PHOENIX MECANO

Media release

Phoenix Mecano in Q3 2014: Positive turnaround in sales and operating margin after weak Q2 – Economic environment currently stable – Focus on operational optimisations and development of new business areas

Stein am Rhein/Kloten, 31 October 2014: The Phoenix Mecano Group, a leading company active in the field of enclosures and industrial components, recorded slight increases in incoming orders, sales and operating result compared with the previous quarter. However, year-on-year results were down slightly, although incoming orders also rose a little compared with the same period last year.

Most leading forecasting institutes have downgraded their growth expectations for the eurozone industrial sector in recent weeks. However, from Phoenix Mecano's perspective the environment has not changed greatly, meaning that the Group anticipates generally stable conditions for the last quarter of 2014 and the start of 2015.

Consolidated gross sales in the quarter under review fell by 1.6% to €124.4 million. Taking into account changes in the scope of consolidation, the decrease was 2.6%. Excluding negative currency effects, the decline would have been just 1.3%. Incoming orders in the third quarter stood at €124.1 million, a rise of 2% compared with last year. The book-to-bill ratio remained stable at 99.7%. The pick-up in growth hoped for at the start of the year is not therefore to be expected in the near future.

Operating cash flow was down 8.1% on the same period last year, at €14.3 million. Operating result fell by 18.8% from €10.4 million to €8.4 million, corresponding to an operating margin of 6.8%, compared with 8.2% last year.

The result of the period after tax fell by a slightly lower proportion due to an improved financial result, decreasing by 16.3% from €7.3 million to €6.1 million.

Operational improvements in Enclosures taking effect, stabilisation measures introduced in Mechanical Components, realignment in ELCOM/EMS continuing

The operating margin of the most profitable division, **Enclosures**, has improved year-on-year in every quarter of 2014 so far. This steady trend underscores the effectiveness of the measures taken in the areas of operational excellence, logistics and marketing. The division will continue resolutely along this path and should be able to make further incremental improvements in 2015, assuming stable underlying economic conditions.

In the **Mechanical Components** division, difficult market conditions affecting electric drives for healthcare and comfort furniture saw a number of customers get into payment difficulties or file for insolvency in the third quarter of 2014. These difficulties hit all three major market regions: Europe, America and Asia. However, thanks to Phoenix Mecano's excellent positioning with its Okin and Dewert brands, we expect to be able to recoup at least part of the sales lost in this way in 2015 with other customers. The unbroken positive trend in end-customer demand for motorised adjustable furniture will undoubtedly play a supporting role in this regard.

The **ELCOM/EMS** division is on schedule with its realignment. Unaffected by the restructuring are electromechanical components such as switches and plug connectors, for which business performance is stable. However, in power quality components (measuring transformers, chokes) and electronics manufacturing services, we anticipate further early stage investments and increased costs in financial year 2015.

Outlook

After a disappointing holiday month in August, the trend stabilised in September, with the US economy still robust but Asia and Europe more up and down. Our consistent strategy of operational optimisation combined with expansion of activities in new areas of business such as the oil and gas sector, instrument transformers and LED street lighting should enable the Group to develop steadily over the coming months. Some of these projects are already making positive contributions to sales and operating result. Others are long-term projects that are not expected to contribute positively to the operating result until 2016 or 2017. However, the risks associated with these projects can be controlled effectively through rigorous management of milestones in the areas of development, certification and sales development. The Board of Directors and Group management are therefore cautiously optimistic that the recent positive trend in incoming orders, sales and operating result can be consolidated, assuming that underlying economic conditions remain relatively stable. Against this backdrop, we confirm the forecast made half way through 2014, namely an operating result in the region of that achieved last year, once adjusted for special items in the mid-single-digit million range.

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Results Q3 2014 in figures (in EUR million)

	7-9 2013	7-9 2014	in %
Incoming orders	121.6	124.1	2.0
Gross sales	126.4	124.4	-1.6
per division:			
Enclosures	41.2	41.7	1.1
Mechanical components	58.8	55.2	-6.1
ELCOM/EMS	26.4	27.5	4.4
Net sales	124.4	123.2	-1.0
Operating cash flow	15.6	14.3	-8.1
Margin	12.3%	11.5%	
Operating result	10.4	8.4	-18.8
Margin	8.2%	6.8%	
per division:			
Enclosures	6.1	6.4	4.7
	14.8%	15.3%	
Mechanical components	4.6	3.4	-26.7
	7.9%	6.2%	
ELCOM/EMS	0.2	-0.4	-314.3
	0.7%	-1.4%	
Other	-0.5	-1.0	-105.2
Result of the period	7.3	6.1	-16.3
Margin	5.8%	4.9%	

Results Q1 – Q3 2014 in figures (in EUR million)

	1-9 2013	1-9 2014	in %
Incoming orders	384.3	379.0	-1.4
Gross sales	382.7	380.5	-0.6
per division:			
Enclosures	123.2	126.9	3.0
Mechanical components	178.9	174.1	-2.7
ELCOM/EMS	80.6	79.5	-1.3
Net sales	378.3	376.8	-0.4
Operating cash flow	45.3	43.0	-5.1
Margin	11.8%	11.3%	
Operating result	29.9	25.8	-13.5
Margin	7.8%	6.8%	
per division:			
Enclosures	17.2	19.4	12.8
	13.9%	15.3%	
Mechanical components	14.4	11.9	-17.5
	8.1%	6.8%	
ELCOM/EMS	1.0	-2.5	-338.9
	1.3%	-3.1%	
Other	-2.7	-3.0	-11.3
Result of the period	21.1	17.5	-17.1
Margin	5.5%	4.6%	