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2023 half-year results

Agenda

Overview 1st half-year 2023	**Urs Ryffel (CEO)**
Financial results	Ivo Wechsler (CFO)
Outlook 2023	Urs Ryffel (CEO)
Q&A	
Financial calendar	

Net sales maintained at prior-year level with lower profitability

MCHF

	H1/2023	H1/2022	Δ %
Order intake	453.3	498.4	(9.0)
Net sales	477.3	477.4	(0.0)
Operating profit (EBIT) as % of net sales	47.0 9.8	54.0 11.3	(13.0)
Net income as % of net sales	38.2 8.0	43.8 9.2	(12.7)

Heterogeneous development during first six months

- Order intake negatively impacted by overstocked customer inventories across many end markets and communication market in a downward cycle
- Net sales maintained at high level of previous year thanks to strong growth in Industry and Transportation segments
- Organic sales growth of 5.4 %

Operating profit margin at decent level

- Continued strong performance in Industry and successful turnaround in Transportation – drop attributable to Communication segment
- EBIT margin at 9.8 % well in medium-term target range of 9–12 %

Industry segment

Further net sales increase with sustained high profitability

MCHF

	H1/2023	H1/2022	Δ %
Order intake	148.6	157.6	(5.7)
Net sales	159.6	145.0	10.1
Operating profit (EBIT)	30.2	28.7	5.1
as % of net sales	18.9	19.8	

Key aspects

- Growth initiative aerospace and defense with significant increase in orders and sales
- Test and measurement fell short compared to previous year as a result of the downward cycle in the communication market
- Above-average customer inventory levels in general industrial put pressure on order intake compared with the previous year
- High power charging (HPC) with sales growth from strong backlog but below last year’s contribution to order intake

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Communication segment

Significant drop in sales and profitability

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	H1/2023	H1/2022	Δ %
Order intake	148.1	193.1	(23.3)
Net sales	169.8	197.0	(13.8)
Operating profit (EBIT)	6.2	24.8	(74.9)
as % of net sales	3.7	12.6	

Key aspects

- The end of 5G rollouts in North America (NAM), which had contributed substantially to the past two years, caused a material decline in orders and revenue
- The negative market development in NAM was additionally overshadowed by high inventory levels at customers, which are currently being consumed
- Rising order and revenue volumes from the Asian market, especially from India and Australia, could not fully offset the decline in NAM, neither in terms of volume nor margin
- Uncertainties in energy supply resulted in temporary postponement of planned investments in energy-intensive data centers
- The short-term nature of the business and a typically low order backlog led to the sharp drop in results

Transportation segment

Successful turnaround, double-digit operating profit margin

MCHF

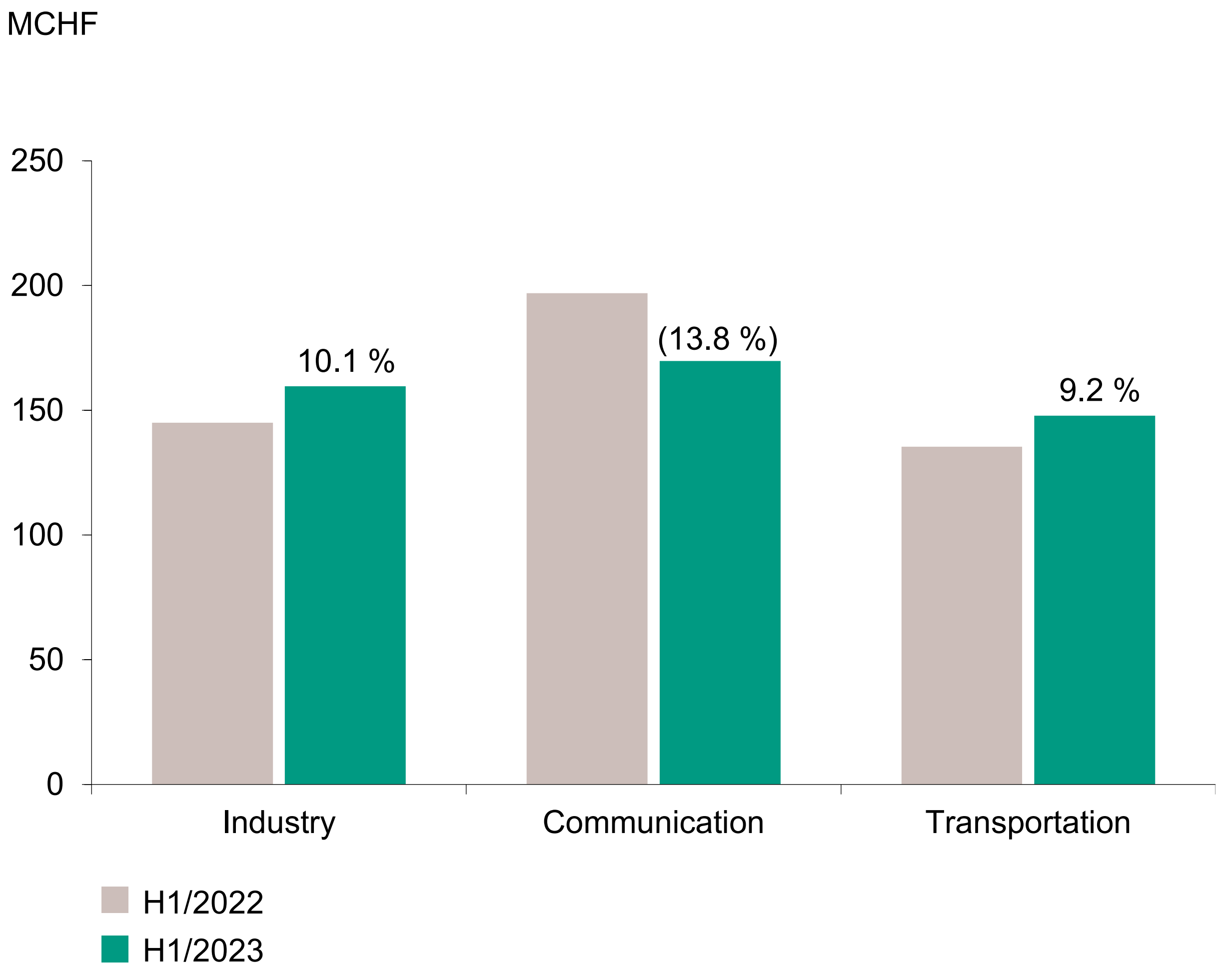
	H1/2023	H1/2022	Δ %
Order intake	156.6	147.7	6.1
Net sales	147.9	135.4	9.2
Operating profit (EBIT)	15.5	4.7	234.2
as % of net sales	10.5	3.4	

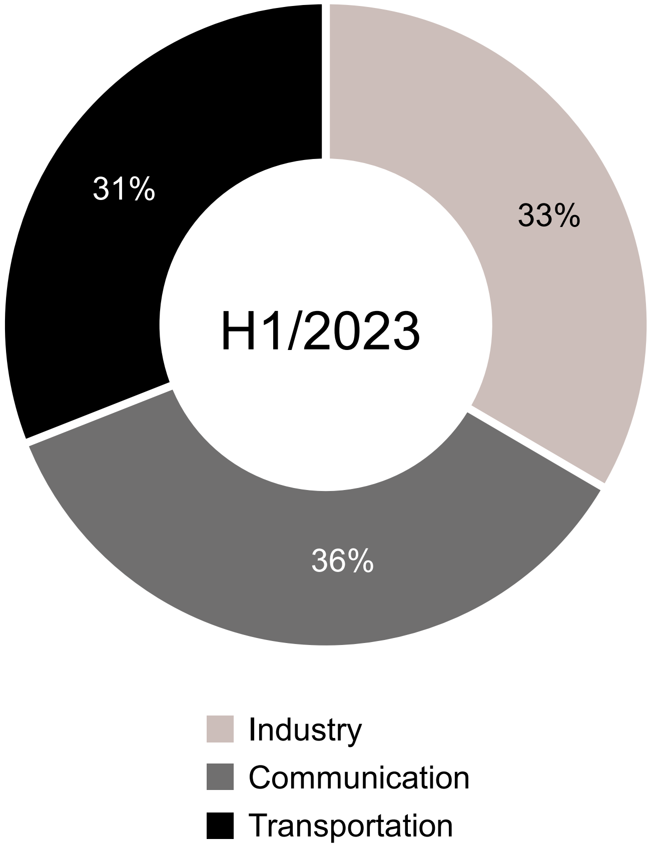
Key aspects

- Growing order intake, net sales and a substantially improved EBIT margin
- Automotive subsegment confirmed growth path after first six months
- Trend towards electrification of commercial vehicles continued and contributed significantly to the electric vehicle growth initiative
- Broadening of customer base in ADAS growth initiative supports positive outlook for Transportation segment
- The railway subsegment recovered and returned to growth after the pandemic-related dry-spell
- Rail communication growth initiative picked up due to equipment for new trains, technical upgrades for existing rolling stock and installations along rail tracks

Net sales by market segment

Industry and Transportation offset decline in Communication

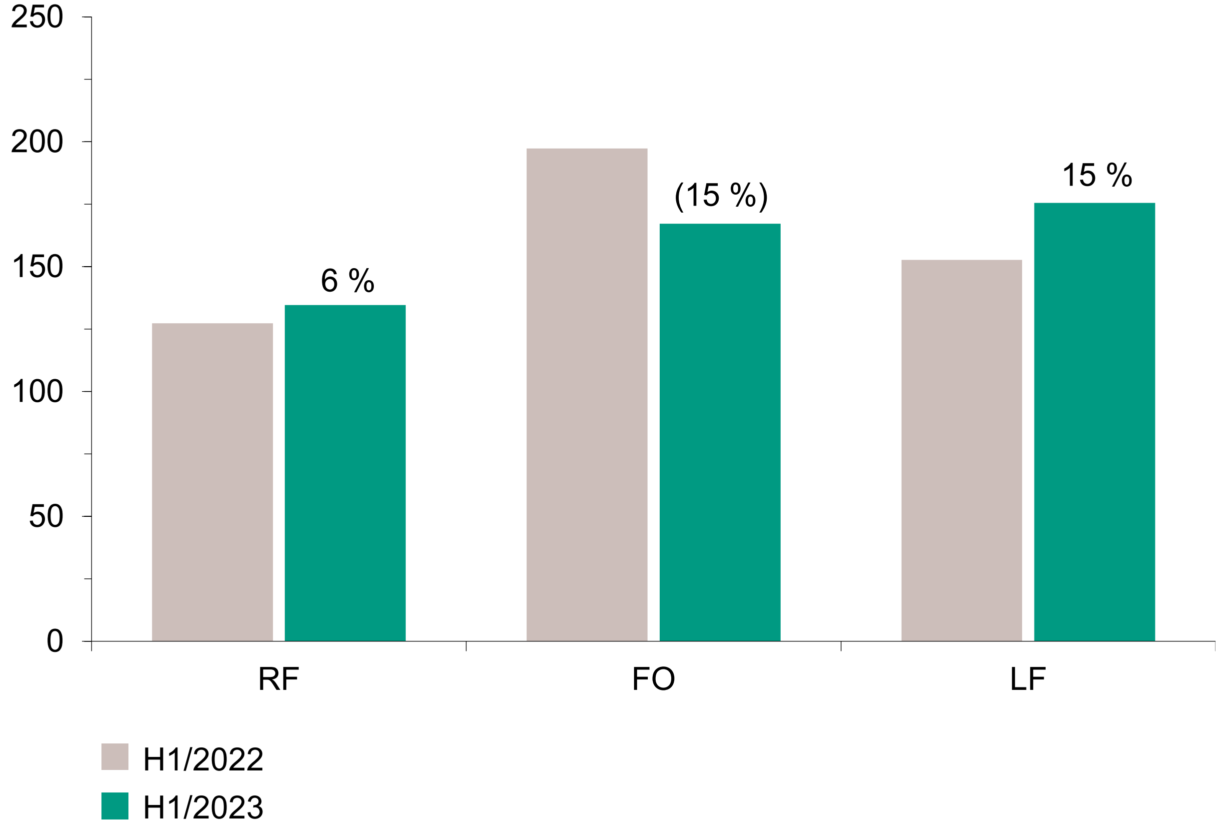


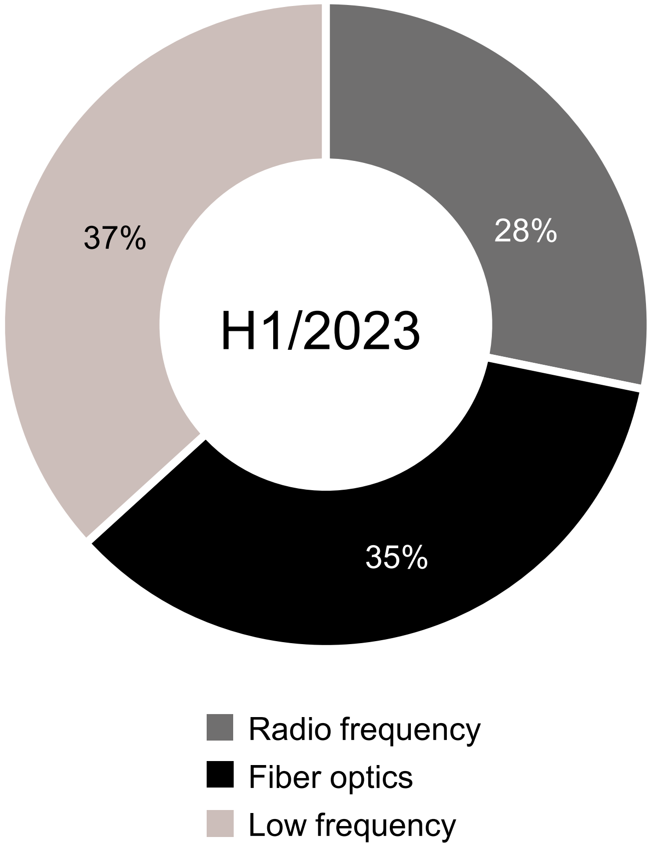


Net sales by technologies

High increase in low frequency reflects growth in Industry and Transportation

MCHF

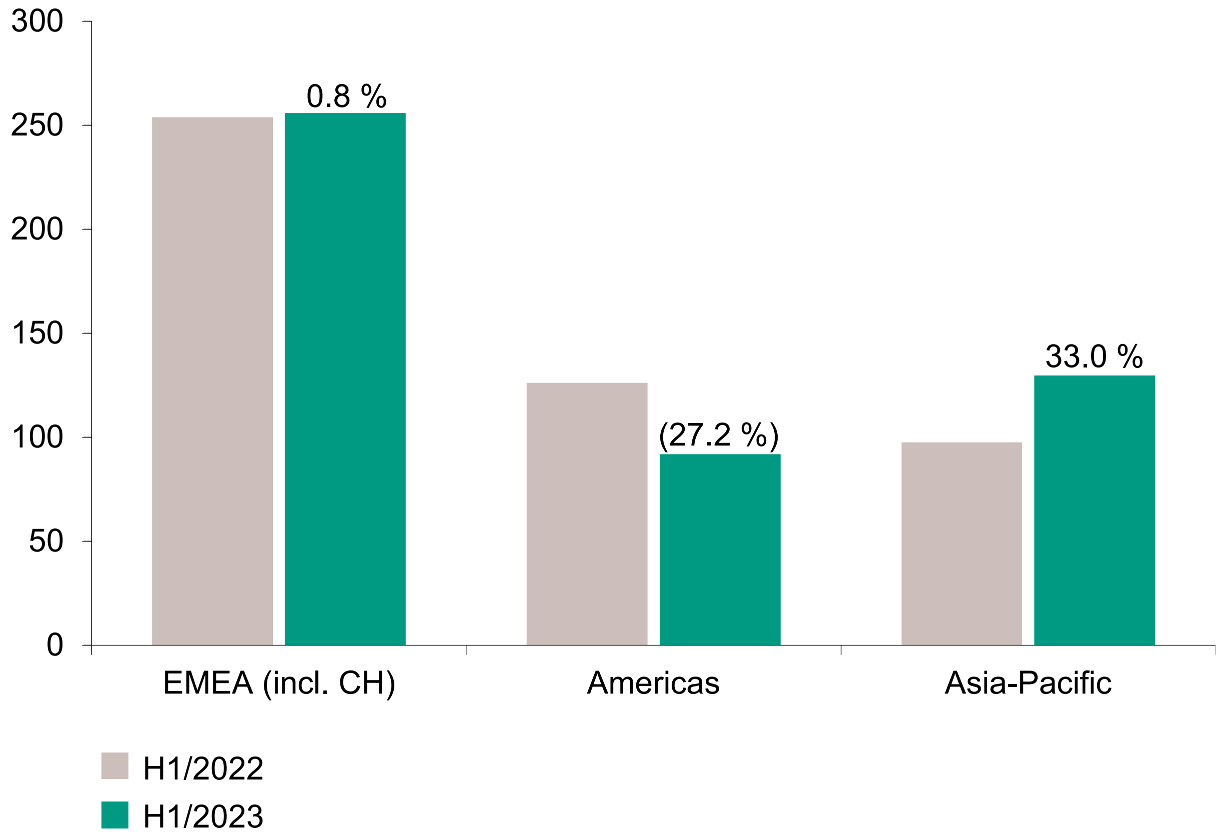


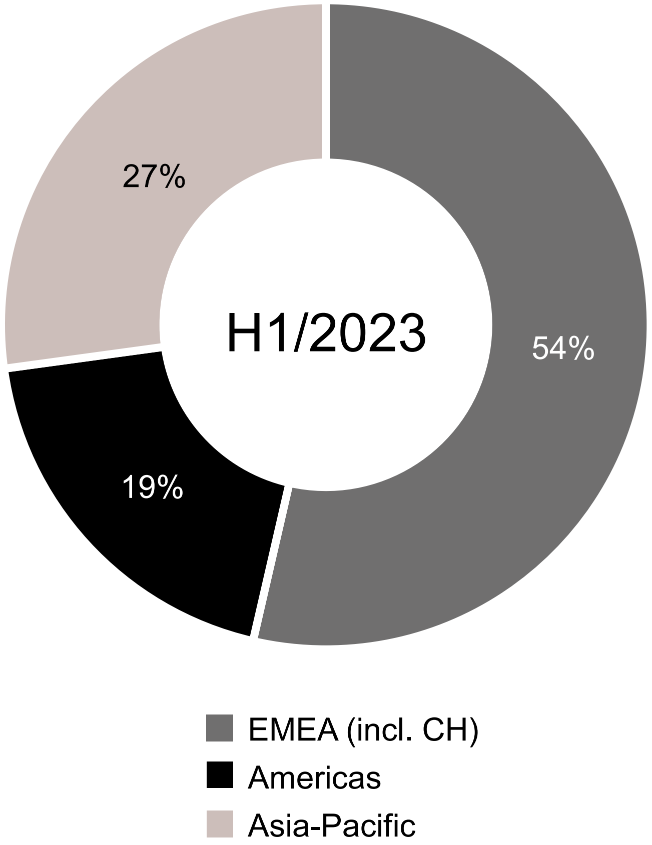


Net sales by region

Broad resurgence of Asia-Pacific, decline in Americas related to Communication

MCHF





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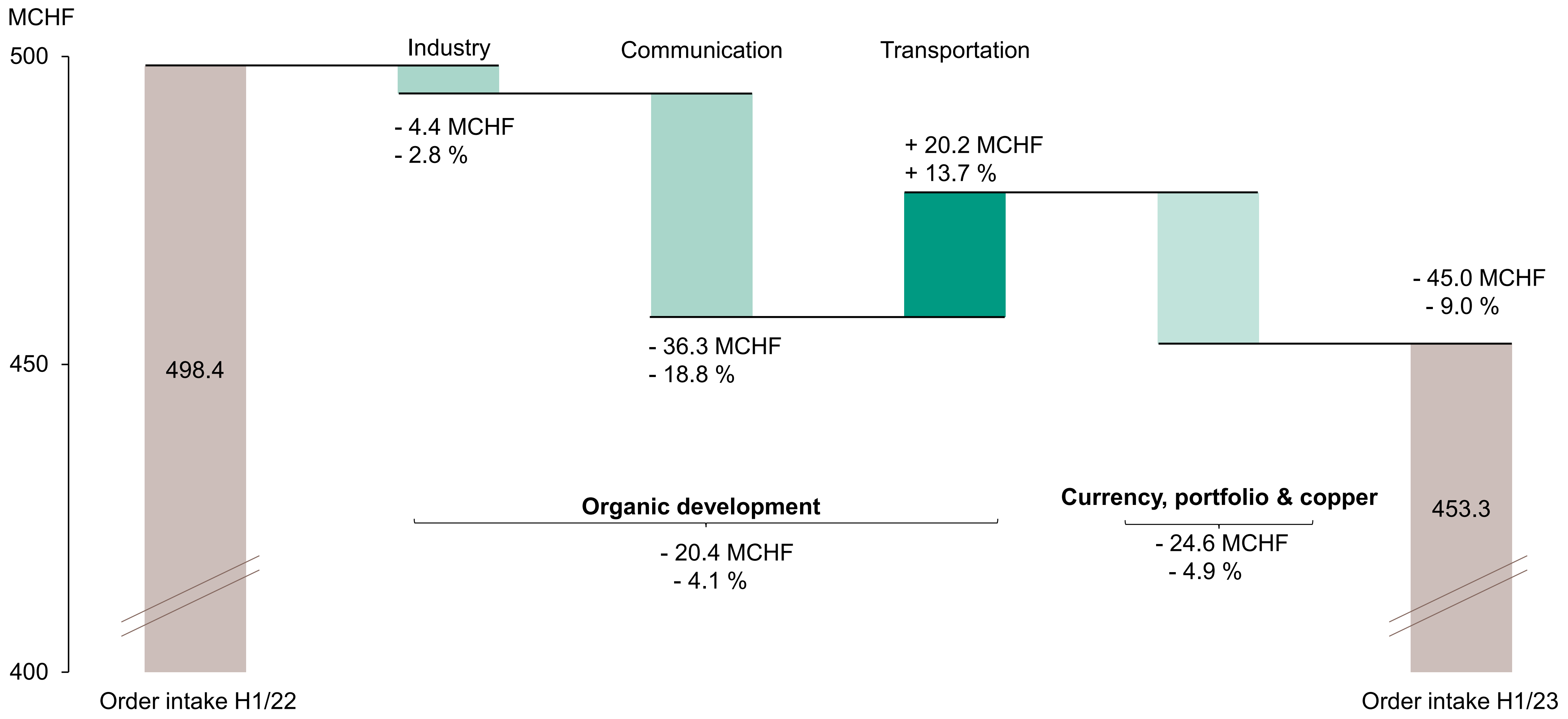
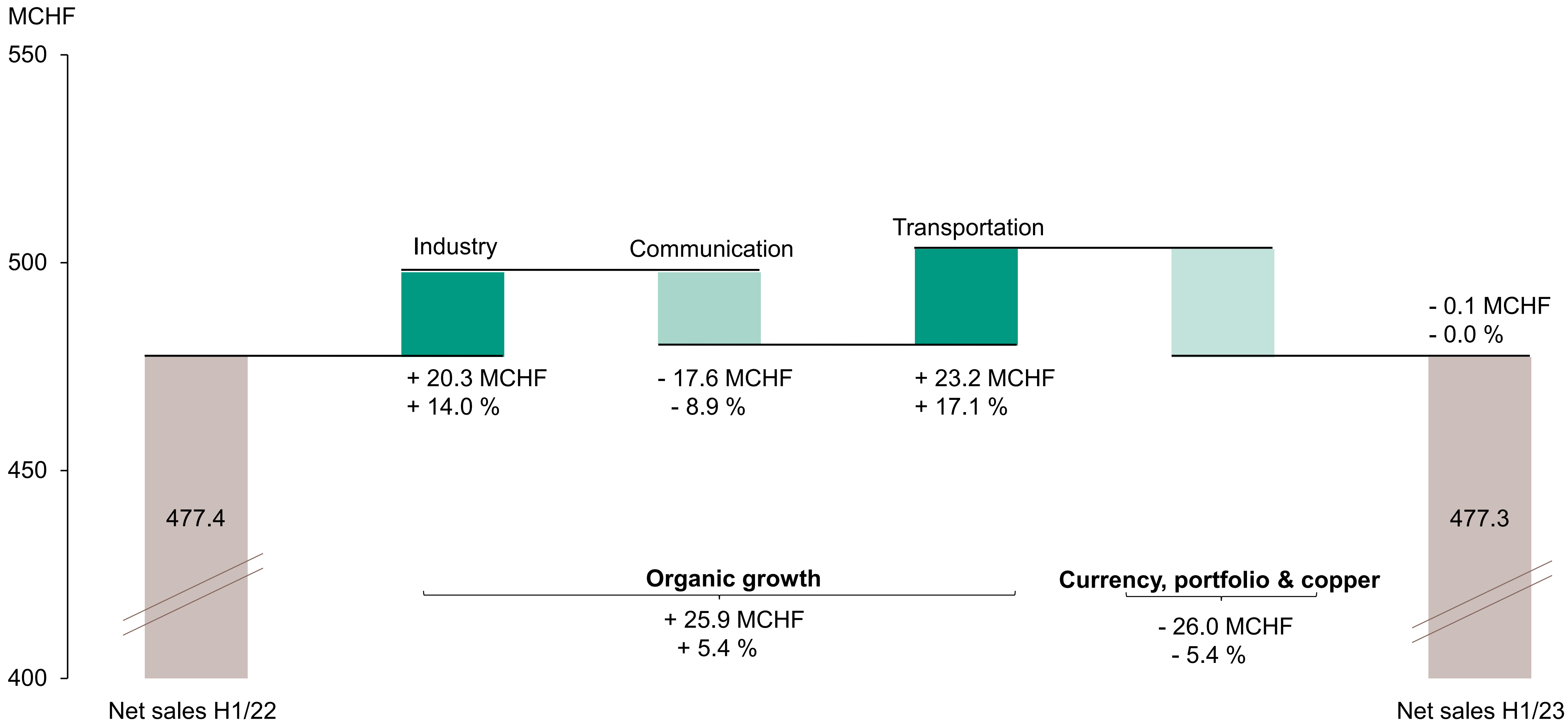
Factors impacting order intake

Decline in Communication business, adverse FX, Transportation with double digit growth



Factors impacting net sales

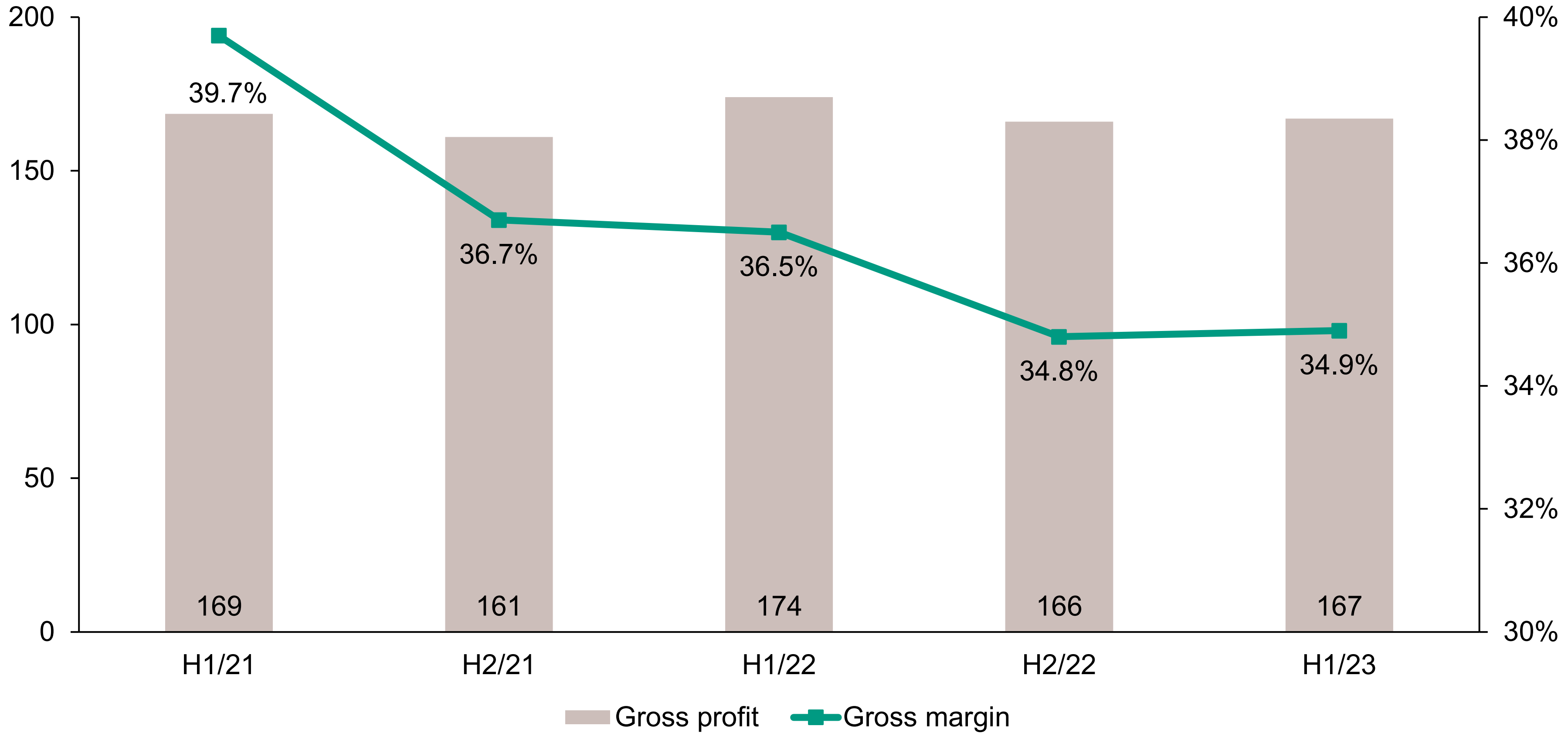
5.4 % organic growth supported by two market segments



Gross margin

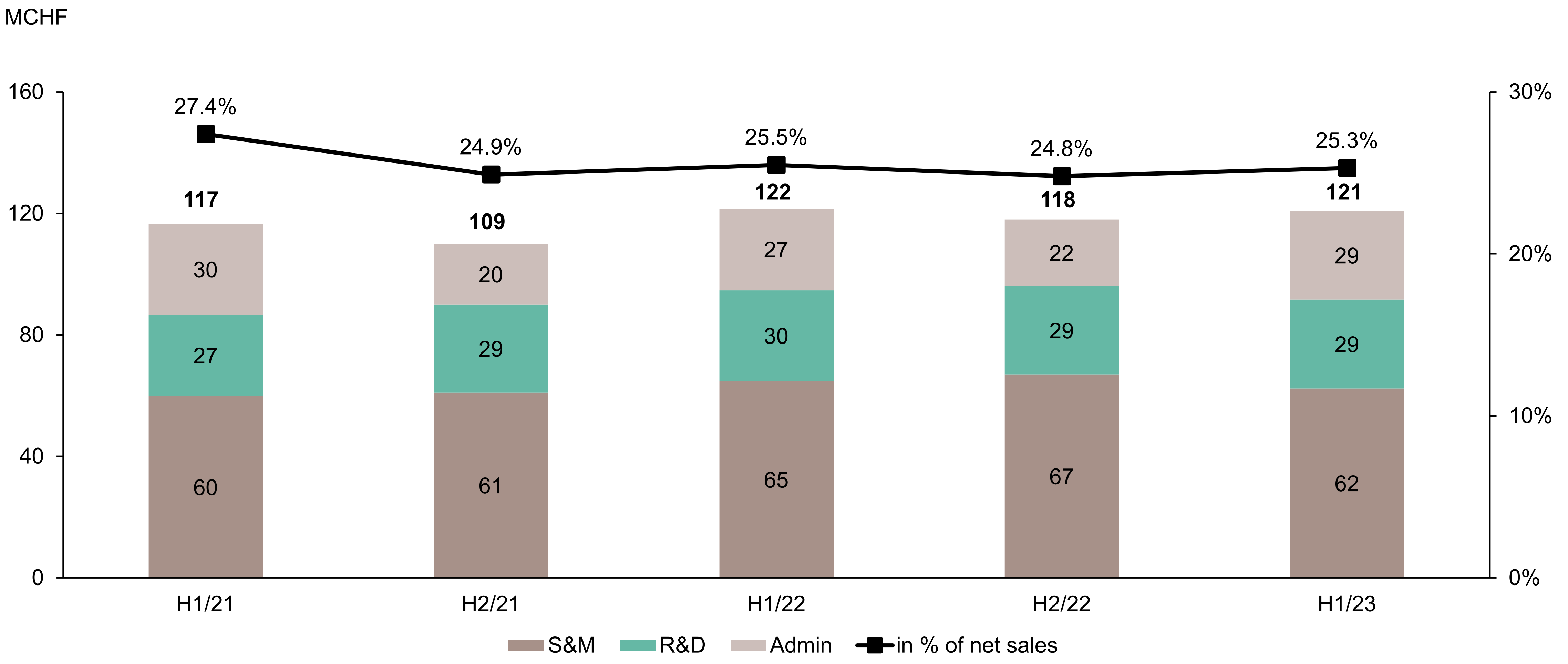
Reduced level due to capacity ramp-down costs and excess own inventory

MCHF



Operating expenses

Costs managed on a constant percentage level



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EBIT by market segment

Industry strong, Communication not satisfactory, Transportation with turnaround

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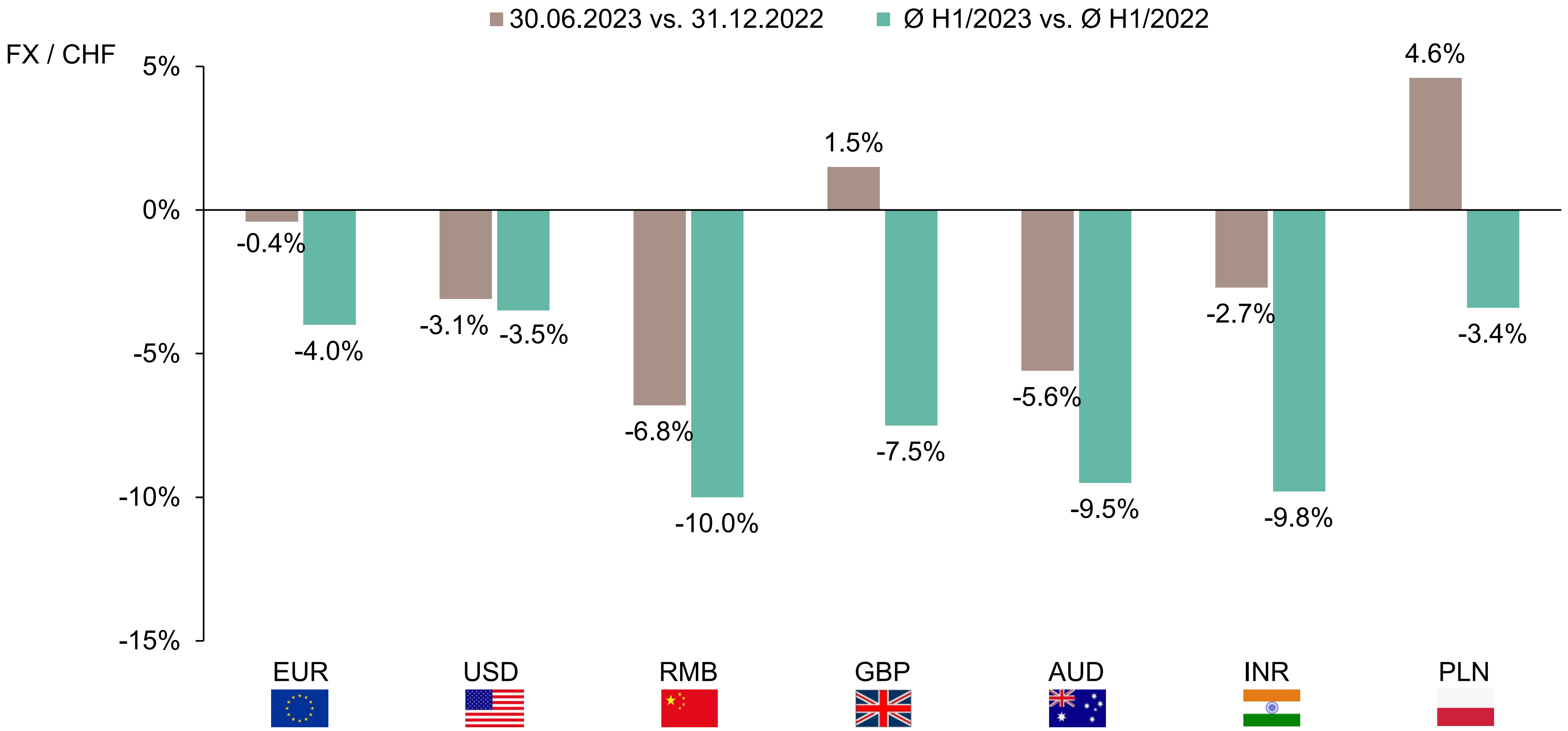
	H1/2023	in %	H1/2022	in %
Industry	30.2	18.9	28.7	19.8
Communication	6.2	3.7	24.8	12.6
Transportation	15.5	10.5	4.7	3.4
Corporate	(4.9)		(4.2)	
Total EBIT	**47.0**	**9.8**	**54.0**	**11.3**

Currency situation 2023

CHF appreciated strongly against all relevant currencies



	EUR	USD	RMB	GBP	AUD	INR	PLN
Ø H1/2023	0.99	0.91	0.131	1.13	0.61	0.011	0.21
30.06.2023	0.98	0.90	0.124	1.14	0.59	0.011	0.22

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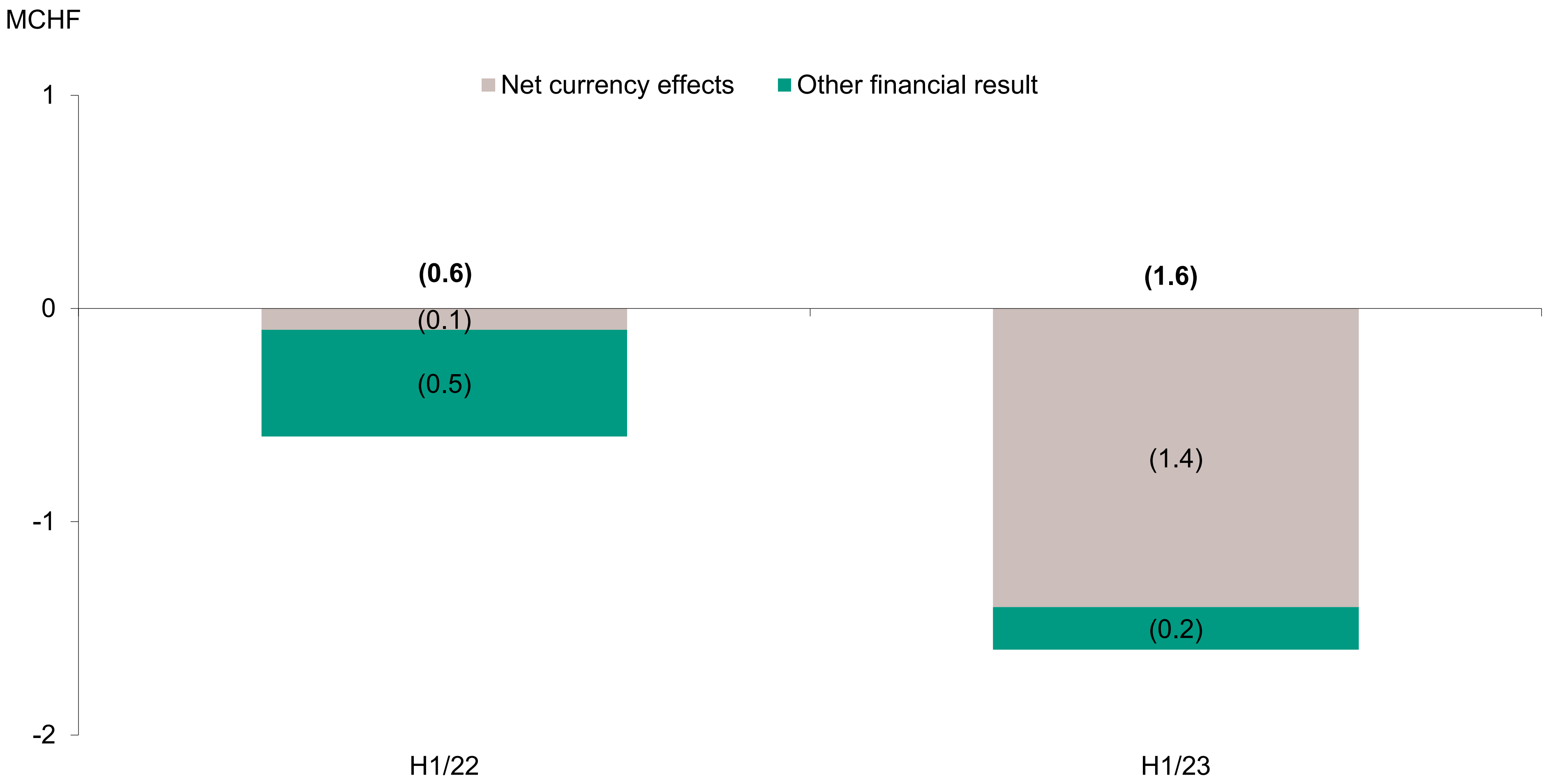
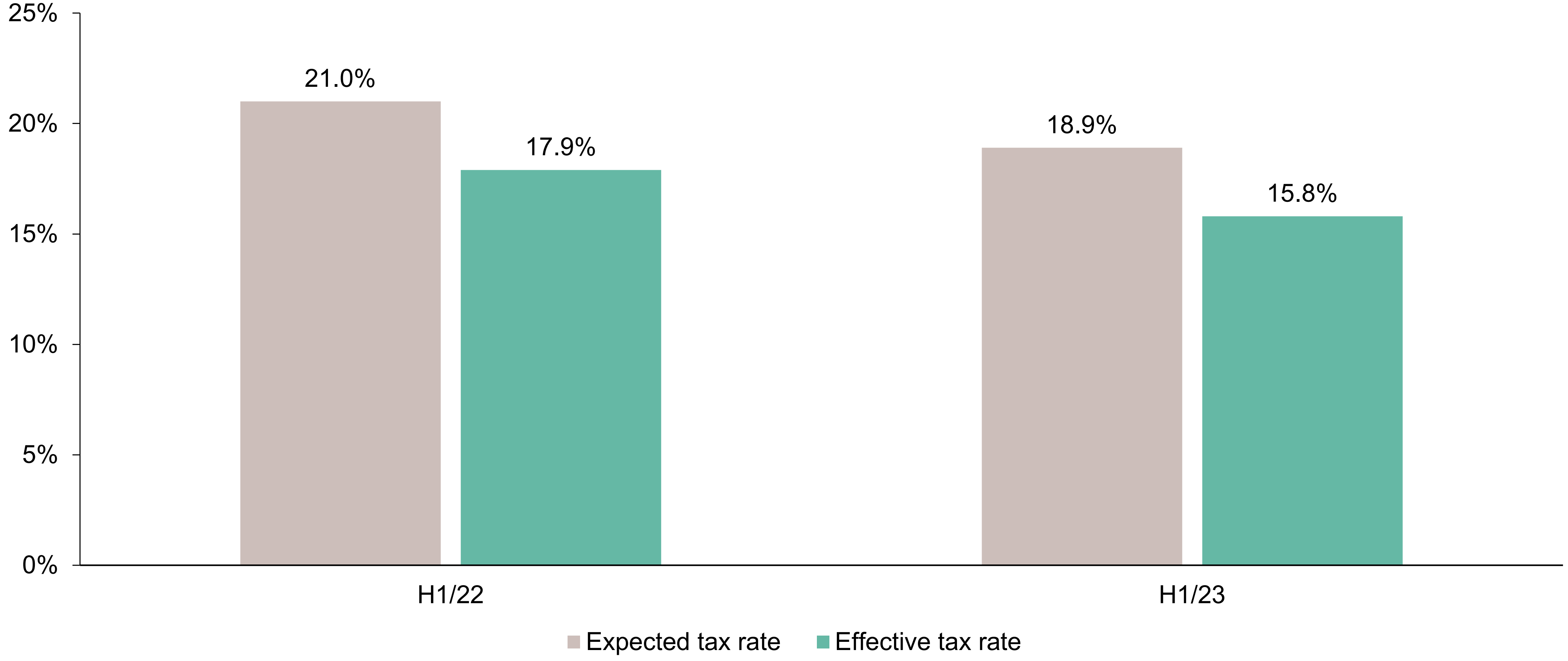
Financial result

Higher hedging costs led to increased negative FX impact



Group tax rate

Favourable country mix and positive contribution from R&D tax benefits



Overview balance sheet

Solid structure

MCHF	30.06.2023	31.12.2022		30.06.2022
Cash and cash equivalent	112	151	(26 %)	146
Other current assets	384	389	(1 %)	391
Non-current assets	287	275	5 %	274
Financial liabilities	-	-		-
Other liabilities	190	208	(9 %)	206
Equity*	593	607	(2 %)	605
in %	76 %	74 %		75 %
Balance sheet total	**783**	**815**	**(4 %)**	**812**
Net liquidity	112	151	(26 %)	146
*thereof minority interest	3	3		3

Overview cash flow

Significant cash returns to shareholders

MCHF	H1/23	H1/22
Cash flow from operating activities	31.1	31.3
Cash flow from investing activities	(21.5)	(25.6)
Free operating cash flow	**9.6**	**5.7**
Dividend payment	(38.8)	(38.2)
Dividend payment to minorities	(0.3)	-
Change in treasury shares	(8.2)	(40.6)
Free cash flow	**(37.6)**	**(73.2)**

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Share buyback

Programme successfully completed

	Amount of shares	Ø share price	Volume in MCHF	in % of registered shares	in % of programme target
2021	141,500	83.62	11.8	0.7 %	14.0 %
2022	786,584	80.27	63.1	3.9 %	77.9 %
2023	81,916	78.70	6.4	0.4 %	8.1 %
Total number of shares bought	**1,010,000**	**80.61**	**81.4**	**5.0 %**	**100.0 %**

Per 30 March 2023, the share buyback programme launched in October 2021, has been completed. The shares acquired under this programme will be proposed for cancellation by means of capital reduction at the next Annual General Meeting on 27 March 2024.

Financial assessment H1/2023

Overall solid operational performance – with mixed development

Organic sales growth of 5.4 %

Industry and Transportation segments EBIT

Tax rate

Organic order intake decline of 4.1 %

Communication segment EBIT

FX development

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Challenging economic environment

Tough decisions to be made

- Following the normalization of supply chains – required logistics capacities, raw materials and semi-finished products are generally available again – prices have stabilized, albeit at a significantly higher level.
- Synergies from global footprint will have to be traded for supply chain resilience.
- Interest rate hikes by major central banks to combat high inflation worsen investment climate and induce recessionary tendencies.
- Russian war on Ukraine further fuels geopolitical tensions and tests alliances, with ongoing uncertainties in global trade.
- Europe's reliable energy supply will again be accentuated as a challenge from the fall; high energy costs remain a critical factor.
- CO2 neutrality will come at a price.
- Skilled labour shortage will become more severe on a broader scale, forcing companies to adjust workforce carefully.
- Increasing regulation in the Chinese market calls for an adapted business strategy.

Market trends in Industry

Dynamic markets as such, temporarily impacted by overstocking

- Continued high level of quotation activity in most industrial markets not indicative of structural issues.
- High inventories across most submarkets prevent customers temporarily from placing new orders.
- Smart grids and energy system management are a fundamental element in the decarbonization of society.
- Test and measurement business suffers from lower investments in communication networks; opportunities identified in quantum computing and lab automation.
- Rally to provide more high-power charging points will continue, while market for service will emerge for HUBER+SUHNER thanks to largest installed base.
- Expansion of high-power charging into megawatt charging systems offers opportunities for HUBER+SUHNER due to technology leadership with HPC.
- Need for HUBER+SUHNER light-weight and flame retardant RADOX® technology spotted in offshore applications.
- Rising defense budgets, as a result of increasing geopolitical tensions, will trigger further investments in communications solutions for aerospace and defense applications.
- Fiber optic connectivity becoming more important while bundling of radio frequency, low frequency, and fiber optic technologies provides leverage.

Market trends in Communication

2023 proves to be challenging – multiple opportunities ahead – technology is key

- Entire communication (connectivity) industry suffers from actual lower demand.
- Competition between operators is getting tougher, shifting their focus to savings in capital expenditures and operating expenses, areas on which HUBER+SUHNER has had strong focus in R&D over the last years.
- Differentiation with pure connectivity for communication applications becomes increasingly difficult.
- Challenges in communication networks: densification, higher capacity, and shorter latency.
- Increasing complexity of communication infrastructure requires flexibility at the physical level (software defined networks, SDN).
- AI becomes a big thing – requirements on data centers are exploding regarding size, latency, data rates.
- 5G rollout peak in USA and Western Europe behind – evolution of 5G infrastructure towards higher data rates will extend beyond initial rollouts. Market leaders, including HUBER+SUHNER, already work on 6G for 2030 and beyond.
- System solutions for data centers offer still good growth and margin potential, once the energy challenge is addressed.
- HUBER+SUHNER has extremely strong value propositions to address the communication market challenges based on unique technologies.

Market trends in Transportation

Fundamentally positive momentum in target applications

- The desire to be mobile is back and mobility levels of 2019 can be expected to be surpassed soon.
- Urbanisation drives further build-out of public transportation. Substantial investments in rail infrastructure will be required for ecological mobility. The railway market has returned to growth mode post-covid.
- Improved passenger experience through seamless and uninterrupted availability of on-board communication services in public transportation requires fast investments of train operators into connectivity solutions. HUBER+SUHNER claims market leadership in this application (rail communication growth initiative).
- Commercial car manufacturers with strong push for battery-electric vehicles for short and medium distances. The focus of HUBER+SUHNER on this high-end application for HV-cabling is paying off.
- Commercial vehicle manufacturers focus on megawatt charging for long distances. HUBER+SUHNER has the opportunity to leverage its technology leadership on cooled charging cable solutions to be used inside the vehicle.
- Even though it got quieter around autonomous driving recently, assistance system technology to reach level 3[*)] is being developed at full speed and will gradually become the standard in all car segments over the next few years. With several nominations, HUBER+SUHNER has managed to become the leading supplier of high-resolution antennas to the advanced driver assistance systems industry (ADAS growth initiative).

*) “conditional driving automation” – driver still in full control when required

Outlook 2023

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Business outlook for 2023 and beyond

- Inflationary trends and geopolitical tensions persisted and are likely to shape the economic environment for some time.
- In particular, the issue around energy supply and costs will remain a challenge for which it is necessary to prepare.
- Strategy of balanced diversification provides the company with resilience in the current volatile economic environment.
- High level of quotation activity indicates intact medium-term growth opportunities in many submarkets.
- The desires for personal security, seamless communication and environmentally friendly mobility that underlie the business of HUBER+SUHNER will remain fundamentally positive growth drivers over the business cycle.
- Increases in government budgets to protect citizens and territorial integrity, the recent rapid development of artificial intelligence with enormous demands on data centers, or the increasing electrification of rail and road transport are just three examples of applications where the company’s forward-looking and highly differentiated connectivity solutions are providing attractive potential for sustainable growth.

Net sales and EBIT guidance for full year 2023

From today's perspective, assuming a comparable exchange rate situation and taking into account the weaker order intake in the year to date, HUBER+SUHNER expects significantly lower net sales for the second half of the year compared to the first half, with a corresponding impact on the year as a whole. Regarding operating profit margin, the company expects a value in the lower half of the medium-term target range of 9–12 %.

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Q&A

Financial calendar

Net sales / Order intake (9 months)	24.10.2023
Net sales / Order intake 2023	23.01.2024
Annual Report 2023	05.03.2024
Media and analysts' conference	05.03.2024
Annual General Meeting (Rapperswil SG)	27.03.2024

Figures are available online at www.hubersuhner.com/en/company/investors/publications

Connecting – today and beyond

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