Metall Zug Group

Half-year Report
2019

Provisions for ground remediation work, operational problems at V-ZUG, and weaker markets impact on result

The Metall Zug Group posted gross sales of CHF 576.5 million in the first half of 2019 – this corresponds to an increase of 4.0% compared with the first half of 2018. Operating result (EBIT) was adversely affected by provisions totaling CHF 13.7 million for ground remediation work at the Zug site, costs and lost income resulting from the SAP roll-out at V-ZUG, and weaker markets, particularly in the automotive sector.

The operating result (EBIT) for the first half of 2019 came to CHF –1.6 million (H1 2018: CHF 36.4 million). The financial result amounted to CHF 5.0 million and net result stood at CHF –5.9 million (H1 2018: CHF 22.6 million).

Dear Shareholders

The Metall Zug Group generated gross sales of CHF 576.5 million in the first half of 2019 (H1 2018: CHF 554.2 million). After factoring out the positive acquisition effect of 5.9% resulting from the purchase of the Haag-Streit Group on March 1, 2018 and the negative foreign currency effect of –0.5%, organic growth in local currencies amounted to –1.4%.

The operating result (EBIT) for the reporting period came to CHF –1.6 million (H1 2018: CHF 36.4 million). This operating result is attributable to provisions of CHF 13.7 million for ground remediation work at the main V-ZUG site, to implementation problems in connection with the SAP roll-out at V-ZUG, and to a slowdown in various markets.

The financial result amounted to CHF 5.0 million (H1 2018: CHF –2.0 million).

Taking into account tax expenses of CHF 7.5 million, Metall Zug Group posted a net result of CHF –5.9 million for the reporting period (1H 2018: CHF 22.6 million).

The net cash position (cash and cash equivalents of CHF 124.7 million and securities of CHF 23.0 million less current and long-term financial liabilities of CHF 5.2 million) was CHF 142.5 million as at June 30, 2019, and therefore CHF 79.2 million below its level of December 31, 2018 (CHF 221.7 million), following the distribution of dividends of CHF 33.4 million. The Metall Zug Group has a very solid balance sheet with equity of CHF 728.8 million (December 31, 2018: CHF 768.4 million) and an equity ratio of 68.7% (December 31, 2018: 69.3%).

The first half of 2019 was also shaped by the implementation of the new Life Science Solutions and Technologycluster & Infrastructure Business Units.

Household Appliances: Result Affected by SAP Roll-out

The Household Appliances Business Unit generated gross sales of CHF 281.6 million, representing a decrease of 4.0% on the prior-year period (CHF 293.2 million). The currency effect came to 0.2%. There were no acquisition effects. On an organic local-currency basis, gross sales declined by 3.8%.

At CHF 257.1 million, gross sales in the Swiss domestic market were down 5.5% on the same period of the previous year. The increase in revenues in the first half of 2018 was mainly due to early orders ahead of the transition to SAP on July 1, 2018 and was not matched by any similar baseline effect during the same period of 2019. However, the decline was also attributable to supply problems relating to the SAP roll-out. By contrast, gross sales in the international business rose by 16.0% to CHF 24.5 million.

The Household Appliances Business Unit generated operating income (EBIT) of CHF 5.1 million (H1 2018: CHF 21.7 million). The transfer of V-ZUG Infra AG to the Technologycluster & Infrastructure Business Unit had a negative EBIT effect of CHF –2.2 million on the Household Appliances Business Unit compared to the previous year.

The first half of 2019 saw the launch of a new line of appliances based on a new platform technology. In future, this technology will make it possible to develop new appliance variants more quickly and cost-effectively while reducing assembly costs. In the short term, however, manufacturing costs will continue to rise.

The restructuring of V-ZUG's production operations on its main site in Zug is proceeding according to plan. The installation of a new servo transfer press at the beginning of June 2019 was a milestone. The assemblies – each weighing more than 100 tons – were delivered and installed in the shell of the new vertical factory in two heavy transport operations. This new press will make it possible to retool very quickly. In future this will allow even small production batches to be manufactured economically.

The construction of the new refrigerator factory in Sulgen, Switzerland, is also proceeding according to plan. Refrigerators and freezers are of strategic importance to V-ZUG. In many international markets, refrigerators and freezers are subject to different requirements from those that apply in Switzerland. With the new technology platform, V-ZUG has adapted to future requirements and is laying claim to a leading role in energy efficiency and customer benefits. The refrigerator factory in Sulgen will therefore make a key strategic contribution to sales growth in Switzerland and abroad. Production is scheduled to start at the end of 2021.

The SAP roll-out in July 2018 and the integration of more than 30 peripheral systems was more challenging than anticipated. In recent months, this has led to considerable additional expense and disruptions to V-ZUG's legendary reliability as a supplier. Most problems have since been resolved. Performance indicators, which are being monitored very closely, show significant improvements.

Infection Control: Focus Bears Fruit

The Infection Control Business Unit generated gross sales of CHF 84.2 million. Gross sales of CHF 87.4 million in the first half of 2018 still included the Life Science segment, which became a separate business unit with effect from January 1, 2019. After adjustment for the sales of the Life Science segment, the Infection Control Business Unit posted an increase in sales for the third half-year period in succession. The order intake in Europe and in markets with distributors was pleasing but fell short of expectations in the US, partly due to project postponements. In particular, the service business and sales of consumables made gratifying headway thanks to the new Belimed Prevent concept in the US. At CHF –3.3 million, operating income (EBIT) was an improvement on the first half of 2018 (CHF –8.3 million including segment Science Solutions).

The outsourcing of the spare parts warehouse to an external service provider in the second half year 2018 still led to additional costs in the reporting period. However, this new spare part warehouse solution should lead to lower costs and optimized delivery quality in the future.

The beginning of 2019 saw the successful completion of moves to consolidate operations at two production sites (Sulgen, Switzerland and Grosuplje, Slovenia). As a result, the former Mühldorf production site is limited to the commercial representation (medical, customer service and consumables) of Belimed in Germany. The Business Unit is now on a solid footing.

Dominik Arnold took over as CEO of the Business Unit Infection Control on May 1, 2019.

Life Science Solutions: Gratifying Order Intake

Since January 1, 2019, Life Science Solutions has been a separate business unit focusing on process-oriented project business for the pharmaceutical and biotechnology industries. The product portfolio has been significantly streamlined, with the focus on profitable and sophisticated projects.

In the first half of 2019, the Business Unit generated gross sales of CHF 17.0 million. The operating result contains one-off costs in connection with the spin-off of Infection Control and the establishment of the new Business Unit. The operating result (EBIT) came to CHF –6.3 million. As this Business Unit was integrated into the Infection Control Business Unit until the end of 2018, no comparative figures can be provided for the past.

During the reporting period, Life Science Solutions recorded a pleasing order intake. However, the long lead times for the sophisticated projects mean that these will not be reflected in sales until next year.

As of April 1, 2019, the Life Science Solutions Business Unit successfully introduced SAP without any significant problems.

The Business Unit's new CEO, Ralf Kretzschmar, took over his position on July 1, 2019. Together with Simon Engeli as the CFO, this now completes the management team.

Wire Processing: Subdued Growth Momentum

The Wire Processing Business Unit posted stable gross sales of CHF 101.8 million in the first six months of 2019 (H1 2018: CHF 101.8 million), thus holding its own in a challenging market strongly exposed to the automotive industry.

The Americas market region and adaptronic Prüftechnik GmbH performed particularly well. Excluding the negative currency effect of –0.6%, organic growth in local currencies amounted to 0.6%.

Operating income (EBIT) fell by 44.6% from CHF 11.8 million in the prior-year period to CHF 6.5 million. The operating result was mainly impacted by the Process Automation segment in Cham (Switzerland). The actively pursued diversification of its customer structure and the associated development of new projects and applications, as well as a new platform, entailed substantial costs. In addition, earnings were adversely impacted by the delayed delivery of some projects.

Medical Devices: Investments in the Future

In the first half of 2019, the Medical Devices Business Unit posted gross sales of CHF 99.8 million and an operating result (EBIT) of CHF 7.5 million. In the previous year, gross sales for the four months following the takeover (March 1, 2018 to June 30, 2018) amounted to CHF 73.0 million and the operating result came to CHF 10.1 million.

Both the Diagnostics and Surgical Business Segments lived up to expectations. Some of the previous year's extremely high order backlog was cleared. The delivery periods are back to normal.

Sales in Europe benefited from stable innovation-driven replacement business. The ambitious sales targets were achieved in both the US and China.

As anticipated, the investments in digitization, R&D, regulatory compliance and strengthened management structures, which had already been planned at the time of the acquisition, led to lower EBIT and will temporarily reduce profitability. However, they will have a positive effect in the future.

Technologycluster & Infrastructure: Implementation of Site Transformation as Planned

Since January 1, 2019, the properties in Zug and Sulgen, as well as the tasks and responsibility for the development of the various industrial sites, the establishment of the Technology Cluster in Zug and other planned infrastructure tasks have been combined in the Technologycluster & Infrastructure Business Unit.

The implementation of the approved development plan in Zug is proceeding as planned. Approval has been granted for an additional floor for V-ZUG's vertical factory. This means that the building can be realized as planned. A planning application has been submitted for the multi-storey car park "Mobility-Hub Zug Nord". "Mobility-Hub Zug Nord" forms a key part of a comprehensive mobility concept, which will include a self-driving shuttle bus and a fleet of electric vehicles. The building permit is expected to be received during the course of the fourth quarter of 2019.

A project competition was organized for the residential high-rise building envisaged in the development plan, which is to include a proportion of affordable apartments. The winning project is due to be unveiled to the public in the third quarter of 2019.

Extensive tests of the ground at V-ZUG's main site in Zug have identified various locations in need of remediation. Given the legal remediation obligation and the advanced planning stage for some construction plots, provisions of CHF 13.7 million have been recognized for this. This led to an operating result of CHF –10.0 million for the Business Unit in the first half of 2019. Depending on the realization of further construction projects on this site, additional remediation costs may be incurred over the next ten to twenty years.

Strong Industrial Group with Leading Positions in Attractive Markets

The strategic decision to broaden the Metall Zug Group through the acquisition of the Haag-Streit Group (as of March 1, 2018) has strengthened the resilience of the Metall Zug Group. However, this was not sufficient to compensate for the decline in EBIT at V-ZUG.

Although experience shows that the Metall Zug Group generates higher operating income in the second half of the year compared with the first, it must be assumed that it will not be possible to make up the shortfall to the first half year 2018.

The possibility of spinning off and listing V-ZUG, announced on March 21, 2019 in the context of the transformation of the Group's structure, will continue to be examined as stated. This spin-off is not expected to take place until the 2nd quarter of 2020 at the earliest. In connection with this transformation and the planned spinning off of V-ZUG, a number of personnel changes will be made. For more information, please see the press release regarding the 2019 half-year results.

Further optimization of IT projects, improvements in processes at V-ZUG, and developments in the automotive industry will be decisive factors for the second half of the year.

Overall, Metall Zug's business units operate in attractive markets and occupy leading positions in those markets.

Heinz M. Buhofer
Chairman of the Board of Directors

Consolidated Income Statement

in CHF 1 000	H1 2019	H1 2018
Gross sales	576 549	554 226
Sales deductions	–10 807	–12 383
Net sales	**565 742**	**541 843**
Changes in inventories	20 871	23 029
Other operating revenue	4 586	4 912
Operating revenue	**591 199**	**569 784**
Cost of materials	–212 330	–203 988
Personnel expenses	–249 887	–227 897
Depreciation on tangible assets	–16 262	–15 186
Amortization on intangible assets	–3 553	–1 567
Other operating expenses	–110 803	–84 762
Operating expenses	**–592 835**	**–533 400**
Operating result (EBIT)	**–1 636**	**36 384**
in % of gross sales	–0.3%	6.6%
Financial income	10 662	6 778
Financial expenses	–5 661	–8 821
Result of associated companies	42	–1
Financial result	**5 043**	**–2 044**
Result before taxes	**3 407**	**34 340**
Taxes	–7 521	–9 720
Non-controlling interest	–1 821	–2 025
Net result	**–5 935**	**22 595**
in % of gross sales	–1.0%	4.1%
Net result per type A registered share (in CHF)	–1.32	5.03
Net result per type B registered share (in CHF)	–13.24	50.30
Employees	5 163	5 178

Consolidated Balance Sheet

Assets

in CHF 1 000	06.30.2019	12.31.2018
Cash and cash equivalents	124 720	161 781
Securities	22 974	65 363
Trade receivables	159 870	179 461
Other receivables	38 394	29 685
Inventories	257 828	236 698
Prepaid expenses	10 937	8 643
Current assets	**614 723**	**681 631**
Land	2 489	2 511
Land and buildings	201 318	204 243
Plant and equipment	74 158	65 645
Prepayments and assets under construction	72 933	60 743
Other tangible assets	20 660	21 701
Tangible assets	**371 558**	**354 843**
Employer’s contribution reserves	20 779	20 695
Associated companies	632	634
Other financial assets	24 689	23 354
Financial assets	**46 100**	**44 683**
Software	27 734	27 021
Other intangible assets	13	14
Intangible assets	**27 747**	**27 035**
Fixed assets	**445 405**	**426 561**
Total assets	**1 060 128**	**1 108 192**

Liabilities and Shareholders' Equity

in CHF 1000	06.30.2019	12.31.2018
Current financial liabilities	308	292
Trade payables	49585	62290
Other current liabilities	84075	91086
Accrued liabilities	77570	73360
Current provisions	27434	33297
Current liabilities	**238972**	**260325**
Long-term financial liabilities	4935	5185
Other long-term liabilities	15137	15884
Long-term provisions	72297	58408
Non-current liabilities	**92369**	**79477**
Total liabilities	**331341**	**339802**
Share capital	11250	11250
Capital reserves	351310	351310
Treasury shares	–6027	–6027
Retained earnings	301276	342819
Non-controlling interest	70978	69038
Shareholders' equity	**728787**	**768390**
in % of total assets (equity ratio)	68.7%	69.3%
Total liabilities and shareholders' equity	**1060128**	**1108192**

Consolidated Statement of Cash Flows

in CHF 1000	H1 2019	H1 2018
Net result before non-controlling interests	–4114	24619
Financial result (net)	–5001	2043
Depreciation and amortization	19815	16753
Result of associated companies	–42	1
Net changes in provisions	7956	–2911
Income tax	7521	9721
Other non-cash items	4295	2007
Change in securities [1]	46505	225752
Change in trade receivables	19237	–3916
Change in other receivables and prepaid expenses	–10341	10141
Change in inventories	–27397	–26405
Change in trade payables	–12585	–8864
Change in other current liabilities and accrued expenses	6790	7579
Interests paid	–80	–184
Taxes paid	–15743	–16059
Cash flow from operating activities	**36816**	**240277**
Investments in tangible assets	–33656	–30213
Investments in financial assets	–567	–1187
Investments in intangible assets	–4382	–5635
Investments in Group companies, net of cash acquired [2]	–1397	–302639
Disposals of tangible assets	57	620
Disposals of intangible assets	97	0
Disposals of financial assets	90	1084
Interests received	20	54
Dividends received	42	164
Cash flow from investing activities	**–39696**	**–337752**
Change in long-term financial liabilities	–224	–122
Purchase of treasury shares	0	–1379
Dividend	–33384	–31448
Cash flow from financing activities	**–33608**	**–32949**
Currency translation effects	–589	915
Change in "Net cash and cash equivalents"	**–37077**	**–129509**

[1] The cash flow from securities in the first half year 2019 is related to the sale of securities for the provision of funds for investments in tangible assets as well as in connection with operating activities. In the comparative period 2018, this cash flow mainly derives from the sale of securities for the provision of funds related to the purchase of Haag-Streit Holding AG and its subsidiaries.

[2] In the first half year 2019, the position Investments in Group companies, net of cash acquired, relates to repurchased non-controlling interests. In the first half year 2018 this position includes the acquisitions of Haag-Streit Holding AG and its subsidiaries, as well as of adaptronic Prüftechnik GmbH, and is adjusted by a non-cash debt assumption in the amount of TCHF 43986.

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 01.01.2018	**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**
Balance on 01.01.2019	**11250**	**351310**	**–6027**	**346978**	**–4159**	**342819**	**69038**	**768390**
Dividend				–31379		–31379	–2005	–33384
Purchase of non-controlling interests				–3678	–140	–3818	2421	–1397
Other				767		767		767
Currency translation effects					–1178	–1178	–297	–1475
Net result				–5935		–5935	1821	–4114
Balance on 06.30.2019	**11250**	**351310**	**–6027**	**306753**	**–5477**	**301276**	**70978**	**728787**

Segment Information

By Business Unit

	Net Sales to Third Parties		Operating Result (EBIT)		EBIT in % of Net Sales	
in CHF 1 000	**H1 2019**	**H1 2018**	**H1 2019**	**H1 2018**	**H1 2019**	**H1 2018**
Household Appliances	277329	286540	5146	21666 [3]	1.9%	7.6%
Infection Control	75227	85248 [1]	–3306	–8327 [1]	–4.4%	–9.8%
Life Science Solutions	17290	–	–6294	–	–36.4%	N/A
Wire Processing	98699	98027	6512	11752	6.6%	12.0%
Medical Devices	97197	72028 [2]	7522	10093 [2]	7.7%	14.0%
Technologycluster & Infrastructure	0	–	–10044	– [3]	N/A	N/A
Corporate	0	0	–1345	1160 [3]	N/A	N/A
Consolidation	0	0	173	40	N/A	N/A
Total	**565742**	**541843**	**–1636**	**36384**	**–0.3%**	**6.7%**

[1] The first semester 2018 of the Infection Control Business Unit contains the Life Science Solutions Business Unit, split of on January 1, 2019. Furthermore, the operating result of the first semester 2018 contains a relase of restructuring provisions in the amount of TCHF 2131 as well as an increase in Other Provisions of TCHF 1630.

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

[3] The company V-ZUG Infra AG, which has been part of the Technologycluster & Infrastructure Business Unit since Janaury 1, 2019, was included in the Household Appliances Business Unit until December 31, 2018. The companies V-ZUG Immobilien AG and MZ Infra AG were assigned to the Corporate reporting segment until December 31, 2018 and are now included in the Technologycluster & Infrastructure Business Unit. The EBIT of the first semester 2019 of the Technologycluster & Infrastructure Business Unit includes the recognition of a provision for soil remediation in the amount of TCHF 13699 (see Notes).

Notes

General

The Metall Zug Group's unaudited interim financial statements as at June 30, 2019, 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 must therefore be read in conjunction with the consolidated financial statements as at December 31, 2018. The consolidated interim financial statements were approved by the Board of Directors on August 16, 2019.

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 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. The portion of net sales realized in the first semester 2018 compared to the full year 2018 was 49% in the Household Appliances Business Unit (2017: 47%), 43% in the Infection Control (including Life Science Business Area up to 2018) Business Unit (2017: 46%), 46% in the Wire Processing Business Unit (2017: 47%) and 49% in the Medical Devices Business Unit (2017: 49%). The seasonality of the Technologycluster & Infrastructure Business Unit and the reporting segment Corporate is not material.

Changes in the Scope of Consolidation

On March 20, 2019, Metall Zug AG repurchased the 2.76% non-controlling interests in Belimed AG, Zug, held by the former CEO and current president of the board of directors of Belimed AG. Since then, Metall Zug AG holds the entire 100% stake in Belimed AG.

In the first half of 2019, the Group companies V-ZUG Services AG, Zug, and Schleuniger S. de R.L. de C.V., Mexico, were founded. Both companies have commenced operations.

Effective January 1, 2019, the activities of the Life Science segment of the Infection Control Business Unit were transferred to the new Life Science Solutions Business Unit.

Also effective on January 1, 2019, the development and administration of the Group's own premises in Zug and Sulgen TG were bundled into the new Technologycluster & Infrastructure Business Unit. This Business Unit includes the existing companies V-ZUG Immobilien AG, Zug, MZ Infra AG, Zug (both previously included in the Corporate reporting segment) and V-ZUG Infra AG, Zug (formerly part of the Household Appliances Business Unit).

Explanations to the Financial Report

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

Other Provisions / other Operating Expenses

In the Technologycluster & Infrastructure Business Unit, a provision for soil remediation of TCHF 13 699 was recognized. As part of the preparations for construction work at the main V-ZUG site in Zug, extensive contamination investigation was carried out in consultation with the Canton of Zug Environment Office. These investigations identified various areas that require remediation. It should be possible to rectify these areas at the same time as the planned construction work. Given the legal remediation obligation and the advanced planning stage for some construction plots, these remediation costs must be provided for. Whether and, if so, when further remediation costs will incur depends on the realization of further buildings on the site in Zug.

In the first half year of 2018, the Infection Control Business Unit increased Other provisions by TCHF 1 630.

Restructuring Provision Infection Control

Of the TCHF 7 303 restructuring provisions as at December 31, 2018, TCHF 4 528 were used in the first half of 2019. The remaining TCHF 2 746 mainly relate to the restructuring of the former Life Science Business Area of the Infection Control Business Unit, which was communicated in 2017.

Restructuring provisions amounting to TCHF 2 131 were reversed through the income statement in the same period of the previous year. The reversal resulted from the then final restructuring plan of the former Life Science Business Area of the Infection Control Business Unit.

Events After the Balance Sheet Date

There were no events between June 30, 2019, and the publication of the half-year report on August 19, 2019, that would need to be disclosed under this heading.

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