Half-year report
2021

Strong recovery in the order intake – same level as in the previous year despite slightly lower sales – order backlog remains substantial and balance sheet remains solid

- Order intake up 69% to CHF 150 million
- Sales down 10% to CHF 139 million
- Substantial order backlog for the second half of the year and beyond (CHF 187 million)
- EBIT CHF 0.8 million (0.6% of sales)

CHF m	**2021** 01.01. – 30.06.	**2020** 01.01. – 30.06.	Change
Order intake	149.8	88.8	68.7%
Sales revenue	139.3	155.4	-10.3%
Operating result EBIT	0.8	0.6	33.0%
Net income	0.0	0.5	-96.3%
EBITR as percentage of sales revenue	0.6%	0.4%	n/a
Return on equity ROE	0.0%	0.6%	n/a
Cash flow from operating activities	-7.1	-8.8	19.0%
Capital expenditure in non-current assets	3.0	3.4	-12.5%
Free cash flow	-9.7	-11.9	18.5%
Earnings per share (in CHF)	0.01	0.15	-94.5%
Employees (average full-time equivalents)	1'327	1'455	-8.8%

CHF m	**30.06.2021**	**31.12.2020**	Change
Order backlog	187.2	173.7	7.8%
Total assets	338.4	317.5	6.6%
Net debt	-3.0	6.6	-146.4%
Shareholders' equity	177.1	175.5	0.9%
Equity ratio	52.3%	55.3%	n/a

Dear shareholders

Sharp increase in orders

After the slight increase in new orders in the second half of 2020, the trend strengthened in the first half of 2021, with the result that, at CHF 150 million, the order intake exceeded the previous year's figure by 69% (66% at constant exchange rates).

Sales fell owing to the Covid-19-related lower order backlog at the end of 2020, albeit to a lesser extent than in the previous year. At CHF 139 million, sales revenue was 10% below the figure for the same period in 2020 (11% at constant exchange rates), but was practically unchanged compared with the second half of 2020.

Breakdown by region and sector

In terms of regions, there were significant increases in Europe and, in particular, Asia, where the order intake more than tripled compared with the same period last year. Conversely, there was a significant decrease in new orders from customers in North America, which can be explained by customers in Aerospace being cautious.

With regard to sectors, a widespread recovery is evident. The one exception was Aerospace, which continued to be affected by the Covid-19-related impairment of the global aviation sector. Compared with the same period a year ago, there were considerable increases in Industrial – which is the most important sector by a distance for Starrag – as well as Transportation and not least Energy thanks to major wind power projects.

Order backlog ensures capacity utilisation for the second half of the year and beyond

The order backlog for new equipment amounted to CHF 187 million at the end of the period under review, which was 8% higher than at the end of 2020. This solid order backlog ensures capacity utilisation for the second half of the year and beyond. In addition, recurring demand for services is also linked to new equipment business.

Stable operating earnings

The operating result (EBIT) was CHF 0.8 million, compared with CHF 0.6 million in the first half of 2020 and CHF 0.7 million in second half, despite the fall in the volume of sales. This meant that the operating margin was 0.6% (compared with 0.4% in the same period last year). It should be borne in mind that a further CHF 5 million or so of operating costs was saved in the period under review as part of the "Starrag 2021" programme and thanks to additional measures to bring about a sustained increase in profitability. This was after approx. CHF 20 million had been saved in the whole of 2020. Conversely, the lower sales had a negative impact on operating earnings. Net income was balanced (compared with CHF 0.5 million in the same period last year); per share, it was CHF 0.01 (down from CHF 0.15).

Continued strong and flexible financing

As at 30 June 2021, the balance sheet total stood at CHF 338.4 million, which was 7% above the level at the end of 2020. Shareholders' equity amounted to CHF 177.1 million, up from CHF 175.5 million at the end of 2020. As a result, the equity ratio remained high at 52.3% (albeit down from 55.3%). Net debt remained at a low level, standing at CHF 3 million at the end of the period under review. In addition, Starrag Group's high level of financial flexibility is reflected in the conservative valuation of the balance sheet items, as well as the substantial property portfolio (it has its own production network).

Outlook for 2021

Forecasts regarding the Covid-19-related restrictions in the next few months remain uncertain. However, as more and more people around the world are now vaccinated, it does not seem far-fetched to assume that the negative effects will increasingly tail off. All in all, the markets have recovered surprisingly well in recent weeks and months. The speed at which investment picks up in the Aerospace target market will also be important for Starrag in the coming months.

It may be assumed from this assessment and the sharp rise in new orders in the first half of the year that the order intake for the year as a whole will significantly exceed the previous year's figure. Starrag Group also expects an increase in sales in the second half of the year. However, this is likely to be smaller owing to the fall in new orders in the previous year. With regard to earnings, the Executive Board believes that the recovery that has been apparent since the second half of 2020 will continue.

Thanks

The Board of Directors and Executive Board would like to thank all staff for their tireless commitment. Against the backdrop of Covid-19, they again faced major challenges in the period under review that would take some time to overcome. We would also like to thank our customers and suppliers, as well as all our shareholders, for the unwavering confidence they have shown in us.

Kind regards

Michael Hauser	Dr. Christian Walti
Chairman of the Board of Directors	CEO

Rorschacherberg, 29 July 2021

Financial commentary

Starrag Group's earnings before interest and tax (EBIT) rose in the first half of 2021 from CHF 0.6 million in 2020 to CHF 0.8 million in 2021. Net income amounted to CHF 0.02 million, compared with CHF 0.5 million in the first half of 2020.

There were signs of significant recovery in the order intake, which had been adversely affected by the Covid-19 pandemic in the period under review. Further cost-cutting measures helped to stabilise earnings.

Slight decline in sales

Sales in the first half of 2021 amounted to CHF 139 million, which was 10% lower than the previous year's level (11% at constant exchange rates). This slight decline was driven by the lower order backlog at the end of 2020. In December 2020, it stood at CHF 173 million, while in 2019 it amounted to CHF 284 million. Owing to the fact that revenue is recognised according to the percentage of completion (POC) method, there is a time lag for both the recovery and the decline in the order intake. For this reason, the significant increase in the order intake is not reflected in sales to the same extent.

Order backlog recovers

The order backlog recovered thanks to rising demand that was reflected in an order intake of CHF 150 million (up 69% compared with the previous year's figure of CHF 89 million). The order intake amounted to CHF 187 million at the end of the first half of 2021, having stood at CHF 174 million in December 2020.

Together with a considerable share of sales from recurring services business, this order backlog therefore ensures solid capacity utilisation for the second half of 2021 and beyond.

Operating margin maintained

Gross profit (sales revenue minus cost of materials plus/minus change in inventory) amounted to CHF 85 million, or 60.7% of sales revenue. This meant that it was down CHF 2 million, year on year (while sales were down CHF 16 million), owing to a shift in the product mix, with the gross margin significantly surpassing the previous year's figure (by 5.1 basis points).

The share of staff costs increased slightly (from 40.7% to 42.2%) as a result of the fall in the volume of sales. As a result of the job cuts already introduced in 2019, as well as the additional cost saving measures, staff costs were reduced in absolute terms by a further CHF 4.5 million in 2021.

Other operating expenses were slightly higher in the first half of 2021 than in the same period in 2020 (CHF 21 million, up from CHF 18 million). This increase was driven by order-related costs, which were essentially higher transport and travel costs that can be attributed to increasing activities in Asia. As a result, other operating expenses rose from 11.7% to 14.9% of sales.

The cost-cutting measures that were launched in 2019 are still filtering through in 2021. In all, operating costs of CHF 5 million were saved across the Group compared with the same period last year.

Despite the fall in the volume of sales amounting to CHF 16 million, EBIT went up year on year from CHF 0.6 million in 2020 to CHF 0.8 million in 2021 as a result of an improved operating margin (gross profit) and further cost savings.

Net income lower than previous year owing to one-off effect

Net financial income improved by CHF 0.3 million compared with the same period last year due to lower currency effects and constant interest effects.

Net income was CHF 0.02 million compared to CHF 0.5 million in the same period last year, with the main effect being lower deferred taxes of the German investments. Net income per share at the half-year was CHF 0.01 in 2021 compared to CHF 0.15 in 2020.

Balance sheet still healthy

At CHF 338 million on 30 June 2021, the balance sheet total was CHF 21 million higher than at the end of 2020. There were considerable changes in cash and cash equivalents (plus CHF 11 million) and trade receivables (plus CHF 9 million), which were driven by the strong order intake.

Liabilities increased from CHF 142 million to CHF 161 million, mainly driven by short-term financial liabilities.

At CHF 177 million, shareholders' equity was virtually unchanged compared with the end of 2020 (CHF 175 million). As a result of the slightly higher balance sheet total, the equity ratio decreased from 55.3% at the end of the previous year to 52.3% in mid-2021. Net debt remained at a low level, standing at CHF -3.0 million at the end of the period under review. This, in conjunction with its conservatively valued balance sheet items (particularly fixed assets and inventories), means that Starrag Group continues to stand out for its high level of financial flexibility.

Free cash flow

Cash flow from operating activities improved from CHF -9.0 million in the same period last year to -7.0 million.

CHF 3.0 million was invested in fixed assets – mainly machinery and equipment, as well as IT (hardware and software).

Free cash flow was negative as a result of the reduction in operating liabilities. It amounted to CHF -9.7 million, compared with a positive figure of CHF -11.9 million a year earlier.

Cash flow from financing amounted to CHF 21.0 million owing to an increase in financial liabilities which was related to the balance sheet date.

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 89 of the Annual Report 2020.

Income statement

CHF 1'000	**2021** 01.01. – 30.06.	2020 01.01. – 30.06.	2020 01.01. – 31.12.
Sales revenue	139'303	155'373	297'051
Other operating income	1'144	922	1'903
Change in inventory of finished and unfinished goods	3'817	9'587	5'559
Cost of materials and components	-59'689	-79'536	-142'716
Personnnel expenses	-58'792	-63'285	-118'268
Other operating expenses	-20'807	-18'185	-33'737
Earnings before interest, taxes, depreciation and amortization EBITDA	**4'976**	4'876	9'792
Depreciation of fixed assets	-3'593	-3'577	-7'069
Depreciation of intangible assets	-572	-689	-1'463
Operating result EBIT	**811**	610	1'260
Financial result	-574	-847	-1'712
Profit before taxes	**237**	-237	-452
Income tax expenses	-217	774	-153
Net income	**20**	537	-605
Thereof:			
‣ Shareholders of the company	28	506	-634
‣ Minority shareholders	-8	31	29
Earnings per share in CHF	0.01	0.15	-0.19
Diluted earnings per share in CHF	0.01	0.15	-0.19

Balance sheet

CHF 1'000	**30.06.2021**	30.06.2020	31.12.2020
Cash and cash equivalents	44'184	10'363	32'506
Receivables from goods and services	91'601	96'741	82'479
Other short-term receivables	6'254	5'886	4'647
Inventories	105'868	110'611	108'090
Prepaid expenses and deferred income	2'844	2'296	1'280
Total current assets	**250'751**	225'897	229'002
Tangible fixed assets	85'148	88'593	86'129
Intangible assets	2'545	2'390	2'412
Total non-current assets	**87'693**	90'983	88'541
Total assets	**338'444**	316'880	317'543

CHF 1'000	**30.06.2021**	30.06.2020	31.12.2020
Financial dept	44'787	19'345	23'456
Payables form goods and services	11'446	14'325	13'639
Other liabilities	9'153	6'930	10'788
Provisions	3'791	5'440	3'627
Accrued liabilities and deferred income	75'836	75'299	73'893
Total current liabilities	**145'013**	121'339	125'403
Financial debt	2'434	2'548	2'500
Provisions	13'947	16'257	14'146
Total non-current liabilities	**16'381**	18'805	16'646
Total liabilities	**161'394**	140'144	142'049
Share capital	28'560	28'560	28'560
Additional paid-in capital	51'884	51'884	51'884
Retained earnings	96'581	96'217	95'017
Total shareholders' equity, shareholders of the company	**177'025**	176'661	175'461
Minority shareholders	25	75	33
Total shareholders' equity	**177'050**	176'736	175'494
Total liabilities and shareholders' equity	**338'444**	316'880	317'543

Cash flow statement

CHF 1'000	**2021** 01.01. – 30.06.	2020 01.01. – 30.06.	2020 01.01. – 31.12.
Net income	20	537	-605
Depreciation of tangible fixed assets and amortization of intagible assets	4'165	4'266	8'532
Change in non-current provisions	-237	186	-1'984
Other non-cash items	768	-339	-2'345
Change in			
‣ Receivables from goods and services	-9'270	12'990	29'229
‣ Inventories	2'978	-3'352	-192
‣ Other receivables, prepaid expenses and deferred expenses	-2'894	-497	1'667
‣ Payables from goods and services	-2'270	-8'478	-9'307
‣ Other liabilitiies, accrued expenses and deferred income	-388	-14'114	-13'997
Cash flow from operating activities, net	**-7'128**	-8'801	10'998
Capital expenditure for:			
‣ Tangible fixed assets	-2'282	-2'735	-3'677
‣ Intangible assets	-690	-663	-1'513
Disposals of fixed assets	390	278	369
Cash flow from investing activities, net	**-2'582**	-3'120	-4'821
Change in current financial debt	21'126	7'829	12'345
Repayment of non-current financial debt	-94	-132	-250
Dividend payment	-	-	-40
Cash flow from financing activities, net	**21'032**	7'697	12'055
Currency translation	356	-24	-337
Net change in cash and cash equivalents	11'678	-4'248	17'895
Cash and cash equivalents at beginning of period	32'506	14'611	14'611
Cash and cash equivalents at end of period	**44'184**	10'363	32'506

Statement of shareholders'equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings				Shareholders' equity shareholders of the company	Minority share-holders	Total Share-holders' equity
			Currency translation	Goodwill offset	Others	Total			
01.01.2020	**28'560**	**51'884**	**-737**	**-28'497**	**126'803**	**97'569**	**178'013**	**44**	**178'057**
Net income	-	-	-	-	506	506	506	31	537
Currrency translation	-	-	-2'244	386	-	-1'858	-1'858	-	-1'858
Dividend payment	-	-	-	-	-	-	-	-	-
30.06.2020	**28'560**	**51'884**	**-2'981**	**-28'111**	**127'309**	**96'217**	**176'661**	**75**	**176'736**
01.01.2021	**28'560**	**51'884**	**-2'719**	**-28'433**	**126'169**	**95'017**	**175'461**	**33**	**175'494**
Net income	-	-	-	-	28	28	28	-8	20
Currency translation	-	-	-1'850	-314	-	1'536	-1'536	-	1'536
30.06.2021	**28'560**	**51'884**	**-869**	**-28'747**	**126'197**	**96'581**	**177'025**	**25**	**177'050**

Notes to the interim consolidated financial statements

1. Accounting principles

The unaudited interim consolidated financial statements for 2021 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 2020 fiscal year. The accounting standards applied are in line with the accounting standards used to prepare the 2020 financial statements (refer to pages 98 to 100 of the 2020 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.

In the first half of 2021, personnel expenses benefited from short-time work of CHF 4.7 million in connection with Covid-19-related capacity adjustments.

3. Approval of interim consolidated report

No events have occurred after 30 June 2021 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 23 July 2021.

Screw it, let's do it (digitally)

Digital transformation is the order of the day. When it comes to the shop floor, it's not only IT companies that are in demand, but also machine tool manufacturers.
Starrag has been using digital technology for decades and is further developing it for customers — right up to their "build-it-yourself" cell controller.

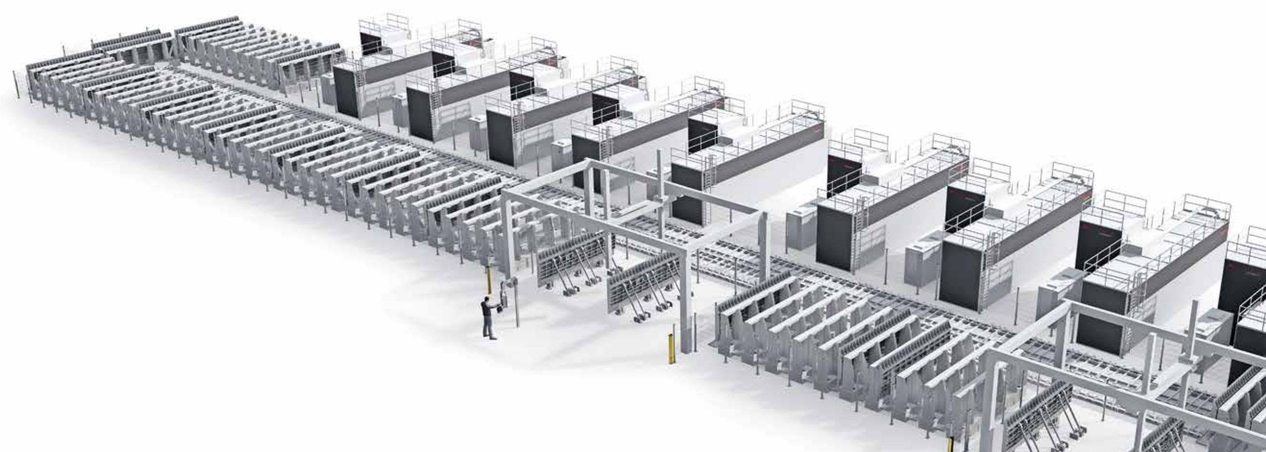
"Screw it, let's do it" — the title of the bestseller by British billionaire Sir Richard Charles Nicholas Branson describes Starrag's proven digitalisation strategy well. This can be seen in the numerous solutions that have been created together with customers for more than two decades. Starrag always follows the message of its brand: "Engineering precisely what you value". Through digitalisation, the customer also receives exactly what they need, whether it's a machine or a production network, whether it's for batch size 1 or largescale production.

IPS Integrated Production System

The Integrated Production System (IPS) has also proven itself as a digital platform. IPS is a modular system from which customers can select their individual Industry 4.0 solution "à la carte". In addition, IPS has a unique selling point among digital platforms: Its main focus is on self-developed cell controller technology, using which Starrag's flexible manufacturing systems (FMS) can be controlled and regulated in a reliable manner. But software is the linchpin of hardware performance. Starrag relies on its own developments here, too. Our specialities include software solutions for particular task definitions.

Digitalisation also plays to its strengths in conjunction with online communication, as has been shown during the COVID-19 pandemic. We're talking about incident resolution, teleservice and remote diagnostics, the flexibility of which many companies have learnt to appreciate in times of crisis. After a real-time analysis of the machine condition, it's time for the extensive remote service infrastructure to come into play. This provides the customer with assistance via the Internet, a technical hotline or what are known as "Service Assistant Modules". This often leads to machine faults being diagnosed and remedied remotely.

The internal digitalisation of a company also plays a significant role in making processes more transparent and efficient and in retrieving information promptly, regardless of location. The introduction of a new CRM system for optimising customer service marks a milestone for Starrag.



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 and Turbines, Industrial and Transportation as well as Luxury Goods and Med Tech 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, TTL and WMW. Headquartered in Rorschach/Switzerland, 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

28 January 2022	Sales and orders 2021
4 March 2022	Presentation of 2021 results for analysts and the media in Zurich
23 April 2022	Annual general meeting in Rorschach
29 July 2022	Half-year report 2022

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Imprint

Publisher
Starrag Group Holding AG, Rorschacherberg, Switzerland

Concept and Design
Level East AG, Rorschach, Switzerland

Copywriter
PEPR, Oetwil am See, Switzerland

Printer
MRS Digitaldruck OG, Austria

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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