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Engineering precisely what you value

Half year presentation

Rorschacherberg, 27 July 2018

Solutions for
Aerospace
Energy
Transportation
Industrial

Agenda

- Market and business review
- Financial review
- Outlook

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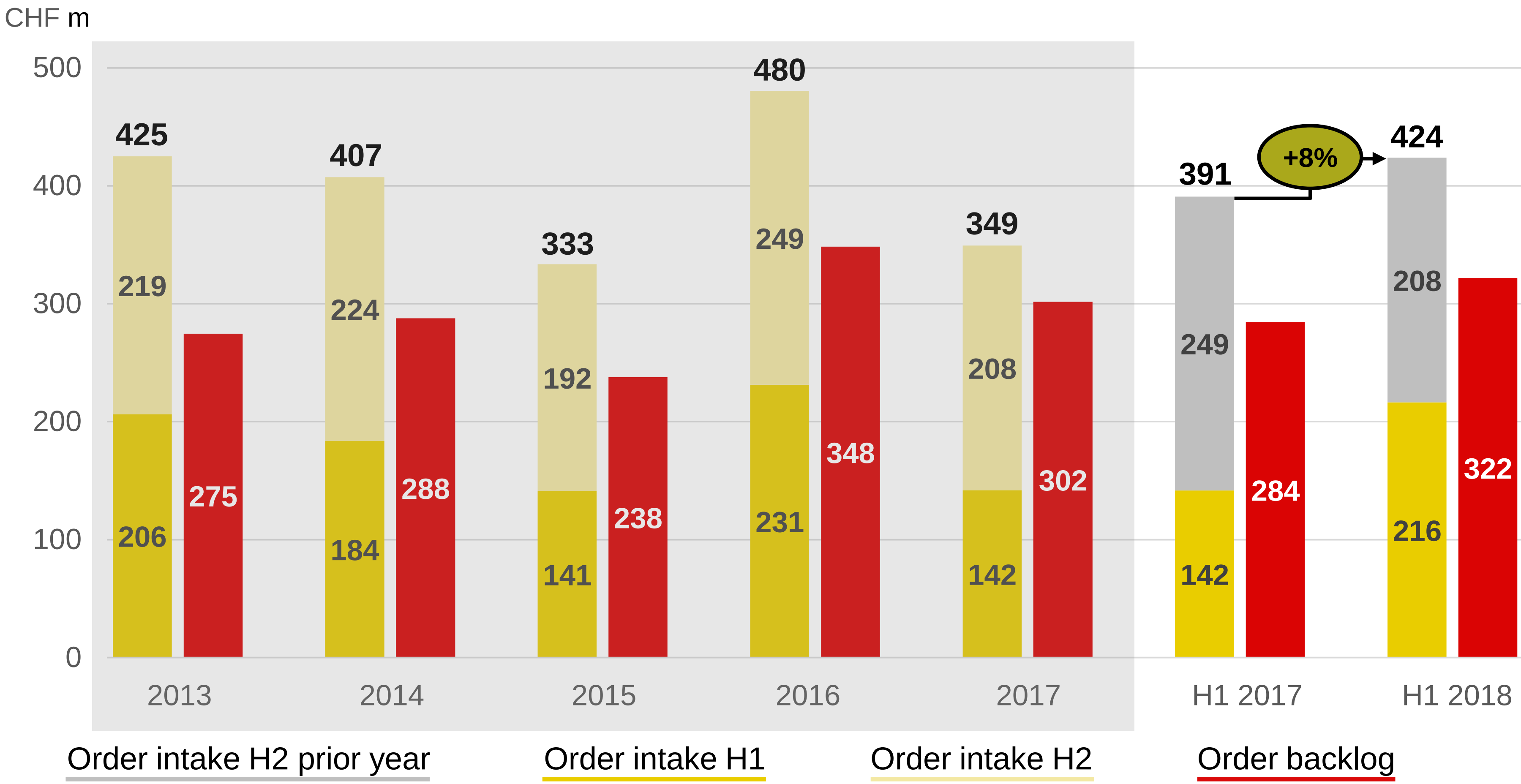
Significantly higher order intake – Continued solid order backlog

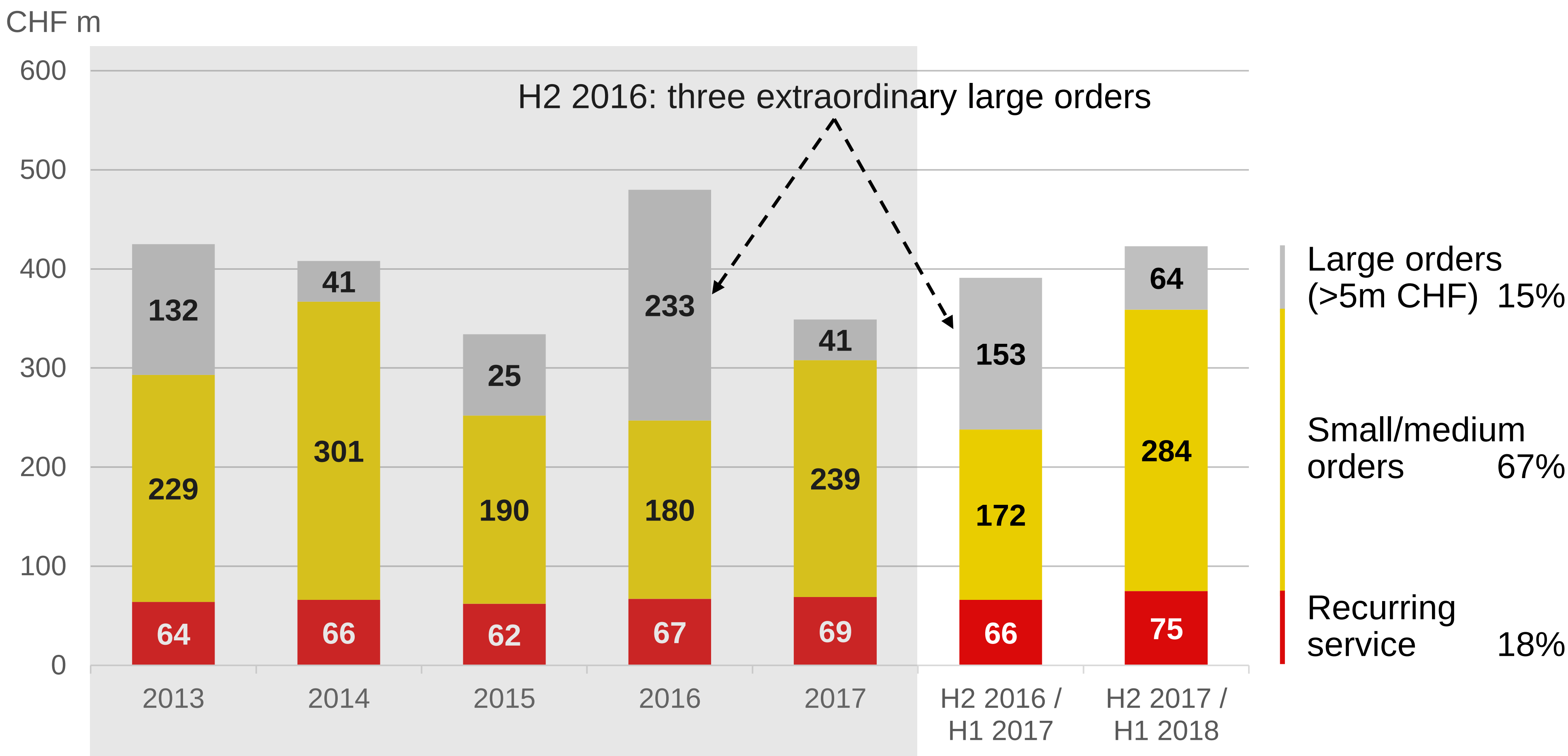
- Order intake CHF 216 million, up 53%
- Order backlog CHF 322 million, up 7% compared with the end of 2017, up 13% compared with mid of 2017 – capacity utilization for one year
- Sales of CHF 192 million, down 5% compared with the good prior-year period
- EBIT margin 3.4%, down from 4.0% – ROCE 4.4%, down from 6.0%
- Net income of CHF 4.3 million, earnings per share CHF 1.28
- On track in terms of strategy, underperformance at one location depress results

Order intake last 12 months +8% – Higher order backlog



- **Order intake last twelve months 424m CHF, up 8%, fx adjusted up 5%**
- **Order intake H1 2018 216m CHF, up 53%**
- **Order backlog 322m CHF, up 7% compared with end of 2017**

Order intake breakdown: All stable business segments up, share increased



- **Ongoing increase of service share and share of small/medium orders**
- **But: Large orders difficult to predict; average 2013-2017: 74m CHF (without extraord. 2016)**

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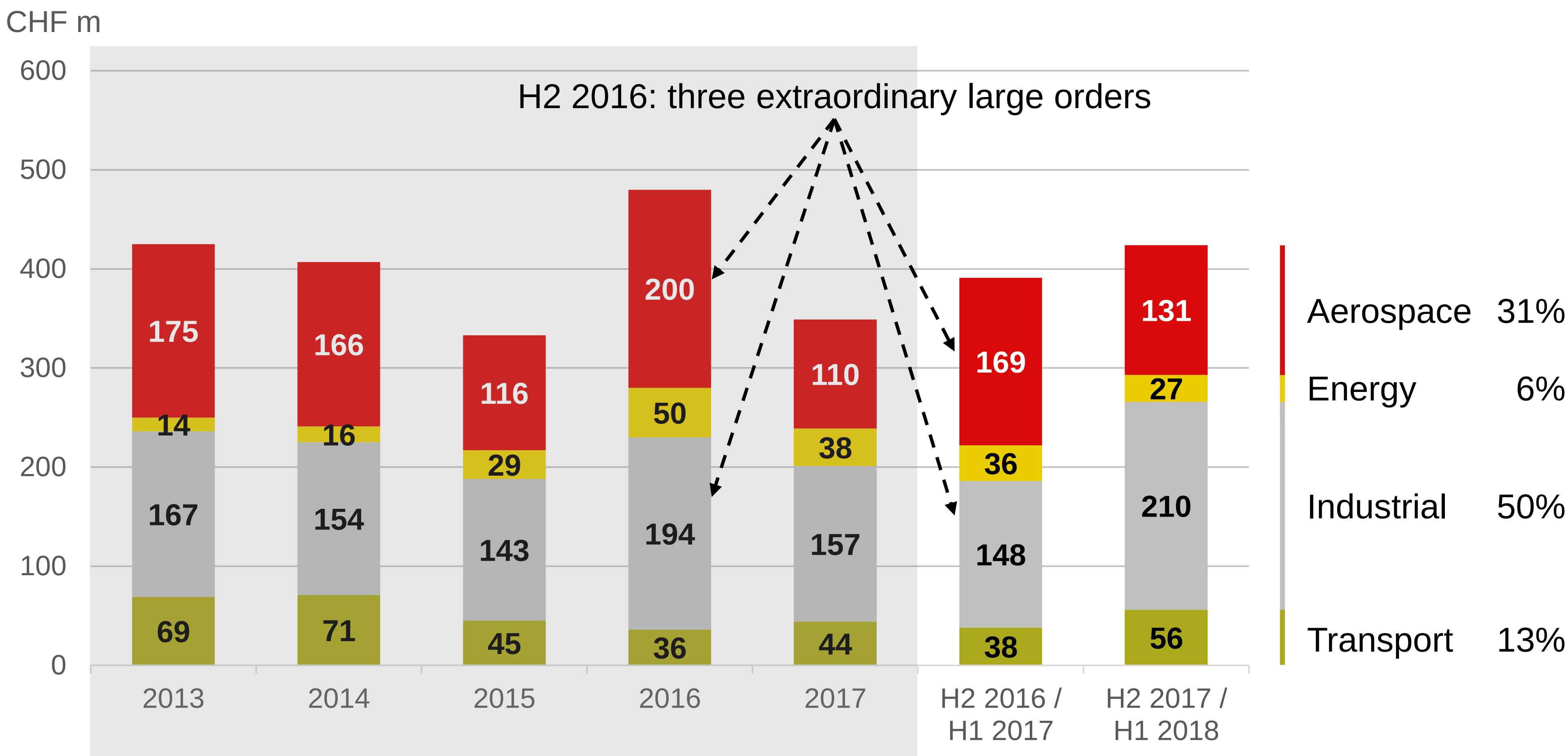
Order intake by industry



- **Growth mainly driven by Industrial and Transportation**
- **Aerospace positive in H1 2018 (90m CHF), Energy weak as expected**

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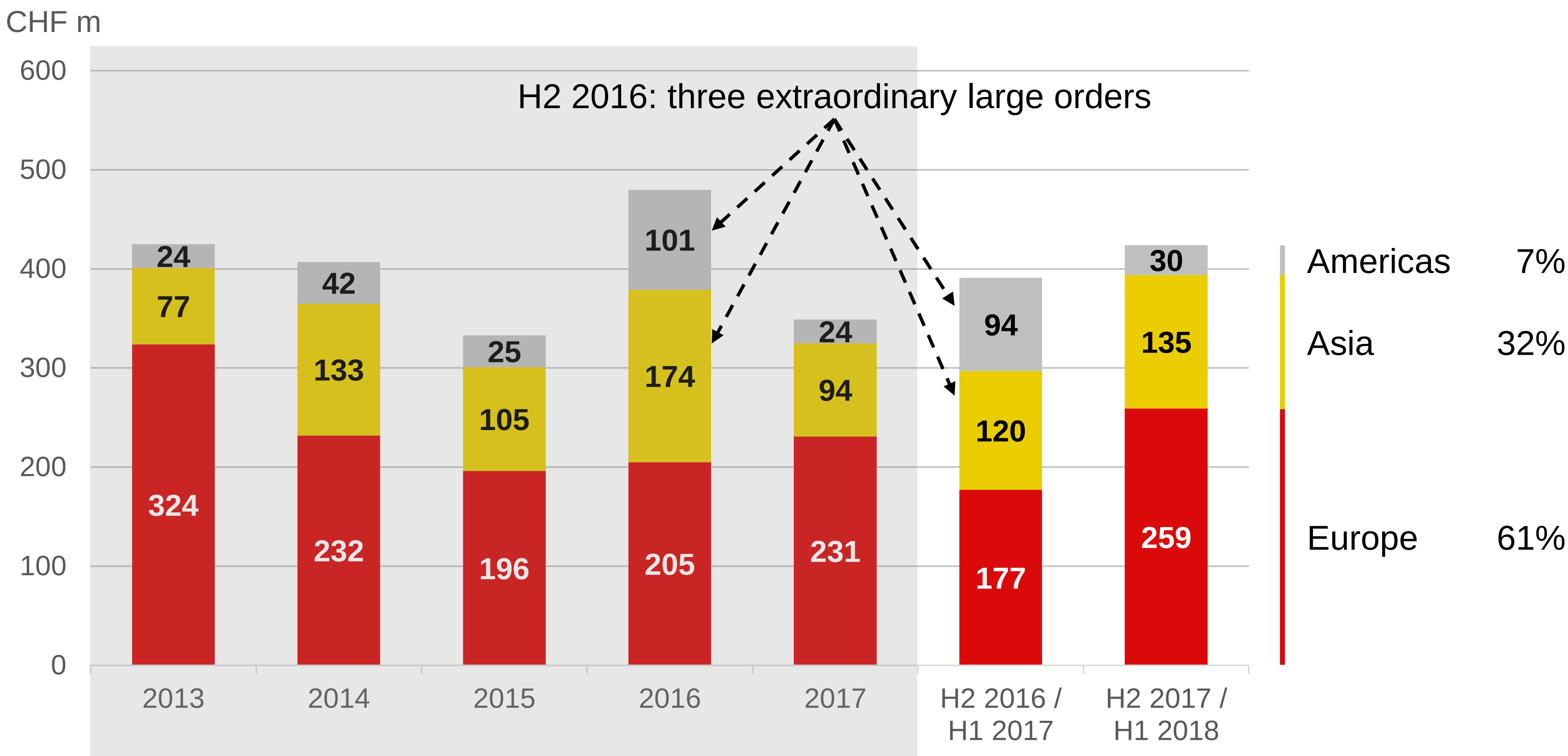
Order intake by region



- **Growth in Asia and Europe; Americas weaker after strong H2 2016 with good perspectives**
- **Asia on track to reach 40% in the mid and long term**

Innovative new horizontal machining centers with outstanding impact

Innovative generation of Heckert H5 horizontal machining centers introduced in 2017, well received in market, reflected in H1 2018 orders

15% increase in productivity
- highest possible machine dynamics
- reduction of idle times
- most rigid 5-axis horizontal machining center

30% smaller footprint thanks to modular, compact design

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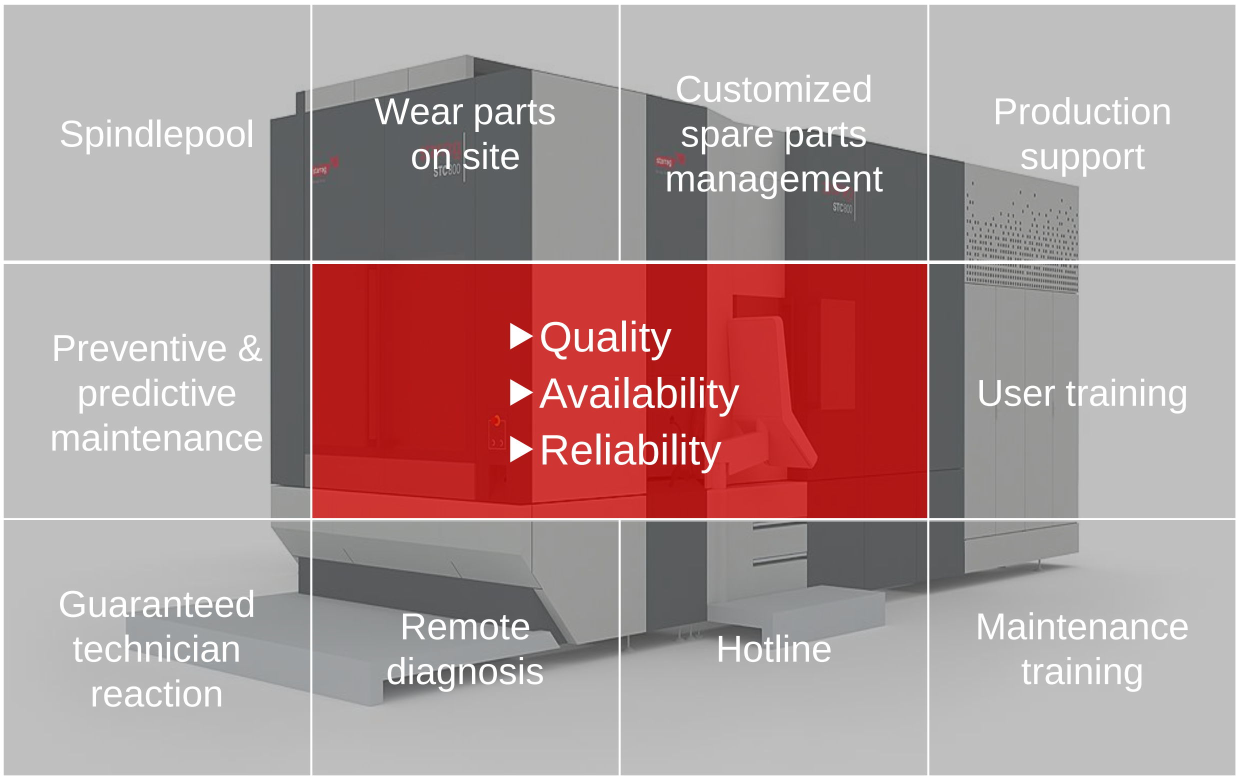
Significant increase of Service business in Asia

Continued regional expansion of customer service structures contributed to generate additional service business in Asia and beyond

Serviceplus

Extended machine warranty and agreed availability at fixed price



- Plannable costs
- Uptime agreement
- Fast reaction time
- OEM best practice maintenance repair
- Customized spare parts management

Leading application competence attracts substantial client attention

Major customer events in H1 2018: Triggering multiple first contacts up to closed orders

- January: Aero Structures Technology Days in Rorschacherberg/CH
- February: Technology Roadshow Precision Engineering in USA
- April: CCMT China CNC Machine Tool Fair in Shanghai/CN
- June: Turbine Technology Days in Rorschacherberg/CH





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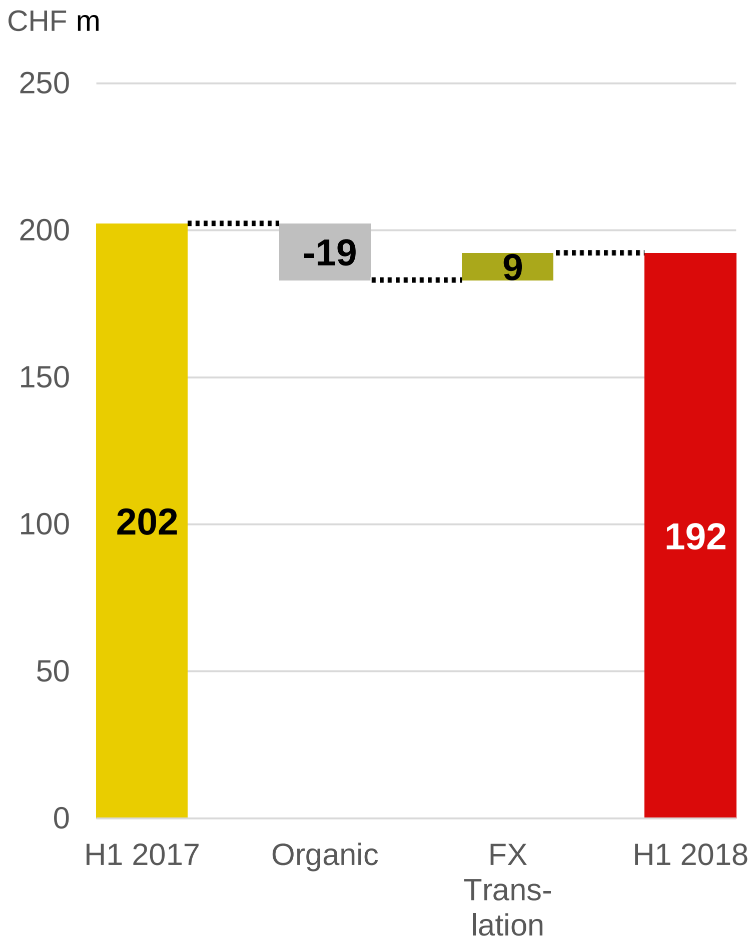
Decrease in sales revenue caused by underutilization at one specific plant

Sales revenue -4.9%, fx adjusted -9.5%



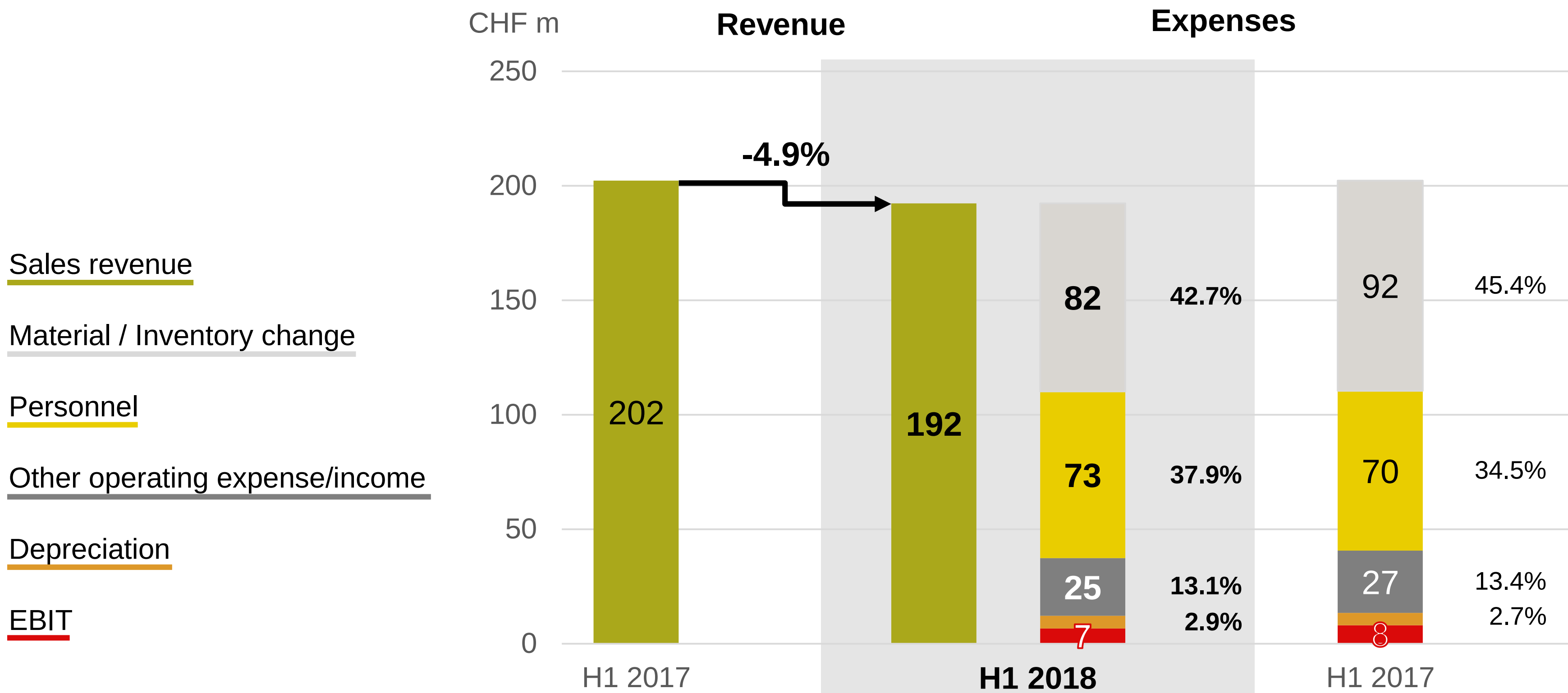
Organic decrease caused by

- Delays in order processing triggering a shortfall in output at one location
- Lower material share due to timing effects in order processing

Positive FX translation impact

- Stronger EUR/CHF translation rate

Income Statement: Unsatisfactory operating margins



	H1 2018	H1 2017
Gross margin	**57.8%**	54.9%
EBIT margin	**3.4%**	4.0%
ROCE	**4.4%**	6.0%

- **Increased gross margin due to upfront work on expected future customer orders and timing effects in order processing**
- **Margin levels still unsatisfactory, impacted by shortfall in output at one location**

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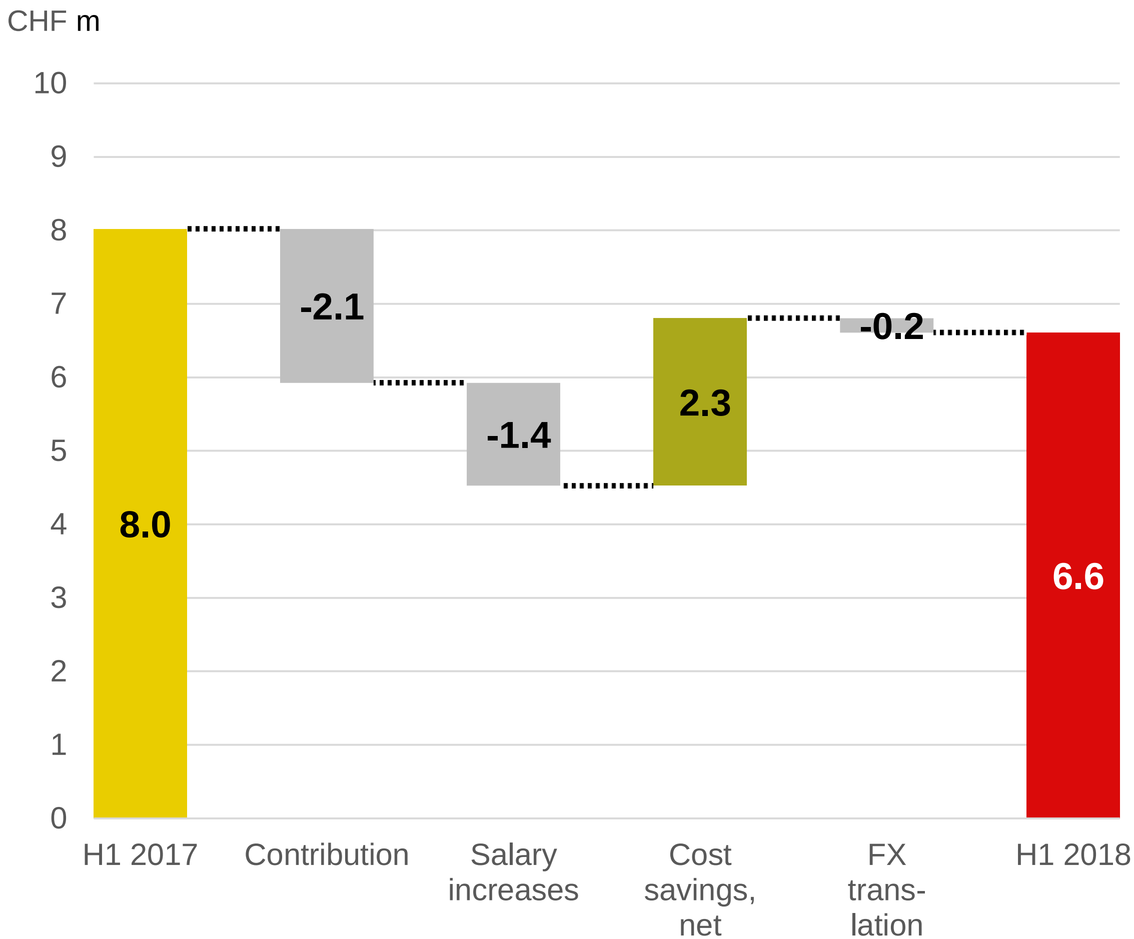
EBIT margin of 3.4% not satisfactory

Decrease in EBIT due to lower sales revenue and capacity utilization problems at one plant



Contribution

- Shortfall in output due to delays in order processing at one plant
- Selective increases in purchasing costs due to stretched supply chain
- 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
- Lower variable personnel cost

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Net income lower mainly due to lower EBIT

Decrease in Net income caused by lower operating result and other reasons

CHF m	**H1 2018**	H1 2017	Change
Operating result EBIT	**6.6**	**8.0**	-17.7%
Interest expenses, net	-0.5	-0.1	
FX result, net	-0.3	0.4	
Other financial result	-0.5	-0.9	
Total Financial result, net	*-1.3*	*-0.7*	
Income before taxes	**5.3**	**7.4**	-28.0%
Income tax expenses	-1.0	-0.9	
Net income	**4.3**	**6.4**	-33.1%
Income tax rate (implied)	19.4%	12.6%	
Earnings per share in CHF	**1.28**	**1.89**	-32.3%

- **Lower FX result caused by FX valuation differences due to weaker EUR**
- **One time tax credit of 0.8m CHF in prior year period**
- **Tax rate of 25% expected in the mid-term**

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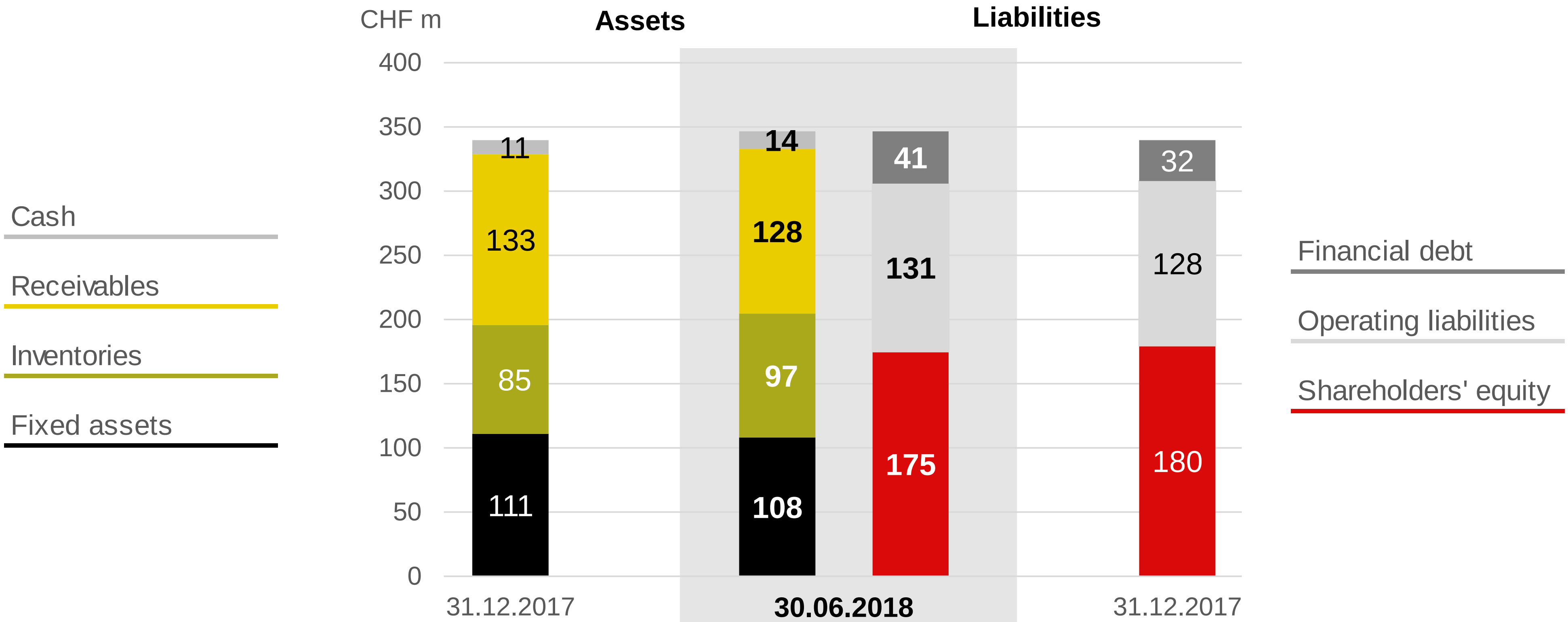
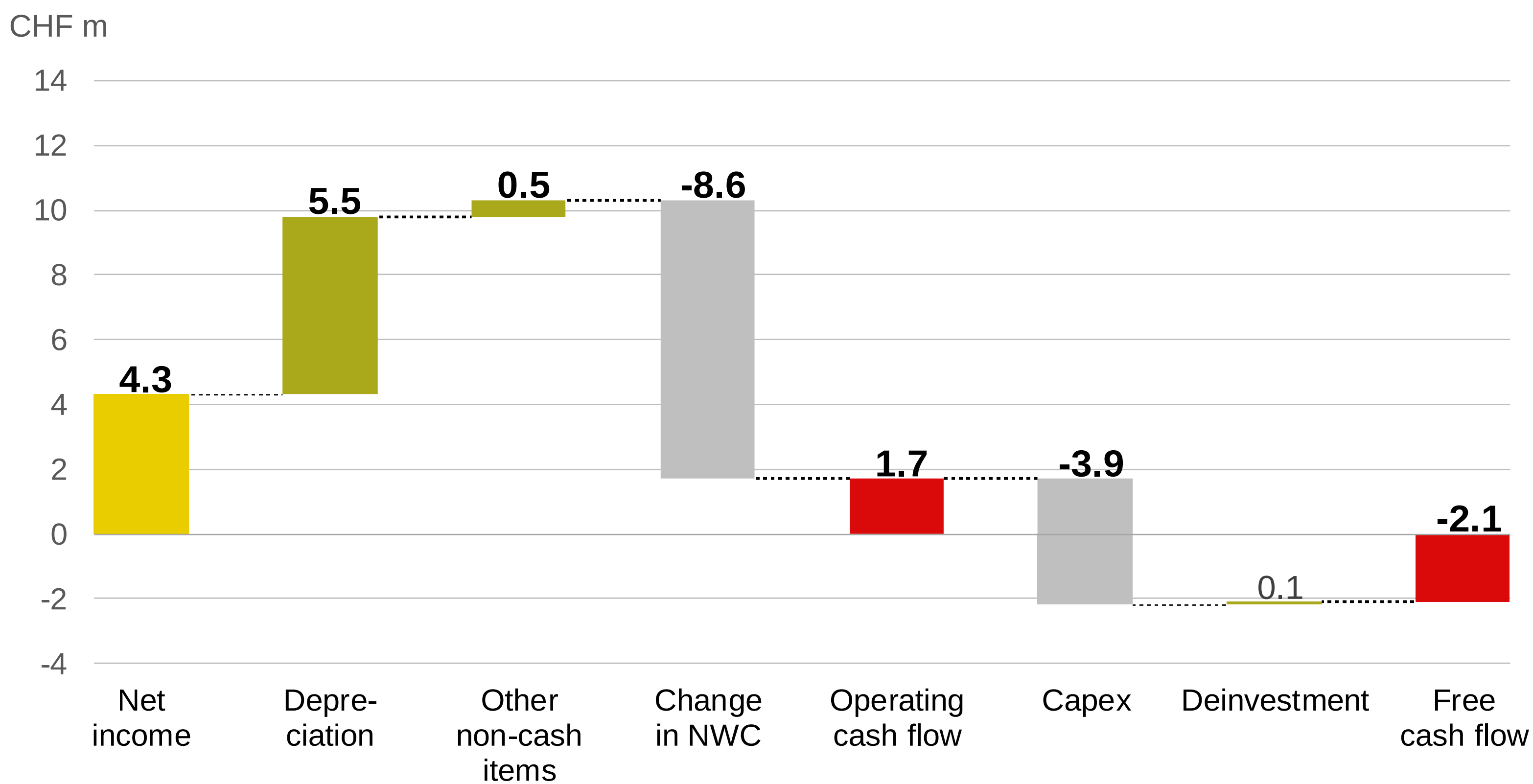
Balance sheet: Equity and equity ratio continuously strong



Total assets	340	**347**		
Net debt			**27**	21
Equity ratio			**51%**	53%

- **Net equity negatively impacted by lower EUR/CHF and USD/CHF fx rate at mid-year**
- **Higher inventories due to upfront work for expected customer orders**

Free cash flow improved despite NWC financing, but still unsatisfactory



H1 2017:	**6.4**	5.4	-1.1	-16.5	**-5.8**	-7.0	-	**-12.8**

- **Operating cash flow impacted by upfront work for expected future customer orders**

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Focus of strategic actions reinforced

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

Generally positive economic environment despite uncertainties, but Starrag target market segments with heterogeneous trends

- Aerospace
  - Positive market development with solid pipeline of business opportunities
  - Timing of decisions continues to vary driven by individual customer-specific reasons
- Energy
  - Limited visibility, expected to remain on low level in near future
  - Increasing oil prices may trigger investments
- Transportation
  - Growth in commercial vehicles and heavy trucks
  - Modest recovery expected for agriculture and construction equipment segments
- Industrial
  - Growing industrial production
  - Luxury goods, especially watch industry, with pick-up in investment activity

Financial outlook

	2017	H1 2017	H1 2018	**Guidance 2018** (in local currencies)
Order intake	349	142	216	2018 >> 2017
Sales revenue	405	202	192	H2 2018 > H1 2018 2018 < 2017
EBIT margin	3.8%	4.0%	3.4%	H2 2018 >> H1 2018 2018 ≈ 2017
ROCE	5.7%	6.0%	4.4%	H2 2018 > H1 2018 2018 < 2017

- **Margin improvement in H2 2018 requires successful result improvement at aforementioned location.**

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Main focus of Starrag Group

Clear strategic positioning	- Focus on prioritized market segments and regions - Value proposition (solutions, service) - International footprint (China, USA)
Reliable operational performance	- Simplification, standardization - Accountability, capacity utilization at individual units - Speed
Creation of long-term value	- Innovation, Service business - ROCE > WACC - All stakeholders

Corporate calendar and Contact details

- 25.01.2019 Initial information on 2018 results
- 08.03.2019 Presentation of FY 2018 report and results for analysts, media in Zurich
- 26.04.2019 Annual General Meeting in Rorschach
- 24.07.2019 Half-year report 2019

Christian Walti, CEO
Phone +41 71 858 81 11

Gerold Brütsch, CFO
Phone +41 71 858 81 11

investor@starrag.com

www.starrag.com

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Engineering precisely what you value

We are pleased to answer your questions.
Thank you.

Solutions for
Aerospace
Energy
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