starrag

Starrag Group

Media release

2016 financial year

Record-high order intake – order backlog for more than one year

- **Order intake up 44% to CHF 480 million**
- **Sales plus 2% to CHF 372 million**
- **EBIT -50% to CHF 7.4 million, operating margin 2.0%**
- **Net profit -52% to CHF 4.6 million or 1.2% margin, profit per share CHF 1.33**
- **Solid balance sheet with 53% equity ratio**
- **Dividend payout of CHF 1.00 per share, payout ratio 75%**

Record-high order intake

At CHF 480 million, an increase of 44% from the below-average figure of CHF 333 million for the prior year, Starrag Group received more new orders in 2016 than ever before in its 120-year history. Factoring out exchange-rate movements, order intake increased by 43%. Production output in the global machine tool industry showed a slight decline in 2016, although German machine tool makers reported an overall increase in new orders of approximately 7% in 2016, according to VDW, Germany's national machine tool industry association.

Starrag Group's sales for 2016 amounted to CHF 372 million, an increase of 2% from the previous year (CHF 364 million). At constant exchange rates, sales increased 1%.

Order backlog at the end of 2016 amounted to CHF 348 million, a substantial increase of 47% from the previous year (plus 46% at constant exchange rates). This backlog secures capacity utilization for well over one year (previous year: more than three quarters). Thanks to surge in order intake, the book-to-bill ratio (the ratio of new orders to sales) rose well above the threshold of one and now stands at the very high level of 1.29 (previous year 0.92).

Almost 40% of new orders came from Asia

Orders were higher in all three of the Group's main market regions. Order inflow was clearly the strongest in Asia and North America, yet even Europe showed a year-on-year increase. The share of new orders originating in North America doubled to 20% of consolidated orders, largely due to the acquisition of another reference project from a prestigious US customer in the second half of the year. This one order for several large machining systems in the mid-double-digit million range shows that our strategic focus on specific market segments is producing the desired results. Asia's share of total new orders rose to a record high of 36%. This growth confirms our previous statements that the percentage of sales generated with Asia-based customers would climb towards the 50% mark over a multi-year period.

Increased order intake from almost every target industry

Breaking down order intake by industry, the Aerospace segment showed a significant increase, albeit from a rather low comparison base in the preceding year. New orders in the Industrial segment were likewise sharply higher, primarily thanks to the large we already mentioned. Order activity in the Luxury Goods segment remained subdued, particularly in the watchmaking industry. Transportation orders matched the year-ago level, while orders in the Energy segment rose for the second consecutive year. The Aerospace and Industrial segments remain the two main target industries; together, they account for just over 80% of the Group's total order intake.

Operating result lower year-on-year

Earnings before interest and taxes (EBIT) amounted to CHF 7.4 million, which is far below the figure reported for the previous year (CHF 14.7 million). The EBIT margin declined to 2.0% (4.0% in 2015). Subdued demand from the watchmaking industry and cost overruns on a few orders are the main reasons for this earnings erosion. Due to the weaker operating results, net profit was likewise lower year-on-year at CHF 4.6 million (CHF 9.5 million in 2015), resulting in a net profit margin of 1.2%.

Solid balance sheet

The equity ratio was a high 53% at the end of 2016 (previous year: 55%). Free cash flow amounted to CHF 2.4 million (previous year: CHF -11.3 million) and was boosted by advance payments received from customers. Net debt rose from CHF 15.9 million to CHF

18.7 million, mainly because of higher-than-average capital expenditures related to the construction of the new factory in Vuadens, Switzerland. In the year under review, Starrag Group employed on average 1'524 (full-time) members of staff as well as 163 studends and trainees.

Changes in the Board of Directors and Executive Board

Erich Bohli will be proposed for election to the Board of Directors at the Annual General Meeting on 28 April. He has many years of experience as CEO and as Member of the Board of Directors in different industries, including ten years as CEO of Dipl. Ing. Fust AG. Marcus Otto was appointed to the Executive Board of the Business Unit Transportation & Industrial Components in October 2016, having previously served as managing director of Heckert GmbH in Chemnitz on an ad interim basis since May 2016.

Accounting standards changed to Swiss GAAP FER

Starrag Group is switching its accounting standards from IFRS (International Financial Reporting Standards) to Swiss GAAP FER, beginning with the 2017 fiscal year. This switch will reduce accounting complexity, which was becoming increasingly complex under IFRS, and, therefore, costs as well. Swiss GAAP FER is an internationally recognized accounting standard based on concept of "true and fair". It meets all the accounting needs of Starrag Group and provides an accurate, comprehensive view of the company's financial situation.

Under Swiss GAAP FER, goodwill and other intangible assets arising from acquisitions will be directly offer against equity. With respect to the fiscal year 2016, the equity ratio at the end of 2016 remains solid at 51% after deduction of the related sum of approximately CHF 25 million from equity. The absence of amortization of intangible assets had increased EBIT by approximately CHF 2 million and net income by approximately CHF 1.5 million.

Dividend

The Board of Directors will propose a dividend of CHF 1.00 per share at the Annual General Meeting on 28 April (CHF 1.20 in 2015). This corresponds to a payout ratio of about 75%, which is well above the targeted range of 35% to 50%. The dividend proposal reflects our commitment to a steady dividend policy and our expectations of significantly higher net income in the 2017 fiscal year.

Strategic focusing continues

In order to more effectively harness the Group's growth and earnings potential, we will be concentrating our resources even more than before on those market segments and regions that offer the most promise, i.e., the best sales and margin potential, as we execute our recently launched “Strategy 2020”. Optimization of our market and product strategies within the same scope of business activities will strengthen our business model by prioritizing clearly defined market segments and regions, accentuating the customer value proposition, and simplifying marketing communications with a “one face to the customer” approach. A sharper strategic focus should also speed up new product launches and further reduce complexity by promoting integration and simplification.

Together with the steady stream of new or refined products and services and our continual cost-cutting efforts, we are well-positioned to achieve our mid-term sales and profit targets. In more specific terms, sales are expected to grow by at least 5% with an operating profit margin of at least 8%. Both targets are multi-year averages across the cycle.

Outlook 2017

In our forecast of order intake for 2017 (in local currencies), we note that order intake reached an all-time high in 2016. From today's standpoint, we do not expect to match that record in 2017. Sales revenue (in local currencies) should, however, be well above the prior-year level, based on the latest trends in new orders. Finally, thanks to the strategic and operational measures referred to in various sections of this annual report, we expect the operating margin to be significantly higher in 2017 compared to 2016.

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. Principle customers are internationally active companies in the Aerospace, Energy, Transportation and Industrial 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 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.

Rorschacherberg, 10 March 2017 Starrag Group Holding AG

Key figures Starrag Group

in CHF million	2016	2015	Change
Order intake	480.3	333.4	44.2%
Sales revenue	371.6	363.7	2.2%
Earnings before interest and taxes EBIT	7.4	14.7	-49.8%
Net income	4.6	9.5	-51.8%
Earnings per share (in CHF)	1.33	2.78	-52.3%
EBIT as % of sales revenue	2.0%	4.0%	n/a
Net income as % of sales revenue	1.2%	2.6%	n/a
Return on equity (ROE)	2.5%	4.9%	n/a
Cash flow from operating activities	21.8	11.0	98.2%
Capital expenditure in fixed assets	19.4	22.3	-12.8%
Free cash flow	2.4	-11.3	n/a
Profit distribution per share (in CHF) [1)]	1.00 [2)]	1.20	-16.7%
Employees in the annual average (full-time)	1‘524	1’573	-3.6%

in CHF million	31.12.2016	31.12.2015	Change
Order backlog	348.3	237.8	46.5%
Total assets	349.6	341.5	2.4%
Net debt	18.7	15.9	17.6%
Shareholders’ equity	186.8	186.1	0.4%
Equity ratio	53.4%	54.5%	n/a

1) In form of a withholding-tax free distribution from capital contribution reserves.
2) Proposal by the Board of Directors to the Annual General Meeting.

The Annual Report 2016 is available for download on:
https://www.starrag.com/en-us/investors/financial-reports-32

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Forthcoming events

• Annual General Meeting	28 April 2017
• Ex date dividend pay-out	2 May 2017
• Record date dividend pay-out	3 May 2017
• Payment date dividend pay-out	4 May 2017
• Half-year report 2017	27 July 2017
• Sales / order intake 2017	26 January 2018
• Key figures 2017 / Annual report	9 March 2018
• Annual General Meeting	28 April 2018
