Starrag Group

Media Release

Results for the first half of 2016:
Significant increase in order intake and order backlog – sales revenue steady

- **Order intake plus 64% to CHF 231 million**
- **Order backlog plus 29% to CHF 284 million secures capacity utilization for about one year**
- **Sales held at CHF 183 million**
- **EBIT CHF 3.4 million or 1.9% margin**
- **Net profit CHF 2.0 million or CHF 0.56 per share**
- **Positive outlook**

Significantly higher order backlog

Starrag Group's order backlog for new machines amounted to CHF 284 million at the end of June 2016. Compared to the end of 2015, this corresponds to an increase of 20%. Compared to the mid-year mark of 2015, the order backlog has increased by an even greater 29%. These orders ensure a solid rate of capacity utilization for approximately one year as orders for new machines always entail substantial additional services and support.

Order intake jumps by two-thirds

Due to the increasingly volatile levels of business activity, a topic that Starrag Group has referred to on various occasions along with heightened price pressure, order intake can fluctuate considerably from one reporting period to the next, either to the upside or downside. The operational business model is therefore constantly being adapted to this volatility. The large increase in order intake during the first half of 2016 compared to the prior-year period can be viewed in this context. New orders received throughout the Group during the first six months of 2016 jumped by 64% y-o-y to CHF 231 million (+62% at constant exchange rates). Extending the order intake period to the past twelve months (July 2015 to June 2016) to take into account the long-term nature of Starrag Group's capital goods business, new orders amounted to CHF 424 million, which corresponds to a pleasing 18% increase in local currency versus the preceding twelve-month period.

Every region and almost every customer industry contribute to order growth

Viewed by region, Asia showed the fastest order growth in absolute terms after a relatively weak performance last year, contributing by more than a third to the Group's order intake, followed by Europe. New orders from the Americas were also higher year-on-year. Viewed by customer industry, Aerospace contributed the largest volume to the increase in new order inflows after a below-average intake in the first half of 2015. The Industrial segment also took in significantly more orders. Order activity picked up primarily in the classic manufacturing segments, whereas order intake from the Luxury Goods segment – the watch industry in particular – was slightly below the already depressed level seen in the prior-year period. Energy received considerably more orders, albeit still from a low level, while Transportation could not match the year-ago order intake. A focus on strategic customer industries once again helped to steady the business and thus minimize risk.

Sales held at year-ago level

Sales in the first six months of 2016 amounted to CHF 183 million, 0.8% above the prior-year figure (CHF 182 million). At constant exchange rates, sales showed a slight decline of 1.0%. This decline is attributable primarily to the downturn in demand from the watch industry, which was only partially offset by the growth in other market segments.

Operating profit (EBIT) came in at CHF 3.4 million (prior year: CHF 7.0 million), resulting in an operating profit margin of 1.9% (3.9%). This margin contraction is primarily attributed to selective cost overruns in isolated customer orders and the lower rate of capacity utilization due to weaker demand from the watch industry. Moreover, restructuring costs of CHF 1.0 million were incurred as a result of personnel measures at various operating sites with the aim to adjust capacity and increase efficiency, having an adverse impact on the operating profit.

The net profit of CHF 2.0 million was less than in the previous year (CHF 3.1 million) and corresponded to 1.1 percent of top-line sales. Earnings per share amounted to CHF 0.56 (H1 2015: CHF 0.92).

Balance sheet remains strong

Total assets of CHF 355 million as per 30 June 2016 are CHF 14 million higher than at the end of 2015. Net debt increased by CHF 7.5 million to CHF 23.4 million due to input costs incurred to process orders on hand. At 51.0% (year-end 2015: 54.5%), Starrag Group's equity ratio remains high.

Technology Days a focal point of successful innovation

"Technology Days" are internal events that Starrag has organized for several years now and they have become a blueprint for success. They are also being viewed as a constructive gathering of experts from around the world in the respective market segments. No less than three such events were held during the period under review and Starrag Group was pleased to present its latest innovations to representatives from industrial sectors, trade journals and media, and the academic world.

Scores of new and ongoing developments presented at trade fairs

Besides these internal events for invited guests, Starrag Group will, as in previous years, be showcasing its innovation at the AMB in Stuttgart and IMTS in Chicago, two leading trade fairs held in September, with a special focus on new applications in the medtech, transportation and industrial segments.

New factory in Vuadens, Switzerland on track

The scheduled move-in in the new factory in Vuadens / Switzerland will enhance competitivity, Starrag Group being in an excellent position for the long run thanks to its recent new product developments and forthcoming innovations addressing the market segments of Luxury Goods, Medical Technology and Micromechanics. This applies irrespective of the recent slack in business activity in the watch industry and the ongoing consolidation in the medical technology industry, a trend that was further accentuated by the effects of the high-rated Swiss franc.

Outlook

Business activity remains influenced by various external uncertainties relating to the economy and geopolitics, not to mention the persisting price pressure and volatile order patterns on the customer side. This situation has only strengthened Starrag Group's resolve to focus on its defined market segments and leverage its marketing and sales resources more effectively to secure and grow incoming order flows.

Management has initiated scores of action plans designed to optimize order execution and other processes with the ultimate aim of improving profitability and operational excellence. Other examples here are the holistic review and revision of assembly processes, organizational adjustments with a view to optimizing quote engineering as well as general project management, and investments in factory management resources (shopfloor management). Projects for lowering costs and increasing productivity are also being continuously evaluated at all operating sites to ensure that the mid-term margin targets are met.

From today's standpoint and in view of the developments observed during the first six months of the year, Starrag Group expects full-year order intake in local currency to significantly exceed the figure reported for the 2015 fiscal year. Sales in local currency are expected to be slightly higher than in the previous year. As for the operating margin, Starrag Group expects a substantial improvement in the second half of 2016, offsetting to some extent at least the shortfall reported in the first half in comparison with 2015.

Company profile Starrag Group:
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, Transportation & Industrial Components and Precision Engineering sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer productivity.

Starrag Group products are marketed under the following strategic brands: Berthiez, Bumotec, Dörries, Droop+Rein, Heckert, Scharmann, SIP, Starrag, TTL and WMW. Headquartered in Rorschach/Switzerland, the Starrag Group operates manufacturing plants in Switzerland, Germany, France, the UK and India and has established a network of sales and services subsidiaries in numerous other countries.

Starrag Group is listed on the SIX Swiss Exchange (STGN).

additional pictures

Rorschacherberg, 27 July 2016 Starrag Group Holding AG

Key Figures Starrag Group

CHF million	**2016** 01.01.-30.06	2015 01.01.-30.06.	Change	2015 01.01.-31.12.
Order intake	231.2	141.1	63.9%	333.4
Sales revenue	183.4	181.8	0.8%	363.7
Earnings before interest and taxes EBIT	3.4	7.0	-51.1%	14.7
Net income	2.0	3.1	-35.3%	9.5
Earnings per share (in CHF)	0.56	0.92	-39.0%	2.78
EBIT as % of sales revenue	1.9%	3.9%	n.a.	4.0%
Net income as % of sales revenue	1.1%	1.7%	n.a.	2.6%
Return on equity (ROE)	2.2%	3.2%	n.a.	4.9%
Cash flow from operating activities	6.8	-4.8	n.a.	11.0
Capital expenditure	9.6	9.6	0.3%	22.3
Free cashflow	-2.8	-14.4	n.a.	-11.4
Employees (average number of FTEs during the reporting period)	1‘535	1‘603	-4.2%	1‘573

CHF million	**30.06.2016**	30.06.2015	Change	31.12.2015
Order backlog	284.4	237.8	19.6%	220.2
Total assets	355.4	341.5	4.1%	326.2
Net debt	23.4	15.9	47.1%	-18.3
Shareholders’ equity	181.2	186.1	-2.6%	174.7
Equity ratio	50.1%	54.5%	n.a.	53.5%

The half-year report 2016 is available for download at:

https://www.starrag.com/en-us/investors/financial-reports-33

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Forthcoming events

- Preliminary information on annual results 2016 — 26 January 2017
- Key figures 2016 / Annual report — 10 March 2017
- Annual general meeting — 28 April 2017
- Half year report 2017 — 27 July 2017
