Media Release

Results for the first half of 2017:
Significant improvement in profit – order backlog remains good despite drop in order intake – 10% sales growth

- **EBIT margin nearly doubled to 4.0%**
- **Net profit climbs to CHF 6.4 million or 3.2 percent of sales, plus 133%**
- **Order intake down 39% to CHF 142 million from prior-year period, 5% decline in local currency over the preceding 12-month period**
- **Order backlog of CHF 284 million secures capacity utilization for almost one year**
- **Sales advance 10% to CHF 202 million**
- **Consistent implementation of strategy**

Good order backlog

Starrag Group's order backlog for new machines amounted to CHF 284 million at the end of June 2017, virtually unchanged from the level reported a year ago. The 18% decline compared to the end of 2016 can be viewed as a normalization of the order backlog. Orders currently on hand are sufficient to maintain an appropriate level of capacity utilization for almost one year, especially since the new machine business always entails substantial additional customer services and support.

Volatile order intake

After an exceptional surge in new orders during the first half of 2016, order intake during the first six months of 2017 declined by 39% to CHF 142 million (-38% in local currency). As always, orders intake for half-year periods can vary considerably, depending on the timing of customers' decisions to go ahead with major projects. Extending the order intake period to the past twelve months (July 2016 to June 2017) to take into account the long-term nature of Starrag Group's capital goods business, new orders amounted to CHF 391 million, which corresponds to a 5% decrease in local currency versus the preceding twelve-month period.

Order by region and customer industry

Viewed by region, there was a sharp downturn in orders from European and especially Asian customers, whereas order activity in North America remained steady. With respect to the four customer industries, Aerospace and Energy took in fewer orders y-o-y. Orders in the Industrial customer segment were likewise lower, although orders from luxury goods manufacturers were better than in the year-ago period. Transportation managed to hold the year-ago level.

Strong sales growth

As a result of the exceptionally high order backlog from 2016 and the high order backlog at the beginning of the year, sales for the first six months of the year reached CHF 202 million and topped the prior-year figure by 10% (+11% in local currency).

Significantly better profitability

The multitude of measures taken to enhance profitability and achieve operational excellence, along with the strategic focus on fast-growing and high-margin market segments and regions, had a pleasing impact on operating results in the first half of the year. The operating result EBIT nearly doubled, rising by 81% to CHF 8.0 million, which lifted the operating margin to 4.0% (2.4%). Net profit for the period rose by 133% to CHF 6.4 million (prior-year period: CHF 2.8 million), which corresponds to 3.2 (1.5) percent of sales. The bottom line was positively impacted by a one-off tax credit of CHF 0.8 million from earlier reporting periods. Earnings per share amounted to CHF 1.89 (prior-year period: CHF 0.78).

Solid balance sheet

Total assets of CHF 328 million as per 30 June 2017 are CHF 12 million higher than at the end of 2016. Net debt increased by CHF 17.5 million from the end of 2016 to CHF 36.2 million due to input costs incurred to process orders on hand. At 51.3% (year-end 2016: 51.0%), Starrag Group's equity ratio remains solid.

Accounting standards switched to Swiss GAAP FER

As announced earlier, the interim results for 2017 were presented for the first time in accordance with Swiss GAAP FER accounting standards. The figures for 2016 were therefore restated. The new accounting standards will reduce accounting complexity, which is increasing under IFRS, and reduce costs as well. Swiss GAAP FER is an internationally recognized accounting standard based on the 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.

Consistent implementation of strategy continued

Steadfast progress was made with the implementation of the “Strategy 2020” during the period under review. On the innovation front, Starrag Group sets itself apart from the competition through its superior application expertise, which will again be prominently displayed at the next EMO trade show in Hannover this September. New applications for the “Starrag Integrated Production System”, the manufacturing system developed to address “Industry 4.0”, will be presented along with system-specific automation concepts as well as a new generation of machine tools. The “Technology Days Precision Engineering” event held in Immendingen in February was devoted to Starrag Group's new precision machinery for manufacturers of medical technology devices and micromechanics components.

Geographically, the priority markets for expansion are in the US and China and expansion efforts have been focused on the Aerospace, Industrial and Energy industries. Moreover, the Group has systematically expanded and strengthened its dealer networks in key markets.

Further improvement in operational excellence will be focused on ramping up the performance of customer service division. Examples here include the new “Service Plus” product that was introduced during the period under review and showcased at this year's “Turbine Technology Days” in Rorschach in June, where it attracted considerable interest. Service Plus guarantees a high level of service readiness for a fixed price and helps to simplify a customer's cost control. The introduction of the one-brand strategy clearly simplified “go to market” throughout the Group. During the ongoing implementation of the one-brand strategy, care is being taken to ensure that all customer ties with the former standalone brands remain intact while being gradually transitioned to the “Starrag” brand.

New factory in Vuadens offers numerous advantages

The transfer of production activities and machinery from the Geneva and Sâles sites to the new factory in Vuadens has been completed. High-precision machine tools for producing top-quality components will be manufactured at the new production facilities, which have a “zero carbon footprint” and therefore meet the strictest of energy standards. Ultra-modern manufacturing workflows will yield substantial productivity gains. In conformity with a long-term planning horizon, the capacity of the new plant was deliberately designed to provide ample scope for future growth, which is why some of the existing floor space will be leased to other firms until further notice. Efforts to sell the former factory in Sâles have commenced. Together with the absence of the infrastructure-related costs at the Geneva plant, Starrag Group now has significantly more production space at the new site, whereas the overall cost base is unchanged.

Outlook

Uncertainty continues to cloud the economic and political stage, prices are generally still under pressure, and customer order patterns remain volatile. With the aforementioned implementation of the strategic sales-side measures, Starrag Group has created the necessary structures for sustained, profitable growth that will ensure the attainment of its medium-term profitability goals. The interim results presented today indicate that significant progress has already been made, although the full payback takes place over several reporting periods.

For 2017 as a whole, Starrag Group basically confirms its guidance given in March. Order intake (in local currency) is expected to be significantly higher in the second half compared to the figure reported for the first half. Nevertheless, full-year order intake is likely to be well below the figure for 2016. Sales (in local currency), however, are forecast to be significantly higher y-o-y. Thanks to the above-mentioned strategic and operational measures and not least to the improvement on the margin front from the first half of 2017, which should continue in the second half, the operating margin for 2017 is expected to be much higher than the 2016 margin.

Engineering precisely what you value

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.

The products are marketed under the brand Starrag and include the product ranges Berthiez, Bumotec, Dörries, Droop+Rein, Ecospeed, Heckert, Scharmann, SIP, Starrag and TTL. 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 the most important customer countries.

Starrag Group Holding AG is listed on the SIX Swiss Exchange.

Rorschacherberg, 27 July 2017 Starrag Group Holding AG

Key Figures Starrag Group

CHF million	**2017 01.01.-30.06**	2016 01.01.-30.06.	Change	2016 01.01.-31.12.
Order intake	141.7	231.2	-38.7%	480.3
Sales revenue	202.3	183.4	10.3%	371.6
Operating result EBIT	8.0	4.4	80.8%	9.3
Net profit	6.4	2.8	133.0%	6.1
Earnings per share (in CHF)	1.89	0.78	143.2%	1.77
EBIT as % of sales revenue	4.0%	2.4%	63.8%	2.5%
Net profit as % of sales revenue	3.2%	1.5%	111.1%	1.6%
Return on equity (ROE)	8.0%	3.4%	131.3%	3.8%
Cash flow from operating activities	-5.8	6.6	n.a.	21.2
Capital expenditure	7.0	9.6	-27.4%	19.4
Free cash flow	-12.8	-3.0	n.a.	1.8
Employees (average number of FTEs during the reporting period)	1‘505	1‘535	-2.0%	1‘524

CHF million	**30.06.2017**	30.06.2016	Change	31.12.2016
Order backlog	284.4	348.3	-18.3%	284.4
Total assets	327.9	316.3	3.7%	320.9
Net debt	36.2	18.7	93.2%	23.4
Shareholders’ equity	168.1	161.4	4.2%	159.9
Equity ratio	51.3%	51.0%	n.a.	49.8%

Consolidated account have been prepared in accordance with Swiss GAAP FER since 1 January 2017.
The figures reported in the comparable year-ago-period have been restated accordingly.

The half-year report 2017 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 2017	26 January 2018
• Key figures 2017 / Annual report	9 March 2018
• Annual general meeting	28 April 2018
• Half year report 2018	27 July 2018
