

Financial Year 2018: Media and Analyst Conference

Solutions for
Aerospace
Energy
Transportation
Industrial



Zurich, 8 March 2019

Agenda

■ **Highlights und business review**

Dr. Christian Walti, CEO

■ **Financial review**

Gerold Brütsch, CFO

■ **Strategy and outlook**

Dr. Christian Walti, CEO

■ **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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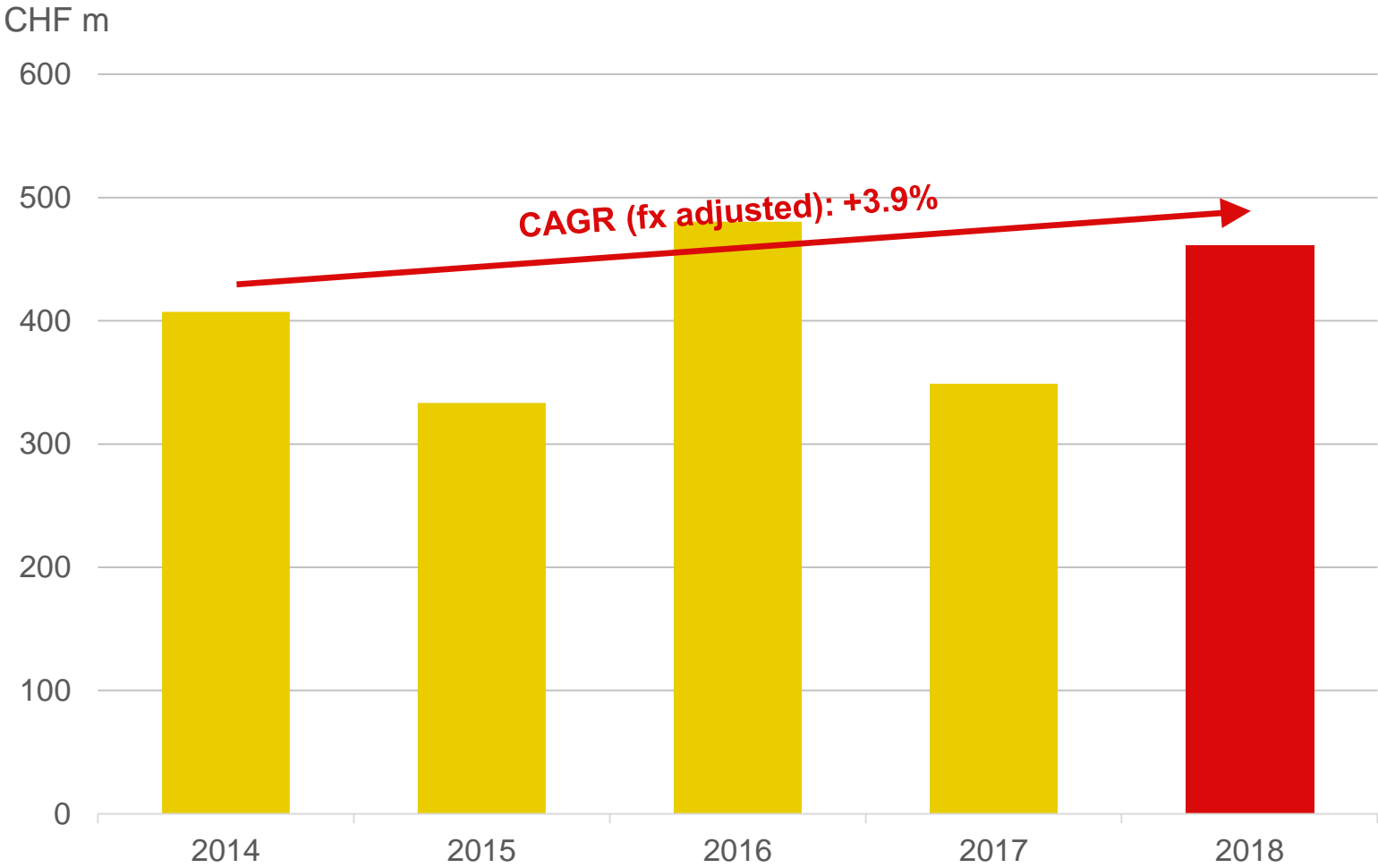
FY 2018: Higher order intake – record-high order backlog – lower sales and EBIT margin

- Order intake up 32% to CHF 461 million
- Record order backlog of CHF 366 million, ensuring stable capacity utilization for over one year
- Sales down 4% to CHF 389 million, driven by delays in order processing triggering a shortfall in output
- Lower operating profit EBIT, ROCE and net income
- Program “Starrag 2021” initiated to enhance profitability
- Ongoing strong balance sheet with solid 48% equity ratio
- Proposed dividend of 1.00 CHF per share – payout ratio 40%

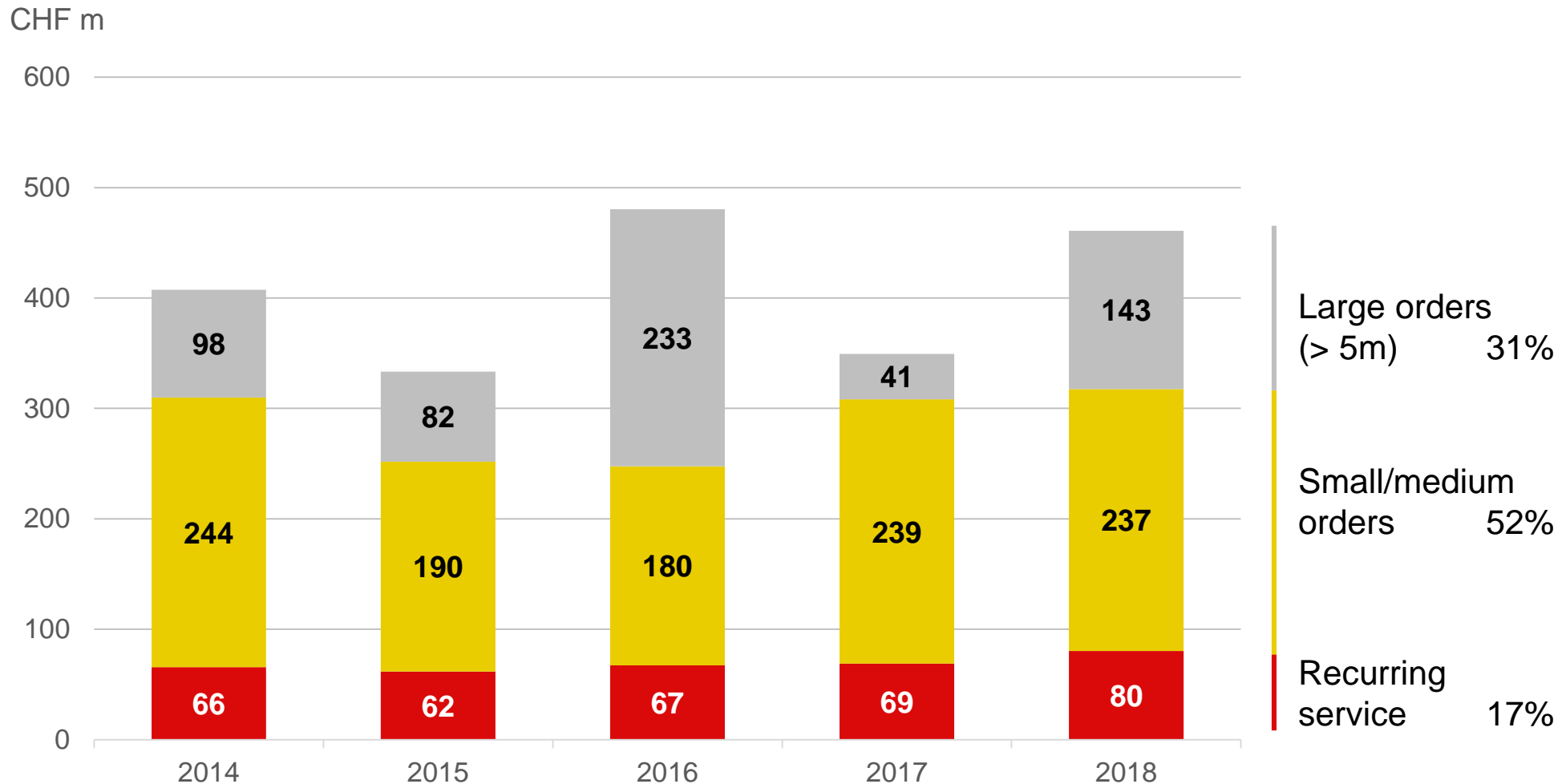
Immediate measures taken to address the profitability issues at one site

- Interim management established for two sites
- In-depth review of risks in order backlog and appropriate risk mitigation
- Management focus on project execution
- Ensure higher order quality already in quotation and sales phase

Significantly higher order intake



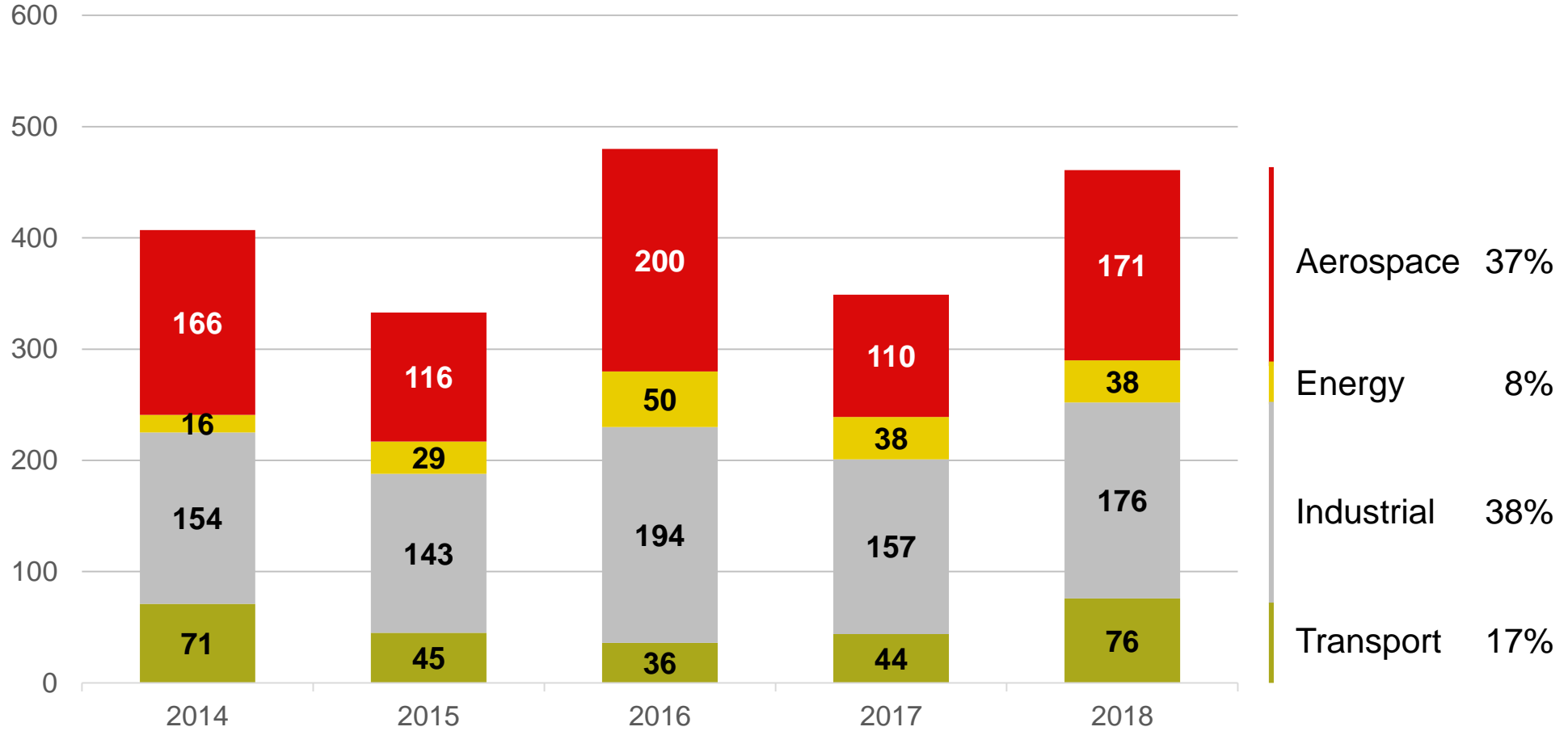
Order intake breakdown: Increase mainly driven by large orders won



- Continued increase of service business, stable amount of small/medium orders
- But: Large orders difficult to predict; average 2014-2018: CHF 119m

Order intake by industry: 75% from Aerospace and Industrial

CHF m



Market trends by industry

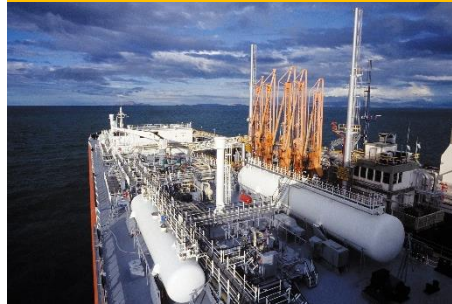
Key markets Aerospace and Industrial with positive perspective

Aerospace 37 %



- Solid growth, esp. in US
- China to build own aero engines
- Technical requirements ever increasing (e.g. size, complexity, precision, alloys)
- Casings driven by single large projects
- MRO continues to grow

Energy 10 %



- Power plant investments concentrated on Asia
- Western power plant manufacturers flat on low level
- Oil & Gas: Further market growth expected
- Large offshore wind farms as long-term trend

Transportation 12 %



- Agriculture with positive outlook
- Construction equipment with differentiated development
- On-Road vehicles stagnating
- Truck and off-highway still growing, driven by emissions legislation
- Future mobility concepts offer new opportunities

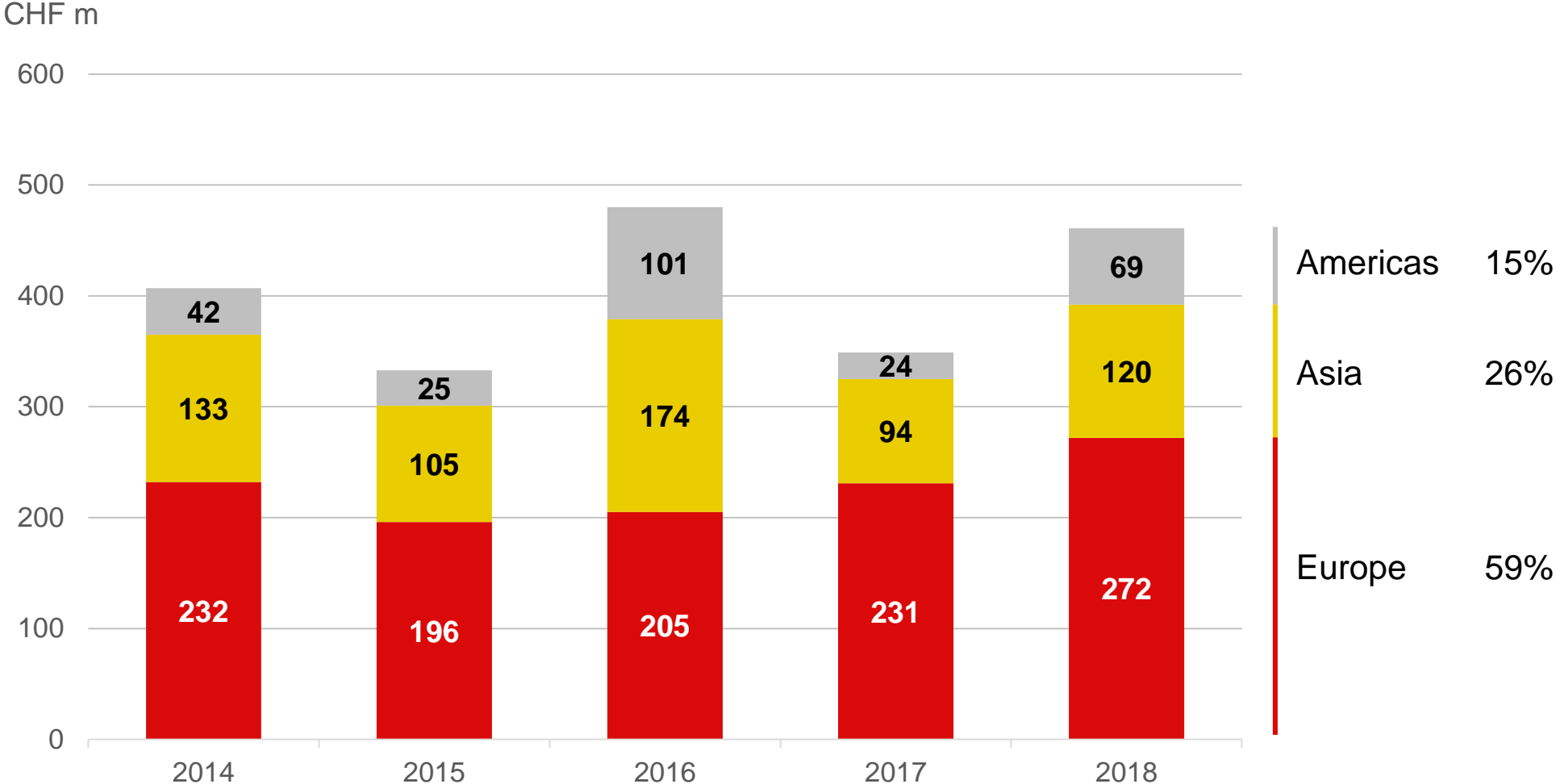
Industrial 41 %



- Stationary Machines in waiting position
- Positive demand for new generation of horizontal machine tools
- Jewelry growing while watch market slowing down
- Growing market share in dedicated Med Tech applications

Note: Percentages based on average order intake 2016-2018

Order intake by region: Growth across all regions



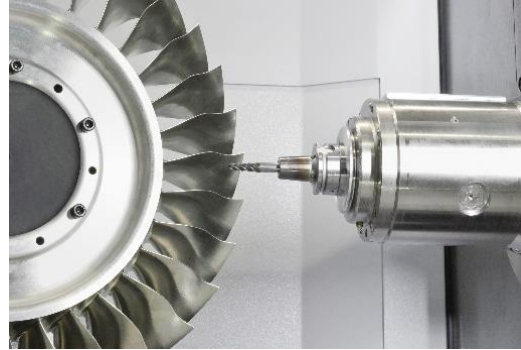
The leading experts for Aerospace applications



ECOSPEED

75% reduction of machining time for structural parts thanks to parallel kinematic machining head

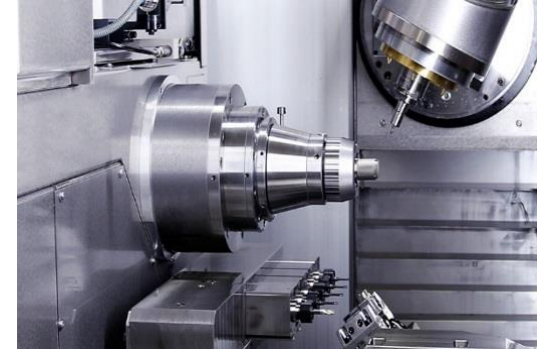
Most productive solution in market



Starrag NB

5x faster around the leading edge for aerospace blisks

Fastest solution in market



Bumotec s181

Highest productivity in market for avionic parts due to production from bar in one single set-up to ensure total conformance parts

Most flexible solution in market

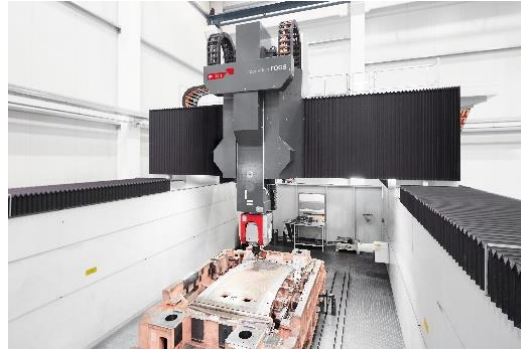
The leading experts for Industrial applications



Berthiez RVU

Highest precision in market for machining bearings with $< 1.5 \mu\text{m}$ tolerances in concentricity and run-out

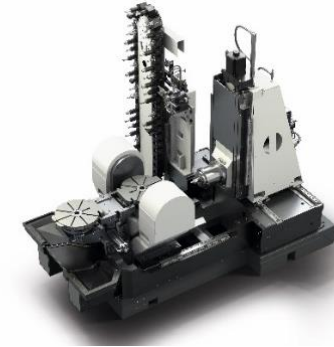
Most precise solution in market



Droop+Rein FOGS NEO

Best in class in terms of contouring speed and accuracy for machining large automotive dies

Best surface quality in market



Heckert T45

15% higher productivity for machining industrial parts due to highest available machine dynamics

Most dynamic solution in market

Great success in key trade fairs

Exhibitions CCMT and CIIE in China

- Starrag premiere at CCMT, one of the most important machine tool builder exhibitions in China with excellent customer feedback
- First edition of “China International Import Expo” (CIIE), Starrag had prime location and signed significant orders

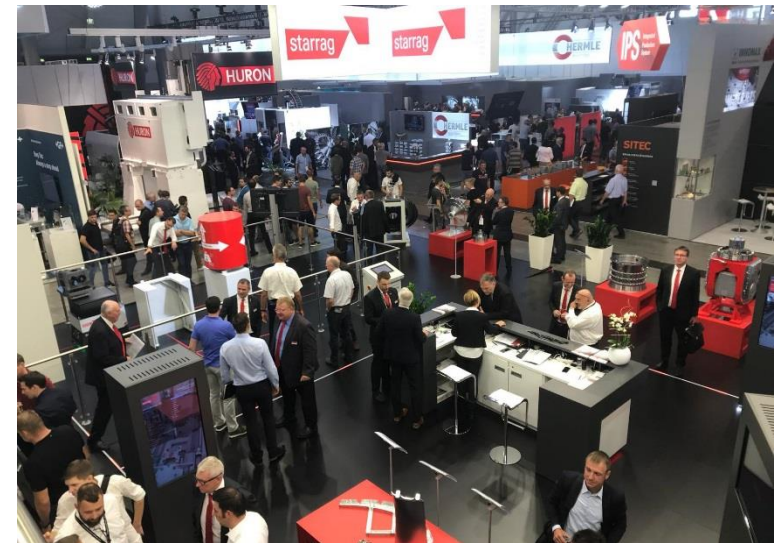


IMTS Chicago

- Outstanding success, Starrag doubled the amount of qualified leads in comparison to 2016

AMB Stuttgart

- Starrag presented two world premieres including a solution for autonomous palletizing - great response from technical press



Technology Days: The most important spot for the world's experts

Aero Structure Technology Days

- Most innovative production for structural parts were demonstrated including **flexible manufacturing systems**
- Visit to Pilatus Aircraft as proof

Turbine Technology Days

- More than 200 experts from around the world participated for the latest updates in blade manufacturing



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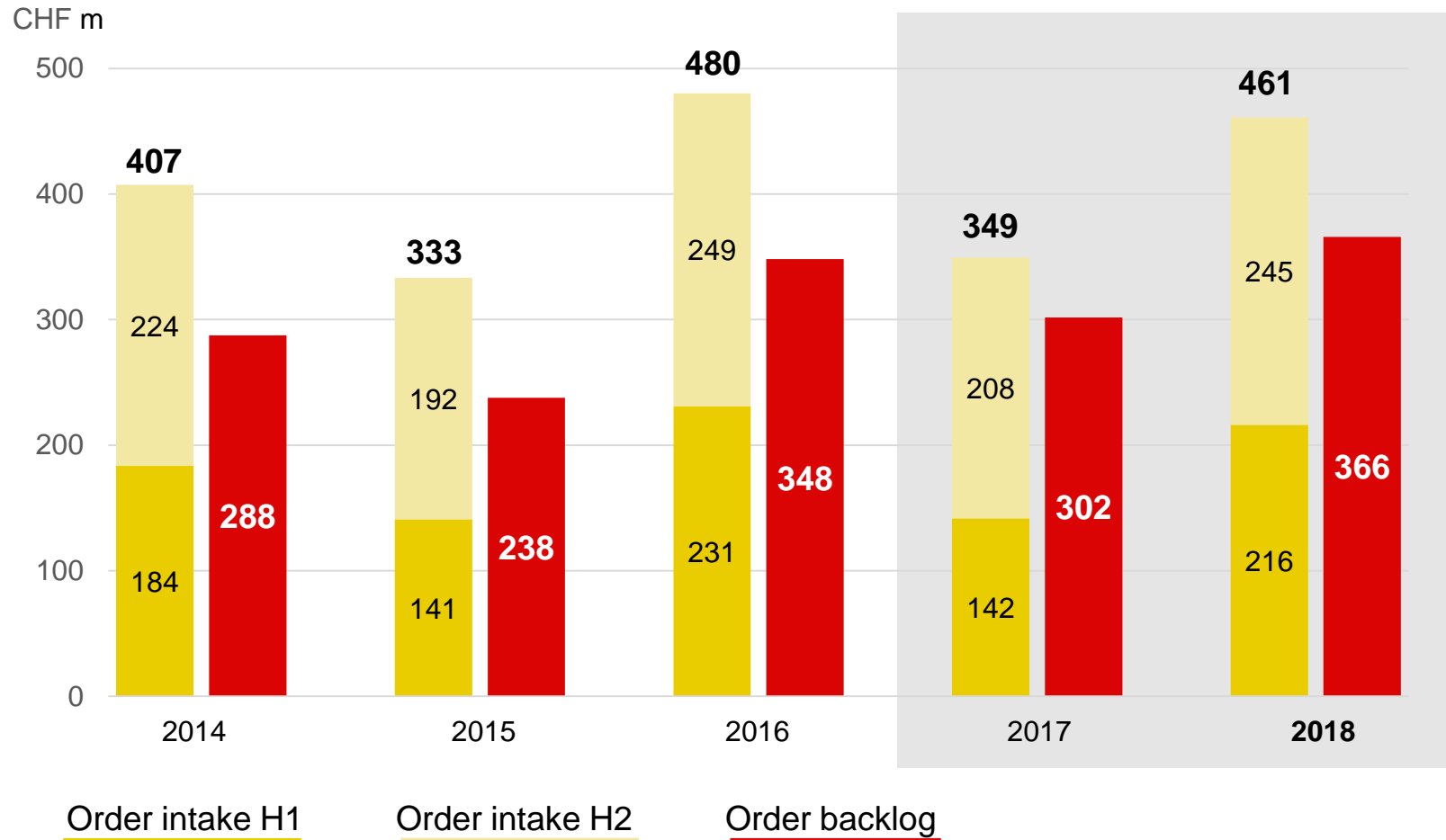
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■ Strategy and outlook

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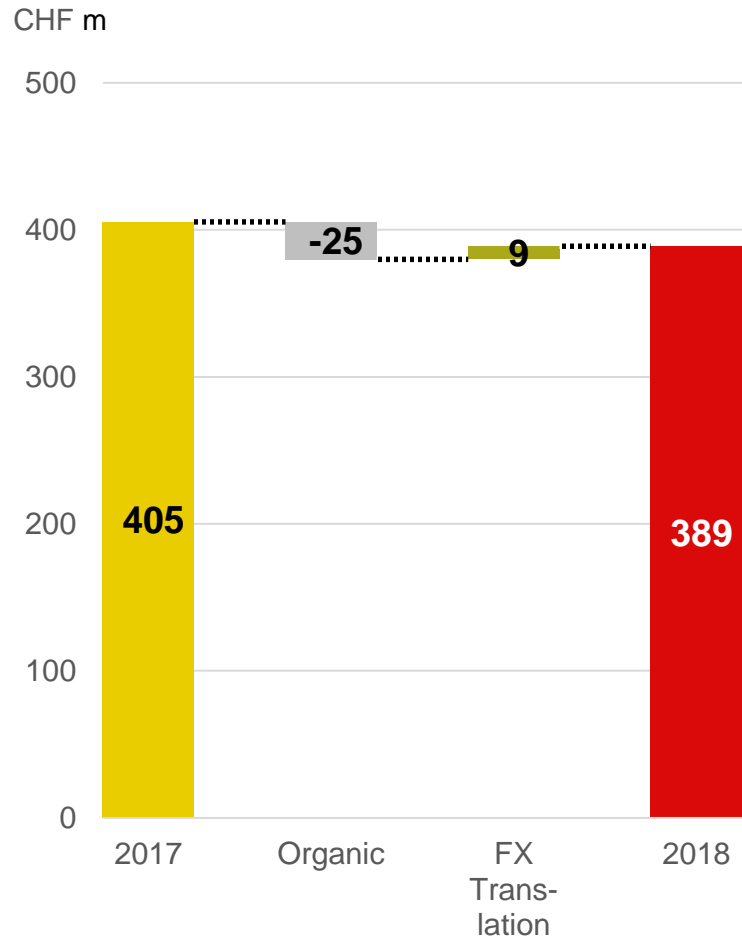
Ongoing high order backlog: H2 orders up 13% vs. H1 2018 and up 32% y-o-y



- **Strong order intake +32% y-o-y (+29% in local currencies)**
- **Record high order backlog +21%, ensuring solid capacity load, thereof 30% for sales 2020+**

Decrease in sales revenue caused by underutilization at one specific plant

Sales revenue -4.1%, fx adjusted -6.3%



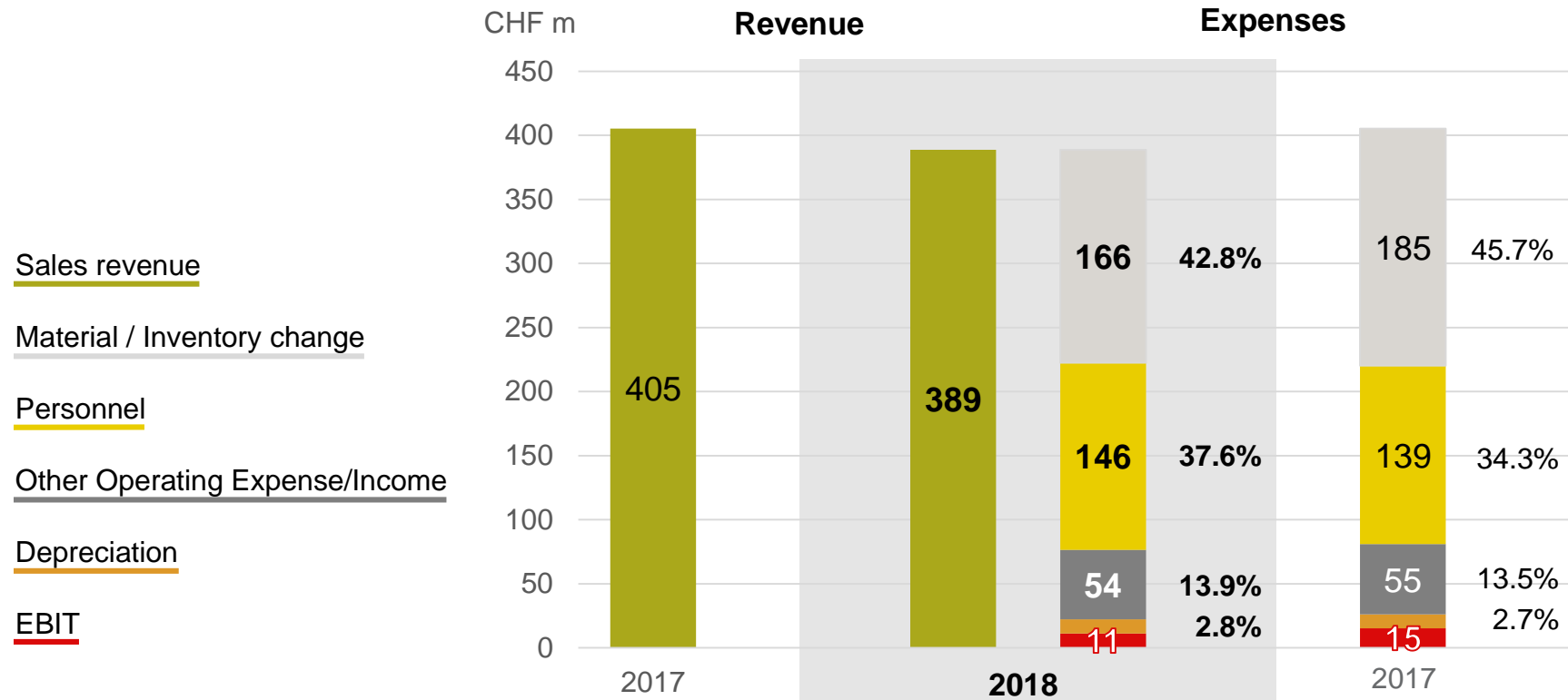
Organic decrease caused by

- ▀ Delays in order processing triggering a shortfall in output at individual locations
- ▀ Lower material share due to timing effects in order processing

Positive FX translation impact

- ▀ Stronger EUR/CHF translation rate (2018: 1.1677; 2017: 1.1208)

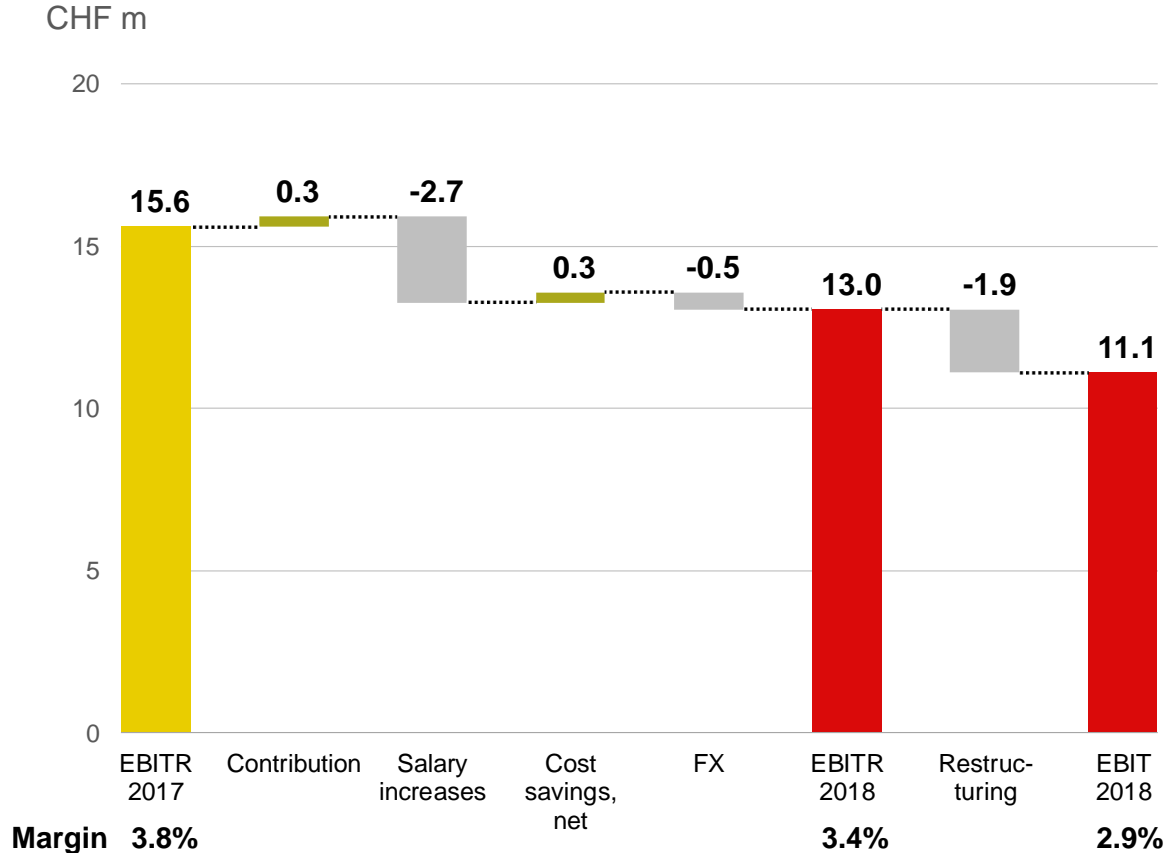
Income Statement: Head-wind through salary increases and restructuring



Gross margin	57.7%	54.8%
EBIT margin	2.9%	3.8%
ROCE	3.8%	5.7%

- Higher gross margin due to timing effects in WIP
- Salary increases, CHF 1.9m restructuring costs and FX translation drive personnel costs up

EBIT burdened by salary increases and restructuring cost



Contribution

- Shortfall in output due to delays in order processing at individual plants
- Compensated by contribution from upfront work for expected future customer orders

Salary increases

- Higher unit labor costs in Germany, mainly driven by collective labor agreements

Cost measures

- On-going strict cost management

Restructuring charges

- Performance improvement
- Net reduction of 19 FTE
- Recurring cost savings of 1.2m CHF from 2021

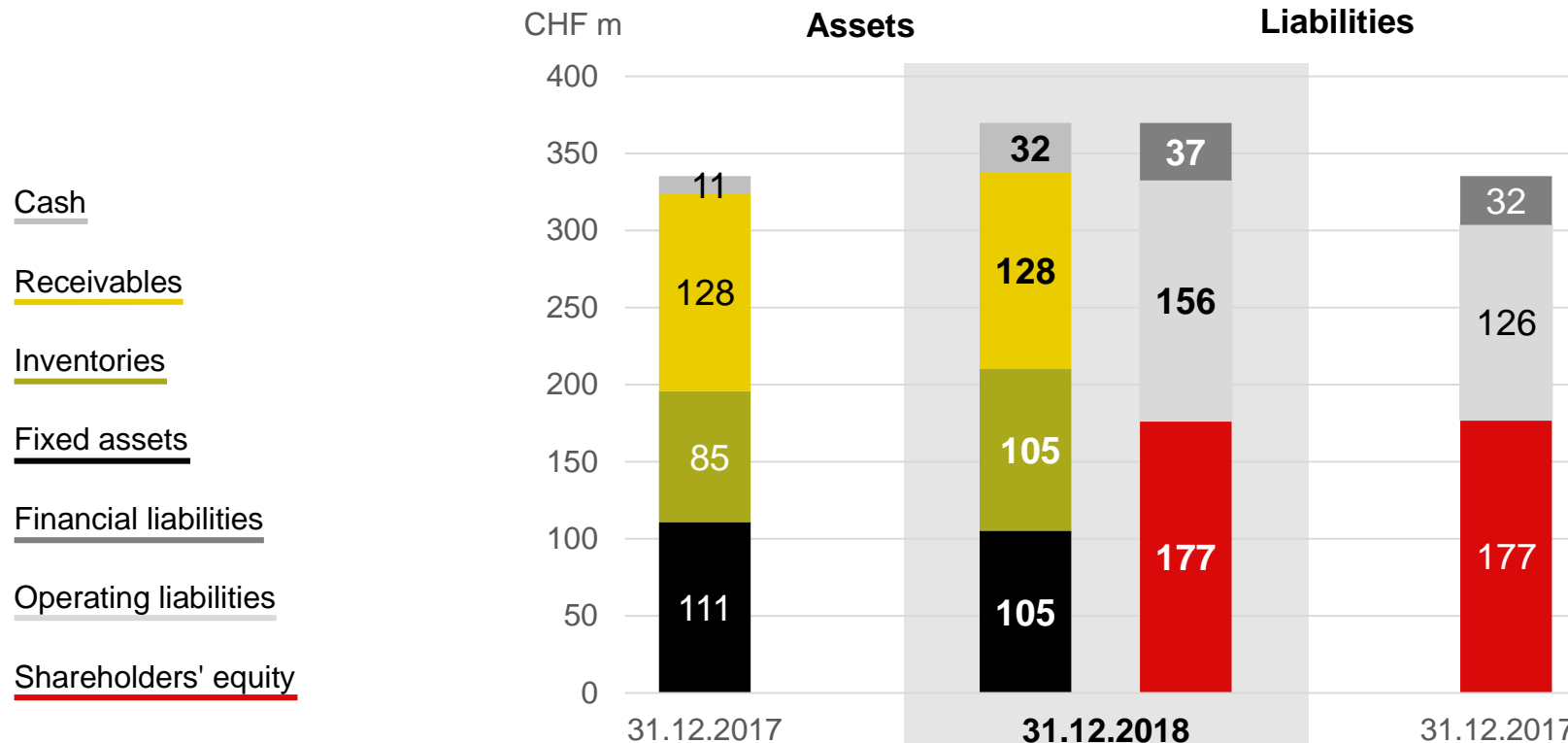
Note: EBITR = EBIT before restructuring charges.

Lower EBIT results in lower bottom-line

CHF m	2018	2017	Change
Operating result EBIT	11.1	15.3	-27%
Interest expenses, net	-0.4	-0.5	
FX result, net	-0.3	0.5	
Other financial result	-1.5	-1.6	
<i>Total Financial result, net</i>	<i>-2.2</i>	<i>-1.6</i>	
Income before taxes	8.9	13.7	-35%
Income tax expenses	-0.5	-1.6	
Net income	8.4	12.1	-31%
Income tax rate (implied)	5.4%	11.5%	
Earnings per share in CHF	2.45	3.58	-32%

- Lower EBIT mirrored on net income level
- Average interest rate 0.9% (2017: 0.9%)
- Financial result includes FX loss of 0.3m CHF due to weaker EUR (2017: FX gain of 0.5m CHF)
- Lower income tax rate caused by mix of taxable income by country

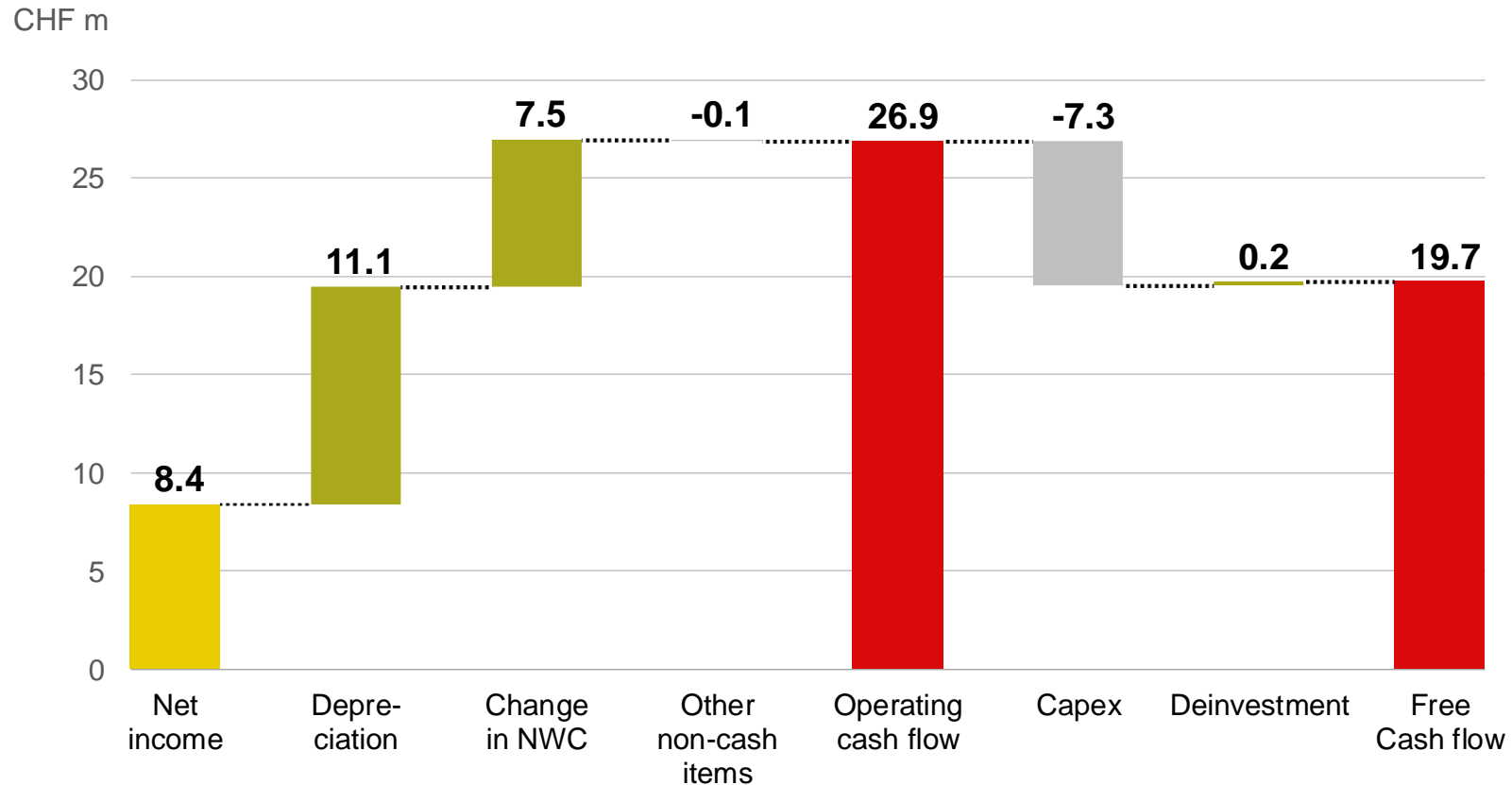
Balance sheet: Strong financial base



Total assets	335	370		
Net debt			5	21
Equity ratio			48%	53%

- **Solid equity ratio with 48%; Leverage ratio 0.2x (Net debt/EBITDA)**
- **Record order backlog and stretched supply chain reflected in higher working capital positions**

Strong Free Cash flow driven by reduced NWC



FY 2017:	12.1	10.8	-9.5	-0.4	13.1	-11.7	2.5	3.9
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- Strong Free Cash flow driven by strong operating cash flow
- Reduction in NWC by higher financing ratio of orders despite increase in inventories

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Focus: Ongoing implementation of strategy

- Focus on **most attractive market/product segments** and regions to better exploit group-wide growth and profit potential
→ Pleasing increase in order intake from China and US in 2018
- 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 entire value chain

Gaps in order fulfillment were identified and are addressed short-term

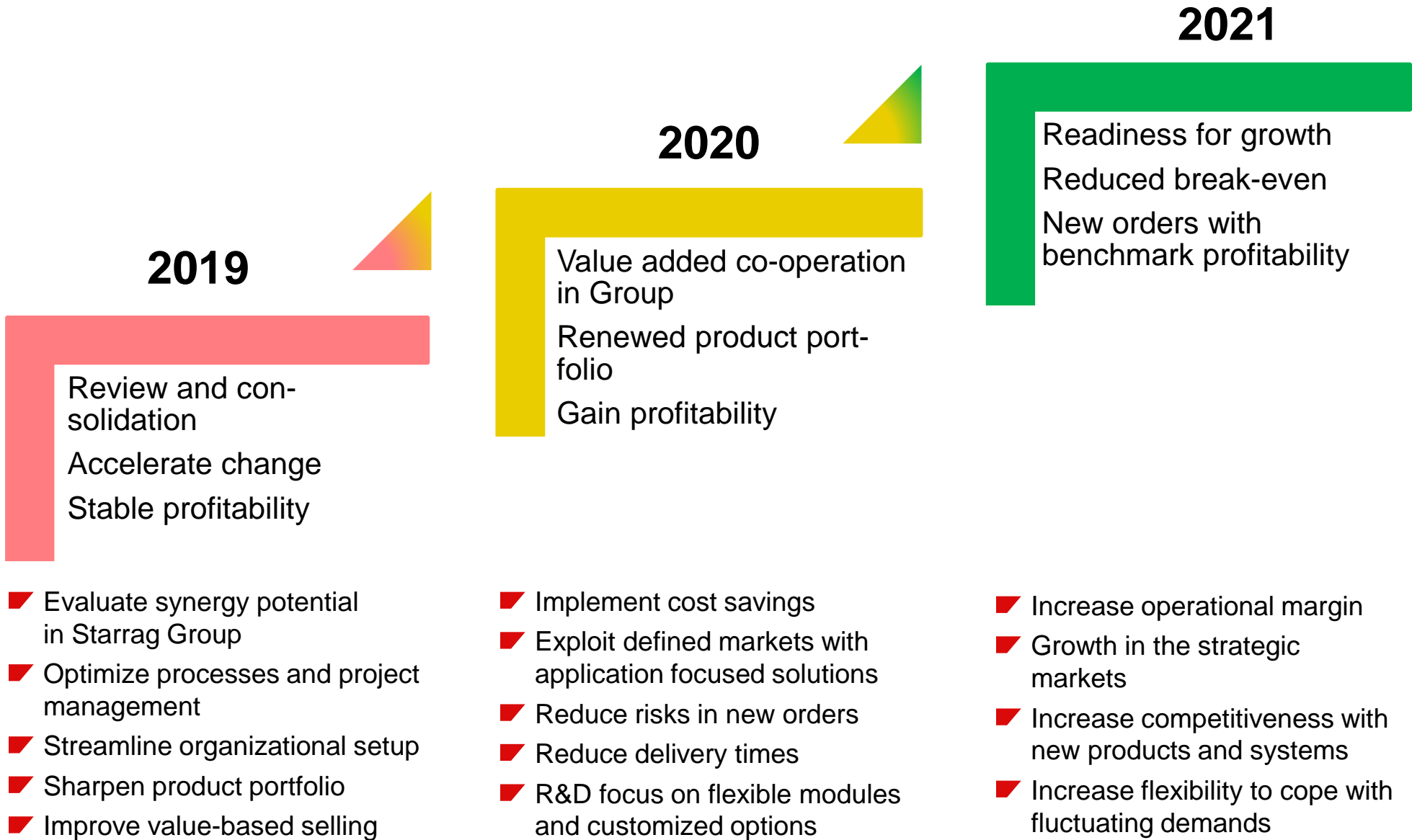
Future margin development has to reflect pleasing order intake

- Eliminate bottlenecks and delays in order fulfillment
- Stop negative profitability at specific site
- Create awareness and ownership within management of all levels
- Improve order quality, avoid technological risks

Focus on value chain optimization through synergies in the Starrag Group

- Rigorously review product portfolio to increase leverage
- Increase transparency, monitoring and control of project performance
- Avoid functional redundancies

Program «Starrag 2021» about to be established with mid-term runtime



Mid-term financial targets unchanged

- 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

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

Economic outlook 2019

■ Target markets of Starrag Group expected to remain solid

■ VDW forecast 2019: “production growth of 2%”

■ Heterogeneous expectations for our relevant industries

- Aerospace positive
- Industrial positive
- Energy rather weak
- Transportation depending on market segment

■ Expectations for our regional markets

- Europe stable
- Asia (mainly China) positive
- North America positive

Priorities 2019

Strategic priorities

- Intensified execution of strategy: Focusing on defined market segments and regions (US, China)
- Expansion of service capabilities as additional enabler of new machinery business (geographically and service product offering)
- Innovation: Consistent development of state-of-the art products
→ new generation of machine tools supporting Industry 4.0

Operational priorities

- **Rigorous implementation of “Starrag 2021” program to improve operational excellence across entire value chain**
→ **substantially increase profitability as well as return on capital**

Guidance 2019 (organic, in local currencies)

Order intake

- Normalized and therefore below record 2018

Sales revenue

- Exceeding 2018

ROCE and EBIT margin

- In line with 2018
- Positive volume effect offset by higher personnel and material expenses as well as restructuring charges

Summary

2018 highlights

- Significant increase in order intake – record order backlog – strong cash flow – strategy implementation ongoing – new and enhanced products

2018 setbacks

- Lower sales, disappointing profitability (EBIT, ROCE) and net income

2019 outlook

- Higher sales and lower order intake compared to 2018 – EBIT margin and ROCE in line with 2018 figures – Program “Starrag 2021”

Mid-term ambitions confirmed

- 5% sales CAGR; 8% EBIT margin; ROCE > WACC

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': 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 48% equity ratio allows for reliable dividend payments
- Profitable even throughout severe macro shocks (financial crisis 2008/2009)

Corporate calendar and Contact details

- 26.04.2019 Annual General Meeting in Rorschach
- 24.07.2019 Half-year report 2019
- 24.01.2020 Sales and orders 2019
- 06.03.2020 Presentation of 2019 results for analysts and media in Zurich
- 25.04.2020 Annual General Meeting in Rorschach

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starrag

Engineering precisely what you value

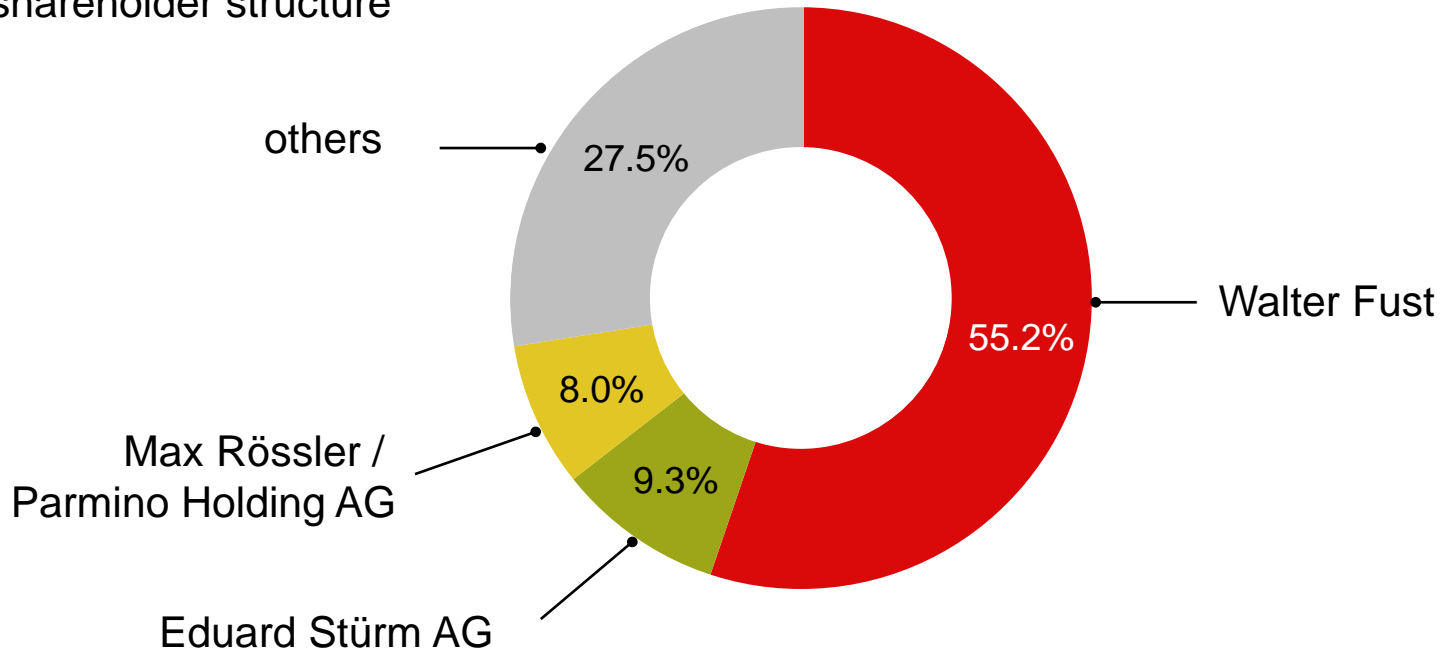
Backup information

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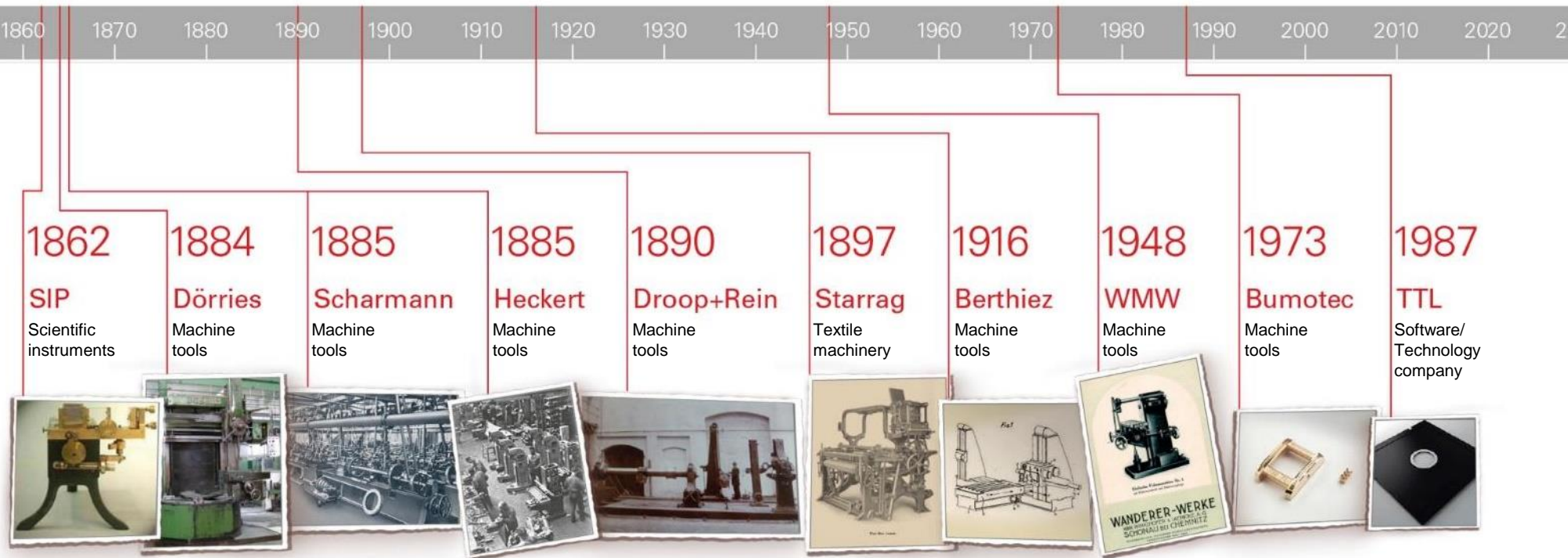
Share details (as of 31 December 2018)

- Market capitalization CHF 144.5 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 28%
- 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



Dr. Christian Walti, CEO

(1967, Swiss)

- Since 01.06.2018: CEO and Head of Regional Sales
- 2012 – 2018 Head of Bosch Packaging Systems, Beringen, Germany
- 2005 – 2011 Delegate of the Board of Directors and CEO of Faes AG, Wollerau, Switzerland
- 2003 – 2004 Founding partner and shareholder of Stratocon AG, Baar, Switzerland
- 1999 – 2003 management functions at ABB Schweiz AG, Baden, Switzerland
- 1998 – 1999 Consultant at Capgemini Consulting AG, Zollikon, Switzerland
- PhD at University of St. Gallen, Switzerland
- Post graduate studies in Business Administration at University of St. Gallen, Switzerland



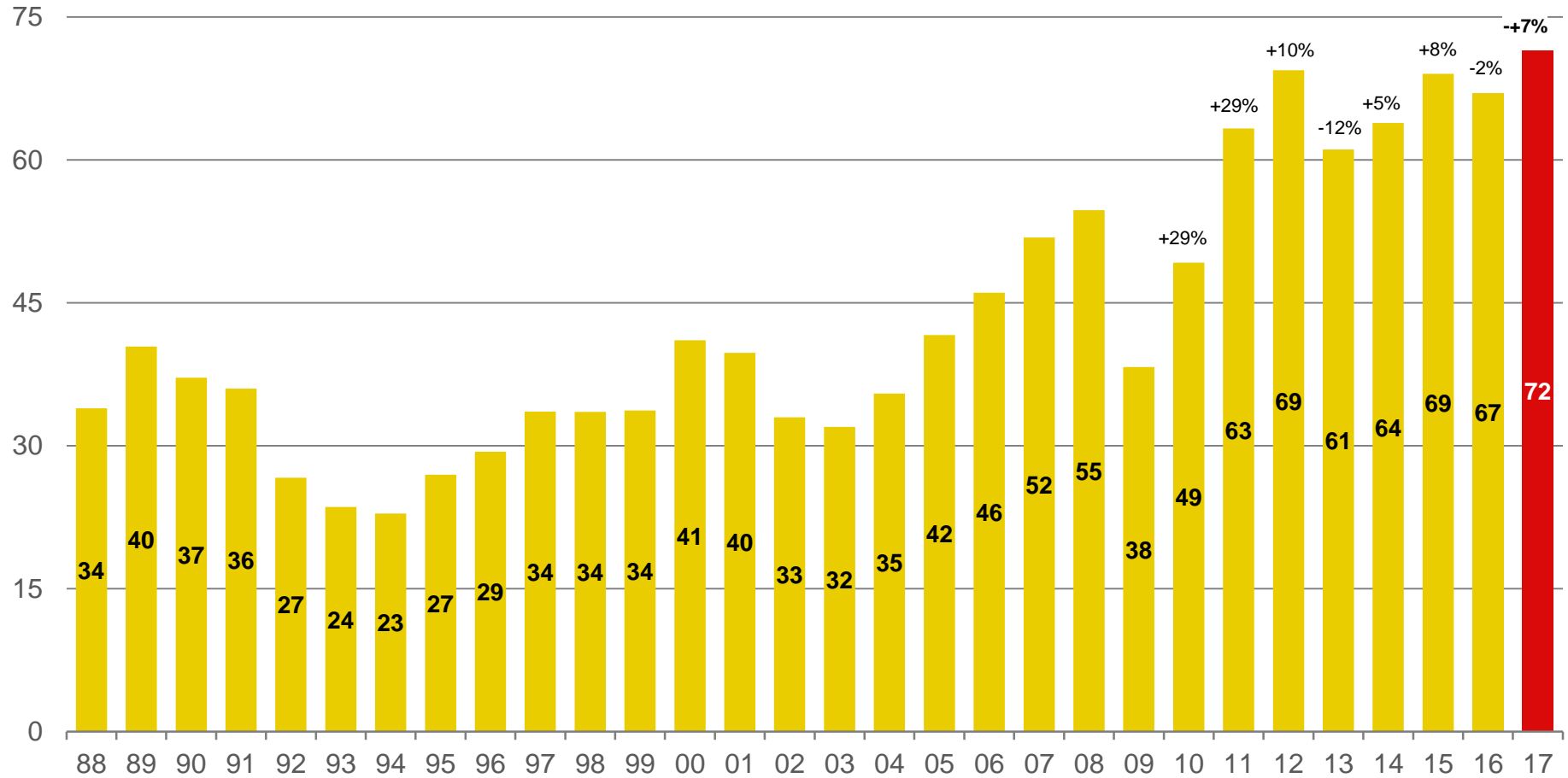
Gerold Brüttsch, CFO

(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
- Graduate in Business Management, University of Applied Science, St. Gallen, Switzerland
- Swiss Certified Accountant
- US Certified Public Accountant, California, USA

World production machine tools 1988 - 2017

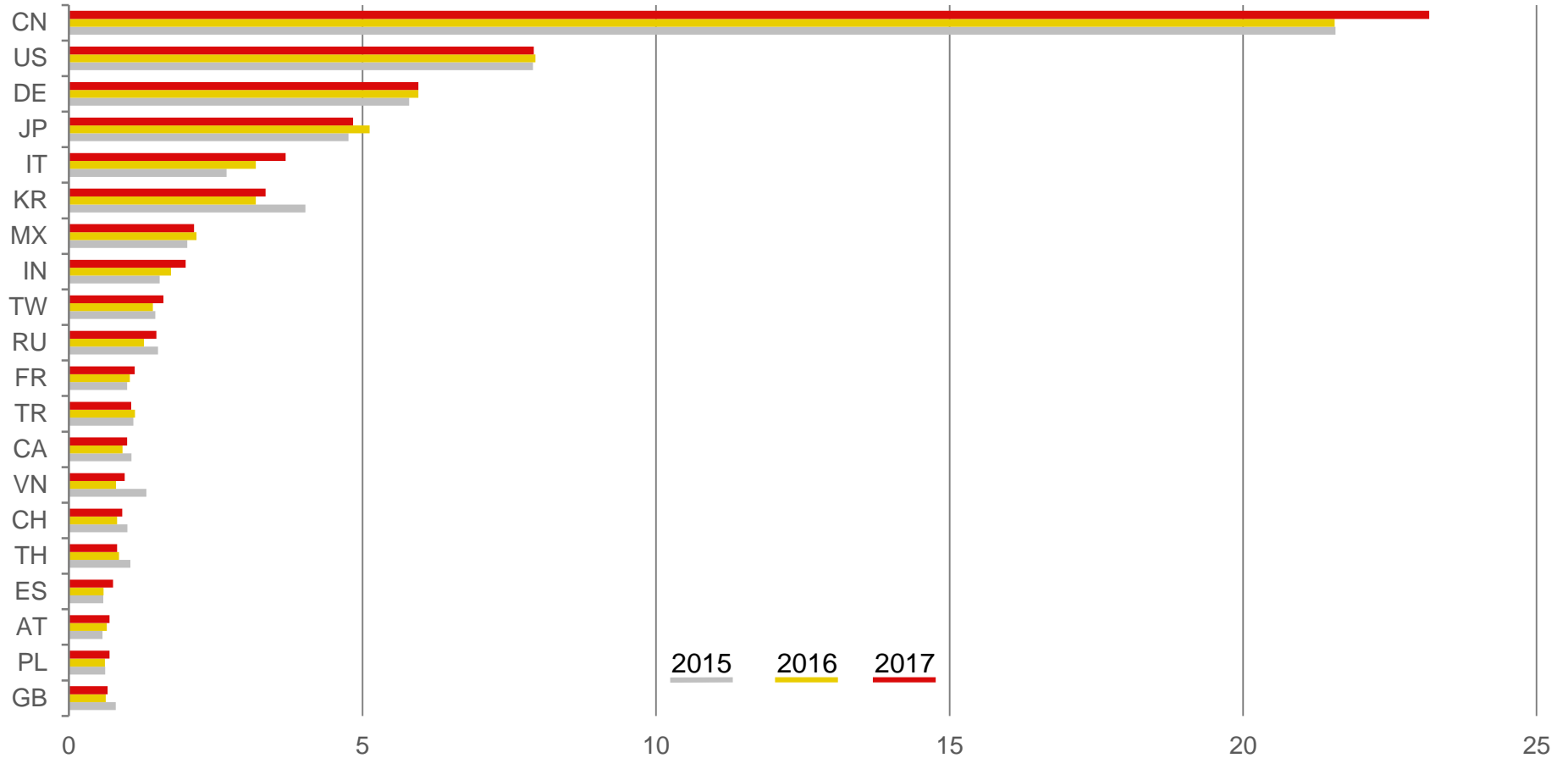
EUR b



Note: Without Parts/accessories; Source: VDW World Machine Tool Statistics 2016, up-dated 14.11.2018.

World consumption machine tools 2015 - 2017: Top 20 countries

EUR b



■ **Top 20 countries are 91% of 72b EUR machine tool market.**

Note: Without Parts/accessories; Source: VDW World Machine Tool Statistics 2017, up-dated 14.11.2018.