

**starrag**

Starrag Group

# Welcome to the Full-Year 2016 Conference

Zurich, 10 March 2017



# Agenda

■ **Overview and strategy**

**Daniel Frutig, Chairman**

■ **Markets and technologies**

**Walter Börsch, CEO**

■ **Financial review**

**Gerold Brütsch, CFO**

■ **Outlook**

**Walter Börsch, CEO**

■ **Questions and answers**

# Disclaimer

This presentation contains forward looking statements which reflect Starrag Group's current views and estimates.

The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

Starrag Group does not accept any liability whatsoever with respect to the use of this presentation.

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

- Order intake up 44% to CHF 480 million – in local currency up 43%
- Sales plus 2% to CHF 372 million – in local currency up 1%
- Order backlog of CHF 348 ensuring capacity utilisation for well over one year
- EBIT CHF 7.4 million (-50%) – Operating margin 2.0%
- Net profit CHF 4.6 million (-52%) – Profit per share CHF 1.33
- Solid balance sheet with 53% equity ratio
- Dividend payout of 1.00 CHF per share, dividend payout ratio 75%

# Starrag „Strategy 2020“ to better exploit Group-wide potential

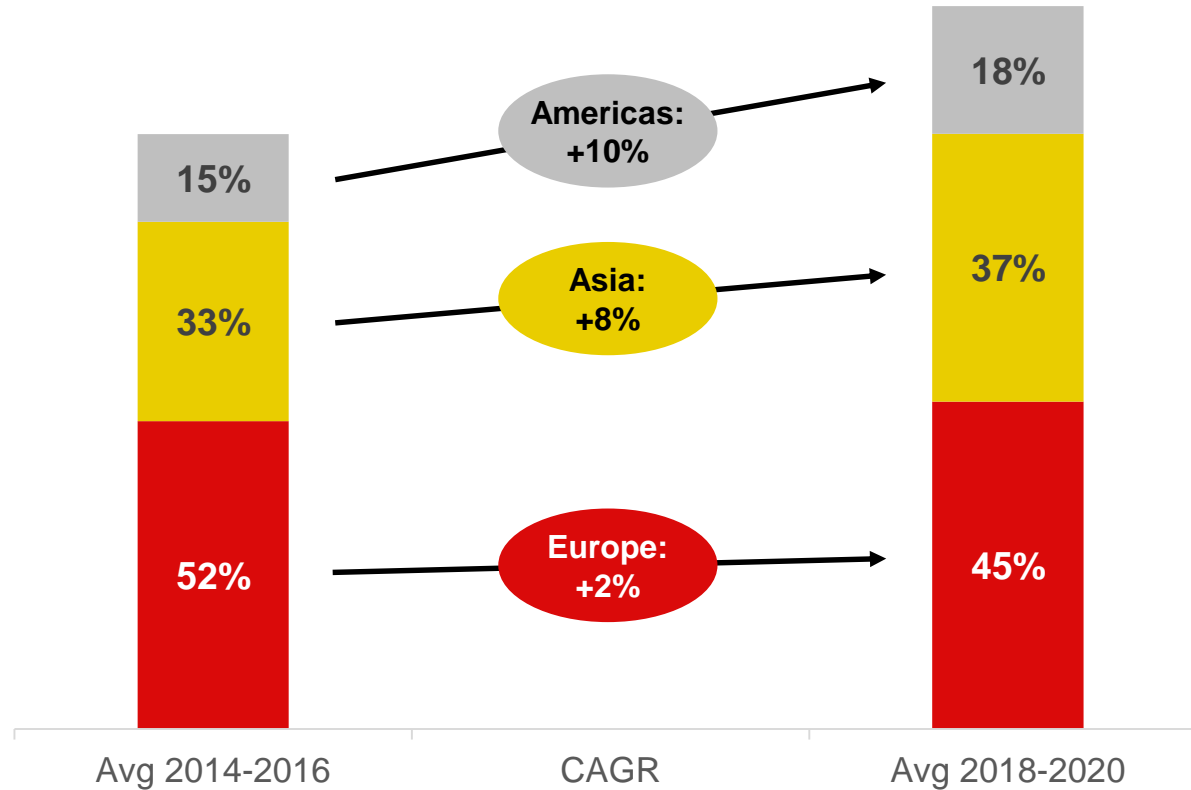
- Strengthen **existing business model**
- Focus on **profitable growth** and **most attractive market/product segments**
- Differentiate through **application competence, technology, service capabilities** and **premium** market positioning
- Better **scale existing product portfolio** and competencies **globally**
- Improve **operational excellence** across the entire value chain
- Simplify „**Go to market**“

# Market positioning

	<b>Aerospace</b>	<b>Energy</b>	<b>Industrial</b>	<b>Transportation</b>	<b>Total</b>
<b>Market segments</b>	<ul style="list-style-type: none"> <li>• Aero Engines</li> <li>• Aero Structures</li> <li>• Avionics</li> </ul>	<ul style="list-style-type: none"> <li>• Oil &amp; Gas</li> <li>• Power Turbines</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial Components</li> <li>• Luxury Goods</li> <li>• Med Tech</li> </ul>	<ul style="list-style-type: none"> <li>• Heavy Duty Vehicles &amp; Engines</li> <li>• On-Road Vehicles</li> </ul>	
<b>Addressed market size</b> (m CHF)	1'000	500	2'000	1'000	<b>4'500</b>
<b>Estimated market growth CAGR</b>	4%	2%	3%	2%	<b>3%</b>
<b>Average order intake 2014-2016</b> (m CHF, at 2016 fx rates)	158	31	150	61	<b>400</b>
<b>Market share</b>	16%	6%	8%	6%	<b>9%</b>
<b>Market position</b>	Top 3	Top 3	Top 8 (Top 3 in Luxury Goods)	Top 8	
<b>Focus</b>	<ul style="list-style-type: none"> <li>• Regional market expansion North America and Asia</li> <li>• Comprehensive product range</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen market position Asia</li> <li>• Maintain technology leadership</li> </ul>	<ul style="list-style-type: none"> <li>• Leverage full range high precision applications</li> <li>• Regional market expansion Asia for Luxury Goods</li> </ul>	<ul style="list-style-type: none"> <li>• Specialized solutions for small and medium series applications</li> <li>• Leverage references with machining systems</li> </ul>	

# Geographic development of order intake

Targeted growth rate Starrag Group: +5% CAGR



Note: 3 year order intake average at constant exchange rate used to eliminate potential impacts of individual large orders and FX fluctuations.



# Focus of strategic actions

## Innovation

- Leading application competence
- Starrag Integrated Production System (Industry 4.0)
- Next generation of machine tools
- Dedicated automation concepts

## Geographical footprint

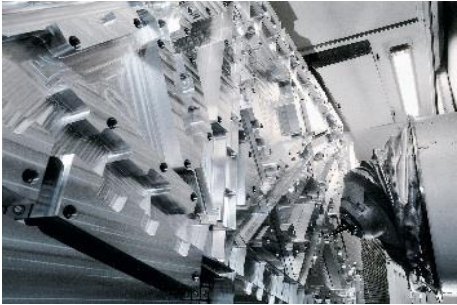
- USA
- China
- Dealer network in key markets

## Operational excellence

- Simplifying go to market
- Sales effectiveness
- Customer service readiness
- Project management
- People development

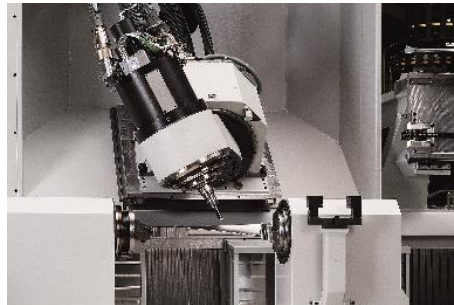
# Dedicated solutions for our target industries

## Aerospace



ECOSPEED Serie

## Energy



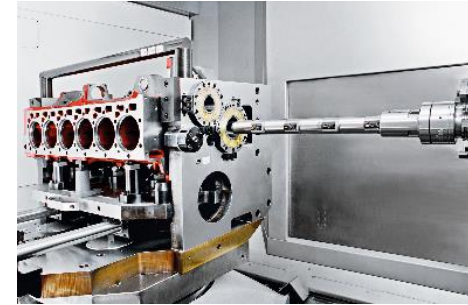
LX Serie

## Industrial



ECOFORCE Serie

## Transportation



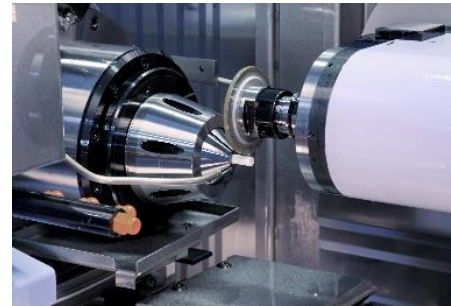
HEC Serie



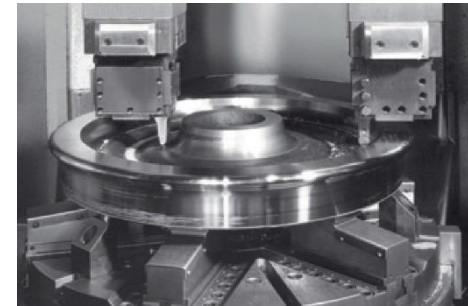
NB Serie



G/GF Serie



S191 Serie



CONTUMAT Serie

# Financial mid-term targets

- Growth Rate                      5% per annum
- Profitability                      8% EBIT margin
- Dividend ratio                    35-50% of net profit

Measured in local currency and as average over the business cycle.

## Other key developments

- Cooperation with Klingelberg Group
- Changes in Board of Directors and Executive Board
- Change to Swiss GAAP FER as from fiscal year 2017

# Main focus of Starrag Group

## Clear strategic positioning

- Focus on prioritized market segments and regions
- Value proposition (solutions)
- International footprint (China, USA)

## Reliable operational performance

- Simplification
- Accountability
- Speed

## Creation of long-term value

- Innovation
- All stakeholders

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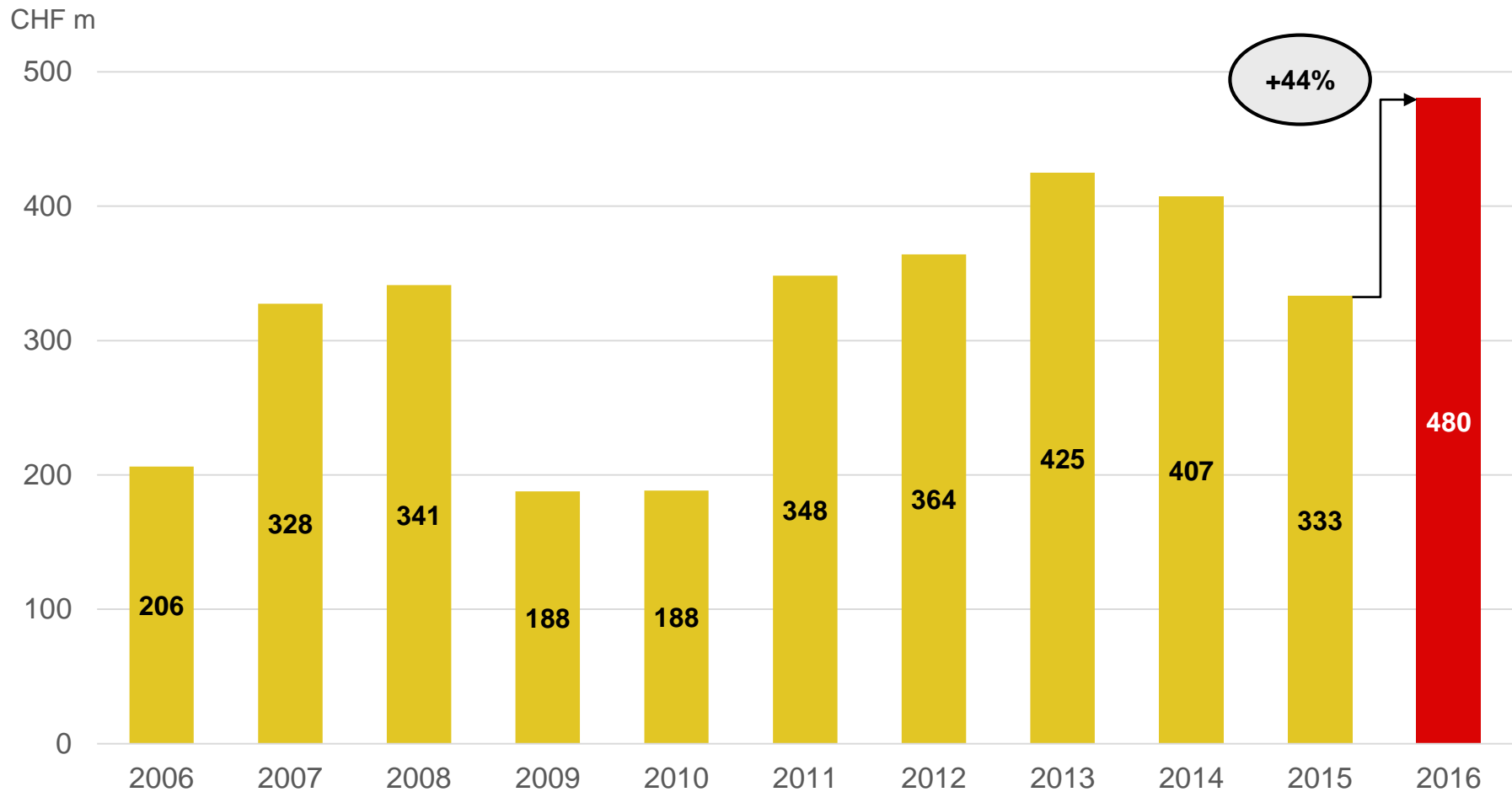
Gerold Brütsch, CFO

■ Outlook

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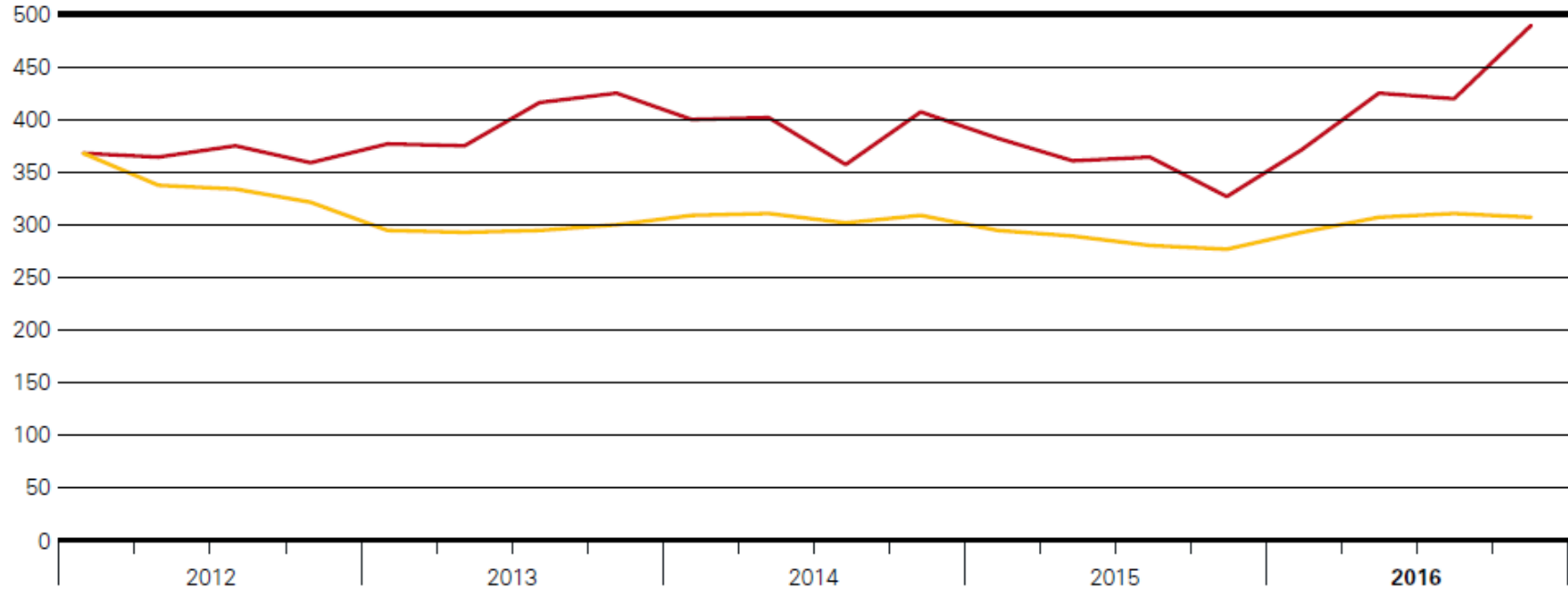
# Highest order intake ever



**Note:** 2011 acquisition of Dörries Scharmann Group, 2012 acquisition of Bumotec

# Order intake benchmark: Starrag Group vs. sector

CHF m



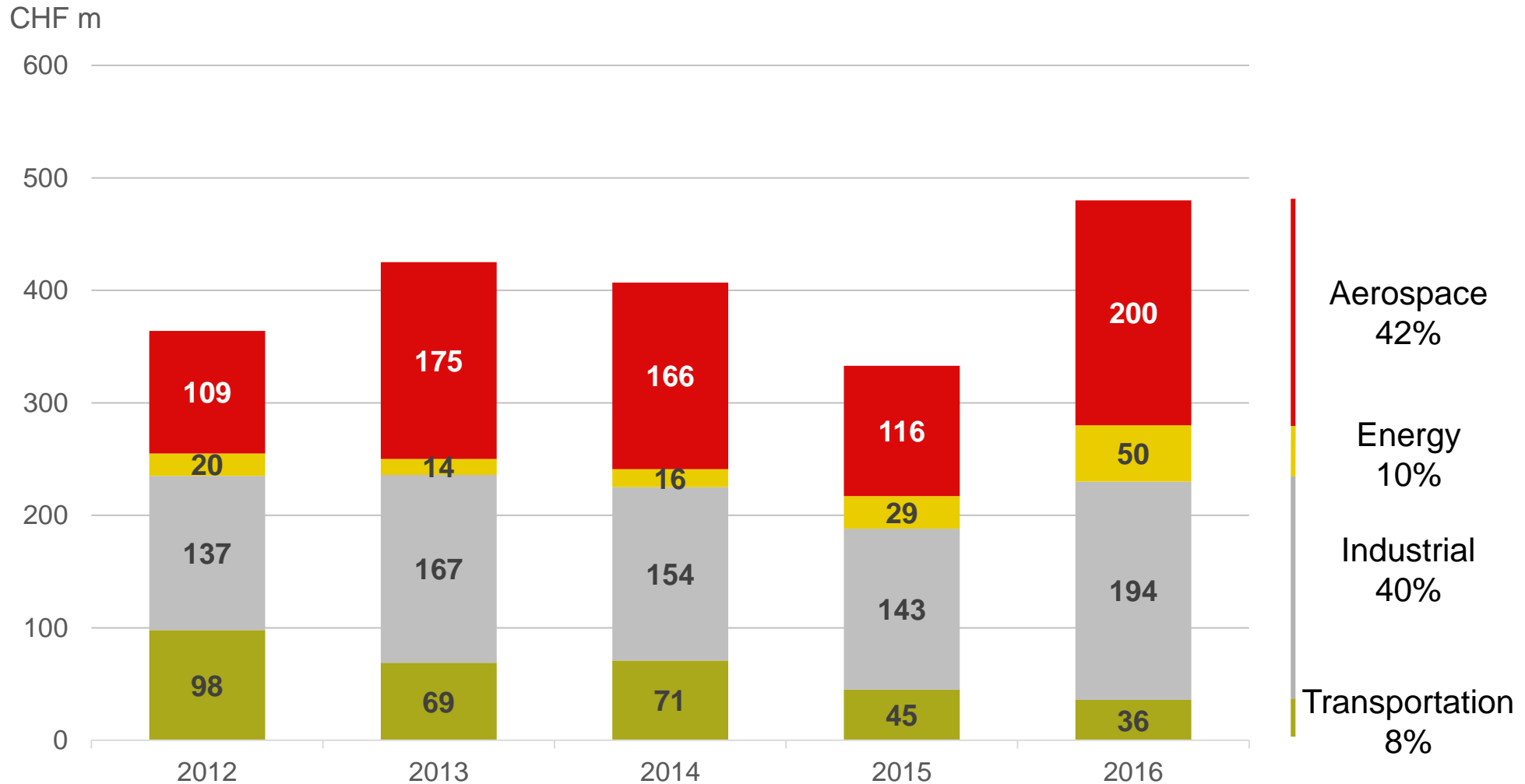
Starrag Group Sector Germany indexed (Source: VDW)

- **Starrag order intake year-on-year 43% (in local currencies)**
- **Sector Germany order intake year-on-year +7% (in local currencies)**

Note: four quarter moving



# Order intake by industry: more than 80% from Aerospace and Industrial



# Market trends by industry

## Global economic and political environment remains a challenge

### Aerospace 39%



- Solid market development globally
- Asian market developing positive
- Strong product and regional positioning
- Increasing interest in Life cycle solutions

### Energy 8%



- Power plant investments concentrated in Asia, further slow recovery
- New investments in Wind Energy
- Oil & Gas slow recovery
- Best in class technical solutions

### Transportation 15%



- Agriculture slowly recovering
- Modest improvement in construction equipment but still slow
- Rising demand in Asian Railway Market
- On-Road vehicles with moderate growth

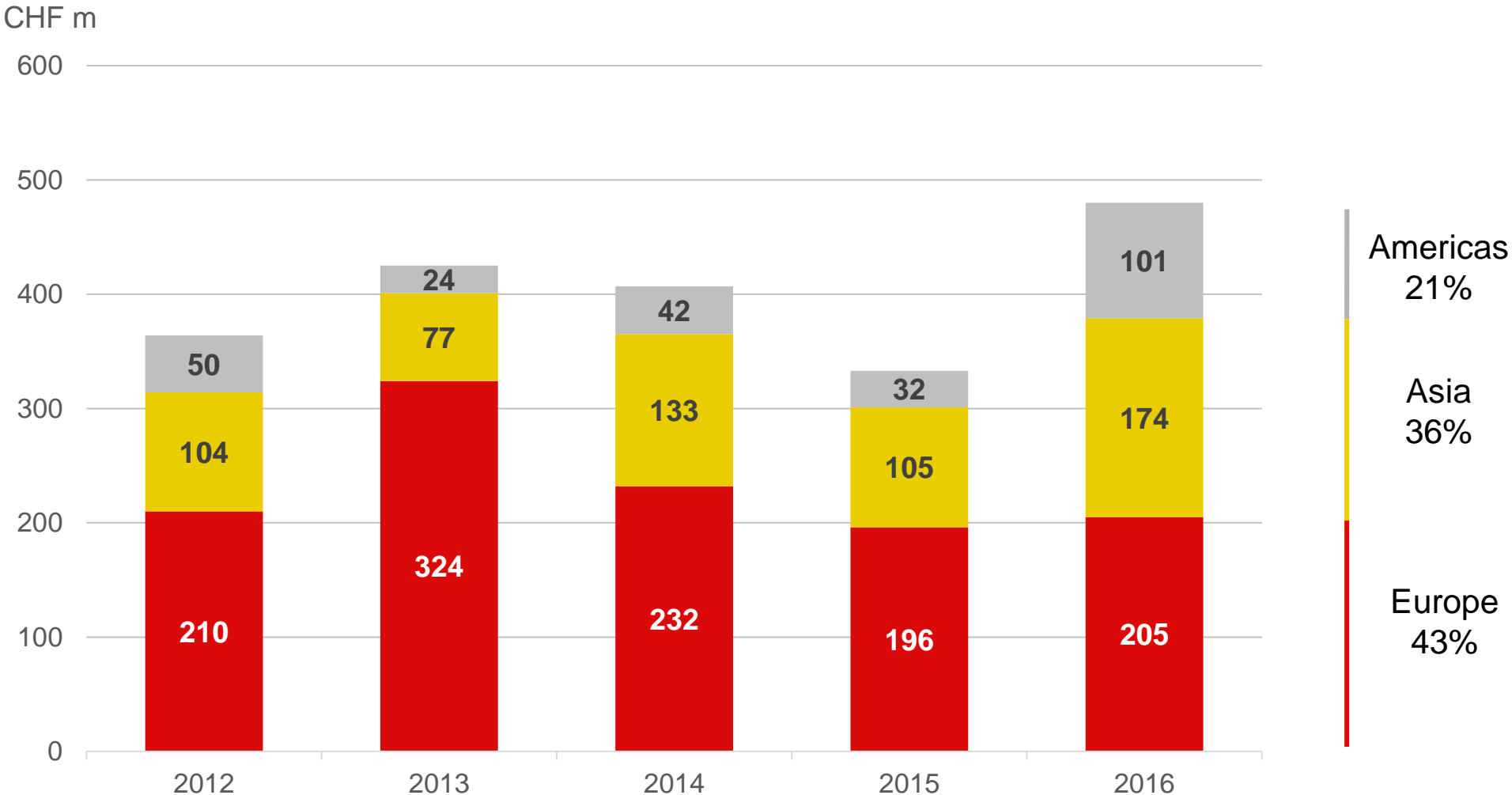
### Industrial 38%



- Stationary Machines still growing with positive influence on component market
- Strengthened market coverage in China and USA
- Luxury goods market on low level with recovery visible
- Gaining market share in dedicated Med Tech applications

Note: Percentages based on average order intake 2014-2016 (at 2016 fx rates)

# Order intake by region: more than one third from Asia



# Participation in key trade fairs with great success

## Focus on

- ▮ efficiency enhancement
- ▮ Industry 4.0
- ▮ intelligent machine peripherals

## IMTS Chicago

- ▮ Highly productive milling head Sprint Z3 as core part of flexible machining center ECOSPEED

## AMB Stuttgart

- ▮ HEC 500D U5 MT and HEC 800 machining centers



# Technology Days: where the world's experts meet

- Aero Structure Technology Days  
Mönchengladbach
  - New ECOSPEE F1540 for high-precision manufacturing of aircraft structural components
- Industrial & Transportation Technology Days Chemnitz
  - Premiere of new Focus machining centers
- Turbine Technology Days Rorschach
  - Latest developments in efficient manufacturing of turbines for aircrafts and power plants



- All in all 500 attendees from industry, trade media and universities

# Large order in the USA

- Double digit million order from Orizon Aerostructure, a highly specialized top-tier supplier to aerospace industry
- Significant breakthrough in the strategically important US Aerospace segment.
- 6 connected Ecospeed F2060 with currently highest performance available in the market
- Up to 70% reduction in machining time.



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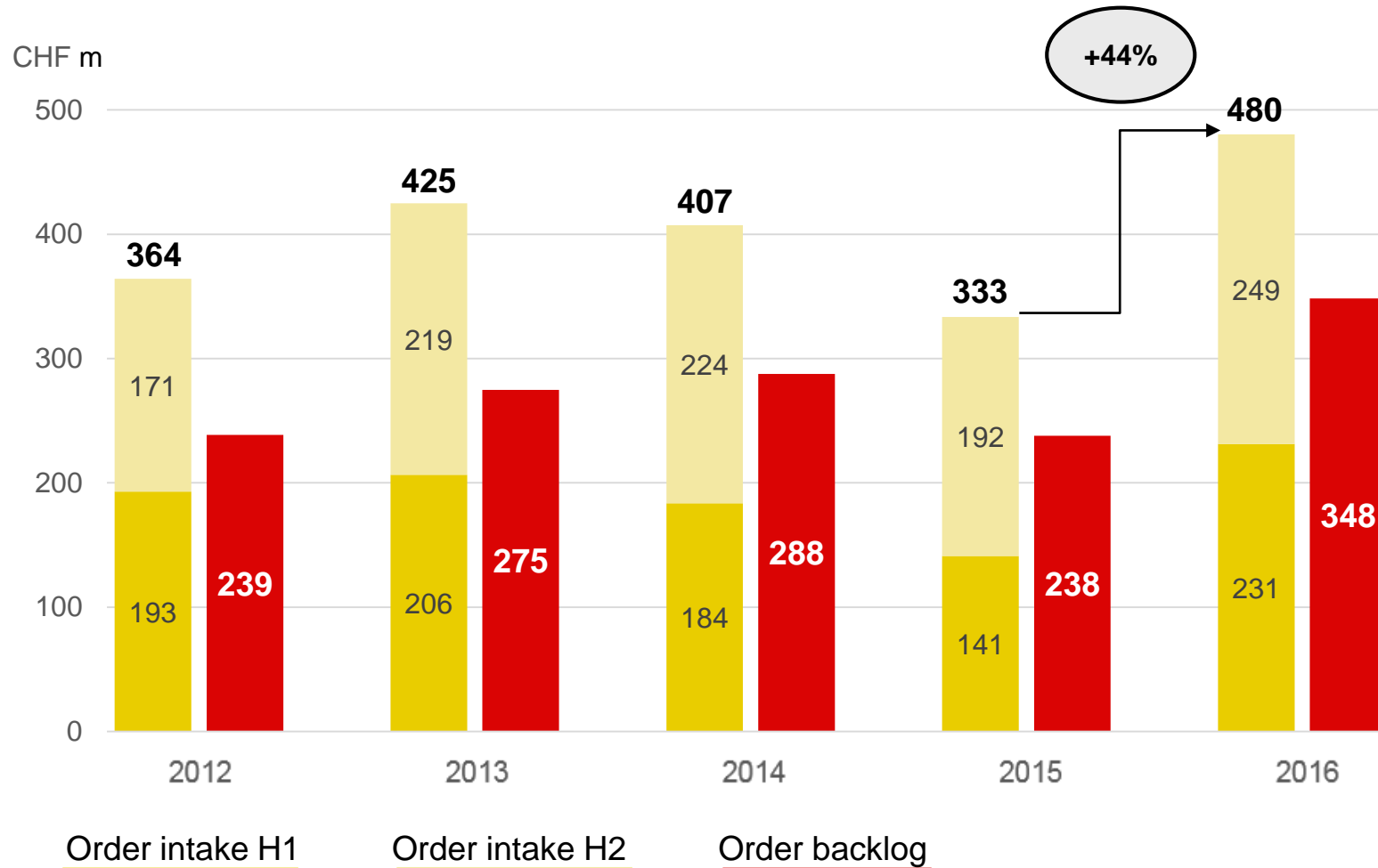
**Gerold Brütsch, CFO**

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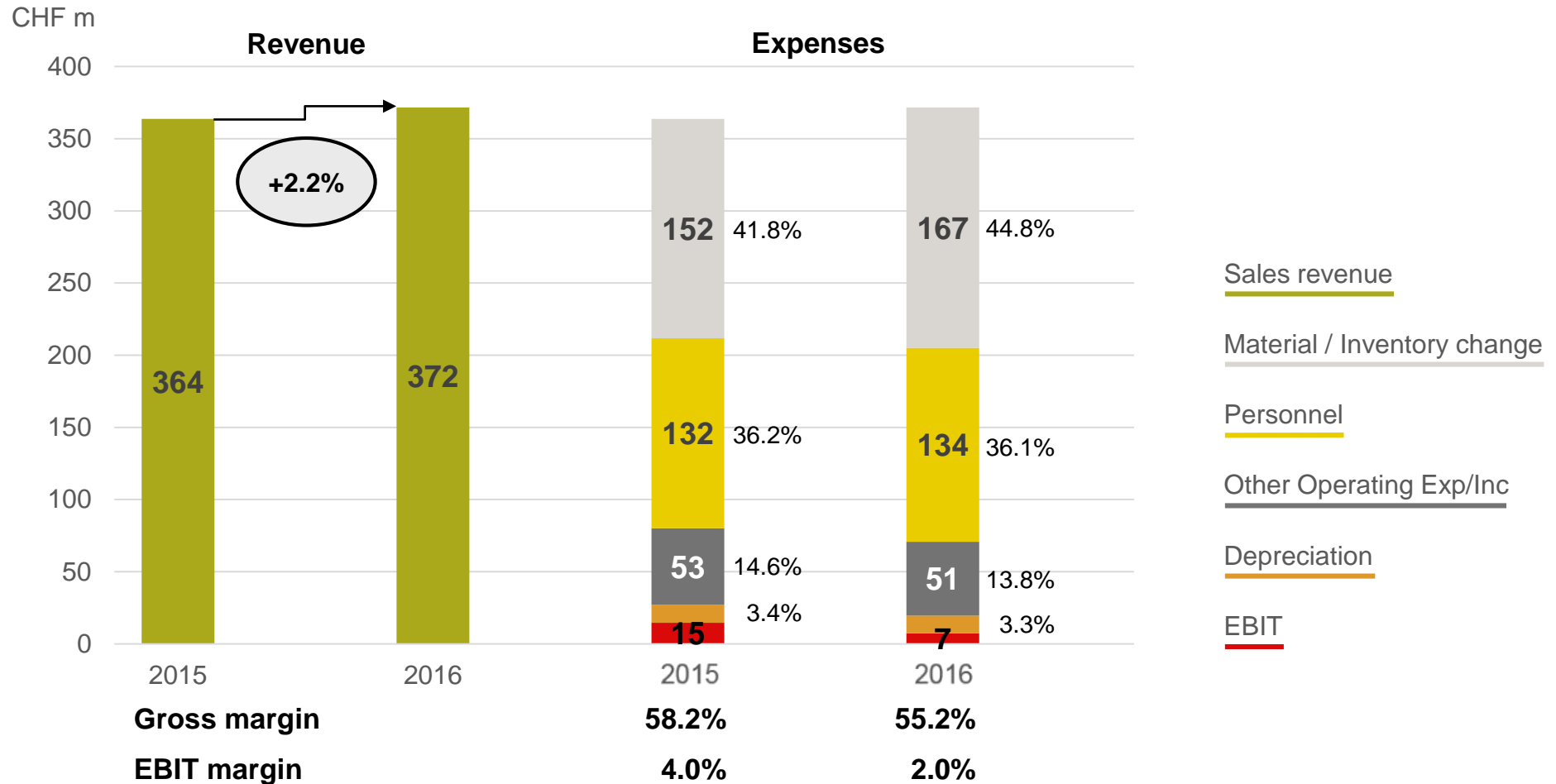
# Highest order intake ever leads to strong order backlog



- Order intake year-on-year +43% (in local currencies)
- Order backlog (+47%) includes a substantial portion of revenue to be recognized in 2018 and 2019 only

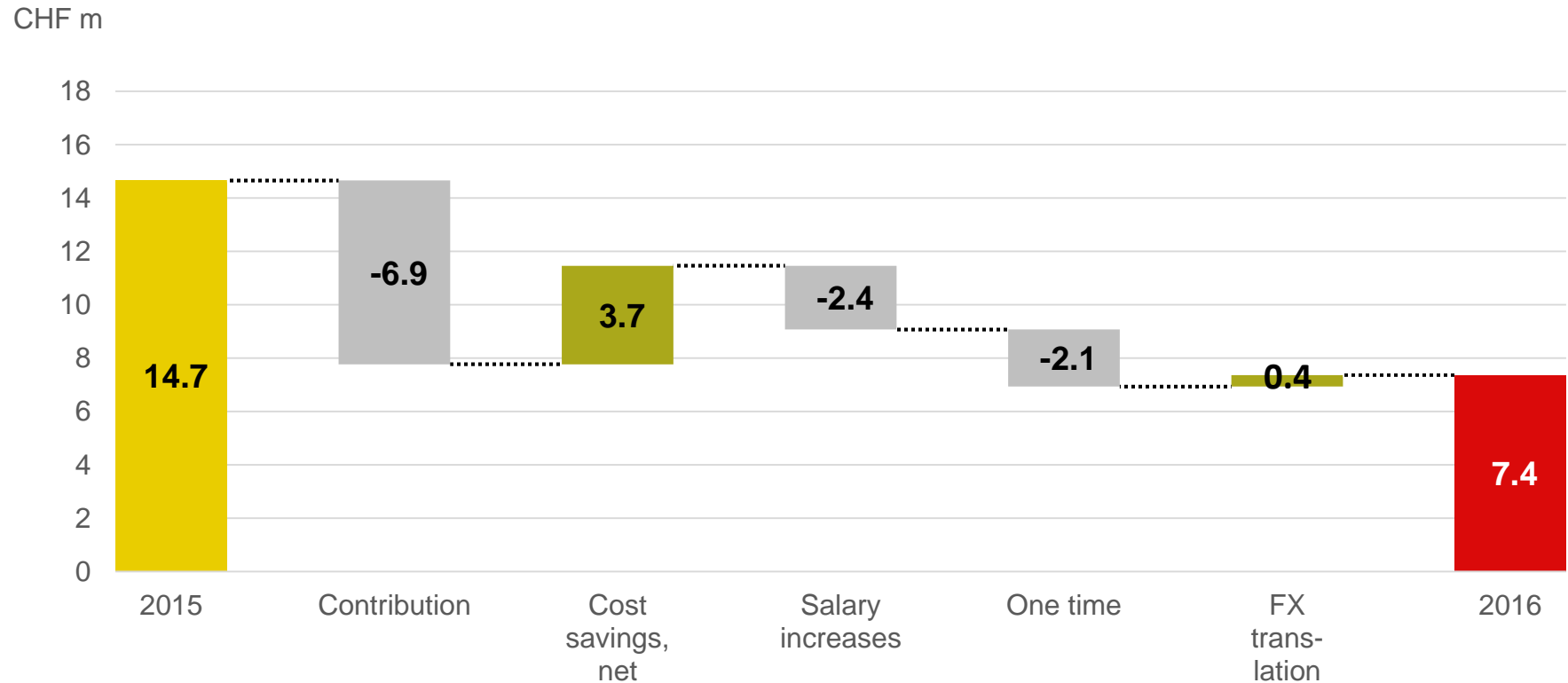


# Income Statement: Declining EBIT margin



- Value addition primarily reduced due to lower demand from watch industry
- Personnel cost before one-time 35.9% of sales revenue (2015: 36.5%)

# EBIT under pressure by lower capacity utilization and lower gross margin



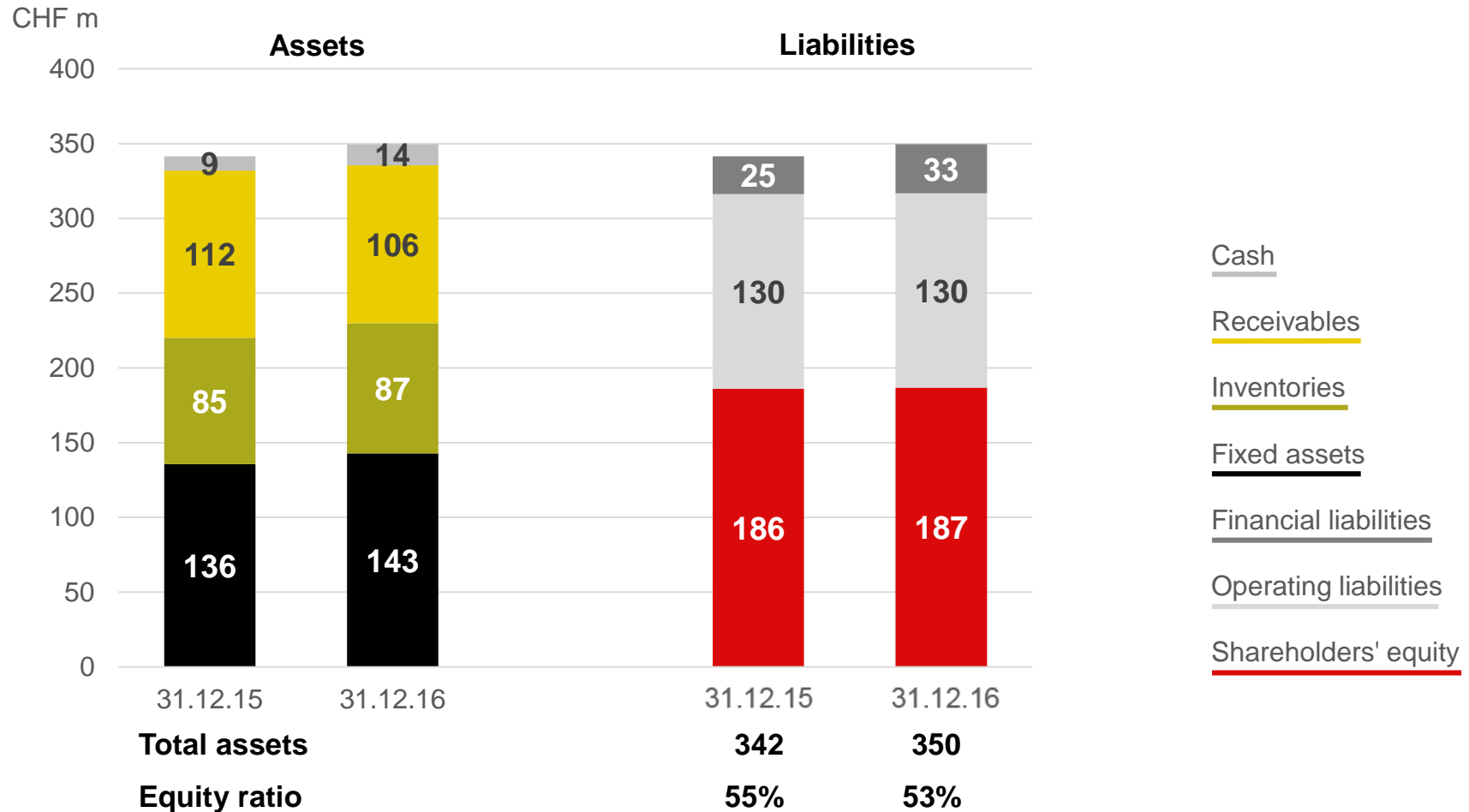
- Lower contribution due to lower margins from changed product mix, lower percentage of completion of orders in progress causing a higher material cost ratio and selective cost overruns in individual orders
- Fixed cost savings partly compensated by necessary salary increases
- One-time impact includes restructuring cost 2016 of 1.0m CHF and credit from past service costs in prior year of 1.1m CHF

## Net income impacted by lower EBIT

CHF m	2016	2015
<b><i>EBIT</i></b>	<b>7.4</b>	14.7
Interest	-0.6	-0.4
FX result	0.5	-1.5
Other finance expenses	-1.3	-0.9
<b><i>Earnings before tax EBT</i></b>	<b>5.9</b>	11.9
Income tax	-1.3	-2.4
<b>Net income EAT</b>	<b>4.6</b>	9.5
Tax rate	21.7%	19.9%
<b>Earnings per share</b>	<b>1.33</b>	2.78

- Net income and Earnings per share down by 52% due to lower EBIT
- Improvement of financial result due to FX gain of 0.5m (mainly from USD appreciation) compared to FX loss of -1.5m in prior year (mainly from EUR devaluation)
- Higher tax rate primarily caused by timing effects

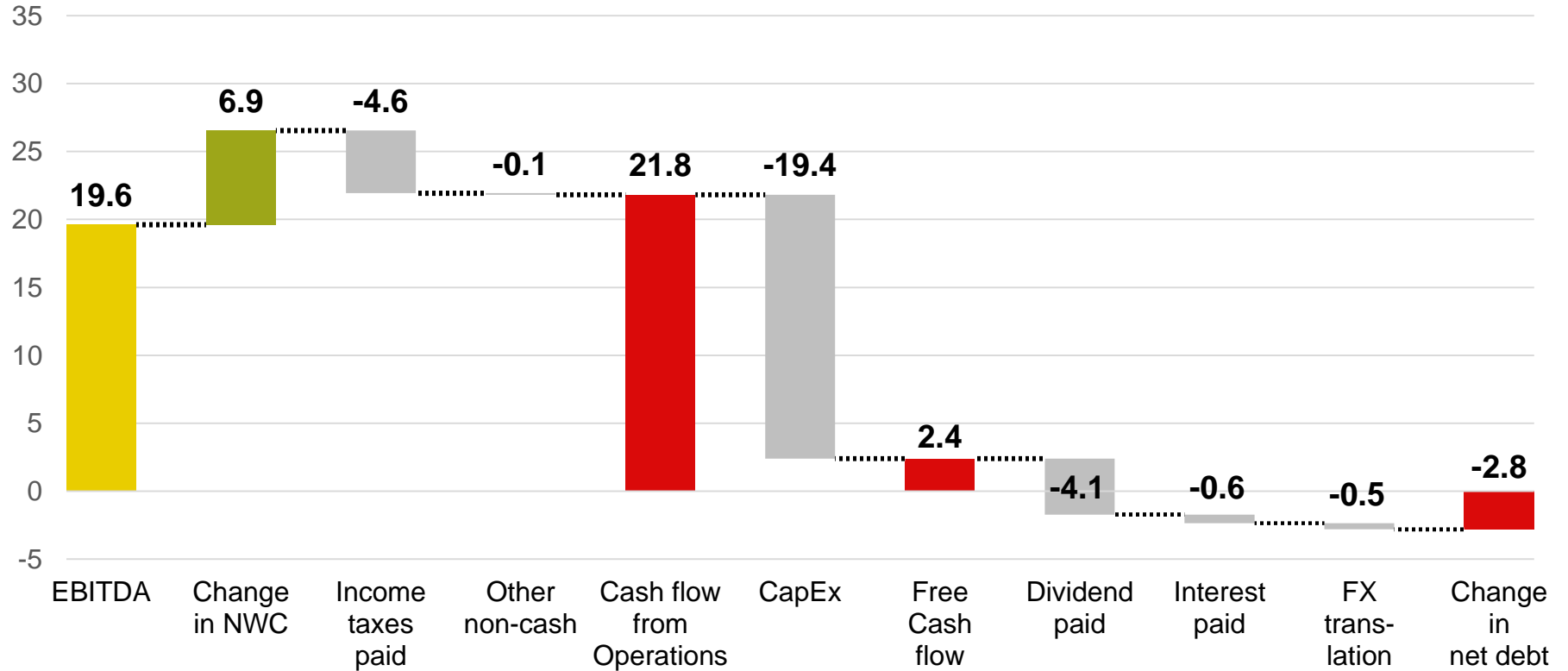
# Balance sheet continuously strong



- Solid financing with stable balance sheet structure
- 2016: above-average capital expenditures for new plant Vuadens

# Strong cashflow from operations

CHF m



<b>FY 2015:</b>	<b>27.1</b>	<b>-12.0</b>	<b>-2.3</b>	<b>-1.8</b>	<b>11.0</b>	<b>-22.3</b>	<b>-11.3</b>	<b>-6.2</b>	<b>-0.3</b>	<b>-0.5</b>	<b>-18.3</b>
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## Increase in net debt

- despite reduction in net working capital by 6.9m CHF
- due to further investment in modernisation and capacity expansion Vuadens of 13m CHF

# FX impacts on financial statements 2016

## Translation risk

- Limited translation impact as CHF-EUR was relatively stable within a certain fluctuation margin

## Transaction risk

- Foreign currency gain of 0.5m CHF primarily due to USD appreciation (compared with prior year loss of 1.4m CHF on unhedged Euro positions) recognized in financial result

## Economical currency risk

- Competitive pressure continuing, negative impact on price and margin quality slightly decreasing
- Share of revenue in CHF was 17% (prior year 18%) while share of cost in CHF was 23% (prior year 25%)

- **Actions implemented to continuously improve productivity.**

# Simplification of internal and external financial reporting

## Change of accounting standards from IFRS to Swiss GAAP FER from 2017

- Reduction of the under IFRS **ever increasing complexity** and cost saving (next round of major IFRS changes effective from 1-Jan-2018)
- Swiss GAAP FER is a recognized accounting standard applying the **true and fair** principle giving a precise picture of Starrag Group's financial situation
- Estimated **impact** of change of accounting standards (preliminary and not audited):

<i>CHF m</i>	01.01.2016	31.12.2016
<b><i>Shareholders' equity according to IFRS</i></b>	186.1	<b>186.8</b>
Offset goodwill from acquisitions	-17.4	-17.4
Offset acquired brands, customer relationships and technologies	-17.9	-15.8
Adjustment pension benefit obligations	6.4	4.4
Deferred tax liabilities	4.3	3.8
<b><i>Shareholders' equity according to Swiss GAAP FER</i></b>	<b>161.6</b>	<b>161.8</b>

<i>CHF m</i>	2016
<b><i>Net income according to IFRS</i></b>	<b>4.6</b>
Adjustment of amortization of acquired brands, customer relationships and technologies	1.8
Adjustment pension benefit obligations	0.2
Deferred tax liabilities	-0.5
<b><i>Net income according to Swiss GAAP FER</i></b>	<b>6.1</b>

- **Decrease of equity ratio from 53% (IFRS) to 51% (Swiss GAAP FER) as of 31.12.2016.**
- **No change on other important key figures such as sales revenue, EBITDA, cash flow and net debt.**

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# Economic outlook

- Ongoing economic and geopolitical uncertainty
- Energy sector, renewable and fossil, with ongoing moderate growth
- Expectations by regions: North America and Asia ahead of Europe
- VDW forecast 2017: “production growth of 3%”
- Impact of CHF below industry’s average

## 2017 priorities

- „Starrag 2020“: Further strategic focusing on defined market segments and regions
- Innovation: Consistent development of new and enhanced products
- Further investments in service – new products and global coverage
- Continuous process improvements to increase productivity, including project management
- Plus numerous individual measures to continuously reduce costs and achieve sustainable improvement in profitability

# Positive outlook thanks to implemented strategic and operational actions

- Relatively stable economic and machine tool market development despite numerous economical and political uncertainties
  
- Starrag group well positioned
  
- Potential to achieve the medium-term growth and profit targets confirmed
  - Order intake / Sales revenue            5% CAGR
  - EBIT margin                                    8% of Sales revenue
  
- Guidance 2017
  - Historic record high order intake in 2016:
    - Order intake 2017 < 2016 due to base effect
  - High order backlog
    - Sales revenue 2017 >> 2016
  - Implementation of strategic and operational actions combined with higher margin on order intake 2016
    - EBIT margin 2017 >> 2016

# Corporate calendar / Contact

- 28.04.2017 Annual general meeting in Rorschach
- 27.07.2017 Half-year report 2017
- 26.01.2018 Initial information on 2017 results
- 09.03.2018 Presentation of 2017 results for analysts and media in Zurich
- 28.04.2018 Annual general meeting in Rorschach

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Further Information:

<http://www.starrag.com> / [investor@starrag.com](mailto:investor@starrag.com)

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Starrag Group

**We are pleased to invite you to a buffet lunch.  
Thank you for your interest!**



**starrag**

Starrag Group

# Additional information

Zurich, 10 March 2017



## 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 target market Aerospace, Energy, Transportation and Industrial. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that enhance customer productivity.

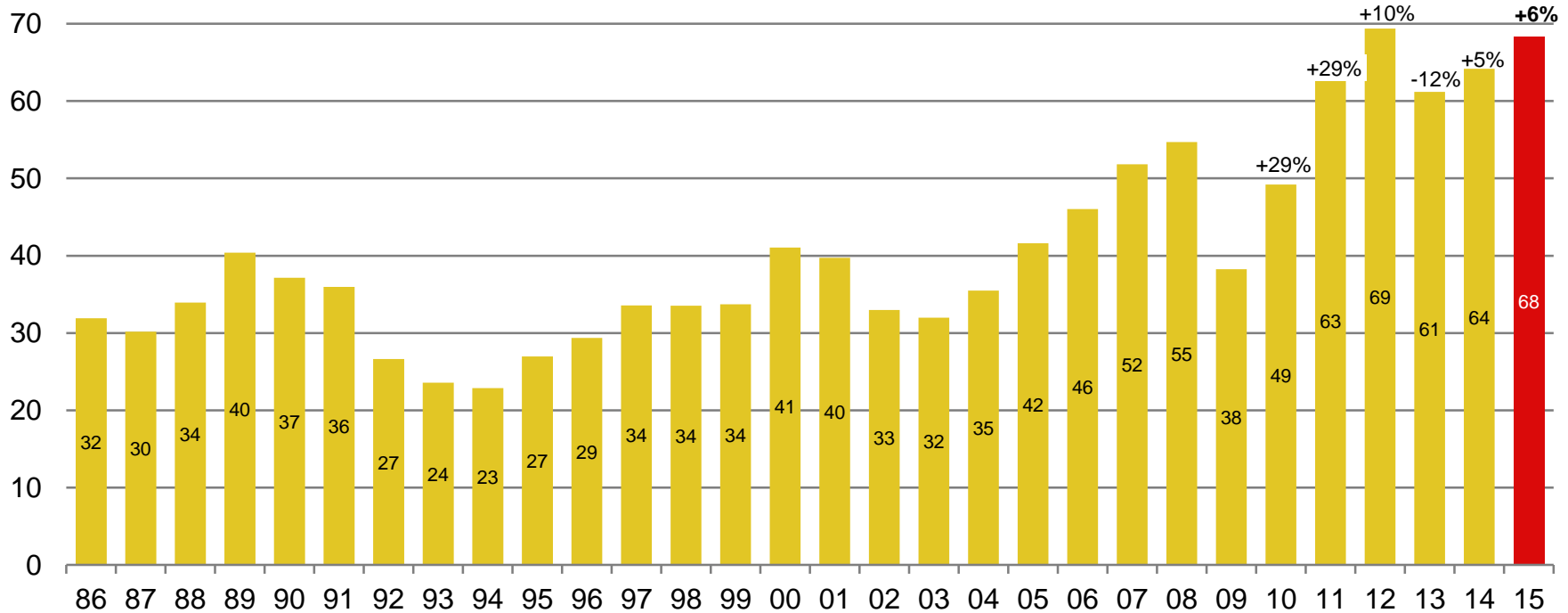
Starrag Group products are marketed under the following brands: Berthiez, Bumotec, Dörries, Droop+Rein, Heckert, Scharmann, SIP, Starrag, TTL and WMW. Headquartered in Rorschach/Switzerland, the Starrag Group operates manufacturing plants in Switzerland, Germany, France, the UK and India and has established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

Starrag Group is listed on the SIX Swiss Exchange.



# World production machine tools 1986 - 2015

EUR b

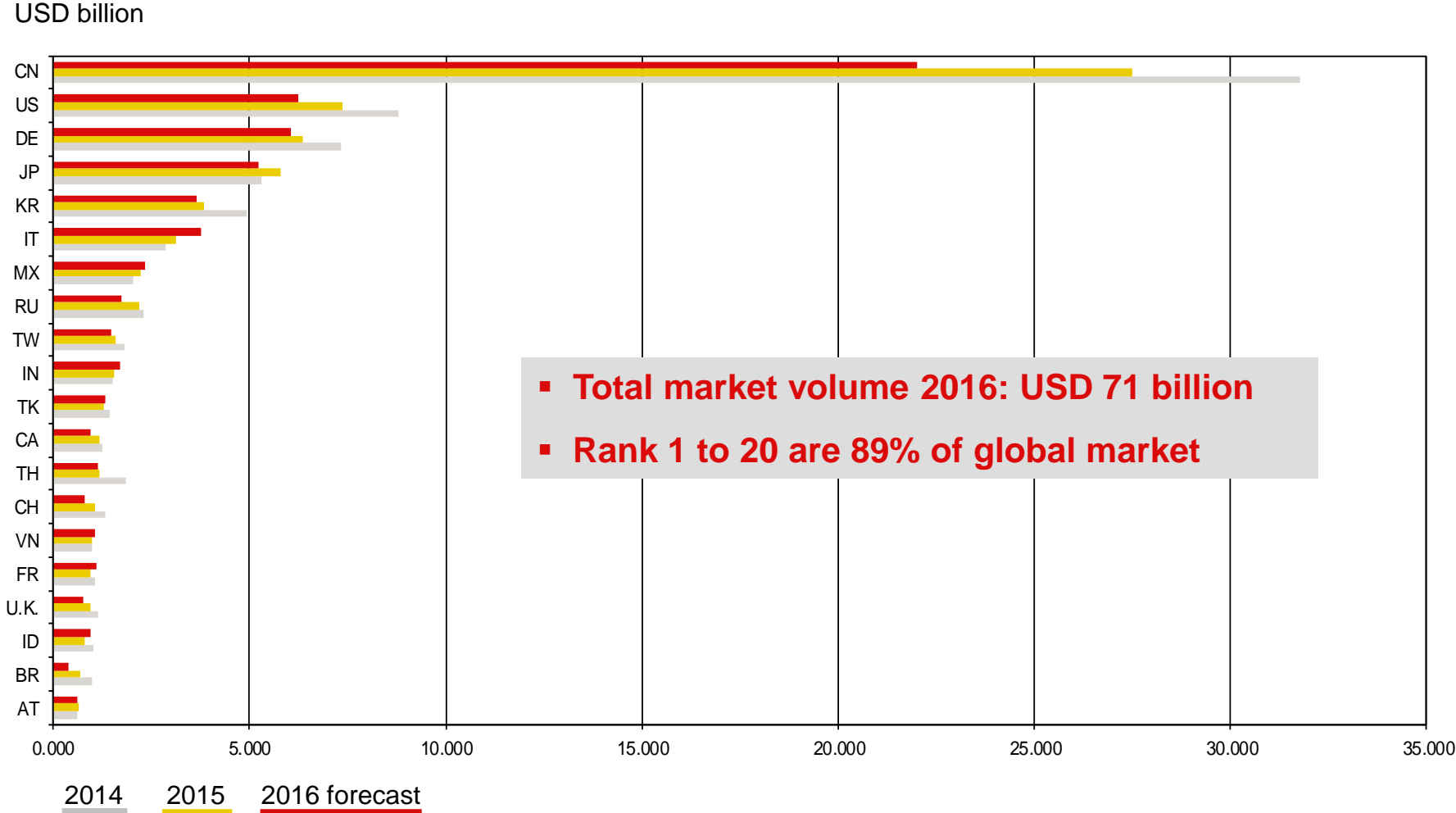


World production machine tools 1986 – 2014

World production machine tools 2015 forecast

Note: Without Parts/accessories; 2015 = revised, Source VDW

# World machine tool consumption 2014 to 2016: Top 20 countries



Source: Gardner Research World Machine-Tool Output & Consumption Survey, April 2016.



## "Engineering precisely what you value"

- Application-optimized,
- most economical,
- high-precision,
- machining solutions and service offering,
- tailored to the individual needs of our customers.

# Vision – Mission – Values

## Vision

- 01 Starrag Group is the leading manufacturer of highly productive, durable complete solutions for precise cutting applications.
- 02 Innovation, quality, a global presence and competence in customer service ensure our customers a consistent advantage in productivity.

## Mission

- 01 We use our group-wide knowledge base, our innovation and our market leadership position to develop sustainable future-oriented technologies and reliable long lasting manufacturing products.
- 02 We offer complete solutions to our valued customers. Our unique customer service concepts and global network allow our customers to achieve the highest productivity throughout the complete life-cycle of our machine tools.
- 03 Personal identification with the company, above average commitment and regular training of our employees guarantee our high quality claim in all areas. Lean and efficient processes ensure an advantageous cost position.
- 04 Our values ensure sustainable financial stability as a central prerequisite for long term success.

## Values

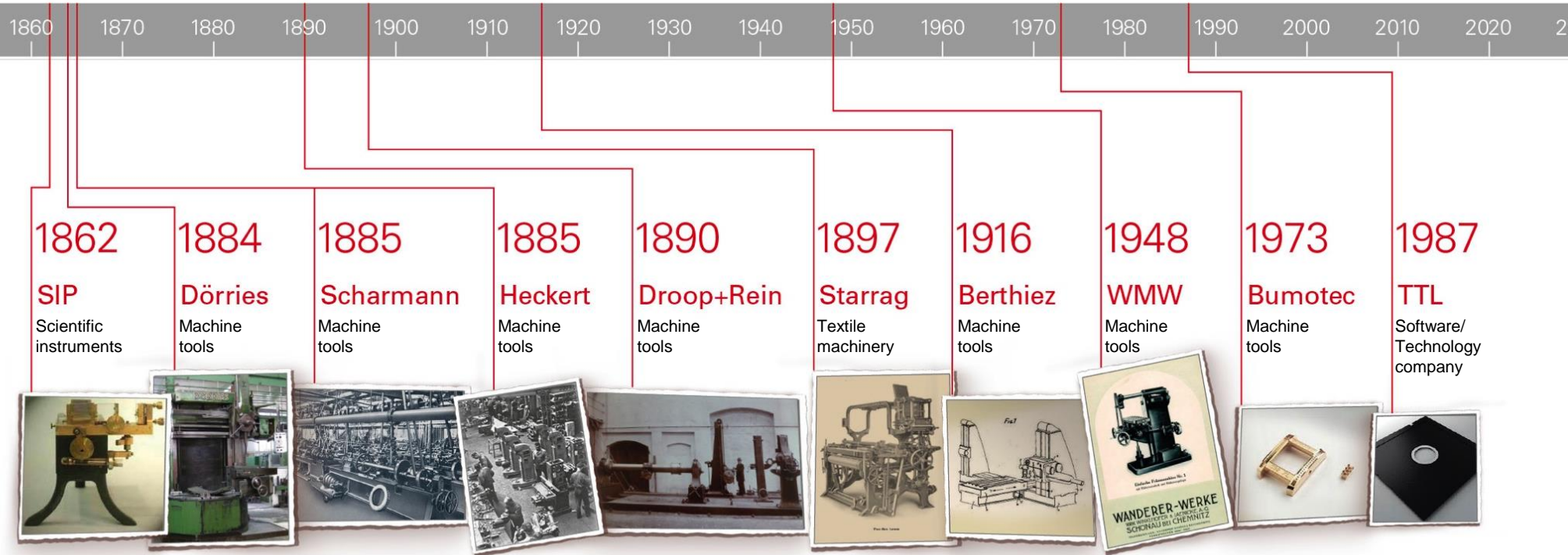
- 01 **Market leadership through customer orientation**
  - Customers are at the centre of our thinking and actions.
  - We delight our customers by market and technical knowledge, professionalism, trust, reliability, on-time delivery, flexibility, timely communication and mutual respect.
  - We go the extra mile to surpass our customers' expectations.
- 02 **Pioneering through innovation**
  - We continually innovate to provide technology exceeding market requirements.
  - We deliver pioneering solutions to our customers.
  - We are proactive, market oriented, dynamic, creative and regard change as an opportunity.
- 03 **Quality based on robust processes**
  - We achieve the highest quality standards through defined processes in all activities.
  - Lean and clear processes contribute to customer satisfaction, increased reliability and improved speed.
  - Our actions are based on the principles of responsibility, safety, orderliness, cleanliness and discipline.
- 04 **Sustainable value creation**
  - Ensuring long-term success through a results oriented culture in order to sustainably increase our enterprise value.
  - By fair methods and continuous improvement, we strive for solid growth while respecting our social and environmental responsibilities.
- 05 **Success through dedicated employees**
  - Our employees are motivated to deliver best-in-class performance with satisfaction and enjoyment within an open and modern work environment.
  - Through leadership, our managers create relationships based on mutual trust, individual respect, sharing of information, participation, empowerment, recognition, appreciation and personal development.

# At your service



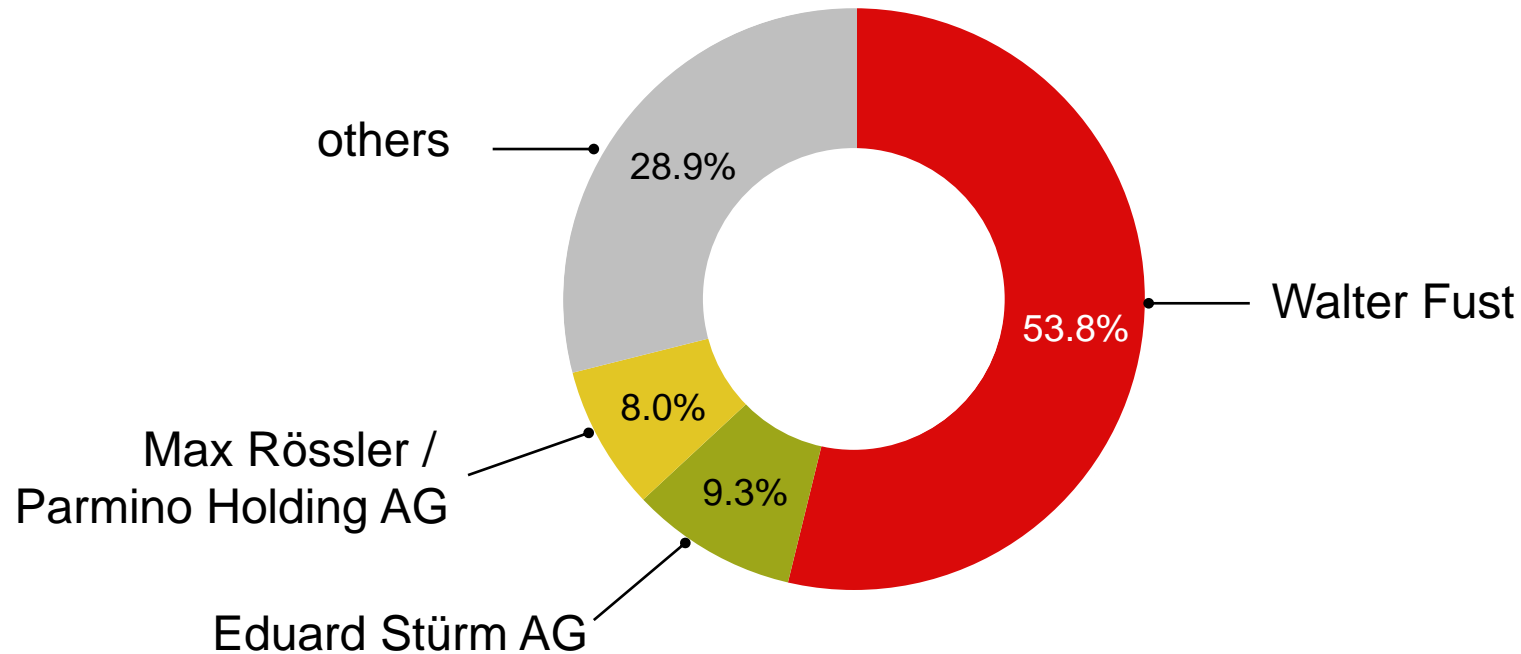
# 150 years tradition in innovation

enables the Starrag Group to be a reliable long-term partner



## Share details (as of 31 December 2016)

- Market capitalization CHF 176.4 million
- Listed at SIX Swiss Exchange Main Standard
- Symbol STGN, Valor number 236'106, ISIN CH00023610608
- 3'360'000 registered shares with a nominal value of CHF 8.50 each
- Stable shareholder structure



# Top Management



**Daniel Frutig** (1962, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 2014 and its Chairman since April 2015.

He is CEO of the international medical group Medela Holding AG, based in Zug/Switzerland, and a member of the Board of Directors of Eugster / Frismag AG, Amriswil/Switzerland. From 2011 to 2014 Daniel Frutig was CEO of AFG Arbonia-Forster-Holding AG. From 2005 to 2011 he headed the global Support Services Division of the British Compass Group, based in London, UK. From 2003 to 2005, Daniel Frutig was CEO of Swisscom Real Estate Inc., from 1998 to 2003 he served as Associate Partner for the consultancy firm Accenture, ultimately as Global Head of Services & Technology. Before that, Daniel Frutig worked at Sulzer AG, where he began his professional career in 1987. Daniel Frutig graduated from the Lucerne University of Applied Sciences in 1987 with an engineering degree in heating, ventilation and air conditioning systems.

He earned an MBA from the University of St. Gallen in 1994 and completed the Top Management Executive Program at INSEAD in Fontainebleau in 2004/05. He has never held an executive management position with Starrag Group and he does not have any significant business relationships with the Group.



**Walter Börsch** (1959, German) has been CEO of Starrag Group and Head of Regional Sales since 2014.

He previously served as Head of the former Business Unit 1 from January 2012 to the end of 2013 with responsibility for the Starrag brand in Rorschacherberg (Switzerland) and as well as for the TTL subsidiary in Haddenham (UK). Prior to that he held the position of Head of Operations at Starrag Group since 2007 and from 2005 to 2007 Mr. Walter Börsch was Head of Sales and Engineering at an internationally active machine tool manufacturer. From 2000 to 2004, he headed a business unit of Hüller Hille GmbH. Prior to that he held various management functions in that company's development, sales, customer service and sales departments, beginning in 1987.

Walter Börsch holds a Master's degree in mechanical engineering from Aachen University and also completed a marketing program at the University of St. Gallen.



**Gerold Brüttsch** (1966, Swiss) has been Chief Financial Officer (CFO) of Starrag Group since 2000 and since 2005 Deputy CEO and Head of Corporate Center.

Mr. Brüttsch previously served as Chief Financial Officer of an international machine manufacturing company and as an auditor with KPMG in Zurich and San Francisco. Gerold Brüttsch is a graduate of the School of Economics and Business Administration in St. Gallen and earned his degree in business administration in 1990.

He is a Swiss Certified Accountant and U.S. Certified Public Accountant.