Half-year report
2023

Medium-term operating earnings target almost achieved – Order intake maintained at a high level – Order backlog remains solid – Sales increased significantly

- EBIT in the first half of 2023 more than doubled to CHF 15.4 million (7.7% of sales revenue) compared to prior-year period
- Order intake maintained at a high level of CHF 183.4 million (-3.3% compared to prior-year period)
- Order backlog of CHF 307.5 million (-6.0% compared to the end of 2022) ensures capacity utilisation well into 2024
- Sales revenue in the first half-year increased by 43% to CHF 199.9 million compared to prior-year period
- Net income also more than doubled in total and per share

CHF m	**2023** 01.01. – 30.06.	**2022** 01.01. – 30.06.	Change
Order intake	183.4	189.7	-3.3%
Sales revenue	199.9	139.5	43.3%
Operating result EBIT	15.4	6.1	152.1%
Net income	13.6	5.0	169.9%
EBITR as percentage of sales revenue	7.7%	4.4%	n/a
Return on equity ROE	15.8%	6.0%	n/a
Cash flow from operating activities	-22.5	-6.2	n/a
Capital expenditure in non-current assets	3.8	3.3	15.4%
Free cash flow	-26.2	-7.6	n/a
Earnings per share (in CHF)	4.05	1.50	169.5%
Employees (average full-time equivalents)	1'344	1'267	6.1%

CHF m	**30.06.2023**	**31.12.2022**	Change
Order backlog	307.5	327.0	-6.0%
Total assets	358.6	333.9	7.4%
Net liquidity	-13.1	20.1	n/a
Shareholders' equity	178.7	172.5	3.6%
Equity ratio	49.8%	51.7%	n/a

Dear shareholders

Order intake remains at a high level – strong increase in sales

After the strong increase of the last two years, incoming orders stabilised at CHF 183.4 million in the reporting period (-3.3% compared to prior-year period, -0.9% adjusted for currency effects).

At CHF 199.9 million, sales in the first six months of 2023 were 43.3% above the previous year's level (47.3% adjusted for currency effects). At 0.92, the book-to-bill ratio (incoming orders to sales) was below the previous year (1.36) due to the above-average growth in sales revenue.

The pleasing development of order intake in the past financial year is reflected in a continued high order backlog of CHF 307.5 million (+1.5% compared to prior-year period, +4.0% adjust-ed for currency effects). This solid order backlog ensures capacity utilisation until well into 2024.

By regions and customer industries

In regional terms, only new orders from European customers increased, represen-ting 80% of the total order intake. North America (12%) maintained the previous year's level. Order intake from Asia (8%) was down, which can be explained by restrained investment activity due to weakened growth in China.

Thanks to a significant increase, Micromechanics, the largest customer industry, contributed significantly to the group-wide order intake. Transportation doubled its new orders. Aerospace held its own, while Industrial and Energy declined.

Lower cost basis boosts income

The positive effect of the structural cost reduction implemented in 2021 and the increase in Starrag Group's profitability could also be seen in the first half of 2023. In addition, the high order backlog was processed efficiently and profitably in the reporting period. The operating result (EBIT) increased by 152% to CHF 15.4 million (previous year period CHF 6.1 million). At 7.7 percentage points, this is nearly in line with the Group's medium-term operating objec-tive of 8%. Ultimately, net in-come came to CHF 13.6 million (+170% compared to prior-year period), or 6.8% of sales; per share it amounted to CHF 4.05.

Strong balance sheet

Starrag Group's balance sheet remains solid and is characterised by high real estate assets and low debt. Thanks to a conservative depreciation policy for real estate and property, plant and equipment, the company has a high level of hidden reserves. At 49.8% at the end of June 2023, the equity ratio was slightly below the long-term average. At the end of the reporting semester, net debt was CHF-13.1 million (end of previous year period CHF +20.1 million). In the 2022 financial year, cash flow from operating activities amounted to CHF 12.3 million, while it declined to CHF-22.5 million in the reporting period. The main influencing factors were the decline in advance payments for large machine orders and the general increase in business volume and the associated rise in trade receivables in the first half of 2023.

Confident outlook for 2023

Starrag Group is confident about the remainder of the reporting year, provided that operating activities are not limited by external factors beyond its control. By substantially and perma-nently reducing the cost basis in the last two years, the company will move closer towards its medium-term profitability objective. In addition, it will continue to push ahead with reviewing the product portfolio, exploiting synergy potential and implementing measures to achieve opera-tional excellence.

Strategically, the Group is consistently concentrating on the market segments that offer the best growth and earnings potential in view of its technological application expertise. The medi-um-term objectives still apply, defined as sales growth of 5% per year and an EBIT margin of 8%.

For the 2023 financial year, Starrag Group expects the order intake to be around the same level as in the previous year. Thanks to the strong order backlog and good first half of the year, sales are expected to significantly exceed the previous year’s figure. Consequently, operating earnings and the associated margin are also expected to increase.

Starrag considering merger with Tornos

On 26 May 2023, Starrag Group's Board of Directors decided to examine the possibility of a merger with Tornos Group. Both groups of companies operate all over the world. They are excellently positioned in their target markets and have portfolios that are tailored to the cus-tomer's needs. The market performances of Starrag and Tornos would complement each other perfectly. The merger would strengthen the position of both partners and offer huge de-velopment potential in all areas of activity. The Starrag and Tornos brands would continue to operate in the event of a merger and no job cuts are envisaged. Checks are being made and talks between Starrag and Tornos over a possible merger are ongoing. Starrag will issue an update on the next stages of the negotiations with Tornos at the appropriate time.

Thanks

We would like to say a huge thank you to our 1'300 plus employees at all sites. Thanks to their unrelenting commitment, we can look back on a gratifying first half of 2023. We would also like to thank our customers and suppliers, as well as our shareholders, for the trust they continue to place in us.

Kind regards

Michael Hauser
Chairman of the Board of Directors

Martin Buyle
CEO

Rorschacherberg, 27 July 2023

Financial commentary

Starrag Group's earnings before interest and tax (EBIT) rose in the first half of 2023 from CHF 6.1 million in 2022 to CHF 15.4 million in 2023. Net income amounted to CHF 13.6 million, compared with CHF 5.0 million in the first half of 2022.

Sales significantly above the previous year's level

In the first half of 2023, Starrag Group generated significantly higher sales of CHF 199.9 million compared to CHF 139.5 million in the previous year. This represents growth of 43.3% (+47.3% adjusted for currency effects). The supply chain bottlenecks that were still having an impact on revenue recognition in 2022 have now been largely cleared and the projects in the order backlog were executed promptly.

Order backlog remains at a high level

The order backlog ended the first half of the year at CHF 307 million, compared with CHF 303 million a year earlier (+1.5%) and CHF 327 million at the end of 2022 (-6.0%). In Europe and the DACH region, orders kept coming in. This was the main reason for the order backlog stabilising at a high level.

In addition to a significant share of sales from recurring services, this order backlog ensures solid capacity utilisation for the second half of 2023 and beyond.

Operating margin up considerably

Gross profit (sales revenue minus cost of materials plus/minus change in inventory) amounted to CHF 108.3 million, or 54.2 % of sales revenue, in line with expectations. In comparison with the first half of 2022, however, this represents a fall in percentage terms, as gross profit was affected by "Other operating income" to the amount of CHF 12.8 million and thus amounted to 67.1% of sales.

Staff costs increased slightly by CHF 4 million (+6.5%) compared to the first half of 2022 to CHF 65.9 million due to volume. However, the impact of the measures taken in the previous years to reduce costs and increase efficiency was evident: the staff cost ratio (staff costs/revenue) improved, falling from 44.4% in the first half of 2022 to 33.0% in the first half of 2023. Other operating expenses rose slightly to CHF 24.7 million in 2023, up from CHF 22 million in the corresponding period in 2022. However, these expenses went up on a straight-line basis in relation to sales. In 2023, they made up just 12.4% of sales, down from 15.6% in 2022.

With the volume of sales increasing and orders constantly coming in, an operating margin of CHF 15.4 million was achieved. This represents an increase of CHF 9.3 million (or +152.1%) from CHF 6.1 million in the same period last year.

Net income at CHF 13.6 million

Net income amounted to CHF 13.6 million this year, up from CHF 5.0 million a year earlier. Net income per share came to CHF 4.05 at the end of the first half of 2023, having stood at CHF 1.50 at the same point in 2022.

Balance sheet still healthy

As at 30 June 2023, the balance sheet total amounted to CHF 358.6 million, up from CHF 333.9 million at the end of 2022 (CHF +24.7 million). The rise of CHF +13.8 million in customer receivables resulted in considerable changes owing to the increase in the volume of business and the build-up of inventory amounting to CHF +5.9 million.

Liabilities went up from CHF 150 million to CHF 168 million, mainly driven by the increase in short-term financial liabilities (CHF +37.6 million).

Shareholders' equity at CHF 178.7 million remained at the same level as at the end of 2022 (CHF 172.5) million and the equity ratio remained high at 49.8% (compared to 51.7% at the end of 2022).

Cash flow

In the 2022 financial year, cash flow from operating activities amounted to CHF 12.3 million, while it declined to CHF-22.5 million in the reporting period. This negative trend can be attributed to the fact that the positive cash flow in 2022 was mainly due to high advance payments for large machine orders. However, this positive effect in the cash flow could not be continued to the same extent in 2023, as further advance payments could not be generated to the same extent.

Definition of additional performance indicators

The financial information in this Half-Year Report includes certain additional performance indicators that are not defined by Swiss GAAP FER. These are used by management to measure the performance of the company. They might deviate from similar measurement parameters used in other companies and are not to be considered as a replacement for the Swiss GAAP FER indicators. The additional definitions can be found on page 70 of the Annual Report 2022.

Income statement

CHF 1'000	**2023** 01.01. – 30.06.	2022 01.01. – 30.06.	2022 01.01. – 31.12.
Sales revenue	199'878	139'483	317'592
Other operating income	1'396	12'887	14'733
Change in inventory of finished and unfinished goods	7'062	11'771	9'602
Cost of materials and components	-98'674	-70'566	-148'192
Personnnel expenses	-65'879	-61'879	-121'099
Other operating expenses	-24'692	-21'776	-46'345
Earnings before interest, taxes, depreciation and amortization EBITDA	**19'091**	9'920	26'291
Depreciation of fixed assets	-3'061	-3'221	-6'529
Depreciation of intangible assets	-604	-581	-1'199
Operating result EBIT	**15'426**	6'118	18'563
Financial result	-446	-191	-494
Profit before taxes	**14'980**	5'927	18'069
Income tax expenses	-1'364	-883	-6'955
Net income	**13'616**	5'044	11'114
Thereof:			
‣ Shareholders of the company	13'616	5'052	11'114
‣ Minority shareholders	0	-8	0
Earnings per share in CHF	4.05	1.50	3.31
Diluted earnings per share in CHF	4.05	1.50	3.31

Balance sheet

CHF 1'000	30.06.2023	30.06.2022	31.12.2022
Cash and cash equivalents	25'964	23'996	21'482
Receivables from goods and services	112'338	72'246	98'485
Other short-term receivables	9'227	10'520	9'321
Inventories	127'692	110'595	121'784
Prepaid expenses and deferred income	3'629	3'363	2'795
Total current assets	**278'850**	220'720	253'867
Tangible fixed assets	77'982	78'727	77'940
Intangible assets	1'758	2'829	2'107
Total non-current assets	**79'740**	81'556	80'047
Total assets	**358'590**	302'276	333'914

CHF 1'000	30.06.2023	30.06.2022	31.12.2022
Financial dept	38'528	17'178	874
Payables form goods and services	15'843	14'777	21'696
Other liabilities	13'651	19'413	13'436
Provisions	6'292	7'107	6'606
Accrued liabilities and deferred income	94'413	66'978	107'924
Total current liabilities	**168'727**	125'453	150'536
Financial debt	521	431	500
Provisions	10'640	8'385	10'398
Total non-current liabilities	**11'161**	8'816	10'898
Total liabilities	**179'888**	134'269	161'434
Share capital	28'560	28'560	28'560
Additional paid-in capital	46'844	50'204	50'204
Retained earnings	103'298	89'232	93'716
Total shareholders' equity, shareholders of the company	**178'702**	167'996	172'480
Minority shareholders	0	11	0
Total shareholders' equity	**178'702**	168'007	172'480
Total liabilities and shareholders' equity	**358'590**	302'276	333'914

Cash flow statement

CHF 1'000	**2023** 01.01. – 30.06.	2022 01.01. – 30.06.	2022 01.01. – 31.12.
Net income	13'616	5'044	11'114
Depreciation of tangible fixed assets and amortization of intagible assets	3'665	-3'802	7'728
Change in non-current provisions	227	-91	1'883
Other non-cash items	-583	411	-736
Change in			
‣ Receivables from goods and services	-13'663	11'200	-15'163
‣ Inventories	-6'501	-20'249	-30'974
‣ Other receivables, prepaid expenses and deferred expenses	-542	-5'157	-3'753
‣ Payables from goods and services	-5'741	3'416	10'463
‣ Other liabilitiies, accrued expenses and deferred income	-12'996	-4'567	31'754
Cash flow from operating activities, net	**-22'518**	-6'191	12'316
Capital expenditure for:			
‣ Tangible fixed assets	-3'497	-2'068	-5'925
‣ Intangible assets	-259	-1'186	-1'079
Disposals of fixed assets	31	1'842	1'060
Cash flow from investing activities, net	**-3'725**	-1'412	-5'944
Change in current financial debt	37'551	7'531	-9'147
Repayment of non-current financial debt	25	-1'759	-1'638
Dividend payment	-6'720	-3'360	-3'360
Cash flow from financing activities, net	**30'856**	2'412	-14'145
Currency translation	-131	-612	-544
Net change in cash and cash equivalents	4'482	-5'803	-8'317
Cash and cash equivalents at beginning of period	21'482	29'799	29'799
Cash and cash equivalents at end of period	**25'964**	23'996	21'482

Statement of shareholders'equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings Currency translation	Goodwill offset	Others	Total	Shareholders' equity shareholders of the company	Minority share-holders	Total Share-holders' equity
01.01.2022	**28'560**	**51'884**	**-5'619**	**-27'381**	**120'770**	**87'770**	**168'214**	**44**	**168'258**
Net income	-	-			5'077	5'077	5'077	-33	5'044
Currrency translation	-	-	-2'799	864		-1'935	-1'935	-	-1'935
Dividend payment	-	-1'680	-	-	-1'680	-1'680	-3'360	-	-3'360
30.06.2022	**28'560**	**50'204**	**-8'418**	**-26'517**	**124'167**	**89'232**	**167'996**	**11**	**168'007**
01.01.2023	**28'560**	**50'204**	**-10'450**	**-26'206**	**130'372**	**93'716**	**172'480**	**-**	**172'480**
Net income	-	-			13'608	13'608	13'608	-	13'608
Currency translation	-	-	-817	151		-666	-666	-	-666
Dividend payment	-	-3'360	-	-	-3'360	-3'360	-6'720	-	-6'720
30.06.2023	**28'560**	**46'844**	**-11'267**	**-26'055**	**140'620**	**103'298**	**178'702**	**-**	**178'702**

Notes to the interim consolidated financial statements

1. Accounting principles

The unaudited interim consolidated financial statements for 2023 were prepared in accordance with Swiss GAAP FER (Swiss accounting and reporting recommendations). This is a condensed interim report pursuant to Swiss GAAP FER 31 "Additional recommendations for listed companies".

The consolidated interim financial statements do not contain all of the information found in the consolidated annual financial statements and should therefore be read together with the financial statements for the 2022 fiscal year. The accounting standards applied are in line with the accounting standards used to prepare the 2022 financial statements (refer to pages 80 to 82 of the 2022 Annual Report), unless stated otherwise in the following section.

The present interim report includes estimates and assumptions that affect the reported figures and the associated disclosure. The actual results may differ from these estimates.

2. Additional information

The Starrag Group is not affected by seasonal or cyclical factors as steady sales and margins are assured in the event of any brief fluctuations in order intake by the order backlog, which is currently equivalent to more than half a year's sales.

3. Approval of interim consolidated report

No events have occurred after 30 June 2023 that would have a material effect on the interim accounts. The interim consolidated report was approved and released for publication by the Board of Directors on 26 July 2023.

High precision machine tools for greater productivity

Starrag Group is a global technology leader in manufacturing high-precision machine tools for milling, turning, boring and grinding workpieces of metallic, composite and ceramic materials. Principal customers are internationally active companies in the Aerospace, Energy, Industrial, Micromechanics and Transportation sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer quality and productivity.

The umbrella brand Starrag unites the product ranges Berthiez, Bumotec, Dörries, Droop+Rein, Heckert, Scharmann, SIP, Starrag and TTL. Headquartered in Rorschacherberg, Switzerland, the Starrag Group operates manufacturing plants in Switzerland, Germany, France, the UK and India and has established a network of sales and service subsidiaries in the most important customer countries.

The shares of Starrag Group Holding AG are listed on the SIX Swiss Exchange.

Financial calendar

26 January 2024	Sales and orders 2023
8 March 2024	Presentation of 2023 results for analysts and the media
20 April 2024	Annual general meeting
25 July 2024	Half-year report 2024

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Real estate with substance

Switzerland


Rorschacherberg


Vuadens

Germany


Bielefeld


Chemnitz


Mönchengladbach

India


Bangalore

	Land area m²	Floor area m²	Year of construction	Year of purchase	Cost m CHF	Net carrying value m CHF	Insurance value m CHF
Rorschacherberg	50'000	25'000	1925–2007	1925–2007	29.3	13.8	47.9
Vuadens	33'000	18'000	2016	2016	38.1	34.0	27.7
Bielefeld	22'000	11'000	1999/2009	2011	10.0	9.2	17.1
Chemnitz	85'000	46'000	1967–1973	1998	14.0	4.1	41.8
Mönchengladbach	28'000	21'000	1884–1998	2011	13.7	10.3	46.0
Bangalore	32'000	11'000	2013	2013	5.8	4.5	5.8

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This half-year report is also available in German. In case of any discrepancy between the two versions, the German text shall prevail. The half-year report may also be viewed online on our website: www.starrag.com

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