Schaffner Group Half-Year Report 2015/16

schaffner
shaping electrical power

Schaffner steps up its cost-reduction program in a difficult market environment

In the first half of fiscal 2015/16, the Schaffner Group stepped up the implementation of measures aimed at achieving the operating EBITA margin target of at least 8% defined in the 2020 strategy. Schaffner currently expects restructuring costs of approx. CHF 4 million from the implementation of these measures for the fiscal year as a whole, of which CHF 0.7 million were included in the results posted for the first half of the fiscal year. The merger of the two US plants at the Wytheville (Virginia) site will contribute considerable savings from as early as the second half of the fiscal year.

The Schaffner Group's net sales fell by 9.7% to CHF 92.6 million in the first half of fiscal 2015/16 (to 31 March) due to a sharp decline in sales in the Power Magnetics division (first half of fiscal 2014/15: CHF 102.5 million). The difference in local currencies amounted to –9.2%. Impacted by Power Magnetics' low sales figures as well as extraordinary costs associated with staff cuts, the operating profit prior to acquisition-related amortization and restructuring costs (operating EBITA) fell to CHF 2.2 million (CHF 4.8 million). The operating EBITA margin amounted to 2.3% (4.7%). Net profit was at CHF –0.3 million (CHF 1.9 million) or CHF –0.53 (CHF 3.02) per share.

The market environment in the Schaffner Group's core markets remained extremely difficult in the reporting period as well, with the exception of the automotive sector. One key reason for this is the current low demand in drive technology, partly due to the slump in oil, gas and mining industries as a result of the persistently low commodity prices. However, harmonic filters went against this trend and reported a rise in sales by more than a third, supported by successes in Asia and Europe. At a regional level, China saw positive growth once again and is currently the Schaffner Group's most important national market, with a share of sales of 25%. Overall, the Group's order intake in the first half of fiscal 2015/16 totaled CHF 94.2 million (CHF 101.4 million). The book-to-bill ratio was 1.02 (0.99), thereby showing both a sequential and a year-on-year improvement.

Divisions of the Schaffner Group: Automotive boasting a high margin again, Power Magnetics experiencing a sharp drop in sales

Sales in the **EMC division** declined slightly by 3% to CHF 45.4 million in the first half of fiscal 2015/16. The segment operating profit of CHF 3.1 million (CHF 3.6 million) was characterized by a high level of investment in the expansion of the Power Quality business, in particular for developing the next generation of the ECOsine harmonic filters.

The **Power Magnetics** division experienced a 24% drop in sales to CHF 25.2 million. China saw solid growth, while in the other regions the division suffered due to weak demand from the drive technology, photovoltaic and rail technology sectors. The negative segment result of CHF –3.0 million (CHF 1.8 million) is down to low capacity utilization in the factories in Europe and North America. However, a rise in order intake suggests that the division has reached a trough.

The **Automotive division** reported sales in the first half of the fiscal year that were slightly down on the prior-year period at CHF 22.2 million (CHF 22.6 million), but again growth for components for keyless entry systems was recorded. Operating segment profit saw a considerable increase to CHF 4.7 million (CHF 2.8 million), thanks to further improvements in operational excellence as well as a high level of production capacity utilization.

Cost-reduction program being stepped up

The operating EBITA margin target of at least 8% defined in the 2020 strategy shall be achieved within 24 months since the implementation of measures has been stepped up. These measures include the plant merger in the US, as well as plans for the further relocation of production and a sustainable reduction of material costs. Fixed-cost structures are being streamlined by cutting 5% of positions. The aim is to reduce costs by more than CHF 6 million annually, with most of this having taken effect by as early as fiscal 2016/17. The Automotive division, which is already exceeding its medium-term targets, is excluded from these measures.

Changes in Group Management

As agreed with the Board of Directors, the Head of the Power Magnetics division, Eduard Hadorn, stepped down from his role and from the Executive Committee with effect from 31 March 2016. He has taken charge of the strategic project to develop Schaffner's business in the growth market of India. Until a permanent successor is appointed to head up the Power Magnetics division, CEO Alexander Hagemann will take charge of the division on an ad interim basis.

Outlook

The economic outlook in Schaffner's core markets remains uncertain. As the order intake develops better than sales, Schaffner expects sequentially increasing sales that – together with the initial successes from the cost-reduction measures – should result in an improvement of the operating EBITA against the first half of the fiscal year. The cost of implementing the cost-reduction program will, however, leave its mark on the Schaffner Group's results for the second half of fiscal 2015/16. Both operating EBITA and net profit for the whole of fiscal 2015/16 are expected to be well below the previous-year results.

Luterbach, 12 May 2016

Daniel Hirschi
Chairman of the Board

Alexander Hagemann
Chief Executive Officer

Consolidated balance sheet

In CHF '000	31.3.2016	30.9.2015
Intangible assets	20,719	22,105
Property, plant and equipment	21,992	22,728
Other non-current assets	2,222	2,232
Deferred tax assets	5,606	4,600
Non-current assets	**50,539**	**51,665**
Inventories	30,239	32,030
Trade receivables	34,259	34,734
Income tax receivables	442	269
Other receivables, prepaid expenses and accrued income	4,097	2,964
Other current financial assets	1,994	5,615
Cash and cash equivalents	12,608	19,606
Current assets	**83,639**	**95,218**
Total assets	**134,178**	**146,883**
Equity attributable to equity holders of Schaffner Holding AG	55,099	59,443
Shareholders' equity	**55,099**	**59,443**
Non-current provisions	1,789	1,314
Pension liability	9,825	9,597
Deferred tax liabilities	229	359
Non-current borrowings	35,819	37,528
Non-current liabilities	**47,662**	**48,798**
Current provisions	893	655
Current borrowings	37	274
Income tax payables	1,001	990
Trade and other payables	29,486	36,723
Current liabilities	**31,417**	**38,642**
Total liabilities	**79,079**	**87,440**
Total liabilities and shareholders' equity	**134,178**	**146,883**

Consolidated income statement

For the first six months (1 October to 31 March) In CHF '000	H1 2015/16	H1 2014/15
Net sales	**92,575**	**102,469**
Cost of sales	–67,540	–74,253
Gross profit	**25,035**	**28,216**
Other income	0	399
Marketing and selling expense	–9,923	–9,723
Research and development expense	–8,622	–8,382
General and administrative expense	–5,966	–6,807
Operating profit [EBIT]	**524**	**3,703**
Finance income	318	4,392
Finance expense	–1,359	–5,755
(–Loss)/Profit before tax [EBT]	**–517**	**2,340**
Income tax	183	–430
Net (–loss)/profit for the period	**–334**	**1,910**
Earnings per share in CHF		
Basic	–0.53	3.02
Diluted	–0.53	2.99

Consolidated statement of comprehensive income

For the first six months (1 October to 31 March) In CHF '000	H1 2015/16	H1 2014/15
Net (–loss)/profit for the period	**–334**	**1,910**
Items of other comprehensive income that will not be reclassified to the income statement		
Actuarial losses	0	–5,351
Income tax	0	1,084
Total items that will not be reclassified to the income statement	**0**	**–4,267**
Items of other comprehensive income that will be reclassified to the income statement		
Exchange differences	73	–1,463
Movement in cash flow hedges	0	42
Income tax	0	0
Total items that will be reclassified to the income statement	**73**	**–1,421**
Other comprehensive (–loss)/income for the period	**73**	**–5,688**
Total comprehensive (–loss) for the period	**–261**	**–3,778**

Condensed consolidated cash flow statement

For the first six months (1 October to 31 March) In CHF '000	H1 2015/16	H1 2014/15
Cash flow from operating activities	**–2,693**	**232**
Purchase of property, plant and equipment	–1,842	–2,594
Purchase of intangible assets	–111	–497
Change in current financial assets	3,746	1,410
Other investing activities	–21	53
Cash flow from investing activities	**1,772**	**–1,628**
Repayment of excess share premium	–4,133	–4,127
Changes in treasury shares	50	473
Proceeds from borrowings	0	6,647
Repayment of borrowings	–1,847	0
Other financing activities	–93	–82
Cash flow from financing activities	**–6,023**	**2,911**
Effect of exchange rates on cash and cash equivalents	–54	–100
Change in cash and cash equivalents	**–6,998**	**1,415**
Cash and cash equivalents at 1 October	19,606	18,640
Cash and cash equivalents at 31 March	12,608	20,055

Consolidated statement of changes in equity

In CHF '000	Share capital	Share premium	Cumulative exchange differences	Retained earnings	Treasury shares	Hedging reserve	Total shareholders' equity
At 1 October 2014	**20,668**	**50,543**	**–14,170**	**10,686**	**–959**	**–122**	**66,646**
Net profit for the period				1,910			1,910
Other comprehensive (–loss)			–1,463	–4,267		42	–5,688
Total comprehensive (–loss) for the period			**–1,463**	**–2,357**		**42**	**–3,778**
Treasury shares				–921	660		–261
Repayment of excess share premium		–4,127					–4,127
Share option plans and restricted share plans		28		734			762
At 31 March 2015	**20,668**	**46,444**	**–15,633**	**8,142**	**–299**	**–80**	**59,242**
At 1 October 2015	**20,668**	**46,470**	**–17,807**	**10,411**	**–299**	**0**	**59,443**
Net (–loss) for the period				–334			–334
Other comprehensive income			73				73
Total comprehensive (–loss) for the period			**73**	**–334**			**–261**
Treasury shares				–843	273		–570
Repayment of excess share premium		–4,133					–4,133
Share option plans and restricted share plans		–68		688			620
At 31 March 2016	**20,668**	**42,269**	**–17,734**	**9,921**	**–26**	**0**	**55,099**

Notes

1 Accounting policies

The unaudited consolidated financial statements of the Schaffner Group for the first half of the fiscal year were prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting. As these interim financial statements represent an update of the consolidated annual financial statements for the year ended 30 September 2015, they should be read in conjunction with those annual financial statements.

The consolidated financial statements for the six months ended 31 March 2016 were approved by the Board of Directors of Schaffner Holding AG on 11 May 2016 and released for publication. The Schaffner Group applied the same accounting principles as in the prior years.

2 Post-employment and other long-term employee benefits

At the end of each financial year, Schaffner commissions an actuarial assessment of the pension obligations. At the end of the six-month reporting period, this valuation was updated by extrapolation, as there were no material changes in the relevant internal regulations, the number of employees or the applicable discount rate since the latest valuation performed at 30 September 2015.

3 Intangible assets

For acquired intangible assets in the Power Magnetics division such as customer relationships, technologies and brands that were identified in prior years under purchase price allocations, impairment tests were performed at the balance sheet date. These tests showed no need for an impairment charge.

4 Operating segments

The Schaffner Group consists of three reportable segments: Electromagnetic Compatibility, Power Magnetics and Automotive. They represent the organizational units for which results are reported to the Executive Committee (the Group's chief operating decision maker).

Electromagnetic Compatibility (EMC)

The EMC division develops and manufactures standard and custom components that protect power electronic equipment from line interference (thus assuring electromagnetic compatibility, or EMC) and ensure the stability of power grids. As well, the Power Quality business unit develops and produces active and passive filter solutions to assure the best quality of electric power. Key sales markets include energy-efficient drive systems, renewable energy, power supplies for electronic devices, and machine tools and robotics.

Power Magnetics (PM)

The Power Magnetics division (PM) develops and manufactures components to ensure the reliable operation of power electronic systems, and builds customized high-performance transformers for demanding applications. Schaffner solutions deployed in solar inverters and converters in wind turbines are highly efficient and assure the best possible adaptation to electricity grids. Schaffner components are also integrated into compact, high performance, energy-efficient locomotive drive systems and eliminate network interference from powerful motors.

Automotive (AM)

The Automotive division (AM) develops and manufactures components for keyless entry systems as well as solutions for the drive systems of hybrid and electric vehicles. Working closely with leading automobile manufacturers, Schaffner engineers bring their specialized expertise in EMC to supporting the development of new models.

The "Corporate" column comprises all costs for Group functions that cannot be allocated to a particular segment. These are primarily the expenses of Schaffner Holding AG.

No operating segments have been aggregated to form these reportable operating segments. Segment profit represents the given segment's operating profit before amortization (if any) of customer relationships.

Segment profit or loss represents the given segment's operating profit or loss before acquisition-related amortization and restructuring charges. This definition was introduced for the 2015/16 financial year and the prior-year values were adjusted accordingly.

No reconciliation of the management reporting data to the financial reporting data is required or provided, as the internal and external reporting follow the same accounting and presentation policies.

The restructuring expenses of the Power Magnetics division reported in the first half of 2015/16 consisted primarily of the costs in connection with the merging of the production plants in North America and the costs for the changes in the division's management.

For the first six months of 2015/16 (1 October to 31 March) In CHF '000	EMC	PM	AM	Corporate	Group
Net sales	45,391	25,213	21,971		92,575
Segment operating (–loss)/profit	**3,069**	**–2,976**	**4,663**	**–2,602**	**2,154**
Restructuring-related expenses		–749			–749
Acquisition-related amortization	–98	–783			–881
Operating profit [EBIT]					**524**
Finance income					318
Finance expense					–1,359
(–Loss) before tax [EBT]					**–517**
Income tax					183
Net (–loss) for the period					**–334**

restated

For the first six months of 2014/15 (1 October to 31 March) In CHF '000	EMC	PM	AM	Corporate	Group
Net sales	46,650	33,196	22,623		102,469
Segment operating (–loss)/profit	**3,554**	**1,792**	**2,776**	**–3,307**	**4,815**
Acquisition-related amortization	–98	–1,014			–1,112
Operating profit [EBIT]					**3,703**
Finance income					4,392
Finance expense					–5,755
Profit before tax [EBT]					**2,340**
Income tax					–430
Net profit for the period					**1,910**

5 Financial instruments

The financial assets and liabilities measured at fair value are categorized into the following fair value hierarchy according to the valuation technique used:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Techniques for which all inputs that have a significant effect on the recorded fair value are based on directly or indirectly observable market data.
- Level 3: Techniques using inputs that have a significant effect on the recorded fair value and are not based on observable market data.

	31.3.2016		30.9.2015	
in CHF '000	Level 3	Total	Level 3	Total
Liabilities measured at fair value				
Contingent consideration	38	38	38	38
Total liabilities measured at fair value	**38**	**38**	**38**	**38**

The contingent consideration from the Trenco acquisition was calculated based on existing business plans and management's revenue estimates and discounted to the balance sheet date. There were no reclassifications between levels.

6 Seasonality

The Schaffner Group does not operate in industries with significant seasonal or cyclical variation in total sales over the fiscal year. Since major public holidays such as Chinese New Year and Christmas fall in the first half of the fiscal year, experience has shown that, factoring out economic influences, higher sales are usually generated in the second half of the year. Income tax is recognized based on the best estimate of the weighted average annual income tax rate expected for the full fiscal year.

7 Commitments and contingencies

At 31 March 2016, the Group had commitments to purchase property, plant and equipment in the amount of CHF 0.7 million (30 September 2015: CHF 0.1 million). Contingent liabilities, described in the notes to the consolidated financial statements for the year ended 30 September 2015, did not change materially in the reporting period.

8 Foreign currencies

The following exchange rates were applied in the translation of foreign currencies:

			Balance sheet		Income statement	
			31.3.2016	30.9.2015	H1 2015/16	H1 2014/15
Country or region	Currency		in CHF	in CHF	in CHF	in CHF
China	CNY	100	14.88	15.33	15.17	15.62
EU	EUR	100	109.40	109.04	109.36	108.67
Hungary	HUF	100	0.35	0.35	0.35	0.36
Thailand	THB	100	2.73	2.68	2.77	2.97
USA	USD	100	96.16	97.47	98.07	96.78

9 Distribution to shareholders

As decided by the Annual General Meeting of Schaffner Holding AG on 12 January 2016, a distribution of CHF 6.50 per share (exempt from Swiss anticipatory tax) for fiscal year 2014/15 was made to the shareholders in the form of a repayment of excess share premium from additional paid-in capital.

10 Events after the balance sheet date

No events have occurred after the balance sheet date that have a material effect on the amounts in the consolidated interim financial statements.

Key financials

Consolidated income statement

For the first six months (1 October to 31 March) In CHF '000	H1 2015/16	H1 2014/15
Net sales	92,575	102,469
Operating profit [EBIT]	**524**	**3,703**
In % of net sales	0.6	3.6
Operating EBITA	**2,154**	**4,815**
In % of net sales	2.3	4.7
Net (–loss)/profit for the period	**–334**	**1,910**
In % of net sales	–0.4	1.9
Net (–loss)/profit for the period per share in CHF	–0.53	3.02

Consolidated balance sheet

In CHF '000	31.3.2016	30.9.2015
Total assets	**134,178**	**146,883**
Current assets	83,639	95,218
Non-current assets	50,539	51,665
Total liabilities	79,079	87,440
Shareholders' equity	**55,099**	**59,443**
In % of total assets	41.1	40.5

Segment reporting

For the first six months (1 October to 31 March) In CHF '000	H1 2015/16	H1 2014/15
Electromagnetic Compatibility (EMC)		
Segment sales	45,391	46,650
Segment operating profit	3,069	3,554
In % of segment sales	6.8	7.6
Power Magnetics (PM)		
Segment sales	25,213	33,196
Segment operating (–loss)/profit	–2,976	1,792
In % of segment sales	–11.8	5.4
Automotive (AM)		
Segment sales	21,971	22,623
Segment operating profit	4,663	2,776
In % of segment sales	21.2	12.3

Key share figures

	31.3.2016	30.9.2015
Number of shares	635,940	635,940
Shareholders' equity per share in CHF	**86.64**	**93.47**
Share price in CHF	208.60	218.90
Market capitalization in CHF million	**133**	**139**

Calendar

6.12.2016	Publication of Annual Report 2015/16 (full-year results)
12.1.2017	21st Annual General Meeting

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