Metall Zug Group

Half-year Report 2018

Significant growth in a diverse transformation phase

The first-time consolidation of the Haag-Streit Group as the fourth Business Unit Medical Devices led to significant growth. The Metall Zug Group increased gross sales by 24.4% in the first half of 2018 to CHF 554 million. The acquisition of Haag-Streit, the strategic renewal of the V-ZUG production site in Zug and the reorganization of Belimed all reflect the transformation that the Metall Zug Group is currently undergoing. At CHF 36.4 million, operating income (EBIT) was 28.9% higher than in the same period of the previous year. Net income fell 33.1% to CHF 22.6 million due to the lower financial result.

Dear Shareholders

The Metall Zug Group increased gross sales by 24.4% in the first half of 2018 to CHF 554.2 million (H1 2017: CHF 445.4 million). Acquisitions contributed 18.8 % to growth in sales. Of this, 16.4% was due to the successful acquisition of the Haag-Streit Group, which forms the fourth Business Unit Medical Devices. Currency effects accounted for 0.7 %. Organic growth in local currencies amounted to 4.9%. The Household Appliances and Wire Processing Business Units achieved higher gross sales, while gross sales of the Infection Control Business Unit matched the previous year's level.

The Metall Zug Group generated operating income (EBIT) of CHF 36.4 million (H1 2017: CHF 28.2 million), equivalent to an increase of 28.9%. Operating income also includes the contribution made by the Haag-Streit Group since its consolidation on March 1, 2018. The build-up of structures geared to growth, investments in the modernization of the production facilities and in the digital core, the development of V-ZUG's production site in Zug and the costs of integrating the acquired companies all had a negative impact on operating profitability in the first six months of 2018. Nevertheless, the EBIT margin rose from 6.3% to 6.6%.

The reduction in cash, cash equivalents and securities required to finance the acquisition of Haag-Streit lessened the impact of the poorer performance of the financial markets on Metall Zug's financial result. The financial result declined to CHF –2.0 million (H1 2017: CHF 14.4 million). In contrast, the cash and cash equivalents invested in Haag-Streit contributed EBIT of CHF 10.1 million since the first-time consolidation on March 1, 2018.

The Metall Zug Group achieved net income of CHF 22.6 million in the reporting period (H1 2017: CHF 33.8 million), a decrease of 33.1% compared with the prior-year period.

The net cash position was CHF 203.8 million as at June 30, 2018, and therefore CHF 321.3 million below its level of December 31, 2017 (CHF 525.1 million), following the distribution of a dividend of CHF 31.4 million and the acquisition of Haag-Streit Holding AG and adaptronic Prüftechnik GmbH. The Metall Zug Group has a solid balance sheet with equity of CHF 727.1 million (December 31, 2017: CHF 919.6 million) and an equity ratio of 69.3% (December 31, 2017: 77.4%). The decline in equity is mainly attributable to the offsetting of goodwill against equity in connection with the acquisitions that were made.

The first half of 2018 was characterized by acquisitions, with the Haag-Streit Group forming the fourth Business Unit – Medical Devices – since March 1, 2018. In addition, the acquisition of adaptronic Prüftechnik GmbH allowed the Schleuniger Group to add customized testing solutions to its existing product and service range in wire processing.

Furthermore, the Metall Zug Group has decided to separate the activities of the Life Science Business Area of its Infection Control Business Unit from January 1, 2019, in order to create a new Business Unit.

Household Appliances: High Organic Growth; Stronger Euro Burdens Operating Income

The Household Appliances Business Unit generated gross sales of CHF 293.2 million, representing an increase of 6.6 % on the prior-year period (CHF 275.0 million). The currency effect amounted to 0.2%, and there were no acquisition effects. Organic growth in local currencies therefore came to 6.4%. The Business Unit generated operating income (EBIT) of CHF 21.7 million (–18.2% compared with the prior-year period at CHF 26.5 million).

By mid-year, SAP S/4HANA and the mLogistics field service management system – two core applications that enable end-to-end mapping of goods and value flows – had been implemented. The digitization of internal process flows led to an additional rise in personnel expenses in the first semester. Higher material costs resulting from the stronger euro and the development of the V-ZUG production site created a further constraint on operating income.

The Household Appliances Business Unit generated higher sales in the Swiss home market. The innovations presented at the Swissbau trade fair will start to contribute sales from the second half of 2018. The new "Fusion" hob with integrated hood can be kitted out with the OptiLink function that allows hood and hob to communicate with each other to ensure the extraction strength is controlled automatically. The new "Pureness" design line, which has already picked up a Red Dot Award, is available for selected kitchen appliances. The use of top-quality materials and distinct elegance creates a puristic, timeless look.

V-ZUG continued to grow in most international markets in the Asia-Pacific region and Europe in which it had established its own structures in recent years. Dynamic growth was achieved in key distributor markets. The sales generated with the OEM partner in the U.S. experienced a significant increase compared with the same period of the previous year.

Infection Control: Strategic Decision Regarding Belimed Life Science

At CHF 87.4 million, gross sales of the Infection Control Business Unit (Belimed Group) remained unchanged (H1 2017: CHF 87.3 million). Given the currency effect of 1.9% and an acquisition effect of 0.1%, this resulted in an organic decline in sales in local currencies of 2.0%. While the Medical and Life Science Business Areas posted slightly lower sales, the Service and Consumables businesses both reported growth in sales. At CHF –8.3 million, operating income (EBIT) improved compared to the first half of 2017 (CHF –10.1 million). Provisions of net CHF 0.5 million were released during the reporting period.

The global market launch of the WD 290 IQ washer-disinfector – the successor to the highly successful WD 290 single chamber washer – got underway in June. This appliance is used in the Central Sterile Supply Departments (CSSDs) of hospitals and outpatient units. As well as being easier to operate, the processes are displayed in visual form, and the data is systematically evaluated in the interests of optimization. This means that customers can maintain a comprehensive overview of their processes while also enjoying low process costs and a more environmentally friendly use of resources.

On June 5, 2018, the Metall Zug Group announced its intention to separate the activities of the Life Science Business Area into a new Business Unit with effect from January 1, 2019. The transaction will also entail a restructuring of the Life Science Business Area. As part of this restructuring, the Life Science Business Area will cease activities in Mühldorf, Germany. Certain functions will be taken over by the existing organization in Sulgen, Switzerland, while the Grosuplje site in Slovenia will be further expanded. The aim is to simplify structures. Restructuring will probably result in the loss of around 100 jobs in Mühldorf. Negotiations with the works council will focus on finding a socially compatible solution. It is currently assumed that – as far as possible – provisions recognized as at mid-2018 will be sufficient to cover the restructuring costs.

Wire Processing: Continuing Growth Momentum

The Wire Processing Business Unit (Schleuniger Group) posted a 21.2% rise in gross sales to CHF 101.8 million in the first six months of 2018 (H1 2017: CHF 84.0 million). The EMEA and Asia/Pacific market regions were the primary contributors to growth. Excluding the acquisition effect of 12.4% and currency effect of 1.9%, organic growth in local currencies amounted to 6.9%. Operating income (EBIT) rose by 6.2% from CHF 11.1 million in the prior-year period to CHF 11.8 million. Integration costs and investments in structures and processes had a negative impact on operating profitability in the first semester.

The Products Business Segment (standard and configured standard products) recorded high growth. Alongside CST, the Cut & Strip / Semi-Automatic product group also recorded a rise in sales, thus improving on the already record-breaking level of 2017. The fully automatic cut and strip machines with rotary incision units benefited from the boom in shielded high-voltage cables for use in the fast growing area of e-mobility. This trend also supported adaptronic Prüftechnik GmbH, a leader in customized solutions for testing high-voltage wire harnesses, which has been consolidated since the beginning of 2018.

Sales of the product groups in the Solutions & Software Business Segment (Process Automation, Test Automation and Software) lagged behind expectations in the first six months, partly because various orders could not yet be delivered to customers.

Medical Devices: Attractive Operating Margin

The Haag-Streit Group has been consolidated with effect from March 1, 2018. Gross sales of the Medical Devices Business Unit in these four months came to CHF 73.0 million. The operating income (EBIT) of CHF 10.1 million (margin: 13.8%) includes a largely one-time negative impact of CHF 2.6 million resulting from the acquisition of Haag-Streit by Metall Zug as the acquired assets had to be revalued as part of the first-time consolidation. The revaluation of inventory and tangible assets to fair value has a temporary negative impact on operating income.

Both the Diagnostics and Surgical Business Areas experienced sales growth in the first four months of consolidation. The high order backlog in the Diagnostics Business Area will be worked off during the current year and should help boost sales.

Overall, integration costs and extraordinary expenses in connection with the first time-consolidation in the mid to high single-digit million range are expected in the year now underway. The "One Haag-Streit" integration process was launched immediately on completion of the takeover. Initial progress has already been achieved in the areas of finance, patents and IT. Haag-Streit will undergo targeted development over the next two years in order to defend its strong market position and offensively seize the growth opportunities that arise.

Development Plan Provides Necessary Flexibility to Create a Sustainable, Modern and Urban Location for Industry in Zug

Brand-new production concepts employed in the strategic modernization of the V-ZUG production site, such as the "vertical factory", will reduce the floor space required and boost floor productivity. The freed-up floor space will enable the development of the Technology Cluster Zug. This ecosystem of companies engaged in innovative production and users 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 cantonal planning and construction law requires a development plan for the long-term transformation of the site. This plan was drawn up by V-ZUG AG and V-ZUG Immobilien AG in close collaboration with the city and cantonal authorities. The Parliament of the City of Zug unanimously approved the development plan on May 8, 2018. The Cantonal Government is therefore in the position to finally decide on the development plan in fall 2018.

V-ZUG intends to invest in a number of new production buildings over the coming years on the basis of a legally binding development plan. In this regard, Metall Zug is planning to set up the Mobility Hub Zug Nord on the northern part of the site. A multi-energy hub to be created with partners will supply the Technology Cluster Zug with local, renewable energy. And lastly, Metall Zug will join forces with the city and cantonal authorities and additional partners to launch an international competition to build a unique wooden residential high-rise – also including affordable apartments – immediately next to the Technology Cluster Zug.

Outlook

The Metall Zug Group expects operating income for 2018 as a whole to be significantly higher than in the previous year (adjusted operating income of CHF 73.8 million). The conditions for this will be no significant change in the business environment, stable currencies, no material effects resulting from likely procurement bottlenecks, and no extraordinary events.

Heinz M. Buhofer
Chairman of the
Board of Directors

Dr. Jürg Werner
CEO

Consolidated Income Statement

in CHF 1 000	H1 2018	H1 2017
Gross sales	554226	445355
Sales deductions	–12383	–8406
Net sales	**541843**	**436949**
Changes in inventories	23029	17923
Other operating revenue	4912	4329
Operating revenue	**569784**	**459201**
Cost of materials	–203988	–157138
Personnel expenses	–227897	–191124
Depreciation on tangible assets	–15186	–14343
Amortization on intangible assets	–1567	–1916
Other operating expenses	–84762	–66455
Operating expenses	**–533400**	**–430976**
Operating income (EBIT)	**36384**	**28225**
in % of gross sales	6.6%	6.3%
Financial income	6778	20505
Financial expenses	–8821	–6223
Result of associated companies	–1	87
Financial result	**–2044**	**14369**
Income before taxes	**34340**	**42594**
Taxes	–9720	–9014
Non-controlling interest	–2025	176
Net income	**22595**	**33756**
in % of gross sales	4.1%	7.6%
Net income per type A registered share (in CHF)	5.03	7.53
Net income per type B registered share (in CHF)	50.30	75.26
Employees	5178	3984

Consolidated Balance Sheet

Assets

in CHF 1000	06.30.2018	12.31.2017
Cash and cash equivalents	125035	250766
Securities	88102	274588
Trade receivables	163205	125287
Other receivables	28668	31827
Inventories	235080	149825
Prepaid expenses	13654	9733
Current assets	**653744**	**842026**
Land	2539	999
Land and buildings	203587	191016
Plant and equipment	61356	51540
Prepayments and assets under construction	39928	21718
Other tangible assets	21817	20813
Tangible assets	**329227**	**286086**
Employer’s contribution reserves	20611	16787
Associated companies	489	394
Other financial assets	23973	26308
Financial assets	**45073**	**43489**
Software	21282	16037
Other intangible assets	16	17
Intangible assets	**21298**	**16054**
Fixed assets	**395598**	**345629**
Total assets	**1049342**	**1187655**

Liabilities and Shareholders' Equity

in CHF 1 000	06.30.2018	12.31.2017
Current financial liabilities	3 778	0
Trade payables	42 768	43 433
Other current liabilities	78 214	83 338
Accrued liabilities	74 869	59 048
Current provisions	39 603	33 771
Current liabilities	**239 232**	**219 590**
Long-term financial liabilities	5 527	240
Other long-term liabilities	16 207	6 231
Long-term provisions	61 243	41 990
Non-current liabilities	**82 977**	**48 461**
Total liabilities	**322 209**	**268 051**
Share capital	11 250	11 250
Capital reserves	351 328	351 328
Treasury shares	–4 419	–3 040
Retained earnings	302 852	561 888
Non-controlling interest	66 122	–1 822
Shareholders' equity	**727 133**	**919 604**
in % of total assets	69.3%	77.4%
Total liabilities and shareholders' equity	**1 049 342**	**1 187 655**

Consolidated Statement of Cash Flows

in CHF 1000	H1 2018	H1 2017
Net income before non-controlling interests	24 619	33 580
Financial result (net)	2 043	–14 282
Depreciation and amortization	16 753	16 259
Result of associated companies	1	–87
Net changes in provisions	–2 911	–1 653
Income tax	9 721	9 014
Other non-cash items	2 007	–1 085
Change in securities[1]	225 752	–4 359
Change in trade receivables	–3 916	13 412
Change in other receivables and prepaid expenses	10 141	–7 156
Change in inventories	–26 405	–23 109
Change in trade payables	–8 864	–6 547
Change in other current liabilities and accrued expenses	7 579	–419
Interests paid	–184	–25
Taxes paid	–16 059	–13 977
Cash flow from operating activities	**240 277**	**–434**
Investments in tangible assets	–30 213	–13 222
Investments in financial assets	–1 187	–619
Investments in intangible assets	–5 635	–4 043
Investments in Group companies, net of cash acquired[2]	–302 639	–7 885
Disposals of tangible assets	620	162
Disposals of financial assets	1 084	1 024
Interests received	54	33
Dividends received	164	0
Cash flow from investing activities	**–337 752**	**–24 550**
Change in long-term financial liabilities	–122	–224
Purchase/sale of treasury shares	–1 379	3 228
Dividend	–31 448	–31 417
Cash flow from financing activities	**–32 949**	**–28 413**
Currency translation effects	915	276
Change in “Net cash and cash equivalents”	**–129 509**	**–53 121**

[1] The cash flow from securities mainly derives from the sale of securities for the provision of funds related to the purchase of Haag-Streit Holding AG.

[2] Adjusted by a non-cash debt assumption in the amount of TCHF 43 986, refer to Notes for further information.

Changes in Shareholders' Equity

in CHF 1000	Share Capital	Capital Reserves	Treasury Shares	Retained Earnings	Accu-mulated Currency Transla-tion Diffe-rences	Total Retained Earnings	Non-con-trolling Interests	Total
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**
Balance on 01.01.2018	**11250**	**351328**	**–3040**	**565083**	**–3195**	**561888**	**–1822**	**919604**
Dividend				–31448		–31448		–31448
Purchase of treasury shares			–1379			–		–1379
Acquisitions				–251540		–251540	65438	–186102
Currency translation effects					1357	1357	481	1838
Net income				22595		22595	2025	24620
Balance on 06.30.2018	**11250**	**351328**	**–4419**	**304690**	**–1838**	**302852**	**66122**	**727133**

Segment Information

By Business Unit

	Net Sales to Third Parties		Operating Income (EBIT)		EBIT in % of Net Sales	
in CHF 1000	**H1 2018**	**H1 2017**	**H1 2018**	**H1 2017**	**H1 2018**	**H1 2017**
Household Appliances	286540	269433	21666	26494	7.6%	9.8%
Infection Control	85248	85620	–8327[1]	–10074	–9.8%	–11.8%
Wire Processing	98027	81896	11752	11062	12.0%	13.5%
Medical Devices[2]	72028	–	10093	–	14.0%	N/A
Corporate	0	0	1160	734	N/A	N/A
Consolidation	0	0	40	9	N/A	N/A
Total	**541843**	**436949**	**36384**	**28225**	**6.7%**	**6.5%**

[1] The operating income of the first semester 2018 of the Infection Control Business Unit contains a release of restructuring provisions in the amount of TCHF 2131 as well as an increase in Other Provisions of TCHF 1630, refer to Notes for further information.

[2] The Medical Devices Business Unit contains Haag-Streit Holding AG and its directly and indirectly held subsidiaries for the period from March 1, 2018 to June 30, 2018 (4 months).

Notes

General

The Metall Zug Group's unaudited interim financial statements as at June 30, 2018, were prepared in compliance with Swiss GAAP FER 31 and on the basis of historical cost. These interim consolidated financial statements do not include all the disclosures in the annual consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at December 31, 2017. The consolidated interim financial statements were approved by the Board of Directors on August 17, 2018.

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.

Seasonality

Seasonal impacts vary amongst the Business Units. All Business Units used to have slightly stronger second semesters regarding net sales in the past years. Net sales of the Infection Control Business Unit were clearly higher in the second semester in some years. The portion of net sales realized in the first semester 2017 compared to the full year 2017 was 47 % in the Household Appliances Business Unit, 46 % in the Infection Control Business Unit (2016: 40%), 47 % in the Wire Processing Business Unit and 49% in the Medical Devices Business Unit. The seasonality of the reporting segment Corporate is not material.

Changes in the Scope of Consolidation

Schleuniger Holding AG, Thun, purchased a 60% stake in adaptronic Prüftechnik GmbH, Wertheim (DE), which is consolidated from January 1, 2018. By acquiring adaptronic, the Wire Processing Business Unit is adding customized solutions for testing cable harnesses, connectors and assemblies for the aviation, astronautics, railway technology, automotive, automation technology and industrial sectors to its existing range.

Metall Zug AG, Zug, acquired a 70% stake in Haag-Streit Holding AG, Köniz, which is consolidated from March 1, 2018. As part of this transaction, the following significant directly and indirectly held subsidiaries of Haag-Streit Holding AG were acquired:

- Haag-Streit AG, Köniz (CH)
- Spectros AG, Ettingen (CH)
- Haag-Streit Deutschland GmbH, Wedel (DE)
- Haag-Streit Surgical GmbH, Wedel (DE)
- Möller-Wedel Beteiligungen GmbH, Wedel (DE)
- Möller-Wedel GmbH & Co. KG, Wedel (DE)
- Möller-Wedel Optical GmbH, Wedel (DE)
- Möller-Wedel Verwaltung GmbH, Wedel (DE)
- HS DOMS GmbH, Saalfeld (DE)
- IPRO GmbH EDV für Augenoptiker, Leonberg (DE)
- SARL Haag Streit France, Montcel (FR)
- Haag-Streit Far East Ltd., Shanghai (CN)
- Clement Clarke (Holdings) Ltd., Harlow (UK)
- Clement Clarke International Ltd., Harlow (UK)
- Haag-Streit UK Ltd., Harlow (UK)
- John Weiss & Son Ltd., Harlow (UK)
- Haag-Streit Holding US, Inc., Mason (US)
- Haag-Streit USA, Inc., Mason (US)
- Reliance Medical Products, Inc., Mason (US)

In addition, the 65% stake in OptoMedical Technologies GmbH, Lübeck (DE), held by Haag-Streit Holding AG, was acquired.

Haag-Streit Holding AG and its subsidiaries form the new Medical Devices Business Unit of the Metall Zug Group. This Business Unit develops, produces and distributes high-quality products and services for diagnosis and surgery, mainly in the fields of ophthalmology and surgical microscopy.

The following assets and liabilities were assumed as at the acquisition date by applying the acquisition method of consolidation:

in 1000 CHF	adaptronic Prüftechnik GmbH	Haag-Streit Holding AG and subsidiaries
Cash and cash equivalents	2725	56435
Other current assets	5052	140361
Non-current assets	6908	73113
Short-term financial liabilities	−824	−3189
Other current liabilities	−2965	−26725
Non-current liabilities	−5763	−27566
Total identifiable net assets	**5133**	**212429**

The purchase price for the acquisitions amounts to TCHF 403664 and includes acquisition-related costs of TCHF 4235, of which TCHF 1892 had already been paid in 2017. In the course of the purchase price payment, pre-existing loan receivables of the entities due from the vendors in the amount of TCHF 43986 have been assumed and offset with the purchase price. The goodwill paid in connection with the above-mentioned transactions totals TCHF 251540 and was offset against retained earnings at the time of acquisition (see Changes in Shareholders' Equity, page 9).

The above stated amounts of adaptronic Prüftechnik GmbH represent the final allocation of the purchase price. The amounts of Haag-Streit Holding AG and its subsidiaries are based on a provisional allocation of the purchase price.

Explanations to the Financial Report

The following is an explanation of significant matters that occurred in the reporting period.

Restructuring Provisions

As at December 31, 2017, restructuring provisions of TCHF 13274 have been recognized. Most of these restructuring provisions related to the restructuring of the Life Science Business Area of the Infection Control Business Unit. The provisions were based on a restructuring plan which contained various possible options. A provision had been recognized for the most likely option.

On June 5, 2018, the final restructuring plan for the Life Science Business Area was communicated. According to this plan, Metall Zug Group intends to separate the current activities of the Life Science Business Area of its Infection Control Business Unit into a new Business Unit. As part of this restructuring, the Life Science Business Area will cease its activities in Mühldorf (DE). Certain functions will be taken over by the existing organization in Sulgen (CH), while the Grosuplje site in Slovenia will be further expanded. Based on this detailed restructuring plan, related restructuring provisions in the amount of TCHF 2131 were released in the first semester 2018.

Other Provisions

In the Infection Control Business Unit, Other Provisions were increased by TCHF 1630.

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, 2017, the remaining badwill amounted to TCHF 4989 and remains unchanged within other long-term liabilities as per June 30, 2018. This remaining badwill is related to necessary adjustments to the operations which will be initiated at a later stage. In the first semester of 2017, badwill of TCHF 800 was released through the income statement.

Transactions with Treasury Shares

In the first semester 2018, Metall Zug AG purchased 436 type B registered shares from third parties.

As of June 30, 2018, Metall Zug AG holds 1177 type B registered shares at an average purchase price of CHF 3755 per share. The company does not hold any type A registered shares.

Events After the Balance Sheet Date

There were no events between June 30, 2018, and the publication of the half-year report on August 20, 2018, that would need to be disclosed under this heading.

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