

Schaffner Group
Half-Year Report
2017/18

Schaffner posts strong growth and significant increase in EBIT in the first half of 2017/18

The Schaffner Group recorded strong growth and a significant increase in EBIT in the first half of 2017/18. All three divisions contributed to the positive sales trend. The EMC division expanded its leading position in the global market. The fire in the Schaffner plant in Thailand at the end of 2017 did not have any negative impact on sales, and the Automotive division was able to maintain its strong market position. In the Power Magnetics division, additional measures were initiated to accelerate the implementation of the turnaround.

The Schaffner Group posted dynamic growth in the first half of 2017/18 in a positive economic environment. New orders were up 14.8 % year-on-year to CHF 114.4 million (previous year: CHF 99.6 million), and net sales rose 14.5 % to CHF 108.3 million (previous year: CHF 94.6 million). In local currencies, the sales increase amounted to 10.2 %. Segment sales in the EMC division exceeded the prior-year level by 21.4 %. Segment sales in the EMC division rose 21.4 % year-on-year. The Power Magnetics Division increased sales by 15.8 %. The Automotive division exceeded the high level of sales in the previous year by 0.8 %.

Significant increase in operating profit

Operating profit (EBIT) rose substantially to CHF 9.0 million (previous year: CHF 6.0 million), while the EBIT margin increased to 8.3 % (previous year: 6.4 %). The result of the first half of 2017/18 includes various one-time items. Adjusted for the positive impact of the insurance settlement for the fire at the Schaffner plant in Thailand at the end of 2017 as well as costs in connection with the restructuring of the Power Magnetics division, EBIT was CHF 7.5 million and the EBIT margin 6.9%. The net profit of CHF 4.0 million (previous year: CHF 4.2 million) was also affected by a one-time adjustment in connection with the 2017 Tax Cuts and Jobs Act in the USA. Adjusted for these one-time items, the Schaffner Group recorded a net profit of CHF 5.7 million. Earnings per share were CHF 6.24 (previous year: CHF 6.57). The gross margin was 28.3 % (previous year: 29.9 %). Free cash flow was CHF –1.6 million (previous year: CHF –3.1 million). The average number of employees rose due to the increase in volume to 3,757 full-time equivalents.

Positive performance in core markets

Supported by the positive economic situation, the core markets of the Schaffner Group developed well in the first half of 2017/18. Drive systems, rail technology and power supplies posted solid growth rates, while automotive electronics and machinery and robotics continued at the high level of the previous year. More than 60 % of group sales during the reporting period came from the three core markets of automotive electronics (24 %), drive systems (23 %) and power supplies (14 %). Europe continues to be the largest market region of the Schaffner Group with 44.9 %. The Asia region contributed 35.9 %, and 19.2 % came from the North American market.

The **EMC division** expanded its leading market position in all market regions in the first half of 2017/18. Segment sales were up 21.4 % to CHF 55.5 million (previous year: CHF 45.7 million). Segment profit also rose 21.4 % to CHF 7.5 million (previous year: CHF 6.2 million). The Power Quality business, which is part of the EMC division, successfully launched the new generation of active harmonic filters and posted growth during the reporting period that exceeded the strong overall increase recorded by the EMC division. Thanks to continued progress in operational excellence and the successful implementation of price adjustments, the segment profit margin was maintained at the high prior-year level of 13.6 %, despite the ongoing margin pressure and higher material costs.

The **Power Magnetics division** increased segment sales despite a weak start in North America by 15.8 % to CHF 27.1 million (previous year: CHF 23.4 million). Under the leadership of the turnaround manager appointed at the end of 2017, the implementation of the restructuring program was accelerated and the structures were streamlined, which generated additional costs in the reporting period. Renegotiations for supply contracts with poor margins are progressing gradually. Year-on-year, the Power Magnetics division reduced the segment loss to CHF 3.2 million (previous year: CHF 3.5 million) and posted a negative segment profit margin before restructuring costs of -12.0 % (previous year: -14.8 %).

The **Automotive division** recorded a strong first half of 2017/18. At CHF 25.7 million (previous year: CHF 25.4 million), sales were 0.8 % above the high level of the previous year. The segment result was CHF 8.9 million (previous year: CHF 5.9 million), positively impacted by a one-time effect in connection with the insurance settlement following the fire at the Schaffner plant in Thailand at the end of 2017. The segment profit margin was 34.5 % (previous year: 23.1 %). Adjusted for this one-time effect, the operating profit margin was slightly higher than in the previous year at 23.6 % (previous year: 23.1 %). In the reporting period, additional projects for filters to be used in electromobility were pushed ahead. These projects will have a positive impact on Schaffner's business within the next few years.

Outlook

In a continuing positive economic environment and at comparable exchange rates, Schaffner expects sales growth to continue. Assuming that material prices remain constant in the second half of the year, Schaffner strives to maintain the EBIT margin (excluding one-time effects) at least at the level of the first half. As before, the Schaffner Group continues to aim for organic sales growth of 5 % per year on a multi-year average basis, and for an EBIT margin of at least 8 % in the medium term.

Luterbach, 9 May 2018



Urs Kaufmann
Chairman of the Board



Marc Aeschlimann
Chief Executive Officer

Consolidated balance sheet

In CHF '000	31.3.2018	30.9.2017
Intangible assets	672	685
Property, plant and equipment	24,587	23,088
Other non-current financial assets	1,047	1,056
Deferred tax assets	7,813	10,837
Total non-current assets	34,119	35,666
Prepaid expenses and deferred income	2,366	1,226
Inventories	37,603	37,222
Other current financial assets	2,556	1,916
Other receivables	6,774	3,155
Trade receivables	47,203	41,640
Cash and cash equivalents	25,000	16,474
Total current assets	121,502	101,633
Total assets	155,621	137,299
Exchange differences	- 14,952	- 16,968
Retained earnings	14,175	10,216
Treasury shares	- 479	- 299
Share premium	36,380	40,783
Share capital	20,668	20,668
Total shareholders' equity	55,792	54,400
Deferred tax liabilities	436	365
Non-current provisions	4,603	4,480
Non-current borrowings	43,905	28,852
Total non-current liabilities	48,944	33,697
Accrued expenses	9,990	12,431
Current provisions	3,152	1,492
Other payables	4,729	4,619
Trade payables	32,802	30,454
Current borrowings	212	206
Total current liabilities	50,885	49,202
Total liabilities	99,829	82,899
Total liabilities and shareholders' equity	155,621	137,299

Consolidated income statement

In CHF '000	H1 2017/18	H1 2016/17
Net sales of goods and services	108,281	94,579
Cost of sales	-77,600	-66,292
Gross profit	30,681	28,287
Marketing and selling expense	-9,337	-8,161
Research and development expense	-8,546	-8,411
General and administrative expense	-6,696	-5,678
Other operating income	4,410	0
Other operating expenses	-1,536	0
Operating profit (EBIT)	8,976	6,037
Finance income	1,267	1,181
Finance expense	-1,634	-1,637
Profit before tax (EBT)	8,609	5,581
Income tax	-4,650	-1,410
Net profit for the period	3,959	4,171
Earnings per share in CHF		
Basic	6.24	6.57
Diluted	6.23	6.56

Condensed consolidated cash flow statement

In CHF '000	H1 2017/18	H1 2016/17
Cash flow from operating activities	2,829	- 838
Purchase of property, plant and equipment	-4,495	-2,203
Purchase of intangible assets	-137	-70
Change in current financial assets	-571	1,040
Other investing activities	225	192
Cash flow from investing activities	-4,978	-1,041
Repayment of excess share premium	-4,128	0
Changes in treasury shares	-1,060	-352
Proceeds from borrowings	15,509	7,012
Other financing activities	-104	-91
Cash flow from financing activities	10,217	6,569
Effect of exchange rates on cash and cash equivalents	458	72
Change in cash and cash equivalents	8,526	4,762
Cash and cash equivalents at 1 October	16,474	13,770
Cash and cash equivalents at 31 March	25,000	18,532

Consolidated statement of changes in equity

In CHF '000	Share capital	Share premium	Cumulative exchange differences	Retained earnings	Treasury shares	Total shareholders' equity
At 1 October 2016	20,668	41,874	-17,751	1,469	-67	46,193
Net profit for the period				4,171		4,171
Exchange differences			291			291
Treasury share transactions		-100		-564	-26	-690
Share option plans and restricted share plans		-226		564		338
At 31 March 2017	20,668	41,548	-17,460	5,640	-93	50,303
At 1 October 2017	20,668	40,783	-16,968	10,216	-299	54,400
Net profit for the period				3,959		3,959
Exchange differences			2,016			2,016
Treasury share transactions		110		-605	-180	-675
Repayment of excess share premium		-4,128				-4,128
Share option plans and restricted share plans		-385		605		220
At 31 March 2018	20,668	36,380	-14,952	14,175	-479	55,792

Notes

1 Accounting policies

The unaudited consolidated financial statements of the Schaffner Group for the first half of the fiscal year were prepared in accordance with Swiss GAAP FER 31 “Additional recommendations for listed companies”. As these interim financial statements represent an update of the consolidated annual financial statements for the year ended 30 September 2017, they should be read in conjunction with those annual financial statements.

The consolidated financial statements for the six months ended 31 March 2018 were approved by the Board of Directors of Schaffner Holding AG on 4 May 2018 and released for publication.

2 Change in accounting principles

In the year under review the Swiss GAAP FER accounting principles have not been changed.

3 Income taxes

The Tax Cuts and Jobs Act passed in the United States in December 2017 stipulates a reduction in the corporate tax rate from 2018, among other changes. Accordingly, the deferred tax assets for temporary differences for the US subsidiary were measured at a new, lower rate. This increased the income tax expense for the first half of the fiscal year 2017/18 by CHF 2.7 million.

4 Other operating income

At the end of December 2017, the Schaffner automotive production plant in Thailand was severely damaged by a fire. Thanks to the rapid restoration of the production capacities, supply readiness to customers was maintained at all times.

Other operating income and expenses contain the insured refunds of the damaged tangibles assets from CHF 4.4 million less their net book value of CHF 1.5 million.

The additionally incurred costs due to the reconstruction of the facility were neutralized by insurance commitments for business interruption in the respective items of the income statement.

5 Operating segments

The Schaffner Group consists of three reportable segments: Electromagnetic Compatibility, Power Magnetics and Automotive. They are the organizational units for which results are reported to the Executive Committee.

Electromagnetic Compatibility (EMC)

The EMC division is the market leader in EMC filters. It develops and manufactures standard and custom components that protect power electronic systems from line interference (thus ensuring electromagnetic compatibility, or EMC) and safeguard their reliable operation in power grids. As well, the division's Power Quality business unit develops and manufactures active and passive filter solutions to assure the best quality of electric power. The key sales markets include energy-efficient drive systems, electrical infrastructure, renewable energy, rapid charging systems for electric vehicles, power supply systems for electronic devices, as well as machine tools and robotics.

Power Magnetics (PM)

The Power Magnetics division develops and manufactures components to ensure the reliable operation of power electronic systems, and builds customized high-performance transformers for demanding applications. Schaffner solutions safeguard high levels of energy conversion efficiency and assure the optimum adaptation of the systems to electricity grids. The main sales markets include rail technology, energy-efficient drive systems, renewable energy, and charging infrastructure for electromobility.

Automotive (AM)

The Automotive division supports leading automobile manufacturers and system suppliers with its specialized EMC expertise, including particularly in the development and manufacturing of filter solutions for hybrid and electric vehicles. In the world market for antennas used in keyless entry systems for vehicles, Schaffner is the global number two.

Corporate

The "Corporate" column comprises all costs for Group functions that cannot be allocated to a particular segment. These are primarily the expenses of Schaffner Holding AG.

No operating segments have been aggregated to form these reportable operating segments. Segment profit or loss represents a segment's operating profit or loss before restructuring costs.

The reported restructuring expenses of the Power Magnetics division in the first half of 2017/18 primarily include costs in connection with further optimization measures in Europe.

For the first six months of 2017/18 (1 October to 31 March) In CHF '000	EMC	PM	AM	Corporate	Group
Net sales	55,544	27,079	25,658		108,281
Segment profit/(-loss)	7,534	-3,243	8,862	-2,897	10,256
Restructuring expenses		-1,280			-1,280
Operating profit/(-loss) (EBIT)	7,534	-4,523	8,862	-2,897	8,976
Finance income					1,267
Finance expense					-1,634
Profit before tax (EBT)					8,609
Income tax					-4,650
Net profit for the period					3,959

For the first six months of 2016/17 (1 October to 31 March) In CHF '000	EMC	PM	AM	Corporate	Group
Net sales	45,746	23,386	25,447		94,579
Segment profit/(-loss)	6,207	-3,461	5,887	-2,596	6,037
Operating profit/(-loss) (EBIT)	6,207	-3,461	5,887	-2,596	6,037
Finance income					1,181
Finance expense					-1,637
Profit before tax (EBT)					5,581
Income tax					-1,410
Net profit for the period					4,171

6 Seasonality

The Schaffner Group does not operate in industries with significant seasonal or cyclical variation in total sales over the fiscal year. Since major public holidays such as Chinese New Year and Christmas fall in the first half of the fiscal year, experience has shown that, factoring out economic influences, higher sales are usually generated in the second half of the year.

Income tax is recognized based on the best estimate of the weighted average annual income tax rate expected for the full fiscal year.

7 Commitments and contingencies

At 31 March 2018, the Group had commitments to purchase property, plant and equipment in the amount of CHF 5.5 million (30 September 2017: CHF 1.2 million). This amount primarily includes the obligation to acquire a production property in Hungary and the property, plant and equipment in connection with the fire in Thailand.

Contingent liabilities, described in the notes to the consolidated financial statements for the year ended 30 September 2017, did not change materially in the reporting period.

8 Foreign currencies

The following exchange rates were applied in the translation of foreign currencies:

Country or region	Currency	Balance sheet		Income statement	
		31.3.2018 In CHF	30.9.2017 In CHF	H1 2017/18 In CHF	H1 2016/17 In CHF
China	CNY 100	15.21	14.58	14.99	14.60
EU	EUR 100	117.83	114.55	116.57	107.28
Hungary	HUF 100	0.38	0.37	0.37	0.35
Thailand	THB 100	3.06	2.91	3.01	2.86
USA	USD 100	95.65	96.98	96.57	100.36

9 Distribution to shareholders

As decided by the Annual General Meeting of Schaffner Holding AG on 11 January 2018, a distribution of CHF 6.50 per share (exempt from Swiss anticipatory tax) for fiscal year 2016/17 was made to the shareholders in the form of a repayment of excess share premium from additional paid-in capital.

10 Events after the balance sheet date

No events have occurred after the balance sheet date that have a material effect on the amounts in the consolidated interim financial statements.

Key financials

Consolidated income statement

For the first six months (1 October to 31 March)

In CHF '000

	2017/18	2016/17
Net sales	108,281	94,579
Operating profit (EBIT)	8,976	6,037
In % of net sales	8.3	6.4
Net profit for the period	3,959	4,171
In % of net sales	3.7	4.4
Net profit for the period per share in CHF	6.24	6.57

Consolidated balance sheet

In CHF '000

	31.3.2018	30.9.2017
Total assets	155,621	137,299
Current assets	121,502	101,633
Non-current assets	34,119	35,666
Total liabilities	99,829	82,899
Shareholders' equity	55,792	54,400
In % of total assets	35.9	39.6

Segment reporting

For the first six months (1 October to 31 March)

In CHF '000

	2017/18	2016/17
Electromagnetic Compatibility (EMC)		
Segment sales	55,544	45,746
Segment profit	7,534	6,207
In % of segment sales	13.6	13.6
Power Magnetics (PM)		
Segment sales	27,079	23,386
Segment (loss)	-3,243	-3,461
In % of segment sales	-12.0	-14.8
Automotive (AM)		
Segment sales	25,658	25,447
Segment profit	8,862	5,887
In % of segment sales	34.5	23.1

Key share figures

	31.3.2018	30.9.2017
Number of shares	635,940	635,940
Shareholders' equity per share in CHF	87.73	85.54
Share price in CHF	293	317
Market capitalization in CHF million	186	202

Calendar

6.12.2018	Publication of Annual Report 2017/18 (full-year results)
15.1.2019	23rd Annual General Meeting

Schaffner Holding AG

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