) compared with the same quarter last year. Its operating result fell by 24.9% from EUR 6.6 million to EUR 5.0 million.

So far, the Enclosures division has been less affected by the measures taken worldwide to curb the spread of COVID-19. Its major Indian plant was able to carry on manufacturing standard enclosures until almost the end of the quarter. In Europe, its most important market region, demand remained intact, and machining centres and assembly lines there operated without interruption. Weak demand in the Asian project business involving enclosures with high IP ratings was partially offset by increased business activity in human-machine interface (HMI) system solutions. The acquired technology company CRE Rösler Electronic GmbH contributed significantly to expanding the division's technological expertise in this strategically important business.

Mechanical Components, the Group's strongest performing division in terms of sales, increased its gross sales by 13.9% to EUR 85.5 million in Q1 (up 1.8% in organic, local-currency terms). Its operating result fell by 20.4% from EUR 4.7 million to EUR 3.7 million, following a strong performance in the prior-year quarter. The Rose & Krieger industrial segment saw sales decline in a challenging economic environment. Performance in the furniture and healthcare market (DewertOkin product area) varied from region to region.

In the upholstered and reclining furniture market, growth in the Americas and Asia slowed abruptly. First, global value chains were interrupted by temporary factory closures in Asia, and then, at the end of the quarter, furniture manufacturers worldwide were forced to close their assembly plants due to measures to tackle the pandemic and the associated slump in demand. This will have a negative impact on sales in the second quarter. In the current circumstances, the division is benefiting from the fact that DewertOkin's drive and control technology is used in hospital and nursing beds. This market segment experienced growth momentum in Europe.

The integration of MyHome is fully on track. Combined with its existing DewertOkin business area, MyHome will enable Phoenix Mecano to offer complete systems comprising functional fittings and drive, sensor and control technology for intelligent comfort furniture solutions. The Group is a world leader in this growth market.

The **ELCOM/EMS** division recorded gross sales of EUR 28.9 million, a year-on-year fall of 11.0% in both nominal and organic, local-currency terms. The operating result for the division as a whole was EUR -1.7 million (previous year EUR 0.3 million). Despite the difficult conditions created by the COVID-19 crisis, the division was able to continue with the capacity adjustments, site optimisations and product streamlining measures already initiated in the Electrotechnical Components and Power Quality business areas. Weak industrial demand was offset by sales of specific products used in energy infrastructure projects, which are long term in nature and not particularly susceptible to economic fluctuations. In this segment, demand for high-precision instrument transformers for HVDC applications remained stable.

Outlook

The COVID-19 pandemic has led to a sharp decline in the global economy. It is not yet possible to predict when the demand shock will peak in different markets and sectors and how long it will take before the economic consequences are overcome. The management and Board of Directors anticipate a very challenging second and third quarter, combined with a significant slowdown in business activity. At present, however, no reliable forecasts can be made about how severe this downturn will be and when the company will be able to return to organic growth.

Given these considerable uncertainties, Phoenix Mecano's management is planning based on scenarios, the main objectives being to maintain liquidity and cut costs. A resilient balance sheet and sufficient liquid funds stand the Group in good stead to weather a recession in global markets. The management will complete the performance enhancement programme launched last year and respond flexibly to new developments.

Despite the current uncertainties, the management and Board of Directors are looking to the future with confidence. The Phoenix Mecano Group is broadly diversified both geographically and in terms of its product areas and applications, with high-tech and medical applications bolstering demand during economic downturns. We operate in sustainable growth markets, offering industry-specific system solutions for industrial computing, factory automation and smart home applications. The Phoenix Mecano Group is therefore optimally positioned to benefit from the upturn after the crisis.

Dividend

To preserve liquidity and support important investment plans, the Board of Directors will propose to the Shareholders' General Meeting on 20 May 2020 that the dividend per share be reduced from CHF 17 to CHF 10. The dividend has increased incrementally by 70% over the past 10 years and the Board of Directors is keen to return to this historic dividend level once the COVID-19 crisis is over.

Link to the annual report 2019:
https://www.phoenix-mecano.com/en/investor-relations/annual-reports/annual-reports

Link to the annual accounts 2019 and current business Q1 2020:
https://www.phoenix-mecano.com/en/media/current-media-releases

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