SFS Group AG
Half year report 2019

Inventing success together

1H 19

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Financial overview

Solidly financed

Income statement in CHF million (unaudited)	**2019 1H**	2018 1H	2017 1H	2016 1H
Third party sales	867.8	855.9	778.6	688.8
Change to previous year in %	1.4	9.9	13.0	2.7
thereof currency impact	–0.8	3.1	–1.3	2.1
thereof change in scope	4.6	–0.3	6.9	0.7
thereof organic growth	–2.4	7.1	7.4	–0.1
Net sales	868.4	854.6	779.5	688.2
EBITDA	152.6	159.5	153.0	140.2
As a % of net sales	17.6	18.7	19.6	20.4
Operating profit (EBIT)	105.5	116.0	80.7	58.8
As a % of net sales	12.1	13.6	10.4	8.5
Operating profit (EBIT) adjusted[1]	109.2	116.0	110.9	88.9
As a % of net sales	12.6	13.6	14.2	12.9
Net income	88.6	88.9	61.0	42.7
As a % of net sales	10.2	10.4	7.8	6.2

Balance sheet in CHF million	**30.06.2019 (unaudited)**	31.12.2018	31.12.2017	31.12.2016
Assets	1,640.3	1,619.3	1,519.0	1,469.7
Net cash (+)/-debt (–)	–51.9	59.1	34.7	0.5
Average Capital Employed	1,120.1	1'070.8	927.0	800.0
Invested Capital[2]	2,173.9	2,058.2	1,960.9	1,692.2
Equity	1,139.2	1,204.6	1,087.0	987.8
As a % of assets	69.5	74.4	71.6	67.2

Cash flow statement in CHF million (unaudited)	**2019 1H**	2018 1H	2017 1H	2016 1H
Cash flow from operating activities	105.1	104.3	81.5	94.8
Purchase of property, plant, equipment and software	–56.4	–69.5	–48.3	–30.1
Acquisition (–)/Disposal (+) of subsidaries, net of cash	–91.6	0.6	–3.1	–32.6

Employees	**30.06.2019 (unaudited)**	31.12.2018	31.12.2017	31.12.2016
Full-time equivalents (FTE)	10,759	10,231	9,478	9,021

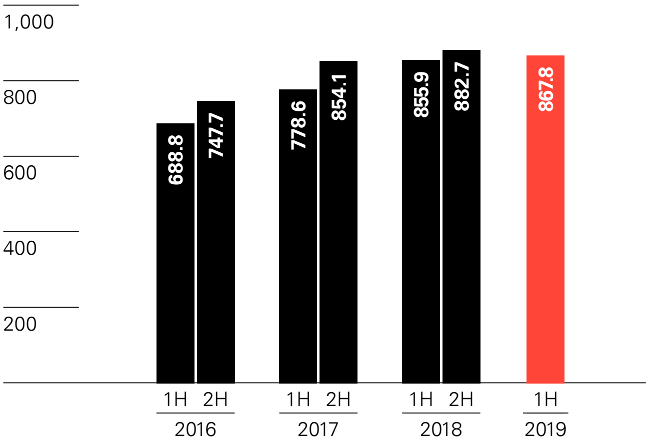
Financial key ratios (unaudited)	**2019 1H**	2018 1H	2017 1H	2016 1H
ROE in % (Return on equity)	14.7	16.4	12.4	7.6
ROCE in %[3] (Return on capital employed)	19.5	21.7	22.9	19.4
ROIC in %[4] (Return on invested capital)	8.6	9.0	8.7	7.8

1 Adjusted for one-time costs relocation Nantong, amortization customer relationship Unisteel, for book gains on the disposal of non-core assets and for other one-offs
2 Equity before goodwill offset less net cash/plus net debt
3 EBIT annualized and adjusted in % of average capital employed
4 EBIT annualized and adjusted less tax in % of invested capital

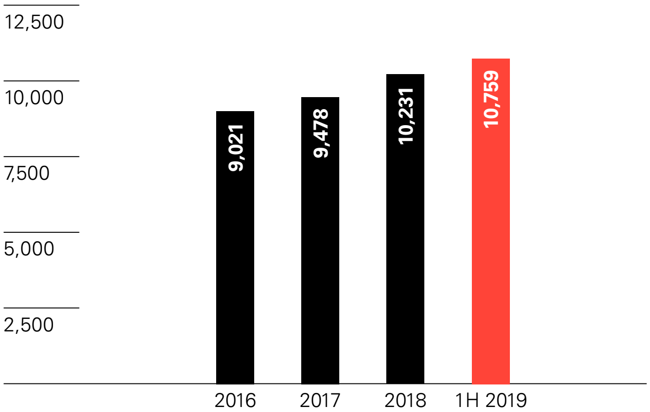
Key takeaways

Position improved

Sales growth realized in a challenging environment
in CHF million



Workforce strengthened by TFC and growth in Medical
Number of employees (FTE) at period-end



Mix effects and fluctuations in capacity utilization affected
Adjusted EBIT margin 1H 2019

12.6%

The operating profit was affected by mix effects and fluctuations in capacity utilization and resulted in an adjusted EBIT margin of 12.6% (PY 13.6%). SFS expects its full-year adjusted EBIT margin to stand at approximately 13%.

Investments made to realize new projects
in CHF million

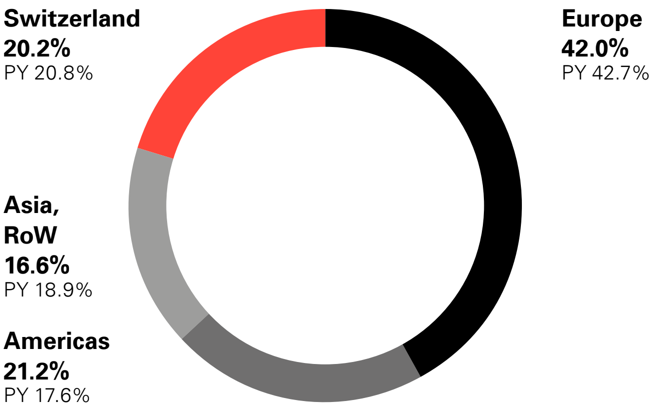
56.4

The realization of new projects was the main driver of this investment activity. SFS expects a slightly higher level of capital expenditure in the second half, projected to amount to 6–7% of net sales in 2019.

Competitive position in North America strengthened
An important milestone was the acquisition of Triangle Fastener Corporation (TFC) in the spring of 2019.

TFC is a leading supplier of fasteners and other products serving end users in the commercial construction industry. The company had sales of more than USD 70 million, with approximately 200 employees, in 2018. Thanks to this acquisition, Construction division has expanded its access to the market and its customers in the US substantially (see Inobox TFC on p. 12).

Share of Americas increased thanks to growth with TFC
Share of sales by region 1H 2019



SFS

Letter to the shareholders

Coping well with difficult conditions

SFS was confronted with a challenging business environment during the first half of 2019, yet managed to defend its strong position and sharp competitive edge. Group sales increased 1.4% versus the first half of the previous year due to positive consolidation effects. Changes in the scope of consolidation included the acquisition of Triangle Fastener Corporation (TFC), a transaction that has significantly enlarged SFS's market presence and customer base in the US construction sector.

Dear Shareholders,

With its clear focus on customer needs and innovation trends, SFS is attractively positioned and the wide variety of end markets it addresses gives it a sturdy footing. Nonetheless, SFS was confronted with a challenging business environment during the first half of 2019. Besides the general slowdown in economic growth, a further escalation in trade tensions left a mark on markets around the globe. This caused customers in the automotive and electronics industries to adjust their order volumes significantly. Order activity has stabilized since the beginning of the current year, but at a lower level than in the previous year. Meanwhile, sales increased in other business areas, such as Medical Components and Aircraft Components year-on-year.

Consolidated sales for the first half of 2019 amounted to CHF 867.8 million, corresponding to an increase of 1.4% from the first half of the previous year. On a like-for-like basis, sales declined 2.4%. Changes in the scope of consolidation contributed 4.6% to growth and currency effects had a negative impact of –0.8%. Besides the first-time consolidation of HECO, Triangle Fastener Corporation (TFC) sales have been consolidated since 1 April 2019 as well. TFC is a leading provider of fasteners and other products for end users in the commercial construction industry. Thanks to this acquisition, Construction division has expanded its access to the market and its customers in the US substantially (see TFC info box on page 12).

A dip in demand from the electronics industry on the one hand and strong rates of organic and inorganic growth in the US on the other hand led to a shift in the regional sales breakdown. Although Asia's share of total sales shrank from 18.6% in the first half of 2018 to 16.4% in 2019, the sales share generated in the Americas rose from 17.6% in 2018 to 21.2% in 2019.

Project wins attest SFS's competitive edge

Amid the challenging general environment described above, SFS successfully further strengthened its market positions. Major new projects in the automotive and electronics divisions, are now being ramped up and will help to further widen SFS's share of the relevant markets. SFS also acquired more major projects during the first half that are the basis for its future growth.

Earnings marked by mix effects and fluctuations in capacity utilization

The above mentioned sales mix effects arising from the divergent growth dynamics left a mark on Group earnings. Diminished productivity caused by demand-driven fluctuations in capacity utilization rates also burdened earnings. SFS generated an adjusted EBIT of CHF 109.2 million, corresponding to an adjusted EBIT margin of 12.6% (PY 13.6%). To maintain and increase profitability, far-reaching action plans initiated.

Earnings for the period under review were impacted by the expected one-time effects. On the positive side, there was the book gain on the sale of real estate in Switzerland. On the negative side, non-recurring costs related to the relocation to the new site in Nantong (China) were incurred. The net effect of these two extraordinary items was an approximate negative of CHF 3.7 million. Reported EBIT for the period amounted to CHF 105.5 million.

SFS Group generated a net profit of CHF 88.6 million in the first half of 2019 (PY CHF 88.9 million). This result was positively impacted by recent tax reforms in Switzerland.

Investments made to realize new projects
SFS invested CHF 56.4 million, or the equivalent of 6.5% of sales, in plant and equipment during the period under review. The realization of new projects was the main driver of this investment activity. In the prior-year period, capital expenditure was at 8.1% of sales much higher, which reflects largely the outlay for the construction of the new site in Nantong (China). SFS expects a slightly higher level of capital expenditure in the second half, projected to amount to 6–7% of net sales in 2019.

Engineered Components
Challenging markets and attractive new projects dominate the themes
Sales trends in the Engineered Components segment were distinguished by the challenging situation in the automotive and electronics markets. Overall, sales declined due to generally weaker market demand for the products made by our customers and the high year-ago comparison base also played a role. That said, SFS's standing with its customers has not changed and remains as solid as before. This was clearly reflected by the attractive new projects SFS acquired over the reporting period. Sales in the Industrial division were slightly lower, despite the anticipated trend reversal in the Aircraft business. The Medical division was able to maintain and even increase its dynamic growth momentum. Against the background described above, the Engineered Components segment delivered sales of CHF 454.2 million, a drop of 4.0% on its strong performance in the prior-year period. Negative currency effects amounted to 0.4%.

The segment generated an adjusted EBIT of CHF 73.9 million, which corresponds to an adjusted EBIT margin of 16.1% (PY 17.6%). The contraction in the EBIT margin is attributed to sales mix effects and was also affected by demand-driven fluctuations in utilization rates. To offset the lower utilization rates, corrective action has been taken and will support profitability in the second semester.

Engineered Components expects business in the second half to be slightly stronger.

Fastening Systems
Market position in the US strengthened
The Fastening Systems segment witnessed divergent trends at its two divisions. The Construction division, which serves customers from the construction industry, benefited from the continuing stable market environment. Furthermore, the acquisition of TFC, a leading supplier of fastening solutions and other products for end users in the commercial construction industry in the US, strengthened the division's market position in North America significantly. Conversely, the Riveting division, which does business primarily with customers from the automotive industry and the European industrial sector in general, experienced a significant drop in demand in a challenging market environment. Demand was weakest from customers in Germany and – given the uncertainty about Brexit – the UK.

Segment sales nevertheless rose by 16.6% versus the previous-year period to CHF 248.3 million. Positive consolidation effects stemming from the increase in the interest in HECO and the acquisition of TFC (consolidated since 1 April 2019) fueled this growth and accounted for 20.4% of reported sales growth. Like-for-like sales showed a slight decline (–1.8%) and were impacted by a negative currency effect of –2.0%.

Segment EBIT amounted to CHF 24.0 million, an increase of 15.5% versus the prior-year period. The EBIT margin matched the year-ago level of 9.4%.

The Fastening Systems segment expects overall business in the second half to be stable.

Distribution & Logistics
Customer base enlarged
As in previous years, the D&L segment continued to steadily expand its customer base, organic sales increased slightly for the period under review 0.3% compared to the previous year's high level. The divestment of the segment's security systems business and currency effects burdened sales by –2.9%. Segment sales amounted to CHF 165.3 million. Within the segment, the development was broadly based. In particular, the tools sector and the sales channels HandwerkStadt and e-Shop showed a positive development.

The trend from the previous year was successfully sustained in the first half. Adjusted EBIT amounted to CHF 13.3 million, which corresponds to an EBIT margin of 7.9%, representing an increase of 70 basis points from the prior-year margin. The reported EBIT margin of 10.8% was additionally influenced by the book profit from the disposal of real-estate in Switzerland.

The D&L segment expects its business trends to continue in the second half.

New head in Riveting division
Urs Langenauer, the former General Manager of Automotive North America, assumed management responsibility for the Riveting division on 1 July 2019 and was concurrently appointed to the Group Executive Board of SFS Group AG. In Urs Langenauer, SFS relies on a proven employee with broad management experience. He will use his expertise and experience to strengthen the Riveting division and support it in the expansion of the fastener business.

Thomas Bamberger, former Head of the Riveting division, left SFS Group by mutual agreement. The Board of Directors and Group Executive Board thank Thomas Bamberger for his many years of service to SFS Group.

Slightly positive business trends expected

SFS assumes that the volatile political and economic environment, and the trade tensions in particular will persist during the second half. Against this background, SFS has reviewed its assumptions and expects an uncertain development for the relevant markets. In contrast to its initial guidance, the Group only expects a slight positive development to take place, which will be supported by the ramp-up of new projects.

SFS expects gross sales including acquisition effects to grow by 3–6% in 2019. Based on these expectations and no further headwinds from the simmering trade tensions, SFS expects its full-year adjusted EBIT margin to stand at approximately 13%.

The one-time effects that burdened EBIT in first semester by CHF 3.7 million, are expected to cause a further negative effect in the magnitude of an upper single digit million amount in the second half of the year.

Heinrich Spoerry
Chairman of the Board
of Directors

Jens Breu
CEO

As expected, the Aircraft Components business returned to the growth track. The most important growth driver was the ramp-up of the Airbus A350, for which SFS provides fastening systems for the aircraft's cabin.

SFS

Engineered Components

Challenging markets, attractive projects

The challenging situation in the automotive and electronics markets left a mark on business. The realization of attractive new projects and startup of the new production platform in Nantong (China) are proceeding as planned.

Decline and generally lower market demand
Sales trends in the Engineered Components segment were marked by the challenging situation in the Automotive and Electronics markets. A drop in demand from the automotive sector and significantly lower demand from the electronics industry, observed at the beginning of the year, weighed on business activity throughout the first half. This weakness is attributed to generally lower demand for the products made by our customers – which, in turn, reflects consumer decisions to hold off on certain purchases and repercussions from global trade tensions – and to the high comparison base of the previous year. That said, SFS's standing with its customers has not changed and remains as solid as before. This was clearly reflected by the attractive new projects SFS acquired over the reporting period. Despite a return to growth in the Aircraft business, the Industrial division was slightly negative overall. The Medical division managed to maintain and even increase its dynamic growth momentum. Against this backdrop, the Engineered Components segment delivered sales of CHF 454.2 million, 4.0% less than its strong performance in the prior-year period. In local currency, sales declined by 3.6%.

Due to the ramp-up of growth projects and a seasonal recovery, SFS expects sales to increase for the Engineered Components segment in the second half of 2019.

Profitability burdened by mix effects and fluctuations in capacity utilization
The Engineered Components segment generated an adjusted EBIT of CHF 73.9 million, which corresponds to an adjusted EBIT margin of 16.1% (PY 17.6%). The margin erosion is attributed to sales mix effects (change in divisional sales contributions) and also reflects the fluctuations in utilization

Key figures Engineered Components

in CHF million (unaudited)	**2019 1H**	+/– PY	2018 1H	2017 1H
Third party sales	454.2	–4.0%	473.2	428.2
Sales growth comparable[1]		–3.6%		
Net sales	458.4	–3.7%	476.1	434.7
EBITDA	96.4	–14.3%	112.5	114.0
As a % of net sales	21.0		23.6	26.2
Operating profit (EBIT)	65.4	–22.0%	83.9	55.2
As a % of net sales	14.3		17.6	12.7
Operating profit (EBIT) adjusted[2]	73.9	–11.9%	83.9	85.3
As a % of net sales	16.1		17.6	19.6
Average Capital Employed	680.6	8.9%	624.8	578.4
Capital Employed	691.0	7.1%	645.5	576.2
thereof assets	837.8	7.2%	781.5	704.9
thereof liabilities	146.7	7.9%	136.0	128.7
Net Working Capital	249.2	1.3%	245.9	223.2
Investments	44.3	–16.0%	52.8	26.6
Full-time equivalents (FTE)	7,310	10.8%	6,600	6,409
ROCE in %[3] (Return on capital employed)	21.7		26.9	29.5

[1] At constant exchange rates and on the same scope of consolidation
[2] Adjusted for one-time costs relocation Nantong and amortisation customer relationship Unisteel
[3] EBIT annualized and adjusted in % of average capital employed

rates. To offset the lower utilization rates, corrective action has been taken that will have a positive effect on earnings from the second half of 2019.

Costs of CHF 8.5 million related to the commissioning and startup of the new production platform in Nantong (China) were incurred and similarly affected reported profit for the period. Another tranche of relocation costs is expected in the second half of the year.

New production platform now operational
The commissioning of the new production platform in Nantong (China) proceeded as planned. Construction of the new plant was completed in early 2019 and it is now SFS Group's second-largest production site. It will replace four existing sites located near Shanghai. Three of these four sites will be completely relocated to the new plant by the end of 2019; the transfer of the fourth site is scheduled for completion by mid-2020.

SFS has integrated all its core technology competencies at this new site. This broad offering has been well-received by customers in both the Electronics and the Automotive divisions. Promising new projects have already been acquired. Intensive collaboration with other SFS Group sites ensured the successful transfer of the production technology. Capacity at the new plant will be about three-quarters utilized with the current project backlog, so there is still ample space and capacity for future growth. Investment in the building amounted to more than CHF 40 million.

The most important investment drivers in the first half of 2019 were new projects, particularly in the Automotive and Electronics divisions. Investments reached 9.7% of net sales

The commissioning of the new production platform in Nantong (China) was completed as planned and will significantly strengthen the competitive position of Electronics.

(CHF 44.3 million). The decline in capital expenditure, of 16% compared prior-year period reflects mainly the construction of the new plant in Nantong.

Automotive

Demand weakened; attractive new projects acquired
After falling sharply in the fourth quarter of 2018, customer demand in the Automotive division stabilized over the first half of 2019 at a level below the high level of the prior-year period. This drop in demand is a reaction to generally weak car sales, which have also been hit by global trade tensions, and to capacity cuts throughout the added value chain. SFS successfully defended its competitive position, however, and even managed to strengthen it by winning attractive new projects. SFS's competitive edge is also underscored by the many awards it has received from its customers. Innovation trends in terms of efficiency, comfort and safety and the progressive electrification of motor vehicles along the path towards autonomous driving remained strong and R&D activity was high.

Considering the ongoing trade conflicts, the Automotive division does not expect business to pick up during the second half and sales are forecast to remain around the current levels.

Electronics

New production platform to strengthen competitive position now operational
Demand for products offered by the Electronics division stabilized significantly below the levels observed during the prior-year period. This fall-off in demand is a direct consequence of the subdued sales of key products made by our customers, which have also been affected by the ongoing trade tensions between the US and China. After two positive years in the hard disc drives business – during which the division experienced strong growth despite a shrinking market – sales in the first half of 2019 fell sharply in the wake of certain changes customers made to simplify product design. SFS, which operates under the Unisteel brand in the electronics market, nevertheless defended its competitive position and its share of content with the companies with which it does business. Thanks to extensive measures to adjust capacity and increase productivity, it also managed to keep its margins steady.

The successful startup of the new production platform in Nantong (see above) has significantly enhanced the Electronics division's competitive position. Major new projects for mobile device power adapters, wearables and applications in the hard disc drives business, were realized according to schedule. Outside China SFS is also positioned to supply customers with precision components thanks to its production sites in Malaysia and India.

The division expects demand to improve in the second half, thanks to the launch of new customer products and the successive ramp-up of ongoing growth projects.

Industrial

Growth returns to the Aircraft business
Overall, the Industrial division, which serves various end markets, recorded a slight decline in sales. The individual areas of application developed unevenly.

As anticipated based on demand indicators, the Aircraft Components business returned to the growth track. The main driver here was the production ramp-up of the Airbus A350. SFS provides fastening systems for the aircraft's cabin. Meanwhile the A380 is in the process of being phased out.

Applications addressed with injection molding technology, for example, in the micro injection molding business, showed a positive development as well. Thanks to micro molding, the division was able to produce optimal solutions for dental industry and drug delivery products and hybrid components (components made of both plastic and metal) in industrial applications. In these application areas, the ability to satisfy customer requirements for precision miniature components meeting the highest precision in the smallest dimensions proved to be a critical factor in winning important new projects.

Due to the strong project pipeline at Stamm AG in Hallau (Switzerland), SFS Group's specialist for micro molding technology, the Board of Directors resolved to significantly expand its operating site. This project will be completed by 2021.

The Industrial division expects a stable business development in the second half.

Medical

Dynamic sales momentum continued
As expected, the Medical division's strong project pipeline kept sales momentum at a high level. In fact, sales momentum increased during the course of the first half. Sales growth was broadly supported across the targeted application areas and the division's production sites. Several key customers realized successful product launches and new geographic registration approval in the areas of sports medicine, interventional cardiovascular and urology. The successful ramp-up of new projects also led to a better diversification of the sales generated with key accounts of Tegra Medical.

The fleet of standardized production machinery remains one of the Medical division's competitive advantages and enabled it to win projects from customers that follow a dual sourcing strategy. The Medical division, which operates under the Tegra Medical brand, was able to meet this specification by providing parallel supply chains from its plants in Franklin (USA) and Costa Rica. The customer benefited on the one hand from a robust value added chain and on the other hand from efficiency gains as it engaged with only one supply partner. Thanks to the successful implementation of measures to optimize productivity, progress was also made on the margin front.

Judging by the robust project pipeline, SFS expects the positive trend at the Medical division to continue in the second half of the year.

SFS

Fastening Systems

Market position in the US strengthened

The economic environments in which the two divisions of the Fastening Systems segment operated led to divergent results. A continued stable environment in the construction industry supported the business of the Construction division, with additional growth coming from the acquisition of the Triangle Fastener Corporation (TFC); however, the Riveting division struggled with challenging headwinds from the automotive industry.

Divergent divisional developments
The Fastening Systems segment experienced divergent trends at its two divisions. The Construction division, which serves customers from the construction industry, benefited from a stable market environment. Its sales continued to grow, albeit at a slower pace compared with 2018. Moreover, the division's position in the US market was strengthened significantly with the acquisition of TFC.

Conversely, the Riveting division, which does most of its business with customers from the automotive industry and the European industrial sector manufacturing sector, experienced a significant drop in demand. This effected in particular demand from customers in Germany and – given all the uncertainty about Brexit – the UK.

Total segment sales rose by 16.6% versus the prior-year period to CHF 248.3 million. The positive consolidation effects, due to the share in HECO and the acquisition of TFC (consolidation since 1 April 2019), were a strong growth driver and contributed 20.4% to the sales development. On a like-for-like basis, business was slightly negative (–1.8%) and impacted by negative currency effects (–2.0%).

Profitability affected by fluctuations in capacity
Compared with the previous year, profitability was maintained at an EBIT margin of 9.4% in the first half of the year. Operating profit amounted to CHF 24.0 million, an increase of 15.5%, which virtually matched the increase in sales for the

Key figures Fastening Systems

in CHF million (unaudited)	**2019 1H**	+/– PY	2018 1H	2017 1H
Third party sales	248.3	16.6%	213.0	190.2
Sales growth comparable[1]		–1.8%		
Net sales	255.4	15.5%	221.1	198.9
EBITDA	34.1	15.6%	29.5	26.3
As a % of net sales	13.4		13.3	13.2
Operating profit (EBIT)	24.0	15.5%	20.7	18.5
As a % of net sales	9.4		9.4	9.3
Average Capital Employed	294.8	18.8%	248.1	215.6
Capital Employed	307.7	18.7%	259.2	232.3
thereof assets	388.9	17.5%	331.1	296.5
thereof liabilities	81.2	13.0%	71.9	64.2
Net Working Capital	154.7	19.8%	129.1	107.8
Investments	9.1	10.6%	8.2	13.0
Full-time equivalents (FTE)	2,459	22.2%	2,012	1,954
ROCE in %[2] (Return on capital employed)	16.3		16.7	17.1

[1] At constant exchange rates and on the same scope of consolidation
[2] EBIT annualized in % of average capital employed

period. Comprehensive action was taken to adjust capacity to the sudden market shifts, particularly in the Riveting division.

The Fastening Systems segment expects business in the second half to be stable.

Construction

Competitive position in North America strengthened considerably
The general business environment for the Construction division was fundamentally solid and the ensuing opportunities to further grow its sales and profitability were seized. Although momentum was no longer as strong as in the previous year, resulting in a slower paced positive development, the division achieved good progress in its core applications so far in 2019.

An important milestone was the acquisition of TFC in the spring of 2019. TFC is a leading supplier of fasteners and other products serving end users in the commercial construction industry in the eastern US. With this acquisition, SFS has clearly expanded its market reach and customer base in the US construction industry (see info box).

The Construction division expects business in the second half to continue to show positive trends.

Triangle Fastener Corporation – acquisition completed and integration started

The acquisition of TFC, a leading supplier of fastening solutions and other products for end users in the commercial construction industry, strengthened SFS's market position in North America and provided direct access to some 6,000 active end customers.

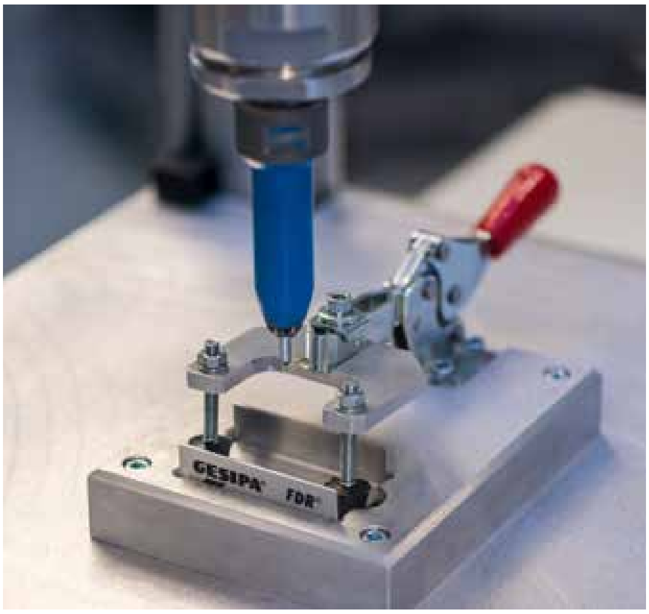
Facts & Figures
- Sales of more than USD 70 million in 2018
- 200 employees at the end of 2018
- 23 proprietary sales offices in 15 states
- About 6,000 active end customers

Riveting

Weak demand leaves a mark on business
Demand at the Riveting division declined significantly, in particular from automotive customers and industrial customers. Another factor that intensified this negative effect among customers in the UK was the uncertainty regarding Brexit. Weak sales and the related shifts in capacity utilization affected the Riveting division’s earnings. Measures to adjust capacity have already been taken and jobs were shed in those areas where the decline in demand was structural in nature.

Despite this development, the success of new products and innovative technologies such as Flow Drilling Riveting (FDR, see info box) create a new platform for future growth.

Due to the above-mentioned reasons, the Riveting division does not expect business to pick up during the second half and its sales are forecast to remain around the current levels.



Flow Drilling Riveting (FDR) – customers convinced by innovative technology and value added

Blind riveting without drilling a pre-hole is a new riveting process patented by GESIPA® that reduces process time and weight – it can be used with lightweight rivets that weigh up until 2 grams.

Advantages & Benefits
- Designed for automated processes
- No pre-punched hole, no hole finding required
- One-sided accessibility sufficient
- Simple parameter finding
- Highly suitable for light metals and plastics
- Full process monitoring
- Lightweight joining element (up until 2 grams per rivet)

SFS

Distribution & Logistics

Customer base enlarged

The Distribution & Logistics segment (D&L) experienced a steady course of business during the first half and continued to grow its customer base. These developments are attributed in particular to the tools and hardware business. Earnings showed a positive development.

Stable business trends achieved
The D&L segment delivered slightly positive organic growth of 0.3% from the previous year's high comparison base. Divestment of the segment's security systems and currency translation had a negative impact of –2.9% on reported sales. Segment sales totaled CHF 165.3 million. Within the segment, the development was broadly based. In particular, the tools and hardware sector and the sales channels Handwerk-Stadt and e-Shop showed positive sales trend.

Increase in profitability achieved
D&L maintained its positive earnings trend from the previous year throughout the first half. Adjusted EBIT amounted to CHF 13.3 million and the EBIT margin came in at 7.9%, representing an increase of 70 basis points from the margin for the first half of 2018.

The reported EBIT margin of 10.8% was additionally influenced by the book profit from the disposal of a warehouse in Switzerland. Due to the outsourcing of further warehouse operations, another extraordinary gain is expected in the second half.

The D&L segment expects its underlying business trends to remain positive during the second half.

Customer base steadily enlarged
As in previous years, the D&L segment steadily expanded its customer base during the first half. Events showcasing D&L's lean management solutions for logistics operations along with other activities helped to win new customers. D&L's acknowledged competence in the field of logistics was similarly highlighted by the launch of its new toolLOG® system (see toolLOG® info box). ToolLOG® clearly enhances SFS's offering of innovative logistics concepts, strengthens its market position, and lays the basis for future growth.

Key figures Distribution & Logistics

in CHF million (unaudited)	**2019 1H**	+/– PY	2018 1H	2017 1H
Third party sales	165.3	–2.6%	169.7	160.2
Sales growth comparable[1]		0.3%		
Net sales	167.9	–2.8%	172.7	163.2
EBITDA	21.2	38.1%	15.4	14.2
As a % of net sales	12.6		8.9	8.7
Operating profit (EBIT)	18.1	46.0%	12.4	11.4
As a % of net sales	10.8		7.2	7.0
Operating profit (EBIT) adjusted[2]	13.3	7.4%	12.4	11.4
As a % of net sales	7.9		7.2	7.0
Average Capital Employed	138.5	–3.2%	143.2	139.3
Capital Employed	136.6	–6.0%	145.3	143.7
thereof assets	174.5	–3.8%	181.4	178.7
thereof liabilities	37.9	5.1%	36.1	35.0
Net Working Capital	94.6	–6.9%	101.6	99.7
Investments	1.6	–49.4%	3.2	2.7
Full-time equivalents (FTE)	618	0.0%	618	635
ROCE in %[3] (Return on capital employed)	19.2		17.4	16.3

[1] At constant exchange rates and on the same scope of consolidation
[2] Adjusted for book gains on the disposal of non-core assets and other items
[3] EBIT annualized and adjusted in % of average capital employed

Optimization of logistics operations initiated
In order to remain efficient, lean and competitive for the future, the D&L segment reviewed its logistics operations and has initiated measures to improve them. As of 1 January 2020, SFS will transfer the segment's logistics infrastructure in Emmenbrücke to an external services provider. At a later stage, it will also transfer its current logistics operations in Bäretswil (Switzerland) to Emmenbrücke. Through this centralization of logistics activities at Emmenbrücke, customers served by Allchemet (a wholly-owned subsidiary of SFS Group) will be supplied from just one warehouse by a professional services provider beginning in 2022. Products ordered by customers can then be combined into a single delivery with greater convenience for the customer and fewer number of deliveries overall. Internal transport costs will thus be reduced significantly.

The order via toolLOG® is triggered via the stationary touchscreen or the tablet with the corresponding scanner.

toolLOG® – simplification and visualization of inventory management

Whether stationary or mobile – this versatile software program visualizes procurement processes, items that have been lent out and other follow-up processes and actions. Even products offered by external parties can be integrated into toolLOG®.

Advantages & Benefits
- Automatic submission of orders with individual delivery options
- Unlimited access to the full range of SFS products
- Integration of third-party products
- Visualization of items that have been lent out and subsequent processes; e.g. repairs, calibration, etc.
- Total cost transparency with various analytical features

Financial report consolidated

Income statement

in CHF million (unaudited)	Notes	2019 1H		2018 1H		+/–%
Net sales	6	**868.4**	**100.0%**	854.6	100.0%	1.6%
Other operating income		13.2		7.3		
Change in work in progress and finished goods		0.4		2.4		
Material expenses		–309.5		–313.2		
Contribution margin		572.5	65.9%	551.1	64.5%	3.9%
Personnel expenses		–277.8		–256.0		
Other operating expenses		–142.1		–135.6		
Depreciation property, plant and equipment		–45.4		–42.1		
Amortization of intangible assets		–1.7		–1.4		
Total operating expenses		–467.0	–53.8%	–435.1	–50.9%	7.3%
Operating profit (EBIT)		**105.5**	**12.1%**	116.0	13.6%	–9.1%
Financial result		–2.2		–4.0		
Share of profit/(loss) from related entities		–0.4		–0.2		
Earnings before tax		**102.9**		111.8		–8.0%
Income taxes	7	–14.3		–22.9		
Net income		**88.6**	**10.2%**	88.9	10.4%	–0.3%
Attributable to non-controlling interests		0.5		0.0		
Attributable to owners of SFS Group AG		88.1		88.9		
Earnings per share of the owners of SFS Group (in CHF) basic and diluted	9	**2.35**		2.37		–0.9%

The notes on pages 21 and 23 are an integral part of this half year financial report as of 30 June 2019.

Balance sheet

Assets in CHF million	30.6.2019 (unaudited)		31.12.2018 (unaudited)		+/–%
Cash and cash equivalents	131.2		129.7		
Trade receivables	310.5		314.5		
Other current receivables	38.9		38.1		
Inventories	356.8		342.2		
Prepayments and accrued income	12.7		11.1		
Current assets	**850.1**	**51.8%**	835.6	51.6%	1.7%
Property, plant and equipment	709.5		706.5		
Intangible assets	14.0		14.8		
Financial assets	45.7		43.8		
Deferred tax assets	21.0		18.6		
Non-current assets	**790.2**	**48.2%**	783.7	48.4%	0.8%
Assets	**1,640.3**	**100.0%**	1,619.3	100.0%	1.3%

Liabilities and equity in CHF million	30.6.2019 (unaudited)		31.12.2018 (unaudited)		
Trade payables	86.2		122.9		
Current borrowings	56.2		22.0		
Other current payables	50.5		64.2		
Accrued liabilities and deferred income	102.4		74.6		
Current liabilities	**295.3**	**18.0%**	283.7	17.5%	4.1%
Non-current borrowings	126.9		48.6		
Pension benefit obligations	5.8		5.8		
Non-current provisions	14.9		14.1		
Deferred tax liabilities	58.2		62.5		
Non-current liabilities	**205.8**	**12.5%**	131.0	8.1%	57.1%
Liabilities	**501.1**	**30.5%**	414.7	25.6%	20.8%
Share capital	3.8		3.8		
Capital reserves	11.5		73.8		
Retained earnings	1,101.2		1,104.5		
Equity attributable to SFS	**1,116.5**	**68.1%**	1,182.1	73.0%	–5.5%
Non-controlling interests	22.7		22.5		
Total equity	**1,139.2**	**69.5%**	1,204.6	74.4%	–5.4%
Liabilities and equity	**1,640.3**	**100.0%**	1,619.3	100.0%	1.3%

The notes on pages 21 and 23 are an integral part of this financial report as of 30 June 2019.

Statement of changes in equity

in CHF million	Share capital	Capital reserves	Goodwill offset against equity	Cash flow hedging	Currency translation adjustments	Other retained earnings	Retained earnings	Equity attributable to SFS	Non-controlling interests	Total equity
Balance as at 31.12.2017 (audited)	**3.8**	**145.0**	–908.6	–3.2	9.7	1,835.1	**933.0**	**1,081.8**	**5.2**	**1,087.0**
Changes of cash flow hedges	–	–	–	3.2	–	–	**3.2**	**3.2**	–	**3.2**
Currency translation adjustments	–	–	–	–	–4.5	–	**–4.5**	**–4.5**	**0.5**	**–4.0**
Net income	–	–	–	–	–	88.9	**88.9**	**88.9**	–	**88.9**
Dividend for 2017	–	**–71.2**	–	–	–	–	–	**–71.2**	–	**–71.2**
Balance as at 30.06.2018 (unaudited)	**3.8**	**73.8**	–908.6	–	5.2	1,924.0	**1,020.6**	**1,098.2**	**5.7**	**1,103.9**
Changes of cash flow hedges	–	–	–	1.2	–	–	**1.2**	**1.2**	–	**1.2**
Acquisitions	–	–	–4.2	–	–	–	**–4.2**	**–4.2**	**17.1**	**12.9**
Currency translation adjustments	–	–	–	–	–16.3	–	**–16.3**	**–16.3**	**–0.2**	**–16.5**
Net income	–	–	–	–	–	103.9	**103.9**	**103.9**	**1.1**	**105.0**
Dividend for 2017	–	–	–	–	–	–	–	–	**–1.2**	**–1.2**
Other changes	–	–	–	–	–	–0.7	**–0.7**	**–0.7**	–	**–0.7**
Balance as at 31.12.2018 (audited)	**3.8**	**73.8**	–912.8	1.2	–11.1	2,027.2	**1,104.5**	**1,182.1**	**22.5**	**1,204.6**
Changes of cash flow hedges	–	–	–	–1.0	–	–	**–1.0**	**–1.0**	–	**–1.0**
Acquisitions	–	–	–70.0	–	–	–	**–70.0**	**–70.0**	–	**–70.0**
Currency translation adjustments	–	–	–	–	–7.9	–	**–7.9**	**–7.9**	**–0.3**	**–8.2**
Net income	–	–	–	–	–	88.1	**88.1**	**88.1**	**0.5**	**88.6**
Dividend for 2018	–	**–62.3**	–	–	–	–12.7	**–12.7**	**–75.0**	–	**–75.0**
Other changes	–	–	–	–	–	0.2	**0.2**	**0.2**	–	**0.2**
Balance as at 30.06.2019 (unaudited)	**3.8**	**11.5**	–982.8	0.2	–19.0	2,102.8	**1,101.2**	**1,116.5**	**22.7**	**1,139.2**

The notes on pages 21 and 23 are an integral part of this half year financial report as of 30 June 2019.

Cash flow statement

in CHF million (unaudited, condensed version)	Notes	2019 1H	2018 1H	+/–%
Cash flow before changes in net working capital		123.3	143.0	–13.8%
Changes in net working capital		–18.2	–38.7	–53.0%
Cash flow from operating activities		**105.1**	104.3	0.8%
Purchases of property, plant and equipment		–55.4	–68.7	
Proceeds from sale of property, plant and equipment		8.9	0.2	
Purchases of intangible assets		–1.0	–0.8	
Acquisition of subsidiaries, net of cash acquired	10	–91.6	–	
Proceeds from disposal of subsidiaries	10	–	0.6	
Changes in loans granted		–0.1	–2.2	
Investment in/dividends from joint ventures and associates		–2.5	–	
Proceeds from interest and securities		0.4	0.4	
Cash flow from investing activities		**–141.3**	–70.5	
Proceeds/repayment from/of current borrowings		35.0	57.2	
Proceeds/repayment from/of non-current borrowings		78.4	–	
Dividends to the shareholders		–75.0	–71.2	
Cash flow from financing activities		**38.4**	–14.0	
Translation adjustment on cash and cash equivalents		–0.7	0.4	
Changes in cash and cash equivalents		**1.5**	20.2	
Cash and cash equivalents at beginning of period		129.7	112.8	
Cash and cash equivalents at end of period		**131.2**	133.0	

The notes on pages 21 and 23 are an integral part of this half year financial report as of 30 June 2019.

Notes

1 General information

SFS Group is a global development, manufacturing and supply partner for customized precision cold formed parts, special fasteners and assemblies as well as tailor-made logistic solutions which are sold under the brand names SFS, Unisteel, GESIPA® and Tegra Medical.

SFS Group is a limited company according to Swiss law, incorporated and domiciled in Heerbrugg, municipality of Widnau/SG, Switzerland. SFS Group AG is the parent company of all SFS Group companies and therefore the ultimate holding company of the SFS Group. It is listed on the SIX Swiss Stock Exchange AG in Zurich with the security code symbol SFSN.

All amounts are in CHF million unless otherwise stated.

2 Summary of significant accounting policies

This consolidated and condensed half year financial report has been prepared in accordance with Swiss GAAP FER 31 para 9 to 12 Interim Reporting. It is to be considered in conjunction with the consolidated financial statements 2018 and has been prepared using the same accounting and valuation methods. No new standards have been implemented.

3 Critical accounting estimates and judgments

Recognized critical accounting estimates and judgments as well as the financial risk management used in the consolidated financial statements 2018 have been continued unchanged in the first half of the year 2019. Similarly, there are no material changes in the financial risk.

4 Seasonality and other effects

Due to seasonal variations in the segments, usually higher net sales and a higher operating profit can be achieved in the second half of the year.

Usually SFS Group expects the strongest characteristics in the end user markets electronic industry and construction sector. In the electronic industry, new products of important end customers will be launched as well as higher sales due to the holiday season can be realized. The construction sector generally benefits from seasonally strong fall months. In the other end markets, sales are more balanced throughout the year.

In the first half of 2019 one-off costs in connection with the consolidation of the Chinese business activities in Nantong offsets the book gains on the disposal of non-core assets. This impacted EBIT by CHF –3.7 million. Fur-ther non-recurring effects are estimated to have a negative net impact in the high single digit in the second half of 2019.

5 Segment information

SFS Group is divided into the three segments Engineered Components, Fastening Systems and Distribution & Logistics.

The monitoring and assessment of the financial results and the valuation of the assets are in line with the same principles as in the financial report 2018.

Detailed information about segments are presented on pages 8 to 14.

In addition to the elimination of intercompany transactions, the segment «Corporate» contains corporate revenues and expenses relating to Technology, the cross-functions Corporate Services as well as Corporate IT & Finance.

Reconciliation of segment results to income statement and balance sheet

Income statement	2019 1H	2018 1H
Engineered Components	65.4	83.9
Fastening Systems	24.0	20.7
Distribution & Logistics	18.1	12.4
Corporate	–2.0	–1.0
Operating profit (EBIT)	**105.5**	**116.0**
Financial result	–2.2	–4.0
Share of profit from related entities	–0.4	–0.2
Earnings before tax	**102.9**	**111.8**

Assets	30.6.2019	31.12.2018
Engineered Components	837.8	851.5
Fastening Systems	388.9	357.7
Distribution & Logistics	174.5	167.6
Corporate	61.1	66.6
Operating assets	**1,462.3**	**1,443.4**
+ Cash and cash equivalents	131.2	129.7
+ Derivative financial instruments	1.1	2.4
+ Financial assets	45.7	43.8
Assets	**1,640.3**	**1,619.3**

Liabilities and equity	30.6.2019	31.12.2018
Engineered Components	146.7	181.8
Fastening Systems	81.2	73.0
Distribution & Logistics	37.9	34.8
Corporate	51.8	54.5
Operating liabilities	**317.6**	**344.1**
+ Current borrowings	56.2	22.0
+ Long-term borrowings	126.9	48.6
+ Derivative financial instruments	0.4	–
Liabilities	**501.1**	**414.7**
Equity (Net assets)	**1'139.2**	**1'204.6**

6 Sales

	2019 1H	2018 1H
Third party sales	867.8	855.9
Other items	0.6	–1.3
Net sales	**868.4**	**854.6**

7 Ertragssteuern

In the financial report the income taxes have been recorded on the basis of local tax rates.

The approval of the federal act on tax reform and AHV financing (STAF) resulted in a non-recurring deferred tax income of CHF 5.2 million in the first half of 2019.

8 Dividend

The dividend distribution for fiscal year 2018 of CHF 2.00 per share was approved at the annual general meeting and paid out in the total amount of CHF 75.0 million in May 2019.

9 Earnings per SFS share

	2019 1H	2018 1H
Weighted average number of shares	37,500,000	37,500,000
Net income attributable to owners of SFS Group AG	88.1	88.9
Earnings per share (in CHF) basic and diluted	**2.35**	**2.37**

10 Changes in scope of consolidation

2019

As of 1 April 2019 the SFS Group acquired 100% of Triangle Fastener Corporation, domiciled in Pittsburgh (USA). The company achieved in 2018 with 200 employees a turnover of USD 70 million. It is part of segment Engi-neered Components.

2018

SFS Group increased its share in HECO Group from 30% to 51% with effect of 1 July 2018. The HECO Group, reported in segment Fastening Systems, with head office in Schramberg (Germany) achieved a turnover of EUR 41 million with 322 employees in 2017. Subsequent HECO is no longer reported as associates but as fully consolidated entity since 1 July 2018.

In May 2018, SFS unimarket AG (Segment Distribution & Logistics) disposed the activities of the security system that generated a turnover of 10 million (in 2017) with 26 employees.

Change in scope of consolidation	2019 1H	2018 1H
Purchase price	**–92.8**	–
Cash and cash equivalents	1.2	–
Disposal business unit	–	0.6
Consideration cash flow statement	**–91.6**	**0.6**

11 Exchange rates

Income statement average rate	2019 1H	2018 1H
CNY 100	14.694	15.171
EUR 1	1.130	1.169
GBP 1	1.293	1.329
SGD 1	0.736	0.729
USD 1	1.000	0.966

Balance sheet closing rate	30.6.2019	31.12.2018
CNY 100	14.203	14.310
EUR 1	1.111	1.127
GBP 1	1.239	1.260
SGD 1	0.721	0.723
USD 1	0.976	0.984

12 Events after the reporting period

The Board of Directors has approved this half year financial report on 18 July 2019. SFS is not aware of other events that occurred after the balance sheet date that could have a material impact on the consolidated statements for this financial report.

Information for shareholders

Number of shares in 1,000	30.6.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Registered shares	37,500	37,500	37,500	37,500	37,500
Shares ranking for dividend	37,500	37,500	37,500	37,500	37,500
Weighted average number of shares	37,500	37,500	37,500	37,500	37,500
Number of shareholders	8,592	7,960	7,530	6,641	6,941
Stock exchange closing quotation (in CHF)					
Year high	95.30	121.80	123.50	83.15	79.00
Year low	74.30	73.80	82.55	60.45	56.90
End price	83.10	76.30	113.20	83.10	70.00
Share key data					
Earnings per share in CHF	2.35	5.14	4.24	3.32	2.39
Distribution per share in CHF	n/a	2.00	1.90	1.75	1.50
Payout ratio in % of consolidated net income	n/a	38.7	44.8	52.6	62.7
Price/earnings ratio (P/E end price)	n/a	14.8	26.7	25.0	29.3
Market capitalization					
In CHF million (end price × number of shares ranking for dividend)	3,116.3	2,861.3	4,245.0	3,116.3	2,625.0
As a % of net sales	179.4	164.7	259.7	216.9	191.4
As a % of equity	273.6	237.5	390.5	315.5	233.0

Agenda

Friday, 24 January 2020	First information on business year 2019
Friday, 6 March 2020	Publication results business year 2019
Thursday, 23 April 2020	27th Annual General Meeting of SFS Group AG

Security-no.:	23.922.930
ISIN:	CH 023 922 930 2
SIX Swiss Exchange AG:	SFSN
Reuters:	SFSN.S
Bloomberg:	SFSN SW
Fact Set:	SFSN-CH

Annual report 2019
The half year report is available in German and English. The German language version of the half year report is the only legally binding version.

Exclusion of liability
This half year report includes forward looking statements. These statements reflect the SFS Group's current assesment of market conditions and future events. The statements are therefore subject to risks, uncertainities and assumptions. Unforseen events may lead to deviations of the actual results from the forecasts and estimates made in this presentation and in other published information. To this extent, all forward looking statements in this half year report are subject to such limitations.

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