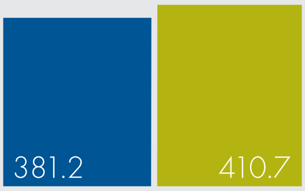
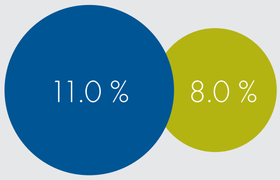
Half-year Report 2017

Strong growth in net sales



EBIT margin within the mid-term target range



Net income at 5.8 % of net sales

Disproportionately high growth in major projects with weak margins

First successes with strategic growth initiatives

Changeover of the accounting standard from IFRS to Swiss GAAP FER[1]

■ H1/2016 ■ H1/2017 in CHF million

[1] The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of 2017. The previous periods have been adjusted accordingly to enable comparison with the current business period (restatement).

HUBER+SUHNER
Excellence in Connectivity Solutions

Dynamic growth in the first half of the year – lower profitability, but within the mid-term target range – positive signals from strategic growth initiatives

Urs Ryffel (CEO) and Urs Kaufmann (Chairman)

The first half-year saw a mixed picture for HUBER+SUHNER: a significant increase in net sales – compared to the very strong previous year period – stood in contrast to a slightly reduced profitability. The Radio Frequency and Fiber Optics divisions reported increased order intake and net sales again, while Low Frequency recorded the strongest growth in order intake, but as expected lagged behind the figures of the previous year in terms of net sales.

Order intake rose sharply to CHF 425.1 million (+9.5 %), while net sales also increased dynamically to CHF 410.7 million (+7.7 %). EBIT declined to CHF 32.8 million (–21.8 %) due to investments for the future, costs related to the withdrawal from the European build-to-print harnessing business and an unfavourable product mix. With an EBIT margin of 8.0 % (previous year 11.0 %), the mid-term target range of 8–10 % was just achieved. Net income amounted to CHF 23.9 million (previous year CHF 33.0 million), down 27.5 % year-on-year, and return on sales was 5.8 %.

Net sales grew in all three main regions. Business with customers in the APAC region showed the most dynamic development with an increase of 18 %, which already accounted for 39 % of the Group's net sales. The significant growth in Asia was mainly due to higher market shares with key customers in the communication market. Major projects in this market showed, however, below-average margins.

Measures were taken to generate a higher profit contribution in the competitive communication and railway markets. A positive report can be made regarding investments in new growth areas, which were driven forward decisively. Progress has been made in all key markets, as evidenced by future-oriented projects with potential new customers and the first orders.

Growth in net sales, adjusted for currency and copper effects (+0.3 %) and portfolio effects (+2.2 %) was 5.2 %. The increased order intake compared to the previous year's period, which grew at a higher rate than net sales, led to a slight increase in the book-to-bill rate to 1.04 (previous year 1.02). The targeted upfront investments in opportunities with growth potential and the expansion of production capacities at various production sites led to an increase in the number of employees to 4 241 (previous year 3 942).
As already announced, the Board of Directors decided to switch the accounting standard from IFRS to Swiss GAAP FER as of 1 January 2017. The first half-year financial statements for 2017 were prepared for the first time in accordance with Swiss GAAP FER.

Communication and industrial markets grew significantly, while the transportation market reported the expected decline in the railway market but an increase in the automotive growth market
The communication market once again contributed the most to positive net sales performance. The pleasing growth of 14.7 % was mainly driven by projects with large-scale communication equipment manufacturers, supported by a marked increase in the data center market segment. In the transportation market (–4.2 %), growth in net sales in the automotive submarket could only partially offset the decline in railway business. Net sales rose in all industrial high-tech niches and led to growth of 6.7 % in the industrial market.

Radio Frequency remained on a growth path and kept the EBIT margin high
With an order intake increase of 8.9 % to CHF 123.1 million and net sales rising by 7.0 % to CHF 118.1 million, the Radio Frequency division experienced very strong development. This resulted in a high EBIT margin of 13.1 % and an EBIT of CHF 15.5 million. The Aerospace+Defense and Test+Measurement market segments contributed to this successful first half of the year. Increased interest in radar sensors and radio frequency connections underlined the unstoppable development towards the growth trend for autonomous driving. Increased demand for on-board WLAN equipment on trains also had a positive effect.

Fiber Optics net sales even higher – increased margin pressure
In the first half of 2017, net sales also grew very dynamically in the Fiber Optics division, reaching CHF 186.4 million (+18.2 %).

Order intake increased by 6.7 % to CHF 181.7 million. The steady expansion of mobile radio networks to the 4G/LTE standard in price-sensitive emerging markets such as India contributed significantly to this development. Business in the data center segment also developed positively, where significant growth potential is still to be expected and appropriate investments have been made. The two technology acquisitions Cube Optics and Polatis also contributed to a further increase in net sales. The pleasing development in net sales did not hide the fact that the price pressure on large-scale projects in the communication market has reduced margins. EBIT declined to CHF 16.2 million (–28.1 %) and the EBIT margin to 8.7 %.

Low Frequency just in the profit zone – positive signals on the order side

Net sales in the Low Frequency division fell by 6.2 % in the first half of the year to just CHF 106.2 million; again lower than the previous year, this was foreseeable due to the low order intake during the second half of 2016. EBIT amounted to CHF 0.5 million, which corresponds to an EBIT margin of 0.4 %. On the other hand, order intake showed a gratifying trend: at CHF 120.3 million it was 14.4 % higher than the figure for the previous year period. This positive development was due to a resurgent railway market in Asia. The continued unsatisfactory profitability in the Low Frequency division was the result of the difficult cable systems business with European railway customers, and restructuring measures introduced in the first half of 2017 have had a negative impact on the results. Their positive effects will, however, become evident in the second half of the year. After the balance sheet date, the business with build-to-print harnessing operated from Poland was sold as part of a strategic streamlining. Upfront investments in the automotive market began to have beneficial effects, e.g. approvals from manufacturers of electric vehicles in the field of high-voltage systems. Worth mentioning is the award received from the European Association of Automotive Suppliers CLEPA for the RADOX® High Power Charging System.

Outlook

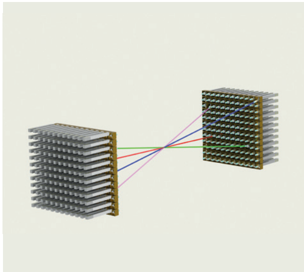
Compared to a very dynamic first half of the year, which was given an extraordinary boost by the customer project to expand the mobile radio network in India, a slightly lower business volume is assumed for the second half. For this reason, HUBER+SUHNER expects growth of around 5 % in 2017 compared to the previous year, assuming the currency situation remains similar. The EBIT margin is likely to be in the lower half of the mid-term target range of 8–10 %.

Urs Kaufmann
Chairman of the Board of Directors

Urs Ryffel
CEO

Milestones in the first half year 2017

Communication
Polatis



Successful expansion of the production capacity for optical switches due to the doubling of demand volume in the first year after joining the Group

Transportation
Automotive

HUBER+SUHNER wins another innovation award with the RADOX® High Power Charging System

Industrial
Aerospace

Sole supplier of radio frequency components to major satellite project

Communication
Mobile communications

Market share gains in the expansion of the mobile radio network to 4G/LTE standard in India

Key figures H1/2017

Group CHF million	January–June 2017	January–June 2016	Change
Order intake	425.1	388.4	9.5 %
Order backlog as of 30.6.	186.5	179.3	4.0 %
Net sales	410.7	381.2	7.7 %
Gross margin	33.9 %	37.4 %	
EBITDA	48.3	57.5	(16.1 %)
as % of net sales	11.8 %	15.1 %	
EBIT	32.8	41.9	(21.8 %)
as % of net sales	8.0 %	11.0 %	
Financial result	(0.4)	2.5	n/a
Net income	23.9	33.0	(27.5 %)
as % of net sales	5.8 %	8.6 %	
Purchases of PP&E and intangible assets	18.1	13.3	36.3 %
Cash flow from operating activities	23.1	36.2	(36.4 %)
Free operating cash flow	8.9	(1.7)	n/a
Net liquidity as of 30.6.	140.5	133.5	5.3 %
Equity as of 30.6.	565.3	548.9	3.0 %
as % of balance sheet total	77.6 %	79.3 %	
Employees as of 30.6.	4 241	3 942	7.6 %

Data per share in CHF	January–June 2017	January–June 2016	Change
Stock market price as of 30.6.	71.70	52.50	36.6 %
Net income	1.23	1.69	(27.5 %)

Segment information CHF million		January–June 2017	January–June 2016	Change
Radio Frequency	Order intake	123.1	113.0	8.9 %
	Net sales	118.1	110.3	7.0 %
	EBIT	15.5	15.4	0.7 %
	as % of net sales	13.1 %	13.9 %	
Fiber Optics	Order intake	181.7	170.2	6.7 %
	Net sales	186.4	157.7	18.2 %
	EBIT	16.2	22.6	(28.1 %)
	as % of net sales	8.7 %	14.3 %	
Low Frequency	Order intake	120.3	105.2	14.4 %
	Net sales	106.2	113.2	(6.2 %)
	EBIT	0.5	7.0	(93.4 %)
	as % of net sales	0.4 %	6.2 %	

Financial calendar

Net sales/Order intake (Q1–Q3)	24.10.2017	Annual report 2017	13.03.2018
Net sales/Order intake (Q1–Q4)	25.01.2018	Media and analysts conference	13.03.2018
		Annual General Meeting (Gossau SG)	11.04.2018

Since the beginning of 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the current financial period to ensure comparability.