Media release

Phoenix Mecano in H1 2014: Sales at previous year's level – Special items and set-up costs for new business areas impact on operating result – European industrial markets uneven, positive trend in Asia and America

Stein am Rhein/Kloten 15 August 2014. Phoenix Mecano, a leading specialist in the enclosures technology and industrial components, operated in a distinctly mixed market environment in the first half of 2014. The key industrial markets of mechanical and electrical engineering in Europe experienced a sideways trend with mildly positive signs. In Asia and North America there was growth. In the important American market, the drive components business for comfort furniture and hospital/care beds (Mechanical Components division) saw a slowdown in the second quarter of 2014, following two very strong years. The realignment of the ELCOM/EMS division continues apace and, as expected, had an impact on the statement of income in H1.

Consolidated gross sales were virtually the same as the previous year at €256.1 million (2013: €256.3 million). Excluding effects from changes to the scope of consolidation, there was a decline of 0.8%. Negative currency effects depressed sales in euro by 1.6%.

Net sales totalled €253.6 million (previous year: €253.9 million). Incoming orders were down by 3% to €254.9 million, corresponding to a book-to-bill ratio of 99.5%. This suggests the sideways trend will continue in the coming months.

The operating result was down by 10.8% to €17.4 million, due primarily to a number of one-off special items. The Enclosures division, which is geared towards industrial markets, saw its margin increase slightly. However, in the DewertOkin arm (Mechanical Components division), increased costs arising from patent disputes and the impairment of inventories due to customer-side project delays led to a slight fall in the operating margin. The operating result was also impacted by the costs of setting up new business areas in connection with the realignment of the ELCOM/EMS division.

Operating cash flow fell by 3.7% to €28.7 million (previous year: €29.7 million).

The result of the period after taxes was €11.4 million, compared with €13.8 million the previous year, a reduction of 17.5%. This decline was greater than that of the operating result, mainly due to an increased tax rate caused by a less favourable mix of earnings contributions from countries with different taxation levels. The effective tax rate was 30.6%, compared with 25.4% the previous year.

Net indebtedness increased from €12.4 million at 30 June 2013 to €20.1 million and continues to offer sufficient scope for growth investments and continuation of the long-term dividend policy.

Development of the Group's divisions

The **Enclosures** division increased its gross sales by 3.9%, ending the negative trend of the past two years. The operating margin rose to 15.3% from 13.5% the previous year. The membrane keyboards and touchscreen systems market remains challenging due to massive technological changes, which pose a range of challenges for interface integration service providers such as Phoenix Mecano. Geographically, the overseas markets of North America and Asia performed most convincingly. Bopla, a subsidiary specialising in plastic electronics enclosures, successfully launched a new series of standard enclosures onto the market. These are tailored to the specific requirements of today's touchscreen controls and have a very maintenance-friendly design.

The **Mechanical Components** division operates in the field of industrial automation technology via its Rose+Krieger product area. The DewertOkin product area supplies control and drive solutions for electrically adjustable comfort furniture and hospital/care beds. The division recorded a 1% fall in sales in H1 2014, from €120.1 million to €118.9 million. In this segment too, the industrial business in linear positioning systems and aluminium profile assembly systems proved relatively robust. By contrast, the DewertOkin arm, which has grown strongly in recent years, was hit by project delays and reduced demand from end markets in the second quarter of 2014, particularly in the important US market.

The **ELCOM/EMS** division posted a decline in sales of 4.1%. Performance varied within the division's three main product areas. Electromechanical components enjoyed a generally stable market environment. These components (switches, connectors) face particular challenges from high wage inflation in China, which will be offset in future by increased investment in semi-automated processes in southern China. This fundamentally welcome development will mean increased investments and costs in the low single-digit million range over the next two years. The reorientation already had an impact in H1 2014, to the tune of around €1 million.

Electronic packaging put in a stable performance in the general industrial sector. The environment for physics research and security industry projects proved more difficult, with a number of big projects suffering delays.

In the power quality segment, there was increased expenditure on expanding the sales network and the product range for instrument transformers. In this connection, Phoenix Mecano took over Redur Messwandler GmbH on 1 July 2014. Based in Merzenich, Germany, the company is well-established on the market as a specialist manufacturer of instrument transformers for low-voltage applications and measuring transducers. Redur generated sales of €3 million in 2013 with a positive operating result. Over the next two years, Phoenix Mecano plans to further expand this segment by developing internal capacities and potentially making further bolt-on acquisitions.

Outlook

For the most part, industrial leading indicators remain positive worldwide. However, in the eurozone, and particularly Germany, which is Phoenix Mecano's most important market, these positive forecasts have become more doubtful of late. For example, the Ifo Index, a key indicator for Germany and Europe, fell well short of expectations in July 2014. Meanwhile, the US market in electrically adjustable comfort furniture is showing signs of weakness after a succession of boom years. The duration and scale of this weakness is hard to predict at present.

Further challenges are posed by the realignment of the ELCOM/EMS division, linked to the integration of bolt-on acquisitions Phoenix Mecano SMS and Redur (both instrument transformer technology companies). However, the Group's Management and Board of Directors are convinced by the medium- and long-term strategy and the attractiveness of the target markets for this division. Expanding and adapting electricity grids to the changed energy mix in the coming years will require significant investment, which will offer attractive growth opportunities for Phoenix Mecano.

For the current year, against the backdrop of these estimates, it seems realistic to forecast Group sales in the region of those achieved last year, and an operating result on a par with last year's, once adjusted for one-off charges and set-up costs for new business areas. One-off charges and set-up costs in the mid-single-digit million range will probably result in the unadjusted result for the year as a whole falling below that of the previous year. However, in keeping with the long-term dividend policy, such special items will not be taken into account when calculating the amount to be distributed. If the upturn in industrial activity were to gain momentum in the second half of the year, this would have a positive impact on the Phoenix Mecano Group's full-year forecast.

A detailed semi-annual report will be available for downloading as a PDF file from our website http://www.phoenix-mecano.com/semi-annual-reports.html from 15 August 2014.

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Results first half of 2014 in figures (in EUR million)

	1-6 2013	1-6 2014	in %
Incoming orders	262.7	254.9	-3.0
Gross sales	256.3	256.1	-0.1
per division:			
Enclosures	82.0	85.2	3.9
Mechanical components	120.1	118.9	-1.0
ELCOM/EMS	54.2	52.0	-4.1
Net sales	253.9	253.6	-0.1
Operating cash flow	29.7	28.7	-3.7
Margin	11.6%	11.2%	
Operating result	19.5	17.4	-10.8
Margin	7.6%	6.8%	
per division:			
Enclosures	11.1	13.0	17.2
	13.5%	15.3%	
Mechanical components	9.8	8.5	-13.1
	8.1%	7.1%	
ELCOM/EMS	0.8	-2.1	-344.1
	1.6%	-4.0%	
Other	-2.2	-2.0	7.9
Result of the period	13.8	11.4	-17.5
Margin	5.4%	4.5%	