METALL ZUG

Metall Zug Group

Half-year Report 2017

Higher Net Income and Investments in the Future

The Metall Zug Group posted gross sales of CHF 445 million in the first half of 2017, an increase of 0.9 %. Substantial expenses relating to future growth had a negative impact on operating profitability. At CHF 28.2 million, operating income (EBIT) was 10.8 % lower than in the same period of the previous year. Net income rose 41.4 % to CHF 33.8 million thanks to the improved financial result.

Dear Shareholders

The Metall Zug Group increased gross sales by 0.9 % in the first half of 2017 to CHF 445 million (H1 2016: CHF 441 million). This is equivalent to organic growth in local currencies of 0.3 %. Acquisitions contributed 0.8 % to growth in sales and currency effects –0.2 %. The Infection Control and Wire Processing business units increased their gross sales whereas the Household Appliances Business Unit did not match the high level of the previous year.

The Metall Zug Group generated operating income (EBIT) of CHF 28.2 million (H1 2016: CHF 31.6 million), equivalent to a decline of 10.8 %. The operating margin (EBIT in % of gross sales) came to 6.3 % (H1 2016: 7.2 %). Investments in the modernization of the production facilities and in structures, in the digitization of processes and products and in preparatory work for the Technology Cluster Zug all had a negative impact on operating profitability in the first six months of 2017.

The financial result made a positive contribution of CHF 14.4 million (H1 2016: CHF 0.6 million). This is primarily attributable to the performance of the investments in securities.

The Metall Zug Group achieved net income of CHF 33.8 million in the reporting period (H1 2016: CHF 23.9 million), a rise of 41.4 % compared with the prior-year period.

The net cash position was CHF 504 million as at June 30, 2017, and therefore CHF 38.8 million below December 31, 2016 (CHF 543 million), following the distribution of a dividend of CHF 31.4 million, the advance payment of taxes and an increase of net working capital. The Metall Zug Group has a solid balance sheet with equity of CHF 881 million (December 31, 2016: CHF 886 million) and an equity ratio of 77.8 % (December 31, 2016: 76.9 %).

The first half of 2017 was characterized by investments in the future: The Household Appliances Business Unit made concluding investments in the new “Mistral” production, assembly and development building at V-ZUG’s main site. Preparatory work for the new production building in Zug got underway. The Infection Control Business Unit entered the fast-growing low-temperature sterilization market by acquiring STERIFAST Sterilization & Disinfection Systems Lda. (STERIFAST), a company based in Portugal. The Wire Processing Business Unit increased its shareholding in the German company DiIT AG from 35 % to 100 %, thus gaining direct access to one of the leading providers of manufacturing execution system (MES) solutions – a key element of the “Industry 4.0” for the wire processing industry.

Household Appliances: Wide Range of Initiatives and Future Projects

The Household Appliances Business Unit generated gross sales of CHF 275 million, representing a decrease of 3.7 % on the prior-year period (CHF 286 million). The currency effect was negligible and there were no acquisition effects. The organic decline in local currencies therefore also came to 3.7 %. The Business Unit generated operating income (EBIT) of CHF 26.5 million (a decrease of 19.4 % compared with the prior-year period at CHF 32.9 million).

The decrease in operating income is primarily attributable to lower sales and substantial expenses for future organic growth. The strategic modernization of the Zug production site entailed wide-ranging preparatory and planning work for the new plant. In addition, V-ZUG invested in a variety of digitization initiatives. V-ZUG is also rolling out two new core applications – SAP S/4HANA Enterprise Management (ERP) and mLogistics (FSM-Field Service Management) – in 2017, allowing many existing subsystems to be replaced. These new applications will enable the company to undergo a full-scale digital transformation. In a further move, a new team was set up in Rotkreuz (Switzerland) at the provisional base of “Innovationspark Zentralschweiz” (innovation park in Central Switzerland). The team works in agile projects to develop digital solutions and products as well as new business models.

At the same time, all appliances with the V-ZUG-Home option have been prepared for integration in digital networks.

The Household Appliances Business Unit further expanded its market share in the declining Swiss home market. V-ZUG successfully launched a variety of new products, such as the new hob extractor – a practical alternative to classic extractor hoods for lovers of purism in kitchen design. V-ZUG launched two world exclusives: The Adora SL dishwasher with the new Party program that rinses slightly dirty dishes in just 11 to 15 minutes, and hobs featuring OptiGlass, a particularly robust, almost diamond-like surface.

While international markets with own structures established in recent years, such as Australia, China, Europe and Hong Kong, posted significant growth, other markets such as Turkey lagged behind expectations due to the general political situation. The sales generated through the OEM partner in the U.S. failed to match the prior year's high level.

Infection Control: Performance of Segments Varies

Gross sales of the Infection Control Business Unit (Belimed Group) increased 5.2 % to CHF 87.3 million (H1 2016: CHF 83.1 million). Given the currency effect of –0.8 % and an acquisition effect of 0.3 %, this resulted in organic growth in local currencies of 5.6 %. As expected, the generally seasonally weaker first semester meant that the company posted a loss at operating income (EBIT) level. At CHF –10.1 million, this figure was 22.5 % better than in the prior-year period (H1 2016: CHF –13.0 million).

Gross sales of the largest segment Medical in the first semester were down on the previous year, while order intake picked up considerably in the last few months. The relocation of production to Slovenia proceeded according to plan and has now been concluded. However, the progress made was obscured by further additional expenses: specifically, a routine inspection at Belimed AG in Zug by the U.S. health authority (FDA), and the rollout of SAP in Grosuplje, Slovenia, in the first half of 2017 entailed a significant drain on resources. Belimed successfully passed the FDA inspection, and the SAP project will be completed by the end of August.

Both segments Life Science and Service reported growth in gross sales. Despite the increase in gross sales, the Life Science segment nevertheless fell short of expectations as it was working from a low comparison base.

While efforts have concentrated on the two largest segments, Medical and Service, so far, the focus must now shift to the Life Science segment, which has fallen short of expectations and has not fully exploited the existing market potential. The SAP rollout at the production site in Mühldorf, Germany, creates an important basis for profitable growth, enabling existing third-party systems to be replaced. The restructuring of the Life Science segment is taking longer than originally planned and will entail additional costs to optimize processes and structures.

Belimed acquired the small Portuguese company STERIFAST, specialized in low-temperature sterilizers, as of May 29, 2017. The increase in minimally invasive surgical procedures is resulting in a growing need for complex surgical instrumentation. Many of these instruments are heat and moisture sensitive, requiring low-temperature alternatives when it comes to cleaning and sterilization. The acquisition of STERIFAST will give Belimed access to know-how and solutions for the fast-growing low-temperature sterilization market and allow it to strengthen its position as a full solution provider.

Wire Processing: Increased Growth Momentum

The Wire Processing Business Unit (Schleuniger Group) posted a 13.5 % rise in gross sales to CHF 84.0 million in the first six months of 2017 (H1 2016: CHF 74.0 million). Excluding the acquisition effect of 4.4 % and currency effect of –0.3 %, organic growth in local currencies amounted to 9.4 %. Operating income (EBIT) fell by 6.9 % from CHF 11.9 million in the prior-year period to CHF 11.1 million. The lower profitability is directly linked to the ongoing structural development required to implement the "Strategy 2025" that was defined in 2016. On the back of the steady growth of past years and as part of the structural buildup, the Schleuniger Group strengthened its Management Committee in the first half of the year to include a Head of Business Segment Solutions and Software and a Head of Business Segment Products.

The Cut & Strip / Semi-Automatic, Test Automation and Process Automation segments and the D-A-CH (Germany, Austria and Switzerland) and NAFTA market regions grew year on year. The Cut, Strip & Terminate segment did not match expectations in the reporting period.

Schleuniger's main sales market – the automotive industry – remains in good health. The trends towards e-mobility and higher voltages in automotive electrical systems continue unabated. As the market leader in the rotary stripping of shielded high voltage cables, Schleuniger stands to benefit from these developments.

By increasing its existing shareholding in DiIT AG, headquartered in Krailling near Munich, Germany, to 100 % as of January 1, 2017, the Schleuniger Group can now help its customers – especially cable manufacturers – make a great leap forward in digitizing their value chains. The trend towards autonomous driving calls for much better process safety, data consistency and traceability in the production of electrical systems for vehicles. DiIT's software solutions allow drawings of wire harnesses to be imported into the production process and production modules to be generated along with route sheets and bills of material. DiIT's solutions help to optimize wire processing machines for the production of the required wires and connections and the final wire harness assembly, as well as supporting the logistics process. Schleuniger thus provides a fully integrated solution that generates efficiency gains for its customers.

Investments in Zug as a Sustainable, Modern and Urban Location for Industry

The strategic modernization of the V-ZUG production site is intended to ensure that Zug remains a competitive location. New production concepts such as the "vertical factory" will double manufacturing capacity and at the same time reduce the floor space required to one third. Together with process improvements, this will lead to a significant increase in floor productivity. The freed-up floor space will enable the Technology Cluster Zug to develop. This ecosystem of companies engaged in innovative production and their partners from trade, commerce and science is an important element in building a successful future for V-ZUG and for Zug itself as a location for industry.

The transformation of the site is a long-term project. The cantonal planning and construction law requires a development plan. The draft plan is now ready for approval by the city council after undergoing several rounds of modifications in talks between the city authorities, V-ZUG AG and V-ZUG Immobilien AG, and also being revised by the City and the Canton. As things stand today, the development plan should be approved by mid-2018.

In June 2017, V-ZUG AG requested building permission for a new production plant under the current zoning rules, taking into account the requirements specified under the above-mentioned development plan. V-ZUG intends to manufacture the next generation of fundamentally redesigned household appliances in this new production plant that will house new machinery.

The main site of V-ZUG AG has been used for industrial purposes for over 100 years. Given its history, the site has been listed in the register of contaminated sites for some time. As part of the extensive and careful preparations for developing the Zug Technology Cluster, the contamination is under investigation during 2017 to provide a meaningful overall picture of the contamination situation at an early stage. The Metall Zug Group currently assumes that reliable results of these investigations will not be available before the late fall. The impact on construction projects already under way and any subsequent costs can only be estimated after that time.

Farewell to Heinz Buhofer, Honorary Chairman of the Metall Zug Group

Following a short illness, Heinz Buhofer passed away on May 16, 2017, just a few days after his 90th birthday. He was a member of the Board of Directors of Metallwaren-Holding AG (now Metall Zug AG) from 1967 to 1997, becoming Chairman in 1972 and also Delegate in 1984. Thanks to his strong personality and outstanding vision, Heinz Buhofer has left a lasting mark on the Metall Zug Group.

Outlook

Performance in the second half of 2017 is likely to vary across the business units of the Metall Zug Group and the segments in which they operate.

If there is no significant change in the business environment and currency situation and no special events occur, the Metall Zug Group expects operating income (EBIT) for 2017 as a whole to be slightly lower than in the previous year (CHF 94.1 million). This will require the second half of the year to be seasonally stronger, supported by the good order backlog at mid-year. The financial result for 2017 depends on how the financial markets and currency rates develop going forward.

Heinz M. Buhofer Chairman of the Board of Directors	Dr. Jürg Werner CEO

Consolidated Income Statement

in CHF 1 000	H1 2017	H1 2016
Gross sales	445 355	441 391
Sales deductions	–8 406	–9 092
Net sales	**436 949**	**432 299**
Changes in inventories	17 923	27 146
Other operating revenue	4 329	3 189
Operating revenue	**459 201**	**462 634**
Cost of materials	–157 138	–163 410
Personnel expenses	–191 124	–185 614
Depreciation on tangible assets	–14 343	–14 855
Amortization on intangible assets	–1 916	–2 668
Other operating expenses	–66 455	–64 444
Operating expenses	**–430 976**	**–430 991**
Operating income (EBIT)	**28 225**	**31 643**
in % of gross sales	6.3%	7.2%
Financial income	20 505	9 741
Financial expenses	–6 223	–9 949
Result of associated companies	87	818
Financial result	**14 369**	**610**
Income before taxes	**42 594**	**32 253**
Taxes	–9 014	–8 798
Non-controlling interest	176	425
Net income	**33 756**	**23 880**
in % of gross sales	7.6%	5.4%
Net income per type A registered share (in CHF)	7.53	5.39
Net income per type B registered share (in CHF)	75.26	53.92
Employees	3 984	3 876

Consolidated Balance Sheet

Assets

in CHF 1000	06.30.2017	12.31.2016
Cash and cash equivalents	206173	259294
Securities	298737	284212
Trade receivables	105697	117634
Other receivables	23197	18714
Inventories	163079	140721
Prepaid expenses	8000	7133
Current assets	**804883**	**827708**
Land	960	948
Land and buildings	201103	201240
Plant and equipment	49062	48283
Prepayments and assets under construction non-real estate	5489	3684
Other tangible assets	19448	19874
Tangible assets	**276062**	**274029**
Employers contribution reserves	16305	16226
Associated companies	185	1574
Other financial assets	23268	23591
Financial assets	**39758**	**41391**
Software	11629	9498
Other intangible assets	18	24
Intangible assets	**11647**	**9522**
Fixed assets	**327467**	**324942**
Total assets	**1132350**	**1152650**

Liabilities and Shareholders' Equity

in CHF 1 000	06.30.2017	12.31.2016
Current financial liabilities	500	500
Trade payables	35 816	42 326
Other current liabilities	76 241	89 283
Accrued liabilities	65 134	61 006
Current provisions	31 444	33 102
Current liabilities	**209 135**	**226 217**
Long-term financial liabilities	225	0
Other long-term liabilities	6 166	5 199
Long-term provisions	35 347	34 948
Non-current liabilities	**41 738**	**40 147**
Total liabilities	**250 873**	**266 364**
Share capital	11 250	11 250
Capital reserves	351 312	348 582
Treasury shares	–4 811	–5 273
Retained earnings	524 902	532 688
Non-controlling interest	–1 176	–961
Shareholders' equity	**881 477**	**886 286**
in % of total assets	77.8 %	76.9 %
Total liabilities and shareholders' equity	**1 132 350**	**1 152 650**

Consolidated Statement of Cash Flows

in CHF 1000	H1 2017	H1 2016
Net income before non-controlling interests	33 580	23 455
Financial result (net)	–14 282	208
Depreciation and amortization	16 259	17 523
Result of associated companies	–87	–818
Net changes in provisions	–1 653	–2 273
Income tax	9 014	8 798
Other non-cash items	–1 085	–1 371
Change in securities	–4 359	–4 524
Change in trade receivables	13 412	–14
Change in other receivables and prepaid expenses	–7 156	–982
Change in inventories	–23 109	–25 777
Change in trade payables	–6 547	–515
Change in other current liabilities and accrued expenses	–419	7 710
Interests paid	–25	–21
Taxes paid	–13 977	–18 830
Cash flow from operating activities	**–434**	**2 569**
Investments in tangible assets	–13 222	–17 427
Investments in financial assets	–619	–1 284
Investments in intangible assets	–4 043	–2 103
Investments in Group companies, net of cash acquired	–7 885	–41
Disposals of tangible assets	162	462
Disposals of financial assets	1 024	4 186
Interests received	33	32
Cash flow from investing activities	**–24 550**	**–16 175**
Change in long-term financial liabilities	–224	–244
Purchase/sale of treasury shares	3 228	307
Dividend	–31 417	–29 362
Cash flow from financing activities	**–28 413**	**–29 299**
Currency translation effects	276	368
Change in “Net cash and cash equivalents”	**–53 121**	**–42 537**

Changes in Shareholders' Equity

in CHF 1000	Share Capital	Capital Reserves	Treasury Shares	Retained Earnings	Accumulated Currency Translation Differences	Total Retained Earnings	Non-controlling Interests	Total
Balance on 01.01.2016	**11250**	**342335**	**–18779**	**513906**	**–15428**	**498478**	**–616**	**832668**
Dividend		6045	13398	–48805		–48805		–29362
Purchase of treasury shares			–1700			–		–1700
Sale of treasury shares		201	1806			–		2007
Acquisitions				–33		–33		–33
Associated companies				–234		–234		–234
Currency translation effects				–7122	5686	–1436	–19	–1455
Net income				23880		23880	–425	23455
Balance on 06.30.2016	**11250**	**348581**	**–5275**	**481592**	**–9742**	**471850**	**–1060**	**825346**
Balance on 01.01.2017	**11250**	**348582**	**–5273**	**539898**	**–7210**	**532688**	**–961**	**886286**
Dividend				–31417		–31417		–31417
Purchase of treasury shares			–4637			–		–4637
Sale of treasury shares		2766	5099			–		7865
Acquisitions				–9534		–9534	–47	–9581
Other		–36				–		–36
Currency translation effects				–1477	886	–591	8	–583
Net income				33756		33756	–176	33580
Balance on 06.30.2017	**11250**	**351312**	**–4811**	**531226**	**–6324**	**524902**	**–1176**	**881477**

Segment Information

By Business Unit

	Net Sales to Third Parties		Operating Income (EBIT)		EBIT in % of Net Sales	
in CHF 1000	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016
Household Appliances	269433	279285	26494	32867	9.8%	11.8%
Infection Control	85620	81311	–10074	–13004	–11.8%	–16.0%
Wire Processing	81896	71703	11062	11887	13.5%	16.6%
Corporate	0	0	734	–100	N/A	N/A
Consolidation	0	0	9	–7	N/A	N/A
Total	**436949**	**432299**	**28225**	**31643**	**6.5%**	**7.3%**

Notes

General

The Metall Zug Group's unaudited interim financial statements as at June 30, 2017, were prepared in compliance with Swiss GAAP FER 31 and on the basis of historical cost.

The exchange rate at the balance sheet date is uniformly applied to balance sheets while the average exchange rate during the period under review is used for income statements. The principles of consolidation and valuation are unchanged compared with the previous year. This half-year report is published in German and English. In case of discrepancies between the two versions, the German print version shall prevail.

Changes in the Scope of Consolidation

Effective January 1, 2017, V-ZUG Singapore Pte. Ltd. (SG), commenced business.

Effective January 1, 2017, Schleuniger Holding AG, Thun, purchased 65 % of DiIT AG, Krailling, (DE), previously held by third parties. Schleuniger Holding AG now holds 100 % of DiIT AG. Effective May 29, 2017, Belimed AG, Zug, acquired STERIFAST Sterilization & Disinfection Systems, Lda., Boticas (PT). The following assets and liabilities were acquired as at the acquisition date:

in CHF 1000	DiIT AG	STERIFAST, Lda.
Current assets	3410	464
Fixed assets	97	68
Current liabilities	–592	–354
Non-current liabilities	–174	–413
Net assets	**2741**	**–235**

The goodwill paid in connection with the above-mentioned transactions totals TCHF 9685 and was offset against retained earnings at the time of acquisition (see Changes in Shareholders' Equity, page 9).

On March 20, 2017, HMZ Beteiligungen AG, Zug, was renamed V-ZUG Infra AG, Zug. Effective March 28, 2017, Beltech Medical Services Ltd., Shipley (UK), was dissolved.

Badwill V-ZUG Kühltechnik

In relation to the acquisition of the business activities of the refrigeration equipment unit of AFG Arbonia-Forster Holding AG in March 2013, badwill of TCHF 11389 resulted. As of December 31, 2016, the remaining badwill amounted to TCHF 6589. In the first semester 2017, this badwill was further reduced against the income statement by TCHF 800 (first semester 2016: TCHF 800). Of the total remaining badwill of TCHF 5789 as of June 30, 2017, TCHF 800 are reported as Other current liabilities and TCHF 4989 as Other long-term liabilities.

Transactions with Treasury Shares

In the first semester 2017, 896 type B registered shares were sold to third parties. The profit of TCHF 1009 resulting from the sale was taken directly to capital reserves.

Furthermore, in the first semester 2017, 11300 type A registered shares were sold to a related party and in return 1130 type B registered shares were purchased from the same related party at the same price (nominal value adjusted). The profit of TCHF 1757 resulting from the sale of the type A registered shares was also taken directly to capital reserves.

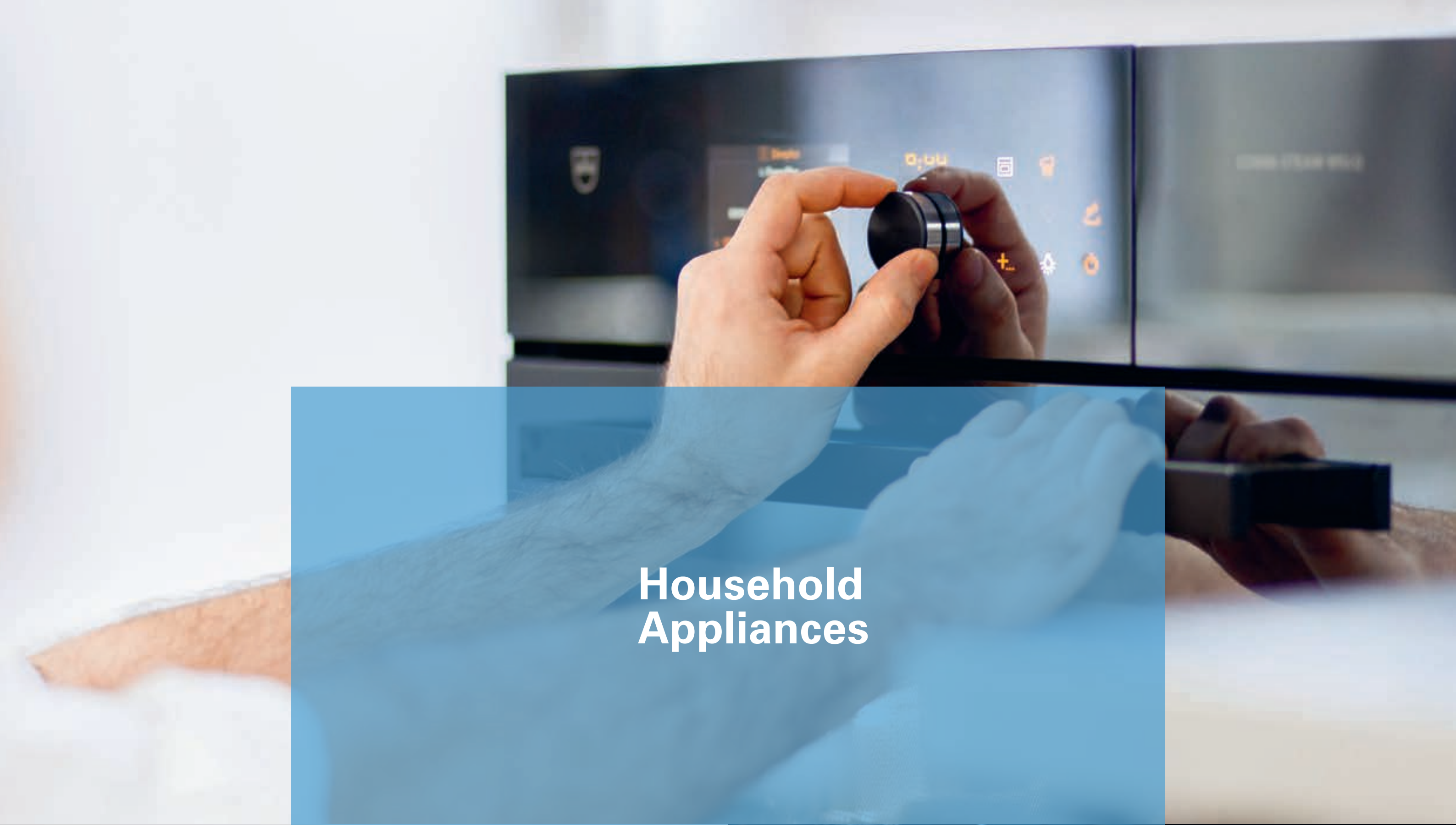
As of June 30, 2017, Metall Zug AG holds 1191 type B registered shares and no longer holds any type A registered shares.

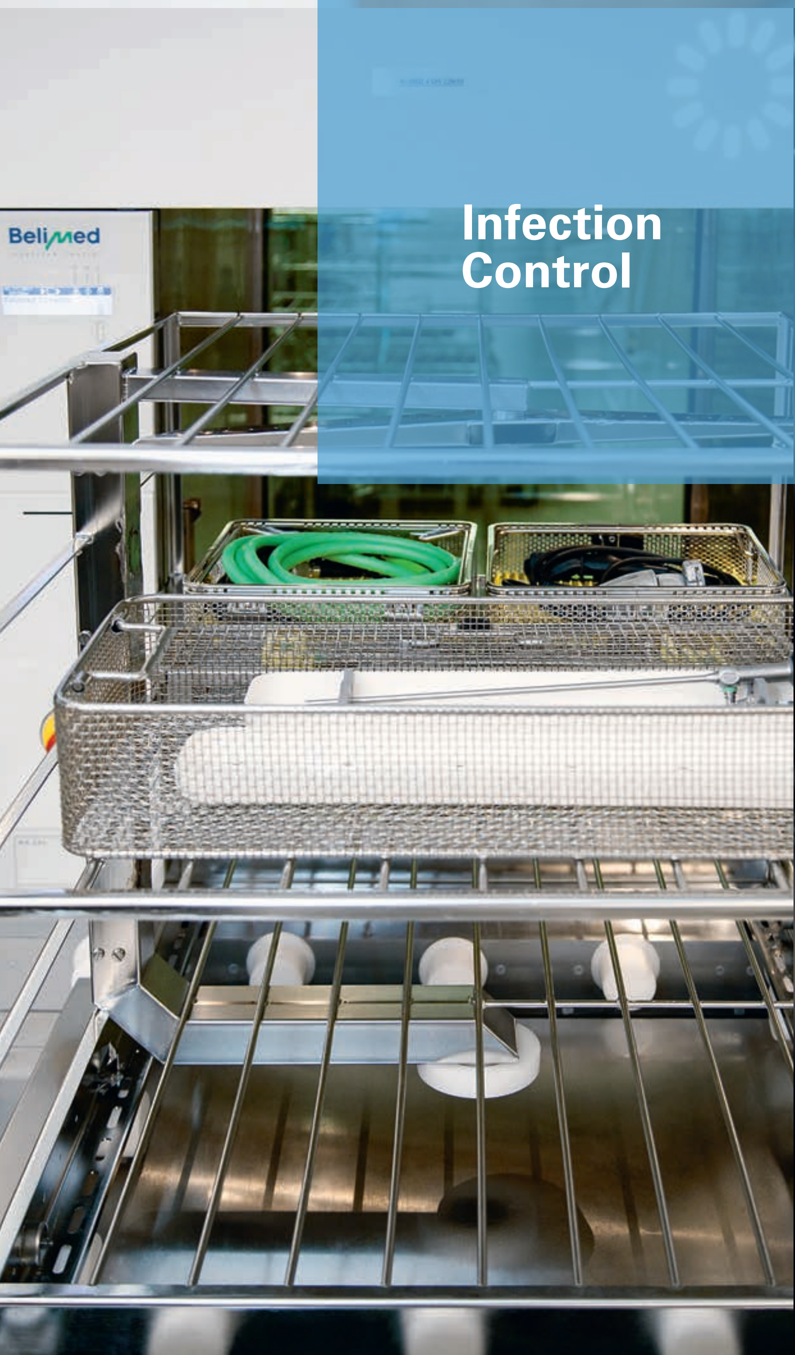
Seasonality

Seasonal impacts vary amongst the Business Units. The Household Appliances and Wire Processing Business Units used to have slightly stronger second semesters regarding net sales in the past years. In the Infection Control Business Unit the net sales used to be clearly higher in the second semester. The portion of net sales realized in the first semester 2016 compared to the full year 2016 was 48 % in the Household Appliances Business Unit, 40 % in the Infection Control Business Unit and 47 % in the Wire Processing Business Unit. The seasonality of the reporting segment Corporate is not material.

Events After the Balance Sheet Date

There were no events between June 30, 2017, and August 21, 2017, that would need to be disclosed under this heading.


Household
Appliances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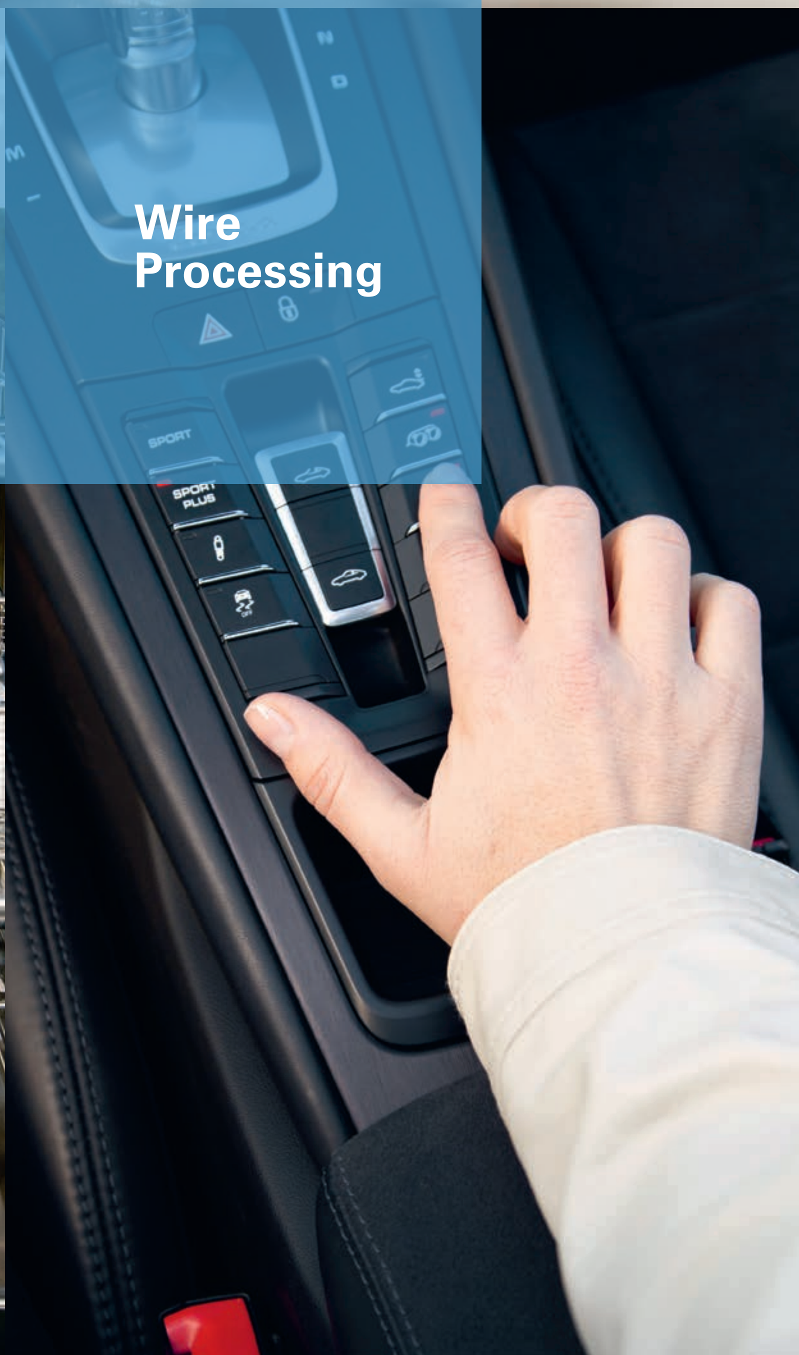
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