Half-year report
2020

Order intake and sales considerably below previous year's level – Lower profit – Substantial order backlog – Solid balance sheet and low net debt

- Sales down 28% to CHF 155 million
- Order intake down 49% to CHF 89 million
- Order backlog of CHF 213 million ensures basic capacity utilization for second half 2020 and beyond
- Operating profit EBIT CHF 0.6 million or 0.4% of sales
- Net income CHF 0.5 million
- Comprehensive cost reduction program and strengthened focusing

CHF m	**2020** 01.01. – 30.06.	**2019** 01.01. – 30.06.	Change
Order intake	88.8	172.7	-48.5%
Sales revenue	155.4	214.5	-27.6%
Operating result EBIT	0.6	0.9	-35.4%
Net income	0.5	3.4	-84.3%
EBITR as percentage of sales revenue	0.4%	0.4%	na.
Return on equity ROE	0.6%	3.9%	na.
Cash flow from operating activities	-8.8	8.2	na.
Capital expenditure in non-current assets	3.4	3.0	13.1%
Free cash flow	-11.9	5.2	na.
Earnings per share (in CHF)	0.15	1.01	-85.1%
Employees (average full-time equivalents)	1'455	1'515	-0.4%

CHF m	**30.06.2020**	**31.12.2019**	Change
Order backlog	213.0	284.3	-25.1%
Total assets	316.9	334.6	-5.3%
Net debt	11.5	-0.6	na.
Shareholders' equity	176.7	178.1	-0.7%
Equity ratio	55.8%	53.2%	na.

Dear shareholders

Order intake, sales and earnings down

As expected, Starrag Group was unable to escape the effects of Covid-19 in the first half of 2020. The reluctance of customers in sectors to invest had a substantial impact on all new orders. Due to delays in order processing caused by Covid-19 and the lower order intake in 2019, sales were also significantly lower than in the previous year. The lower volume was one of the factors that resulted in a reduction in earnings, which was also affected by losses at two sites.

The order intake for the group as a whole was down to CHF 89 million, or 49%, compared with the same period in the previous year (down 47% at constant exchange rates). Sales were down by 28% to CHF 155 million (25% at constant exchange rates), which was a somewhat smaller decline.

Breakdown by region and sector

The fall in new orders primarily affected Europe, followed by Asia. However, incoming orders from customers from North America, a key strategic market for Starrag Group, went up somewhat, slightly exceeding new orders from Asia in the period under review.

In terms of the individual sectors, the sharpest decline was in Industrial and Aerospace, the two most important sectors by a distance. Given the prospects for the capital goods industries and global aviation in the wake of Covid-19, this is hardly surprising. Energy and Transportation were also down, albeit on a considerably smaller scale in absolute terms.

Substantial order backlog for the second half of the year and beyond

The order backlog for new machines amounted to CHF 213 million at the end of the period under review. This represents a decline of 25% compared with the end of 2019, and 34% compared with the end of June 2019. Nevertheless, this value represents a significant workload for the second half of the year and beyond. It is important to note that new equipment business is always associated with recurring demand for services.

Earnings lower

The operating result (EBIT) was CHF 0.6 million, down from CHF 0.9 million in the first half of 2019. It should be noted that restructuring costs of CHF 7.9 million affected the results in the same period last year and CHF 14 million was saved in the period under review. Of this, cost savings of CHF 8 million were made in a short-term reaction to Covid-19, while savings of CHF 6 million had already been initiated in 2019. The significant fall in sales, as well as capacity utilisation and margin-related losses at the Mönchengladbach and Bielefeld sites, had a negative impact on EBIT. Net income was CHF 0.5 million compared with CHF 3.4 million in the same period last year, with exceptional income tax relief of CHF 2.3 million in 2019 owing to the corporation tax reform in various Swiss cantons as a result of the reduction of tax provisions. Per share, net income was CHF 0.15 (down from CHF 1.01).

Balance sheet still solid – net debt low – substantial real estate portfolio

At CHF 316.9 million on 30 June 2020, the balance sheet total was CHF 17.7 million below the level at the end of 2019. At CHF 176.7 million, shareholders' equity was virtually unchanged compared with the end of 2019. This resulted in an equity ratio of 55.8%, which was 2.6 percentage points higher than at the end of the previous year. Net debt remained at a low level, standing at CHF 11.5 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. Furthermore, the Group has a substantial real estate portfolio, as well as its own production network.

Comprehensive package of cost-cutting measures and increased focussing

Because of the current situation, Starrag Group has approved a comprehensive package of measures to reduce costs and increase flexibility, focussing, and the concentration on its core business. In doing so, ensuring the health of all employees will continue to be the top priority in view of Covid-19. In order to adapt capacity to the lower demand as flexibly as possible, the focus will be on employees taking time off reduction time accounts and on the targeted use of short-time work. In addition, the Group will end temporary employment contracts, as well as making use of natural employee turnover and reducing the budget for operating costs, for example in the area of exhibitions and travel. As a result of the initiatives already taken in 2019, as well as the additional measures this year, staff numbers at the end of 2020 will be around 10% lower than a year earlier.

This program should save an additional CHF 20 million in total in the current financial year, of which around CHF 8 million has already been saved in the first half of the year. It was also decided to cut the fixed compensation paid to members of the Board of Directors for the current year by 20% and that paid to the Executive Board by 10%, supplemented by a significant reduction in variable compensation. In addition, Starrag Group will concentrate even more closely on its core business in conjunction with strengthening the management at its sites in Mönchengladbach and Bielefeld. Furthermore, various strategic options are being considered for these two sites. In operational terms, attention in the next few months and in 2021 will be directed towards the efficient use of resources and implementation of the cost-cutting objectives, as well as strict risk management in the tendering process and accurate multi-project management in order processing.

Starrag Group will stick to its basic strategy, i.e. concentrating on the market segments and regions that offer the best growth and earnings potential. Group-wide sales are to focus even more closely than before on China, and the sales organisation in general is to be strengthened further. There are also plans to further expand the service business (new services, activation of sales campaigns, expansion of capacity). The development of a new generation of machine tools will be consistently pursued, including the forthcoming launch of a medium series of horizontal machining centres.

Changes on the Board of Directors and Executive Board

Michael Hauser was elected as Chairman of the Board of Directors at the Annual General Meeting on 25 April 2020. He succeeds Walter Fust, who remains on the Board of Directors as Vice-Chairman.

As already announced at the end of June, Starrag Group's long-time CFO Gerold Brütsch has decided to continue his professional career elsewhere. The Board of Directors and Executive Board would like to thank him for everything he has done and wish him all the best for the future. In his many successful years working for Starrag Group, Gerold Brütsch has made a significant contribution to the Group's growth and to operational improvements. His successor from 1 September 2020 will be Thomas Erne, who has been Regional CFO Europe at DMG MORI Europe AG in Winterthur since 2015. This will ensure a smooth transition. In Thomas Erne, Starrag Group is gaining a proven CFO and an experienced authority on the machine tool industry.

The contract of Marcus Queins, who had been head of the Large Parts Manufacturing Systems business unit since 2019, was terminated by mutual consent. He relinquished his management positions on 30 June 2020. The Board of Directors and Executive Board would also like to thank him for everything he has done for Starrag Group and wish him all the best for the future.

Outlook for 2020

Covid-19 and the increasingly uncertain global economic and political situation have dampened expectations in our individual sectors, which is having a corresponding impact on the willingness of customers to invest. This is likely to apply to all fields and regions. It is very unlikely that there will be a recovery before 2021. Based on this market assessment, we expect the order intake, sales and results for 2020 as a whole to be significantly worse than in the previous year. It will not be possible in the second half of the year to offset the unprecedented downturn in the first half of the year, despite the substantial measures taken to reduce costs. The situation will therefore worsen further between now and the end of the year, but it is not yet possible to gauge the extent of this.

Thanks

The Board of Directors and Executive Board would like to take this opportunity to once again thank all staff for their tremendous efforts at this challenging time. We would also like to thank our customers and suppliers, as well as our shareholders, for their loyalty and the trust they have placed in us.

Kind regards,

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

Rorschacherberg, 23 July 2020

Financial commentary

In the first half of 2020, Starrag Group recorded net income of CHF 0.5 million, compared with CHF 3.4 million in the same period last year. Earnings before interest and tax (EBIT) amounted to CHF 0.6 million, compared with CHF 0.9 million in the first half of 2019. The lower sales resulting from Covid-19, as well as capacity utilisation and margin-related losses at the Mönchengladbach and Bielefeld sites, significantly affected results. As a reaction to these challenges, cost savings totalling CHF 14 million were realised in the first half of 2020, of which CHF 6 million had already been initiated in 2019.

Significant decline in sales

Sales in the first half of 2020 amounted to CHF 155 million, which was 28% lower than the above-average figure in the previous year – a significant decline (25% at constant exchange rates). This reflects the below-average order intake of the previous year and delays in order processing related to Covid-19.

Order backlog still substantial

The order situation is characterised by a substantial order backlog for new equipment of CHF 213 million. This represents a decline of 25% compared with the end of 2019 (23% at constant exchange rates). Together with a considerable share of sales from recurring services business, this order backlog ensures basic capacity utilisation for the second half of 2020 and beyond.

Owing to the Covid-19-related reluctance of customers in all sectors to invest, the order intake – which was subject to greater volatility – came to CHF 89 million in the first six months of 2020. This was down 49%, year on year. Looking at the most recent 12 months (July 2019 to June 2020) on account of the longer-term character of Starrag Group's investment business, the order intake was CHF 259 million, which represents a decline of 36% at constant exchange rates compared with the figure for the 12 months to June 2019.

Operating margin maintained

Gross profit (sales revenue minus cost of materials plus/minus change in inventory) amounted to CHF 86 million, or 55.6% of sales revenue. In terms of volume, it was down CHF 33 million, year on year, with the gross profit margin slightly surpassing the previous year's figure (by 0.1%). Targeted upfront expenditures for future customer orders had a positive impact on this.

The share of personnel costs before restructuring costs went up from 35.3% to 40.7% as a result of the significant fall in the volume of sales. Thanks to the job cuts already introduced in 2019, as well as the additional cost saving measures, staff costs before restructuring costs were reduced considerably (by CHF 11 million).

There was also a significant, higher-than-average reduction in other operating expenses compared with the same period last year (of CHF 11 million). Order-related costs accounted for CHF 8 million of these and cost centre-related costs for CHF 3 million (namely travel costs, sales costs incl. trade fairs, and administrative costs). This meant that other operating expenses were reduced from 13.6% to 11.7% of sales.

Thanks to the huge cost reductions totalling CHF 14 million compared with the first half of 2019, combined with the elimination of the restructuring costs of CHF 7.9 million that were recorded in the same period last year, EBIT fell only marginally to CHF 0.6 million, or 0.4 percentage points, compared with CHF 0.9 million in the same period last year. This was despite significantly lower sales resulting from Covid-19 and despite the capacity utilisation and margin-related losses at the Mönchengladbach and Bielefeld sites.

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

Net financial income fell by CHF 0.3 million compared with the same period last year, mainly because of the weaker euro.

Net income was CHF 0.5 million compared with CHF 3.4 million in the same period last year, with exceptional income tax relief of CHF 2.3 million in the first half of 2019 owing to the corporation tax reform in various Swiss cantons as a result of the reduction of tax provisions. Per share, net income was CHF 0.15 (down from CHF 1.01).

Balance sheet still healthy

At CHF 317 million on 30 June 2020, the balance sheet total was CHF 18 million below the level at the end of 2019. There were considerable changes in the case of receivables, which declined by CHF 14 million thanks to more money being received in payments from customers. Inventories increased by CHF 2 million as a result of upfront expenditures for future customer orders.

Liabilities fell from CHF 157 million to CHF 140 million, primarily as a result of an CHF 11 million reduction in accruals (including severance payments to departing employees), as well as a decline in liabilities from goods and services of CHF 9 million which was related to the balance sheet date.

At CHF 177 million, shareholders' equity was virtually unchanged compared with the end of 2019. As a result of the significant reduction of the balance sheet total, the equity ratio rose substantially, from 53.2% at the end of the previous year to 55.8%. Net debt remained at a low level, standing at CHF 11.5 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 amounted to CHF -8.8 million, down from CHF 8.2 million in the same period last year. The decline was a result of an increase in net working capital of CHF 13.5 million (accruals, as well as liabilities from goods and services), following a decrease of CHF 5.5 million in the previous year.

CHF 3.4 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 -11.9 million, compared with a positive figure of CHF 5.2 million a year earlier.

Cash flow from financing amounted to CHF 7.7 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 96 of the Annual Report 2019.

Income statement

CHF 1'000	**2020** 01.01. – 30.06.	2019 01.01. – 30.06.	2019 01.01. – 31.12.
Sales revenue	155'373	214'478	418'138
Other operating income	922	924	2'312
Change in inventory of finished and unfinished goods	9'587	-782	-7'100
Cost of materials and components	-79'536	-95'692	-187'091
Personnnel expenses	-63'285	-83'542	-154'523
Other operating expenses	-18'185	-29'196	-54'892
Earnings before interest, taxes, depreciation and amortization EBITDA	**4'876**	6'190	16'844
Depreciation of fixed assets	-3'577	-3'969	-7'988
Depreciation of intangible assets	-689	-1'276	-4'060
Operating result EBIT	**610**	945	4'796
Financial result	-847	-584	-957
Profit before taxes	**-237**	361	3'839
Income taxes ecpenses	774	3'052	3'038
Net icome	**537**	3'413	6'877
Thereof:			
‣ Shareholders of the company	506	3'389	6'802
‣ Minority shareholders	31	24	75
Earnings per share in CHF	0.15	1.01	2.02
Diluted earnings per share in CHF	0.15	1.01	2.02

Balance sheet

CHF 1'000		30.06.2020	30.06.2019	31.12.2019
Cash and cash equivalents		10'363	35'433	14'611
Receivables from goods and services		96'741	109'242	110'553
Other short-term receivables		5'886	5'165	6'172
Inventories	3	110'611	110'274	108'360
Prepaid expenses and deferred income		2'296	2'187	1'672
Total current assets		**225'897**	262'301	241'368
Tangible fixed assets	4	88'593	96'762	90'798
Intangible assets		2'390	5'159	2'426
Total non-current assets		**90'983**	101'921	93'224
Total assets		**316'880**	364'222	334'592

CHF 1'000	30.06.2020	30.06.2019	31.12.2019
Financial dept	19'345	35'403	11'249
Payables form goods and services	14'325	25'305	23'355
Other liabilities	6'930	7'539	10'742
Provisions	5'440	10'652	6'395
Accrued liabilities and deferred income	75'299	89'242	85'940
Total current liabilities	**121'339**	168'141	137'681
Financial debt	2'548	2'883	2'718
Provisions	16'257	16'843	16'136
Total non-current liabilities	**18'805**	19'726	18'854
Total liabilities	**140'144**	187'867	156'535
Share capital	28'560	28'560	28'560
Additional paid-in capital	51'884	51'884	51'884
Retained earnings	96'217	95'857	97'569
Total shareholders' equity, shareholders of the company	**176'661**	176'301	178'013
Minority shareholders	75	54	44
Total shareholders' equity	**176'736**	176'355	178'057
Total liabilities and shareholders' equity	**316'880**	364'222	334'592

Cash flow statement

CHF 1'000	**2020** 01.01. – 30.06.	2019 01.01. – 30.06.	2019 01.01. – 31.12.
Net income	537	3'413	6'877
Depreciation of tangible fixed assets and amortization of intagible assets	4'266	5'245	12'048
Change in non-current provisions	186	-6'088	-6'528
Other non-cash items	-339	114	144
Change in			
‣ Receivables from goods and services	12'990	11'702	8'611
‣ Inventories	-3'352	-6'271	-5'991
‣ Other receivables, prepaid expenses and deferred expenses	-497	-1'544	-1'772
‣ Payables from goods and services	-8'478	-4'402	-5'966
‣ Other liabilitiies, accrued expenses and deferred income	-14'114	6'019	3'052
Cash flow from operating activities, net	**-8'801**	8'188	10'475
Capital expenditure for:			
‣ Tangible fixed assets	-2'735	-2'566	-4'558
‣ Intangible assets	-663	-438	-521
Disposals of fixed assets	278	-	2'953
Cash flow from investing activities, net	**-3'120**	-3'004	-2'126
Change in current financial debt	7'829	2'161	-22'096
Repayment of non-current financial debt	-132	-180	-271
Dividend payment	-	-3'360	-3'419
Cash flow from financing activities, net	**7'697**	-1'379	-25'786
Currency translation	-24	-214	206
Net change in cash and cash equivalents	-4'248	3'591	-17'231
Cash and cash equivalents at beginning of period	14'611	31'842	31'842
Cash and cash equivalents at end of period	**10'363**	35'433	14'611

Statement of shareholders'equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings: Currency translation	Retained earnings: Goodwill offset	Retained earnings: Others	Retained earnings: Total	Shareholders' equity shareholders of the company	Minority share-holders	Total Share-holders' equity
01.01.2019	**28'560**	**55'244**	**2'189**	**-29'380**	**120'001**	**92'810**	**176'614**	**30**	**176'644**
Net income	-	-	-	-	3'389	3'389	3'389	24	3'413
Currrency translation	-	-	-617	275	-	-342	-342	-	-342
Dividend payment	-	-3'360	-	-	-	-	-3'360	-	-3'360
30.06.2019	**28'560**	**51'884**	**1'572**	**-29'105**	**123'390**	**95'857**	**176'301**	**54**	**176'355**
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
Currency translation	-	-	-2'244	386	-	-1'858	-1'858	-	-1'858
30.06.2020	**28'560**	**51'884**	**-2'981**	**-28'111**	**127'309**	**96'217**	**176'661**	**75**	**176'736**

Notes to the interim consolidated financial statements

1. Accounting principles

The unaudited interim consolidated financial statements for 2020 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 2019 fiscal year. The accounting standards applied are in line with the accounting standards used to prepare the 2019 financial statements (refer to pages 105 to 107 of the 2019 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 2020, personnel expenses benefited from credits from the reduction of time accounts and from short-time work of CHF 2.5 million in connection with Covid-19-related capacity adjustments.

In the first half of 2019, personnel expenses were burdened by restructuring costs of 7.9 million CHF in connection with the reduction of 150 jobs at the Mönchengladbach site.

The corporate tax reform adopted in the Swiss cantons led to a one-time reduction in income tax expenses of CHF 2.3 million in the first half of 2019 due to the release of provisions for deferred income taxes.

3. Inventories

CHF 1'000	**30.06.2020**	30.06.2019	31.12.2019
Raw materials and components (incl. spare parts)	80'050	81'443	82'922
Work in progress	48'564	45'657	41'088
Finished products	14'092	12'090	12'159
Prepayments to supliers	8'472	11'187	11'543
Total acquisition value	**151'178**	**150'377**	**147'712**
Value adjustments	-40'567	-40'103	-39'352
Total inventories (net carrying value)	**110'611**	**110'274**	**108'360**

4. Tangible fixed assets

CHF 1'000	**30.06.2020**			30.06.2019			31.12.2019		
	Land and building	Other tangible fixed assets	Total	Land and building	Other tangible fixed assets	Total	Land and building	Other tangible fixed assets	Total
Acquisition value	112'850	65'818	178'668	118'771	68'492	187'263	113'854	66'089	179'943
Net carrying value	**74'425**	**14'168**	**88'593**	**81'649**	**15'113**	**96'762**	**76'627**	**14'171**	**90'798**
Insurance value	188'572	126'640	315'212	193'905	129'070	322'975	191'228	127'681	318'909

5. Approval of interim consolidated report

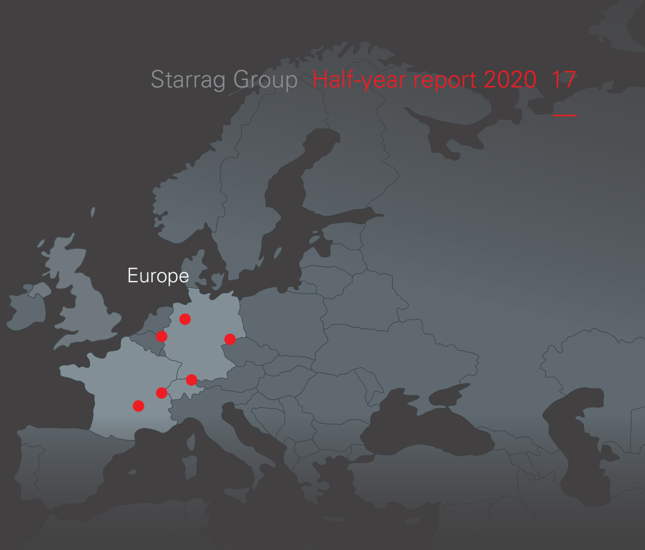
No events have occurred after 30 June 2020 that would have a material effect on the interim accounts. The interim consolidated report was approved and released for publication by the Board of Directors on 20 July 2020.

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.



Production network with substance

Switzerland

Germany

France

India

	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	14.5	47.9
Vuadens	33'000	18'000	2016	2016	38.1	35.3	27.7
Bielefeld	22'000	11'000	1999/2009	2011	10.0	5.6	17.1
Chemnitz	85'000	46'000	1967–1973	1998	14.1	5.2	43.2
Mönchengladbach	28'000	21'000	1884–1998	2011	13.7	8.6	47.5
St. Etienne*	10'000	8'000	na.	na.	na.	na.	na.
Bangalore	32'000	11'000	2013	2013	6.2	5.1	6.2

* rental property

Financial calendar

29 January 2021	Sales and orders 2020
5 March 2021	Presentation of 2020 results for analysts and the media in Zurich
23 April 2021	Annual general meeting in Rorschach
29 July 2021	Half-year report 2021

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