

Financial Year 2017: Media and Analyst Conference

Solutions for
Aerospace
Energy
Transportation
Industrial



Zurich, 9 March 2018

Agenda

➤ **Overview and strategy**

Daniel Frutig, Chairman

➤ **Markets and technologies**

Walter Börsch, CEO

➤ **Financial review**

Gerold Brütsch, CFO

➤ **Outlook**

Daniel Frutig, Chairman

➤ **Q & A**

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.

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Starrag Group – Attractively positioned

■ **Benefiting from sustainable megatrends**

- Mobility, global infrastructure capex, agricultural productivity, energy efficiency, miniaturization

■ **Innovation leadership and technological expertise**

- Leading innovation capability focused on customers' needs using Industry 4.0
- Starrag: a globally trusted brand in its specific niches

■ **'Reduced to the max': Explicit focus on**

- 4 target industries with 11 dedicated market segments
- operational excellence with clear processes and minimized complexity
- customer partnerships with a leading and comprehensive customer service offering

■ **Leading Corporate Governance**

- experienced team and reputed anchor shareholder
- qualified external references and ratings

■ **Solid financial base**

- Strong balance sheet with 53% equity ratio allows for reliable dividend payments
- Profitable even throughout severe macro shocks (financial crisis 2008/2009)

Highlights 2017: Higher sales – solid workload – improved profitability

- Sales up 9% to CHF 405 million, organic growth +8%
- Order backlog of CHF 302, ensuring capacity utilization for well over one year
- Order intake of CHF 349 million
- EBIT up 63% to CHF 15.3 million – operating margin 3.8% - ROCE 5.7%
- Net income doubled to CHF 12.1 million – earnings per share CHF 3.58
- Solid balance sheet with 53% equity ratio
- Dividend payout of 1.50 CHF per share – payout ratio 42%

Focus: Ongoing implementation of Strategy „Starrag 2020“

- Focus on **most attractive market/product segments** and regions to better exploit group-wide growth and profit potential
- Differentiate through **application competence, technology, service capabilities** and **premium** market positioning
- Better **scale existing product portfolio** and competencies **globally**
- **Strengthened service capabilities** closer to customers to enhance portion of stable, higher margin business
- Enhanced focus on **operational excellence** across the entire value chain
- Simplify „Go to market“: **group-wide one brand strategy**

Market positioning

| | Aerospace | Energy | Industrial | Transportation | Total |
|---|---|---|--|--|--------------|
| Market segments | <ul style="list-style-type: none"> • Aero Engines • Aero Structures • Avionics | <ul style="list-style-type: none"> • Oil & Gas • Power Turbines • Renewables | <ul style="list-style-type: none"> • Industrial Components • Luxury Goods • Med Tech | <ul style="list-style-type: none"> • Heavy Duty Vehicles & Engines • On-Road Vehicles | |
| Addressed market size (m CHF) | 1'000 | 500 | 2'000 | 1'000 | 4'500 |
| Estimated market growth (CAGR 2016-2020) | 4% | 2% | 3% | 2% | 3% |
| Avg. order intake 2015-2017 (m CHF, at 2017 FX rates) | 143 | 39 | 166 | 43 | 391 |
| Market share | 14% | 8% | 8% | 4% | 8% |
| Market position | Top 3 | Top 3 | Top 8 (Top 3: Luxury Goods) | Top 8 | |
| Focus | <ul style="list-style-type: none"> • Regional market expansion North America and Asia • Comprehensive product range | <ul style="list-style-type: none"> • Strengthen market position Asia • Maintain technology leadership | <ul style="list-style-type: none"> • Leverage full range high precision applications • Regional market expansion Asia for Luxury Goods | <ul style="list-style-type: none"> • Specialized solutions for small and medium series applications • Leverage references with machining systems | |

- **Addressing 6% of global machine tool market.**

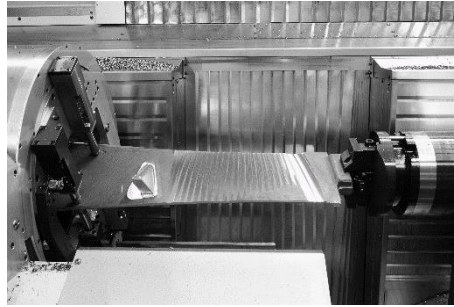
Dedicated solutions for our target industries

Aerospace



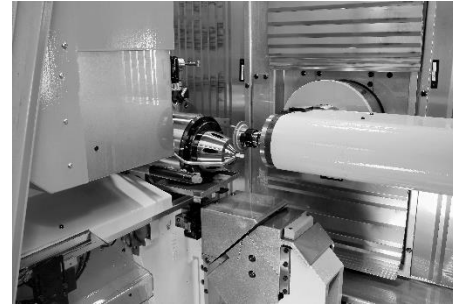
ECOSPEED Serie

Energy



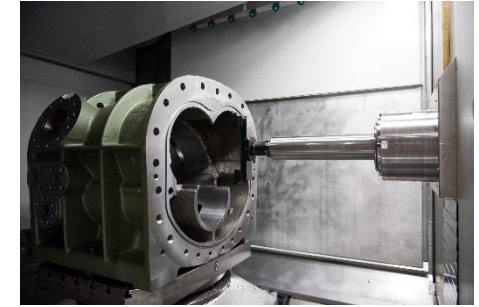
LX Serie

Industrial

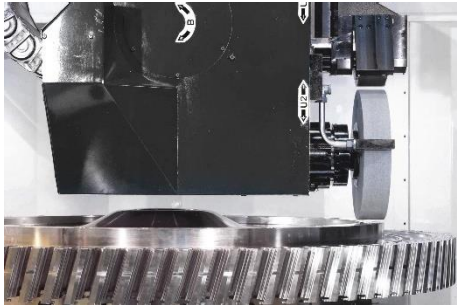


S191 Serie

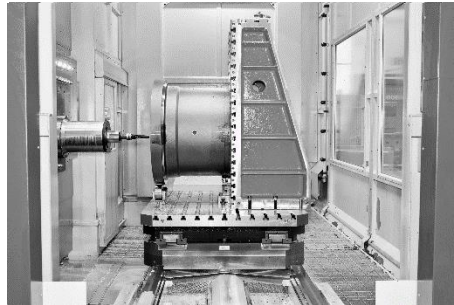
Transportation



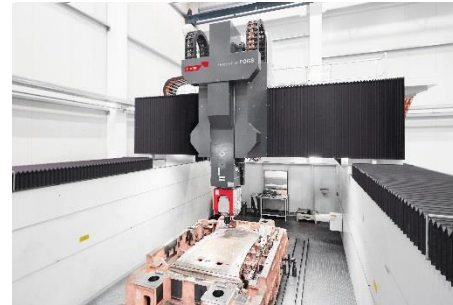
H Serie



RVU Serie



ECOFORCE Serie



FOGS Serie



CONTUMAT Serie

- Innovations 2017: RVU, FOGS HD, X40, H50.

Focus of strategic actions

Innovation

- Leading application competence
- Starrag Integrated Production System (Industry 4.0)
- Next generation of machine tools (H series)
- 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

Financial mid-term targets

- Growth Rate 5% p.a. – average throughout the cycle
- Profitability 8% EBIT margin – average throughout the cycle
- ROCE Above WACC – generate value
- Dividend ratio 35-50% of net profit

Targets: In local currencies and as average over the business cycle.

Other key developments

- **Christian Walti appointed to new CEO as per June 1, 2018**
 - CEO Walter Börsch to leave Starrag Group
- **Michael Hauser proposed to AGM as member of the Board of Directors**
 - Frank Brinken to retire from Board as per AGM 2018
- New factory in Vuadens/CH in full operations since end of 2016
- 2017 as 1st year of Swiss GAAP FER reporting

Christian Walti (1967, Swiss): New CEO, starting 1 June 2018



Career

- 2012 - 2018: Head of Bosch Packaging Systems in Beringen/CH
- 2005 - 2011: Faes AG, CEO and Co-owner
- 2003 - 2004: Stratocon AG, Founding Partner
- 1999 - 2003: ABB Switzerland AG, Program Manager

Professional Experience

- In-depth knowledge of capital goods sector, cyclical industries
- Entrepreneur
- Commercial Leadership - PhD at University of St. Gallen - Thesis & focus: «Sales management at Swiss machine tool industry»

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■ Financial review

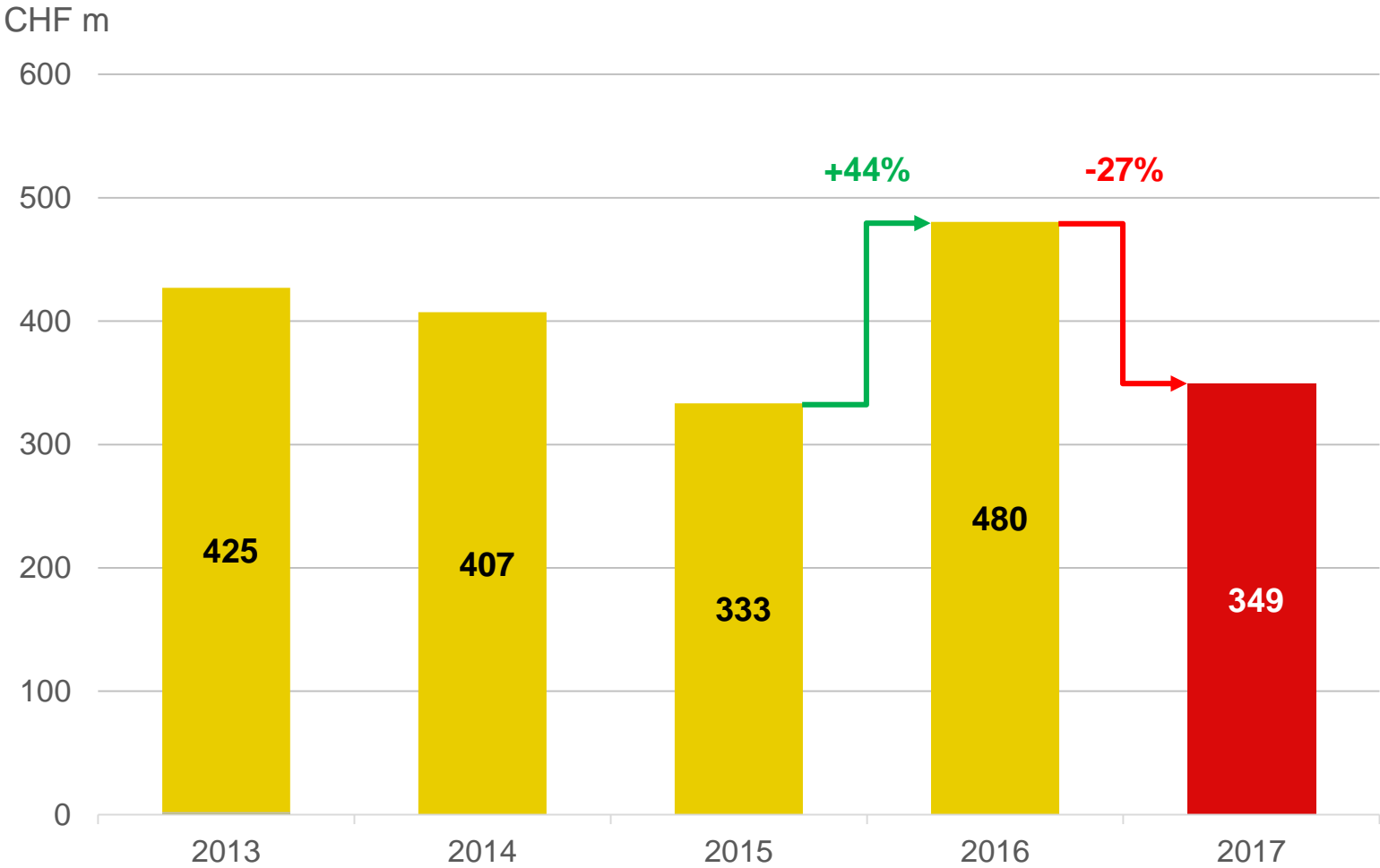
Gerold Brütsch, CFO

■ Outlook

Daniel Frutig, Chairman

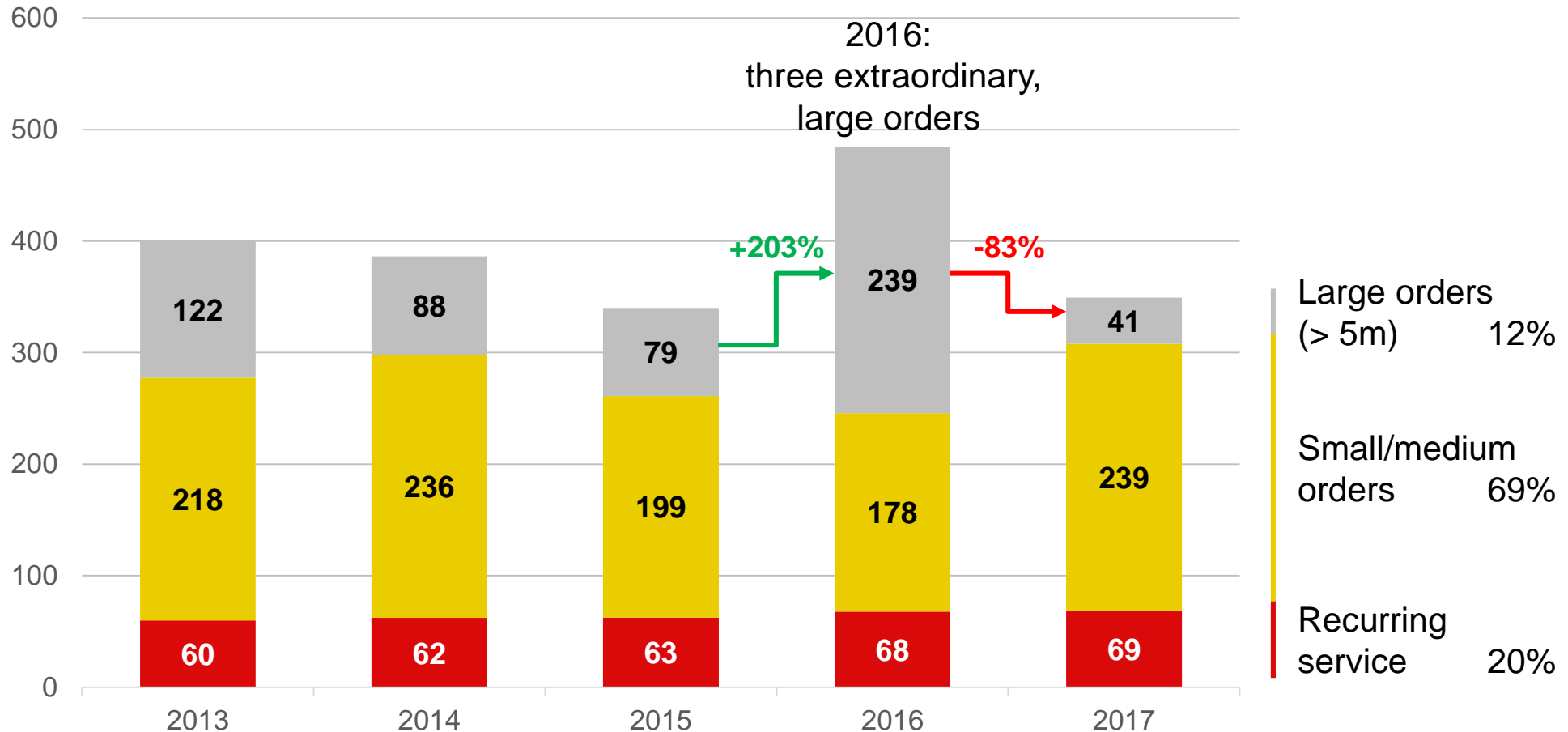
■ Q & A

Order intake below previous year's record high



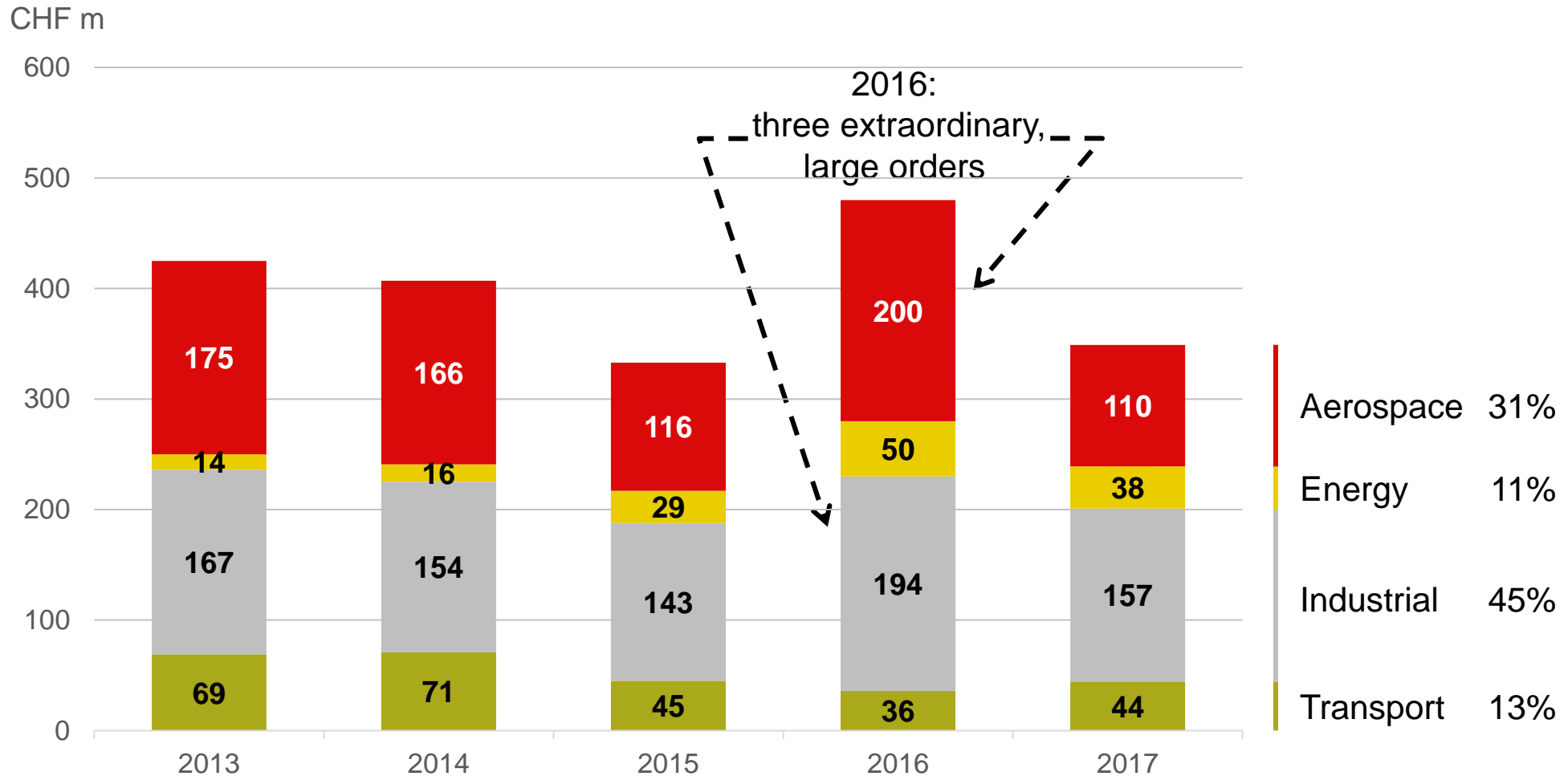
Order intake breakdown: Stable business increased

CHF m (at 2017 fx rates)



- Ongoing increase of service share, stable share of small/medium orders
- But: Large orders difficult to predict; average 2013-2017: CHF 114m

Order intake by industry: more than 70% from Aerospace and Industrial



Market trends by industry

Global economic environment is getting felt, larger orders remain lumpy

Aerospace 37%



- Solid market development globally
- Asian market developing positively
- Technical requirements ever increasing (e.g. size, complexity, precision)
- Aluminium as most important material

Energy 10%



- Power plant investments concentrated in Asia
- Western power plant manufacturer adjusting capacities
- Oil & Gas: slow recovery visible
- Large offshore wind farms as long-term trend

Transportation 11%



- Agriculture positive on low level
- Modest improvement in construction equipment but still slow
- On-Road vehicles with moderate growth
- Future mobility concepts offer new opportunities

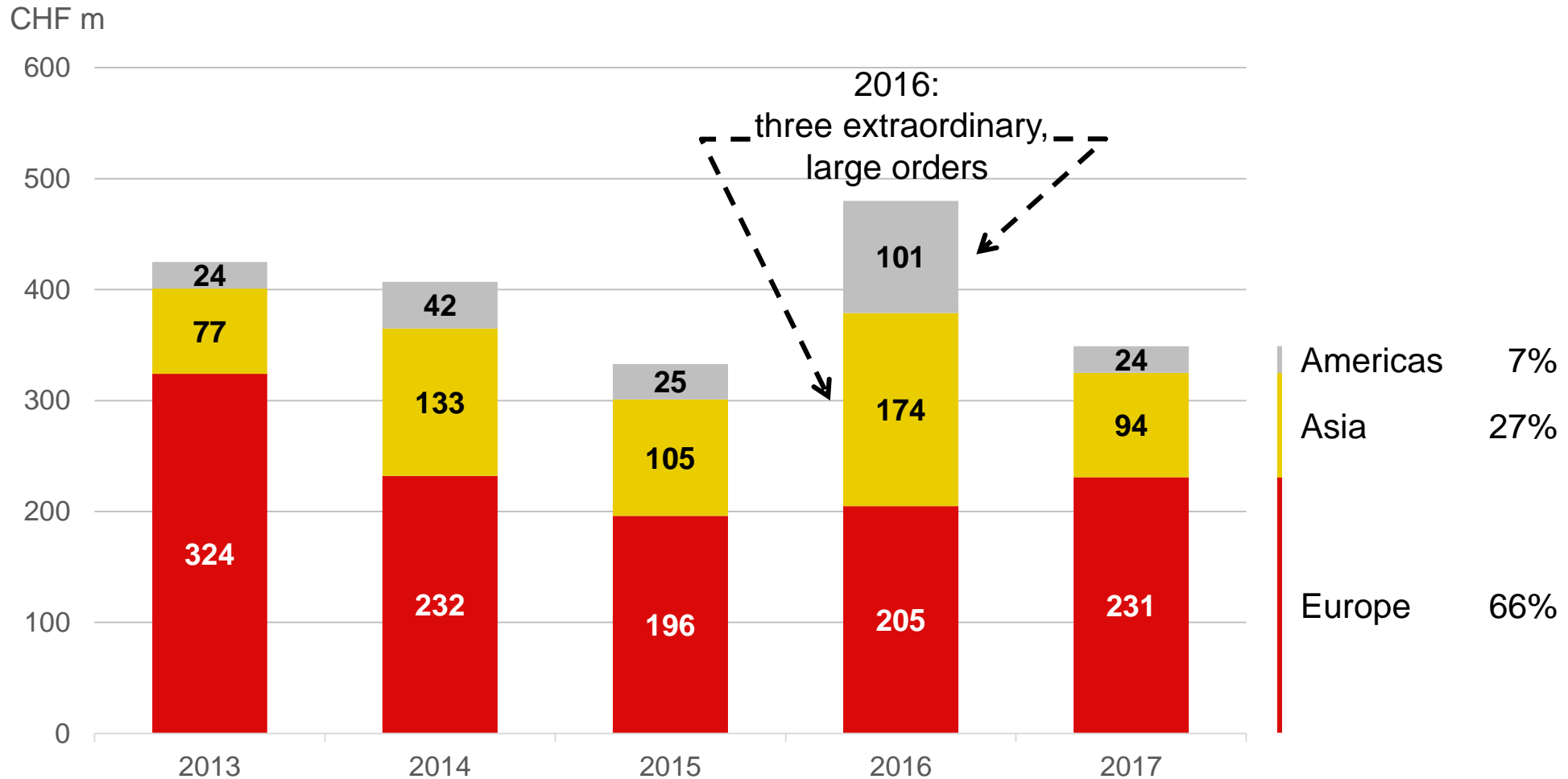
Industrial 42%



- Stationary Machines still growing, positively driving component market
- Strengthened market coverage in China and USA
- Positive market sentiment in Luxury goods
- Growing market share in dedicated Med Tech applications but high price sensitivity

Note: Percentages based on average order intake 2015-2017 (at 2017 fx rates).

Order intake by region: two thirds from Europe



■ Asia share expected to reach 40% in the mid and long term

Participation in key trade fairs with great succes

Focus further reinforced on:

- Integrated Production System IPS
= Industry 4.0
- Next generation of machine tools

EMO Hannover

- ECOSPEED F 2060
- New generation of horizontal machining centers HEC X40 and HEC H50

CIMT Beijing

- Many interesting contacts laying foundations for future orders



Technology Days: where the world's experts meet

- Technology Days
Precision Engineering
DE-Immendingen
 - Bumotec **high-precision machine tools for Med Tech industry**
- Turbine Technology Days
CH-Rorschach
 - Latest developments in **efficient manufacturing of turbines for aircrafts and power plants**
 - New service solution: **“Service Plus”**



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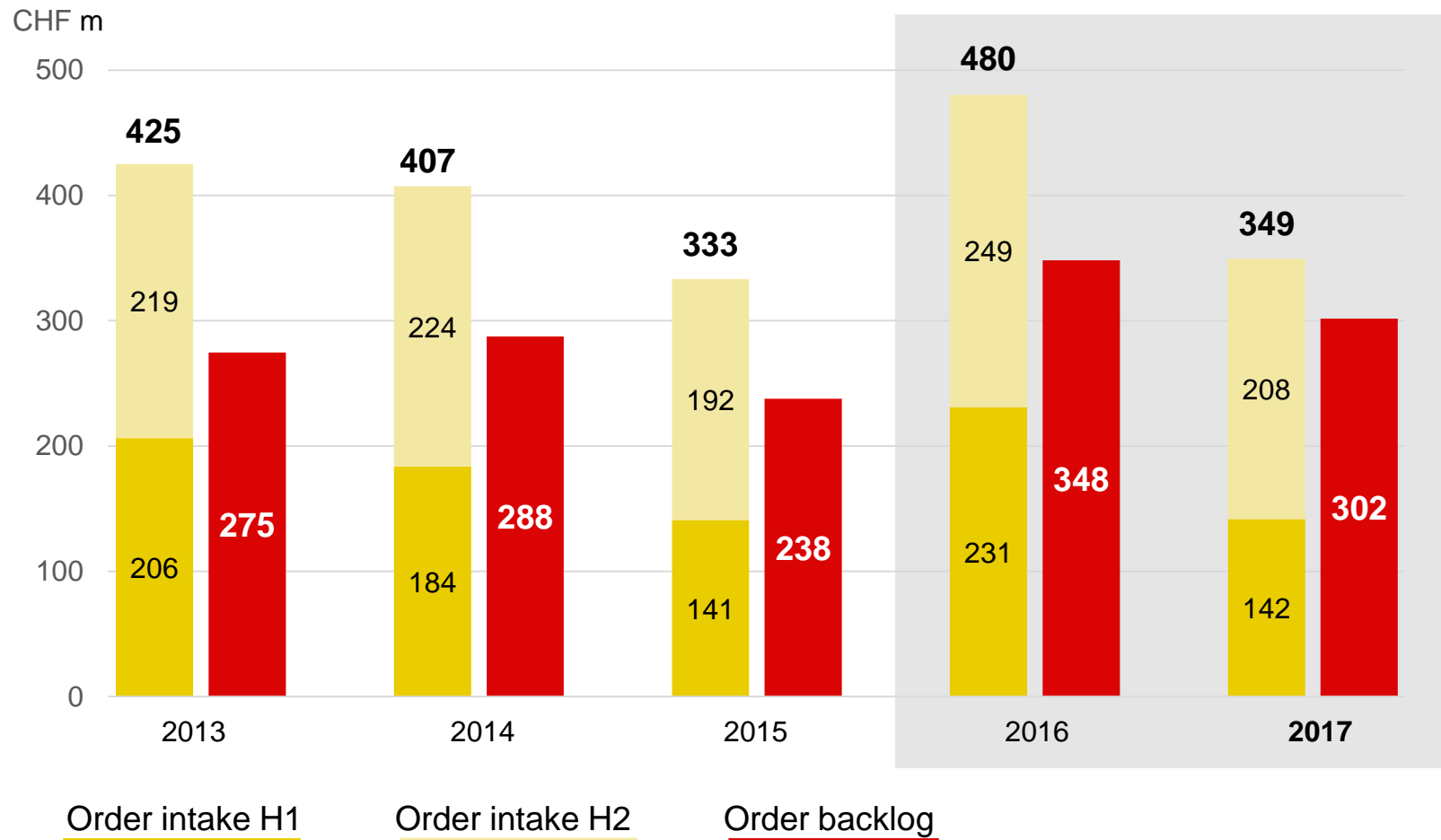
Swiss GAAP FER accounting as of FY 2017: Allows for important simplification

- Avoidance of **ever increasing complexity related to IFRS**, triggering **substantial reduction of cost**
- Swiss GAAP FER a recognized accounting standard
 - applying **true and fair** principle
 - accurate picture of Starrag Group's financial situation
- **Impact** of change of accounting standards on balance sheet and P&L:

| | <i>CHF m</i> | 01.01.2016 | 31.12.2016 | | <i>CHF m</i> | 2016 |
|---|--------------|--------------|--------------|---|--------------|------------|
| Shareholders' equity in accordance with IFRS | | 186,1 | 186,8 | Net income in accordance with IFRS | | 4,6 |
| Offset of goodwill from acquisitions | | -17,4 | -17,2 | | | |
| Offset of purchased brands, customer relationships and technologies | | -17,9 | -16,1 | Adjustment of amortization of purchased brands, customer relationships and technologies | | 1,8 |
| Adjustment of pension benefit obligation | | 6,4 | 3,9 | Adjustment of pension benefit expenses | | 0,2 |
| Adjustment of Provision for deferred income taxes | | 3,9 | 3,8 | Adjustment of deferred income tax expenses | | -0,6 |
| Shareholders' equity in accordance with Swiss GAAP FER | | 161,1 | 161,4 | Net income in accordance with Swiss GAAP FER | | 6,1 |

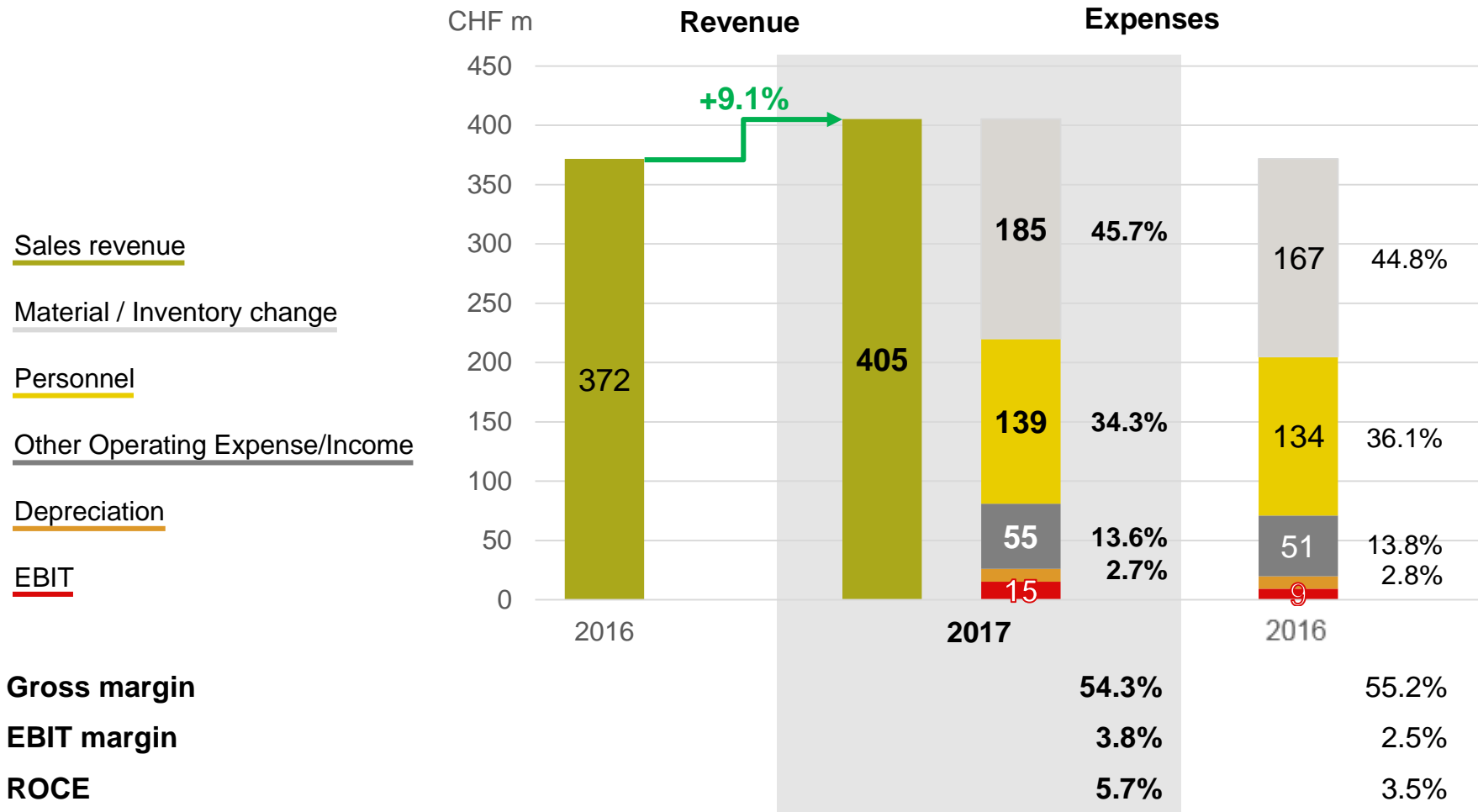
- **Decrease of equity ratio to 51% (was 53% under IFRS) as per 31.12.2016**
- **Increase of net income 2016 to CHF 6.1 m (was CHF 4.6 under IFRS)**
- **Other KPIs such as sales revenue, EBITDA, cash flow and net debt, all unaffected**

Ongoing high order backlog: H2 orders up 46% vs. H1 2017



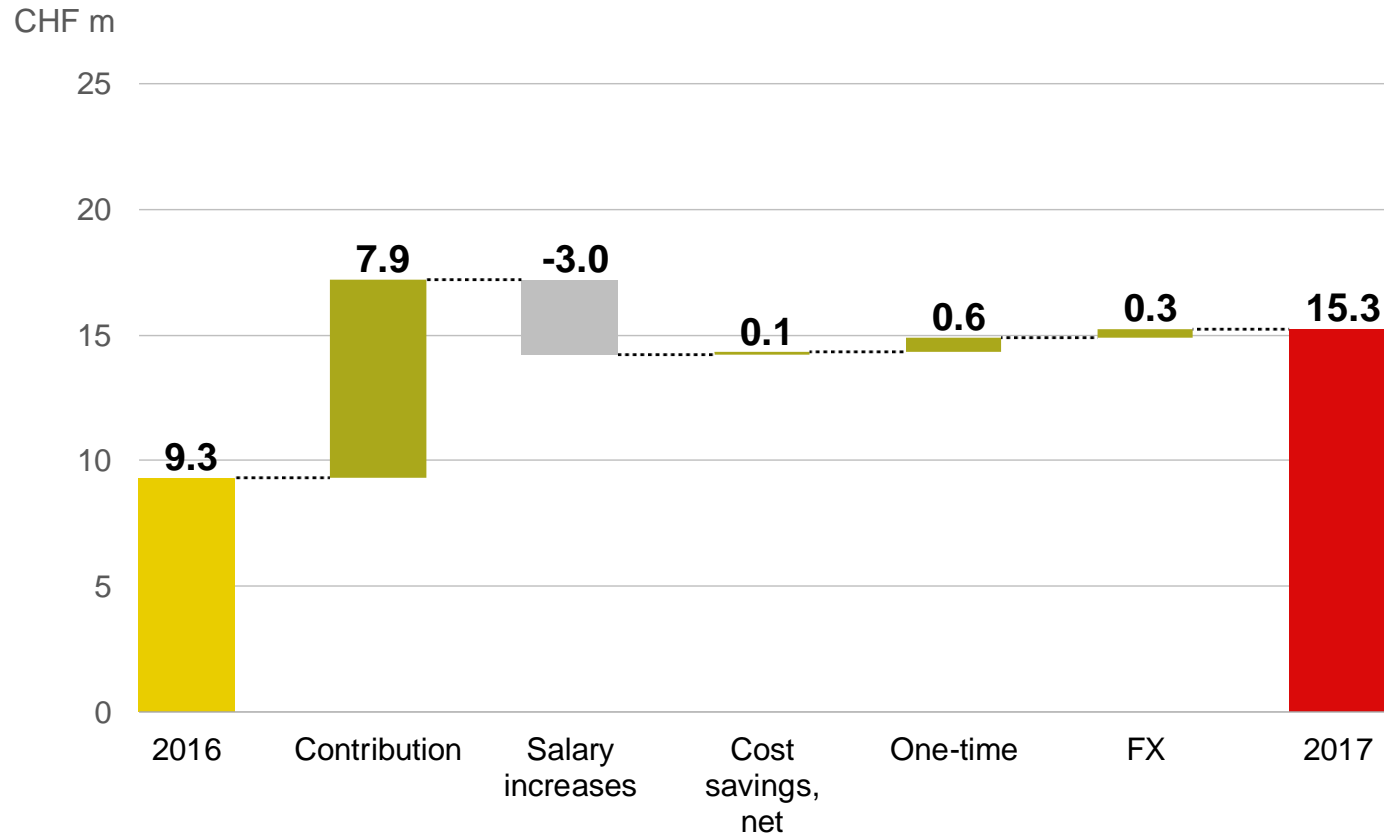
- Order intake -28% y-o-y (in local currencies), but: up 46% H2 vs. H1 2017
- Order backlog -13%, but: still 2nd highest in history, ensuring solid capacity load

Income Statement: Increase in revenue, Operating margin and ROCE



- Lower gross margin due to timing effects in WIP
- Margin level still unsatisfactory and with room for improvement

EBIT increase through higher capacity utilization



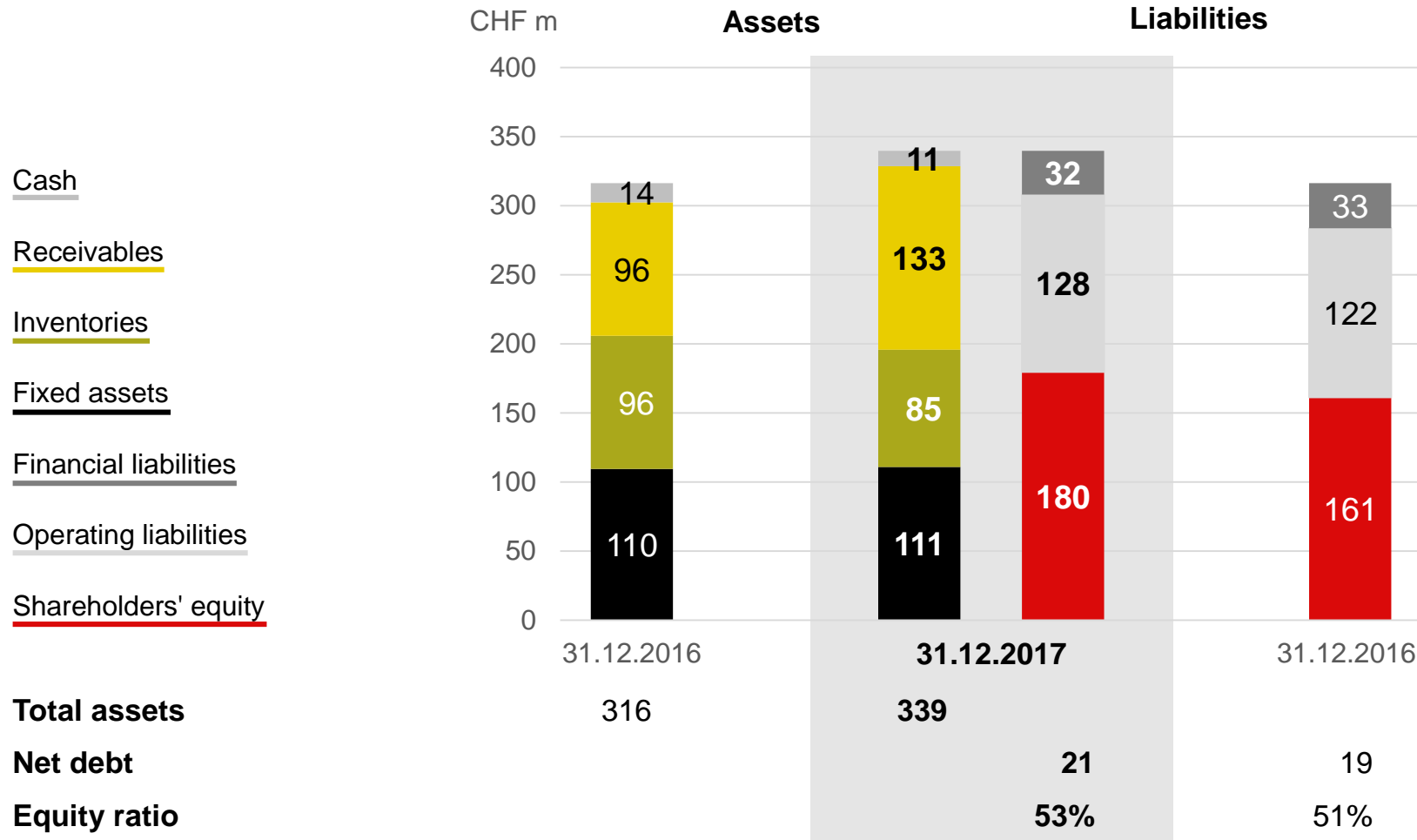
- Positive volume impact related to historic record backlog at start of 2017
- Required salary increases weighed on margins
- Reduced negative one-time effects such as restructuring cost

Higher EBIT feeds through to bottom-line: EPS doubled in 2017

| | CHF m | 2017 | 2016 | Change |
|--------------------------------|-------|-------------|-------|---------------|
| EBIT | | 15.3 | 9.3 | 63.2% |
| Financial result | | -1.6 | -1.4 | 8.7% |
| Earnings before tax EBT | | 13.7 | 7.9 | 73.2% |
| Income tax | | -1.6 | -1.8 | -14.6% |
| Net income | | 12.1 | 6.1 | 99.7% |
| Tax rate (implied) | | 11.5% | 23.2% | na. |
| Earnings per share | | 3.58 | 1.77 | 102.3% |

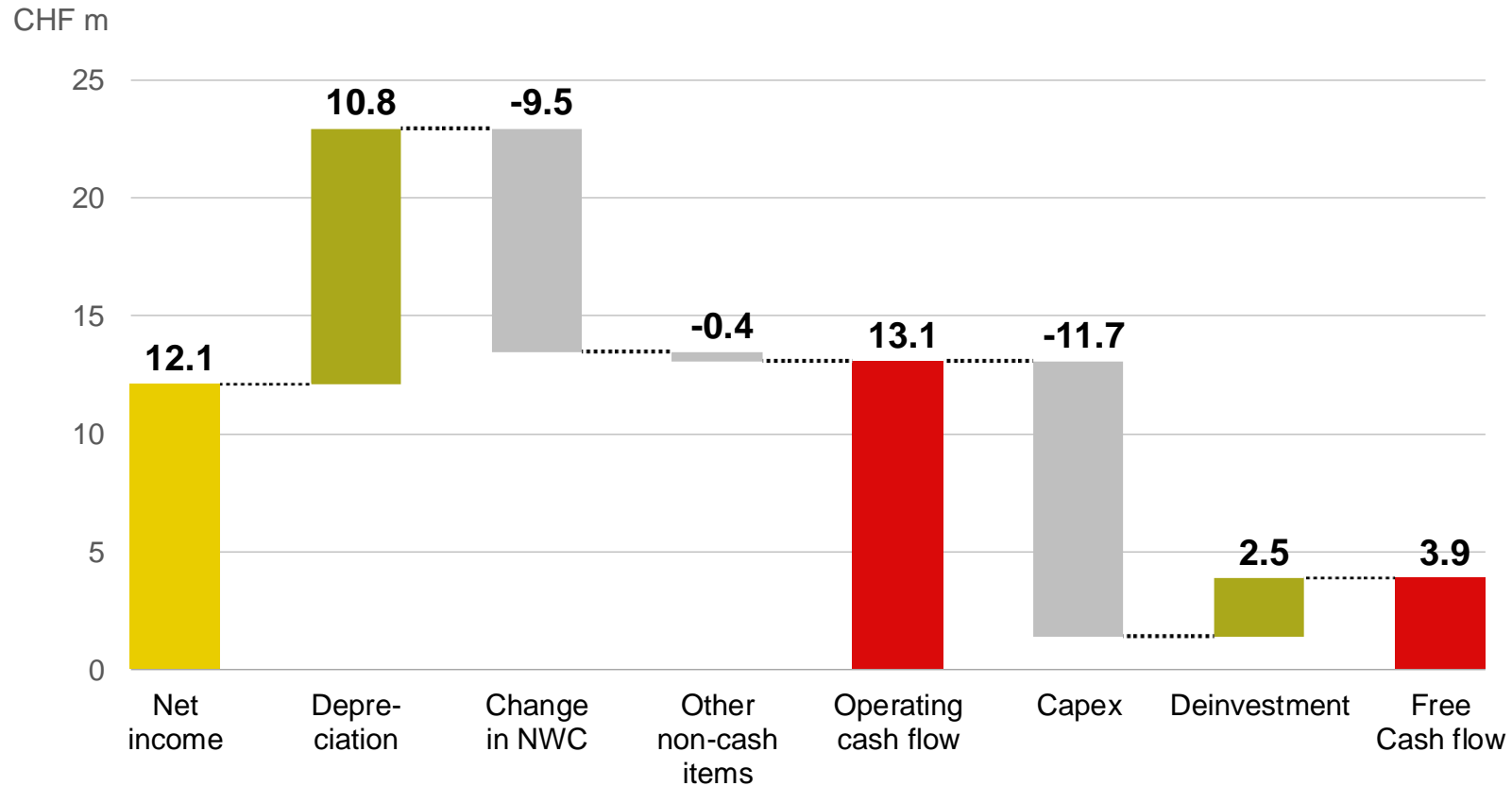
- CHF 6m higher EBIT, fully mirrored on net income level
- Doubling of both, Net income and EPS
- Lower tax rate primarily caused by positive one-time impact

Balance sheet: Equity and equity ratio further strengthened



- Equity ratio further strengthened to 53%; Leverage ratio 0.8x (Net debt/EBITDA)
- Record order backlog reflected in higher working capital positions

Free Cash flow increased despite NWC financing



| | | | | | | | | |
|-----------------|------------|-------------|------------|------------|-------------|--------------|------------|------------|
| FY 2016: | 6.1 | 10.4 | 3.1 | 1.6 | 21.2 | -19.7 | 0.3 | 1.8 |
|-----------------|------------|-------------|------------|------------|-------------|--------------|------------|------------|

- Free Cash flow doubled to 3.9m CHF
- Operating cash flow impacted by NWC increase related to record order backlog

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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
- ROCE > WACC
- All stakeholders

Economic outlook 2018

- Generally positive economic environment
- VDW forecast 2018: “production growth of 5%”
- Heterogeneous expectations for our relevant industries
 - Aerospace positive
 - Industrial positive
 - Energy rather weak
 - Transportation depending on market segment
- Expectations by regions
 - Europe stable
 - Asia (mainly China) positive
 - North America positive

Positive outlook thanks to implemented strategic and operational measures

- Relatively stable economic and machine tool market development despite numerous economical and political uncertainties
- Starrag group well positioned with sustainable 70% of stable base orders (<CHF 5 million) and service business; Timing of customer decisions on large orders difficult to predict; 2018 order intake to date in line with prior year
- **Guidance 2018 (organic, in local currency)**
 - Order intake 2018 >> 2017
(assuming no additional external distortions)
 - Sales revenue 2018 ≥ 2017
 - ROCE and EBIT margin 2018 > 2017

Summary

- **2017 Highlights:** Higher sales – solid order backlog – improved profitability
- **2018 Outlook:** Orders clearly up, Sales at least on 2017 level, EBIT-% and ROCE up
- **Mid-term ambitions confirmed:** 5% revenue CAGR; 8% EBIT margin; ROCE > WACC
- **Starrag – attractively positioned:**
 - Benefiting from sustainable megatrends
 - Innovation leadership and technological expertise
 - Focussed on operational excellence and dedicated customer partnerships
 - Leading corporate governance, stable shareholder structure
 - Solid financial base: 53% equity ratio, profitable also during macro crisis, reliable payout

Corporate calendar and Contact details

- 28.04.2018 Annual general meeting in Rorschach
- 27.07.2018 Half-year report 2018
- 25.01.2019 Initial information on 2018 results
- 08.03.2019 Presentation of 2018 results for analysts and media in Zurich
- 26.04.2019 Annual general meeting in Rorschach

Gerold Brütsch, CFO

Phone +41 71 858 81 11

investor@starrag.com

www.starrag.com

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starrag

Engineering precisely what you value

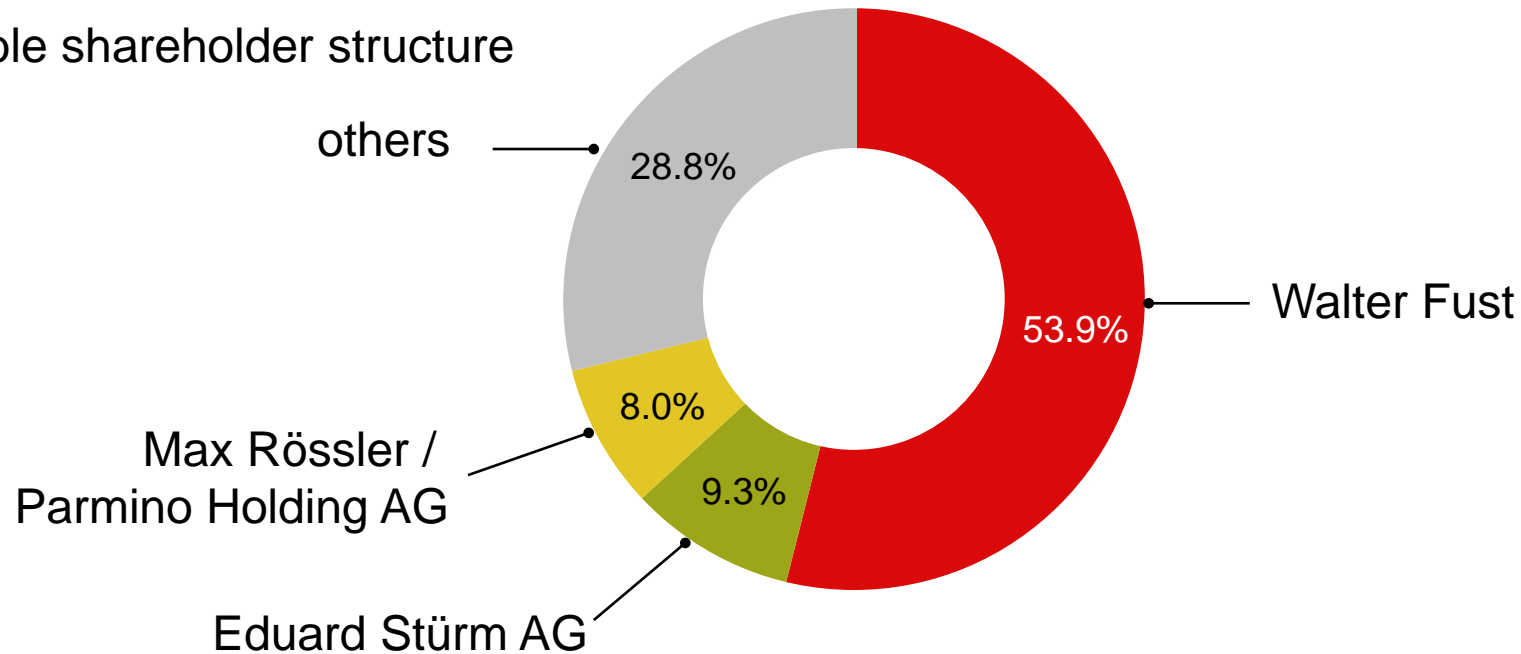
Backup information

Solutions for
Aerospace
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Industrial



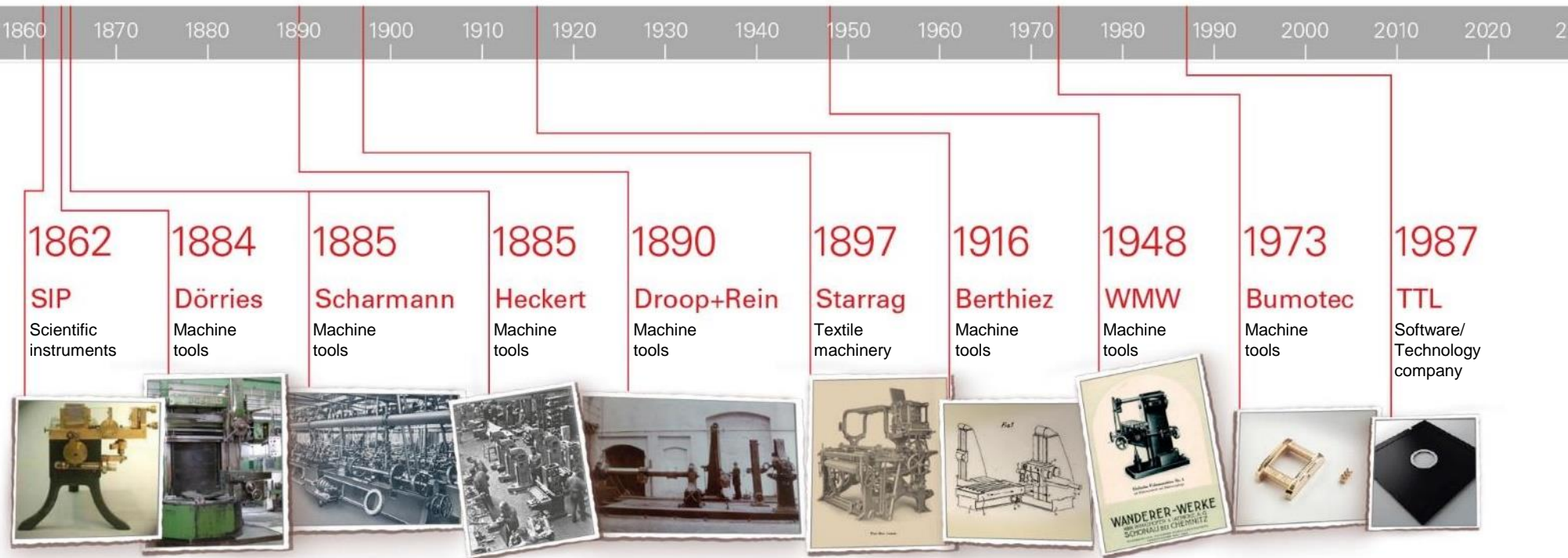
Share details (as of 31 December 2017)

- Market capitalization CHF 220 million
- Listed at SIX Swiss Exchange Main Standard
- Ticker: STGN, Valor number 236'106, ISIN CH00023610608
- 3'360'000 registered shares, nominal value of CHF 8.50 each
- Free float 37%
- Stable shareholder structure

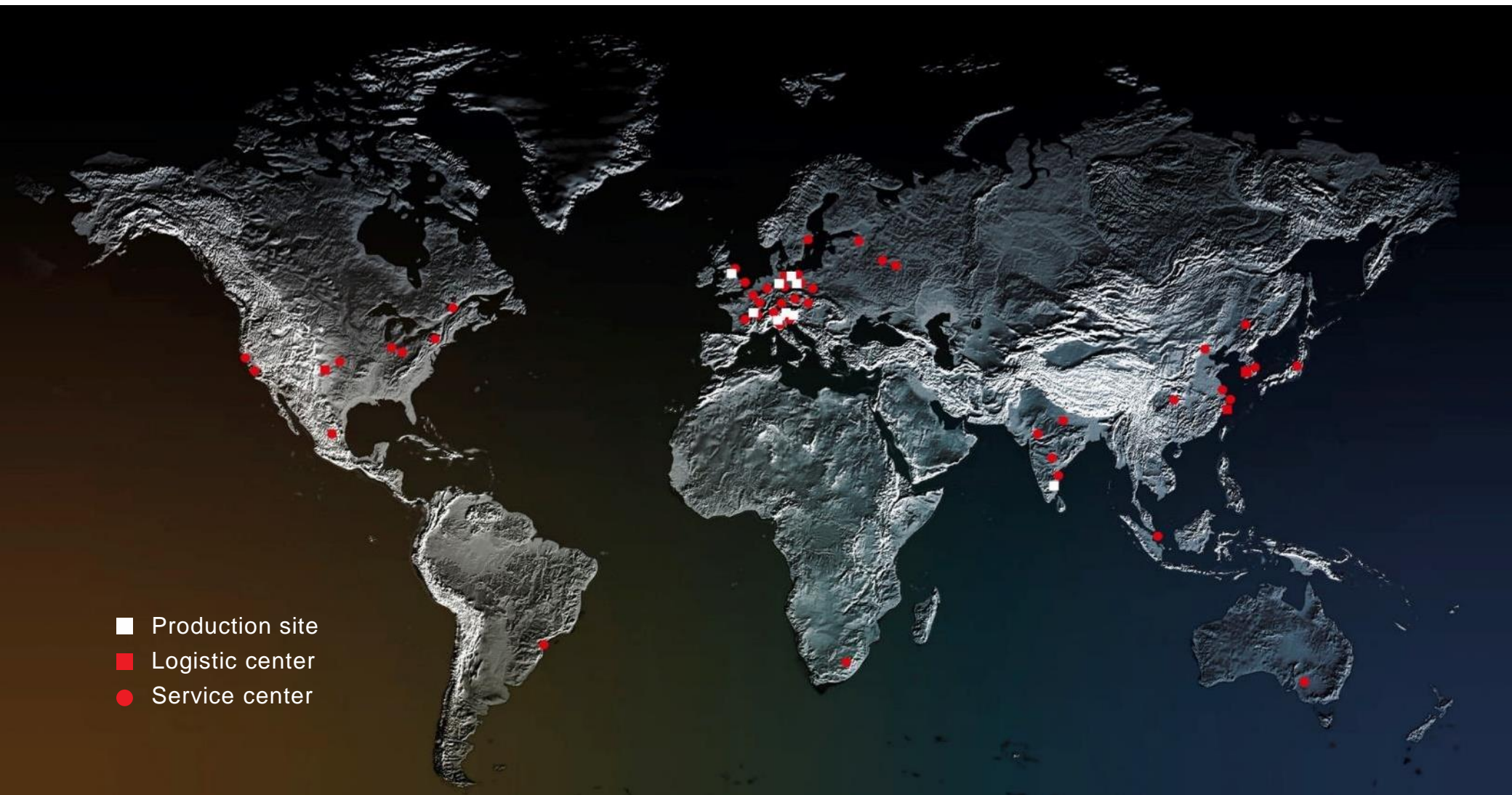


150 years tradition in innovation

Key milestones for Starrag Group to become and remain a reliable long-term partner



At your service



Group Management



Daniel Frutig, Chairman

(1962, Swiss)

- Since 2015 Chairman of the Board of Directors of Starrag Group (Member since 2014)
- Since 2017: Vice-Chairman and Delegate of Board of Directors of Eugster/Frismag AG, Amriswil, Switzerland (Member since 2015)
- 2015 – 2017 CEO of Medela Holding AG, Zug, Switzerland
- 2011 – 2014 CEO of AFG Arbonia-Forster Holding AG, Arbon, Switzerland
- 2005 – 2011 Head of global Support Services Division of British Compass Group, London Switzerland
- 2003 – 2005 CEO of Swisscom Real Estate Inc., Bern, Switzerland
- 1998 – 2003 Associate Partner of Accenture, Zurich, Switzerland
- 1987 – 1993 Sulzer AG, Winterthur, Switzerland
- MBA of University of St. Gallen, Switzerland
- Graduate in Engineering, University of Applied Science, Lucerne, Switzerland
- Top Management Executive Program at INSEAD in Fontainebleau, France



Walter Börsch, CEO

(1959, German)

- 2014 – May 2018: CEO and Head of Regional Sales of Starrag Group
- 2012 – 2013 Head of Business Unit 1 of Starrag Group with Starrag, Rorschacherberg, Switzerland and TTL, Haddenham, United Kingdom
- 2007 – 2011 Head of Operations at Starrag Group
- 2005 – 2007 Head of Sales and Engineering at Witzig & Frank, Offenburg, Germany
- 2000 – 2004 Head of a Business Unit of Hüller Hille GmbH, Germany
- 1987 – 2000 various management functions at Hüller Hille GmbH, Germany
- Master's degree in mechanical engineering of University of Aachen, Germany
- Post graduate studies in Marketing at University of St. Gallen, Switzerland



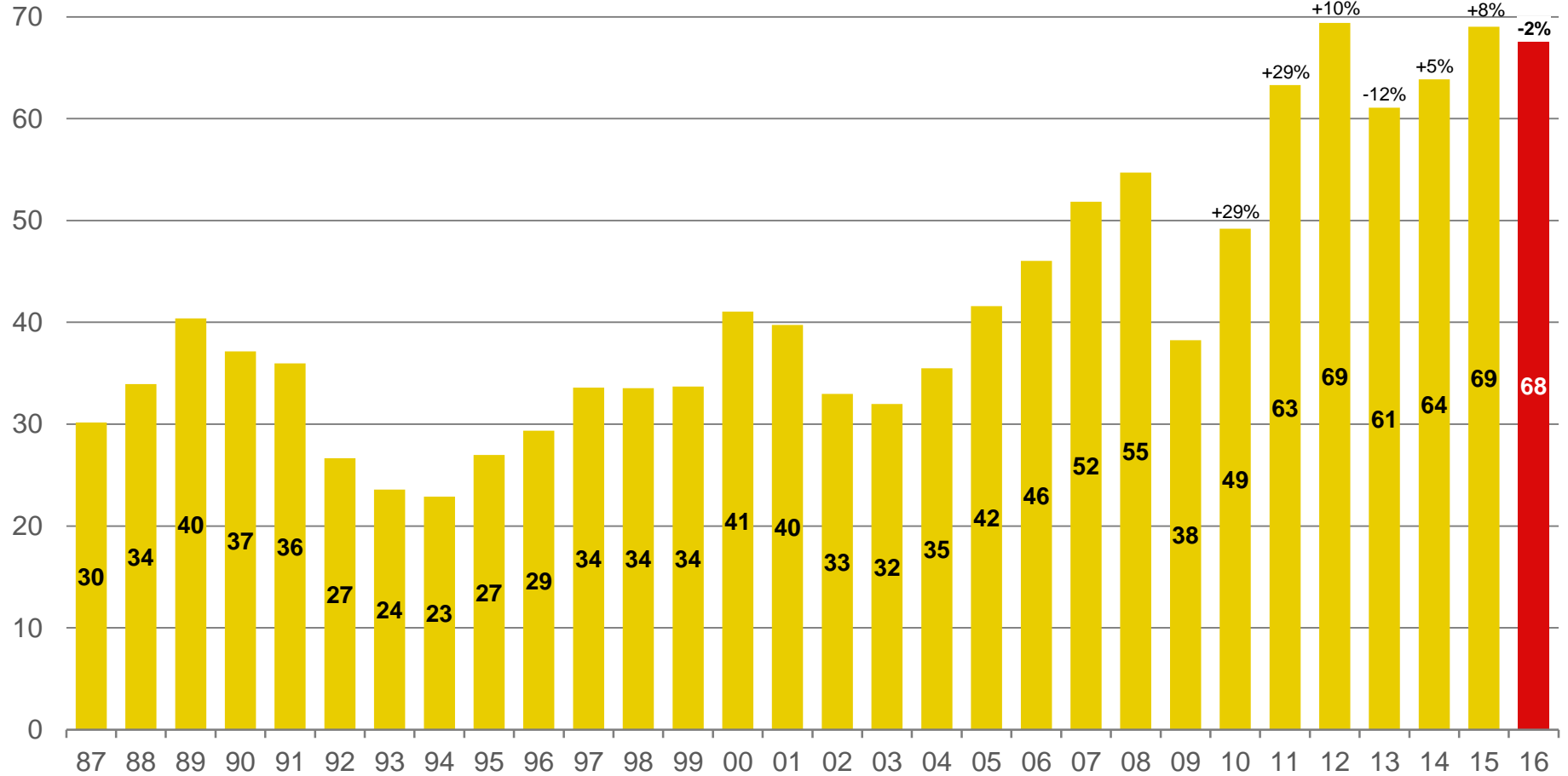
Gerold Brüttsch, CFO

(1966, Swiss)

- Since 2000 CFO, since 2005 Deputy CEO and Head of Corporate Center
- 1997 – 1999 CFO of Müller Martini Bookbinding Systems, Felben-Wellhausen, Switzerland
- 1990 – 1997 Audit and Management Consulting with KPMG Zürich, Switzerland and KPMG San Francisco, USA
- 1982 – 1987 Apprenticeship and Specialist with Winterthur Insurance company in Schaffhausen and Winterthur, Switzerland
- Swiss Certified Accountant
- US Certified Public Accountant, California, USA
- Graduate in Business Management, University of Applied Science, St. Gallen, Switzerland

World production machine tools 1987 - 2016

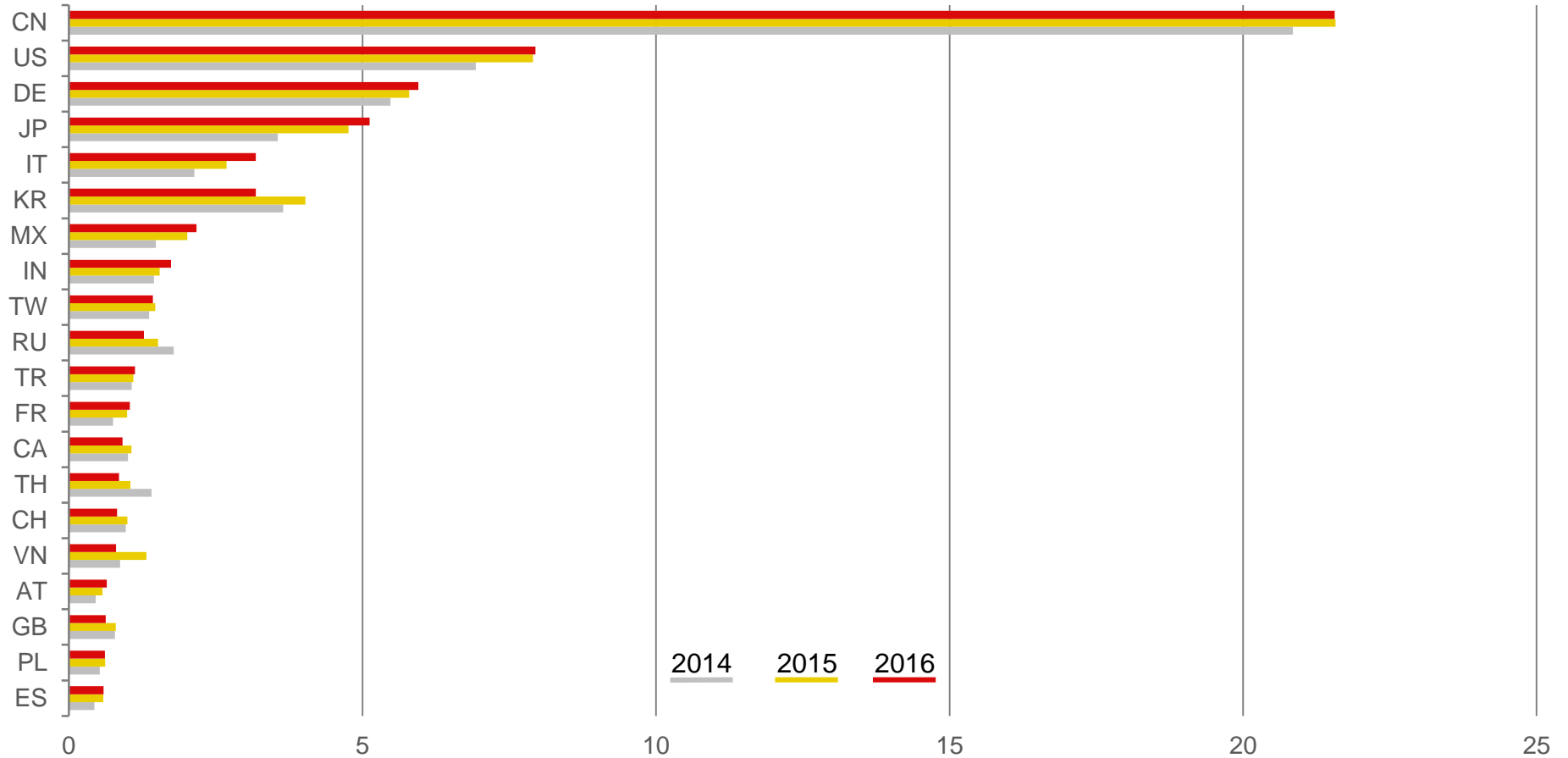
EUR b



Note: Without Parts/accessories; Source: VDW World Machine Tool Statistics 2016, up-dated 27.10.2017.

World consumption machine tools 2014 - 2016: Top 20 countries

EUR b



■ **Top 20 countries are 90% of 68b EUR machine tool market.**

Note: Without Parts/accessories; Source: VDW World Machine Tool Statistics 2016, up-dated 27.10.2017.