PHOENIX MECANO

Media release

Phoenix Mecano in H1 2015:

Dynamic top-line growth – Q2 profitability significantly up on previous year – ELCOM/EMS division realignment on track

Kloten/Stein am Rhein, 14 August 2015. Phoenix Mecano, the specialist in enclosures and industrial components, performed well in the first half of 2015, gaining significant momentum in Q2 despite a challenging market environment in many areas. The massive fluctuations in USD/EUR and CHF/EUR exchange rates posed major challenges to the group as a global operator. This was compounded by difficult market conditions in Russia, Switzerland, Brazil and China. However, the most recent one was more than offset by gains in market share, particularly in the Mechanical Components division. The development of new sales markets for the former solar division ELCOM/EMS remains largely on track, but as expected continues to generate substantial costs in 2015.

Consolidated gross sales rose by 10% in the first half of 2015, from €256 million to €282 million. Positive currency effects contributed 6.1% to this growth. Excluding effects from changes to the scope of consolidation, growth was 9.4%. Net sales totalled €279 million (previous year: €254 million). Incoming orders performed even better, climbing by 17.5% from €255 million to €300 million. This corresponds to a book-to-bill ratio of 106%. We therefore expect the positive trend in gross sales to continue in the coming months.

Operating cash flow (EBITDA) rose by 1.1%, from €28.7 million to €29 million. The operating result (EBIT) fell by 5.3%, from €17.4 million to €16.5 million. This includes amortisation of acquisition-related intangible assets totalling €3.1 million (previous year: €2.6 million). Looking at Q2 2015 alone, the operating result was up by 39% year-on-year. However, in the corresponding quarter last year, increased costs arising from patent disputes and the impairment of inventories due to customer-side project delays depressed the result.

The result of the period after taxes was €10.1 million, down 11.4% on the previous year (€11.4 million). This includes the charge of around €2.6 million, not affecting cash or equity, which was reported at the time of the Q1 results. At that time, the scrapping of the lower limit for the euro-franc exchange rate in January resulted in devaluations of euro-denominated assets at Group companies reporting in CHF. The tax rate in the reporting period was 28.4%, compared with 30.6% the previous year.

Net indebtedness increased to €34.3 million (previous year: €20.1 million) due to growth-related expansion of the balance sheet and the dividend payment in the second quarter. Combined with the still high equity ratio of over 60%, this allows the Group sufficient scope for further strategic development.

Development of the Group's divisions

The **Enclosures** division increased its gross sales by 4.4%, while its operating margin declined from 15.3% to 12.3%. Business performance was negative in Switzerland and Russia, mainly for currency reasons. In sectoral terms, the oil and gas business suffered due to the global collapse in prices, particularly in the target markets of the United States and Singapore. However, a raft of new projects currently under way should enable a partial catch-up in this sector in the second half of the year. Optimisation measures in the membrane keyboards business are also starting to take effect. Nonetheless, the industrial environment remains challenging, due to a deterioration in macroeconomic conditions in countries such as China and Brazil.

The **Mechanical Components** division saw its gross sales increase by an encouraging 14.5%. The operating result rose by a disproportionately high 25.4%; the margin stood at 7.8% compared with 7.1% the previous year. The main driver of this dynamic growth was the electrical drives business for motor-adjustable comfort and healthcare furniture. Rising demand in China and the United States combined with increased market share through the acquisition of major new customers enabled significant progress to be made. By contrast, the European and Japanese markets flatlined. In the industrial segment (Rose&Krieger product area), the Group underwent a sideways movement overall due to challenging economic conditions. Performance was positive in India and China but market conditions in Switzerland were particularly difficult due to the franc shock.

The **ELCOM/EMS** division increased its gross sales by 8.7% to €56.5 million. The operating result was -€3.3 million (previous year: -€2.1 million). Currently being realigned towards new market segments following its withdrawal from the solar business, this division incurred substantial expenses for the development of new products and sales channels. Its result was also impacted by a strike at a Tunisian plant, which has now been resolved, and increased labour costs at its production facilities in southern China. Phoenix Mecano anticipates further negative results for this division in the second half of the year. The target is to achieve a break-even operating result in 2016. ELCOM/EMS saw an encouraging trend in incoming orders for long-term projects in high-voltage direct current (HVDC) technology and in the product area comprising test probes for electronic testing and high-quality contacts.

Outlook

Global economic conditions for industrial components have worsened slightly as the year has progressed. Emerging economies such as China and Brazil are no longer acting as drivers of economic growth, while Europe continues to battle with the effects of the sovereign debt crisis despite a currency-driven boost to its competitiveness. Even in the United States, with its generally positive economic data, many industrial customers are reluctant to invest due to the low oil price. Nevertheless, we anticipate modest growth for the industrial segment in the second half of the year owing to new product developments and investments in production and sales capacity. The climate for our biggest product area, electrical drive solutions for the comfort furniture and healthcare industry (DewertOkin, Mechanical Components division), is even more favourable. Consequently, despite the substantial investments still required for the ELCOM/EMS realignment, we believe that an operating result around the same level as last year's – i.e. in the region of €30 million – is possible, assuming that no unexpected events occur. Once the realignment of this division is completed in 2016, Phoenix Mecano will be able to grow its consolidated earnings significantly, subject to reasonably stable economic conditions.

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 14 August 2015.

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Results first half of 2015 in figures (in EUR million)

	1-6 2014	1-6 2015	in %
Incoming orders	254.9	299.5	17.5
Gross sales	256.1	281.6	10.0
per division:			
Enclosures	85.2	89.0	4.4
Mechanical components	118.9	136.1	14.5
ELCOM/EMS	52.0	56.5	8.7
Net sales	253.6	279.0	10.0
Operating cash flow	28.7	29.0	1.1
Margin	11.2%	10.3%	
Operating result	17.4	16.5	-5.3
Margin	6.8%	5.8%	
per division:			
Enclosures	13.0	10.9	-16.2
	15.3%	12.3%	
Mechanical components	8.5	10.7	25.4
	7.1%	7.8%	
ELCOM/EMS	-2.1	-3.3	-57.9
	-4.0%	-5.8%	
Other	-2.0	-1.8	10.9
Result of the period	11.4	10.1	-11.4
Margin	4.5%	3.6%	