DEAR SHAREHOLDER

The 2019 financial year was marked by a sluggish automotive industry and the knock-on effects for the Komax Group: order intake, revenues, and EBIT decreased considerably and were well below the record result achieved in 2018. In order to consolidate its leading market position over the long term, Komax invested heavily in research and development in 2019 too. In view of the current assessment of developments in the automotive market, the Board of Directors has adapted its mid-term targets.

2019 proved extremely challenging for Komax. Various geopolitical factors, including the trade dispute between the US and China, have left many customers unsure, causing them to hold back substantially on investments. This was largely also because the transition underway in the automotive industry (e-mobility, autonomous driving) has already called for sizeable investments and the sector overall is showing signs of weakness. The outcome for Komax was that projects were postponed throughout the year and the previous year's record result remained out of reach.

Order intake decreased by 17.7% to CHF 408.7 million (2018: CHF 496.7 million) and revenues by 12.9% to CHF 417.8 million (2018: CHF 479.7 million). Revenues were somewhat higher in the second half than in the first (first half 2019: CHF 203.3 million, second half 2019: CHF 214.5 million). This was partly due to the acquisitions of Artos Engineering and Exmore in 2019. The revenue result was attributable to a sizeable organic decline (–13.7%), acquisition-driven growth (+2.7%), and negative foreign currency effects (–1.9%). Order intake was slightly weaker in the second half (first half 2019: CHF 206.7 million, second half 2019: CHF 202.0 million).

Growth in North/South America

Komax achieves around 80% of revenues in the automotive industry. The general phase of weakness that the latter is facing was evident in virtually all regions in 2019. The only revenue growth reported by Komax was in North/South America. A contributory factor was the acquisition (effective 1 April 2019) of Artos Engineering, headquartered in Brookfield, Wisconsin, USA. The largest drop in revenues was experienced in Asia (–22.5%), where China accounts for the bulk of revenues. The economic slowdown, combined with the excess capacity built up in 2018, led to a distinct falloff in investments in automation solutions in China. Revenues in Europe (–16.8%) and Africa (–13.2%) were also down. The trend already in evidence in both regions for several years continued: with personnel resources becoming increasingly scarce in Eastern Europe, wire harness manufacturers are relocating part of their production to North Africa. Despite this shift, Europe remains Komax's strongest market by far, accounting for 42.7% of revenues. North/South America ranks second, with a share in revenues of 24.9%. Revenues were also lower in the aerospace, data/telecom, and industrial market segments, but less significantly so than in the automotive industry.

Profitability impacted by lower volume business and project business

The decline in revenues was primarily a consequence of the sharp fall in demand for wire processing machines, which correlates directly to the number of vehicles produced. In 2019, some 89 million cars and light commercial vehicles were manufactured worldwide. This is 5.7% or approximately 5.5 million fewer vehicles than in the previous year. Since these machines, which are used for volume business, make a disproportionately high contribution to Komax's operating profit (EBIT), it dropped 64.3% to CHF 24.0 million (2018: CHF 67.3 million). The EBIT margin narrowed from 14.0% to 5.8%. The foreign currency impact was negative, reducing the EBIT margin by 0.8 percentage points.

Profitability was also impacted by additional expenses in the high single-digit millions for individual customer-specific pioneer projects. These major projects are predominantly connected with new technologies in the automotive industry that are required for fast large-scale data transmissions in vehicles. If highly automated or even autonomous driving is to become a reality, these new developments are vital and offer Komax considerable future growth potential. Komax completed the majority of these multiyear pioneer projects in 2019 and expects to conclude the remainder in 2020.

Down the road too, Komax will respond to changes in the automotive industry and drive developments that secure long-term growth. In terms of project business, the company will focus, however, on orders with a lower risk profile. In 2019, Komax invested CHF 41.5 million (2018: CHF 41.1 million) in research and development, equivalent to 9.9% of revenues. Komax was able to showcase its technology leadership to impressive effect in 2019, with numerous market launches setting new standards in digital services, for instance, and the automated processing of high-voltage cables for electric vehicles.

Significant investment activity

Group profit after taxes (EAT) decreased by 74.5% to CHF 13.2 million (2018: CHF 51.8 million). The result was impacted by the financial result of CHF –4.9 million (2018: CHF –5.2 million) and the high tax rate of 31.1% (2018: 17.0%), attributable mainly to non-capitalized tax-loss carryforwards. Over the medium term, Komax is expecting a tax rate in the vicinity of 20%. Basic earnings per share came to CHF 3.44 (2018: CHF 13.52).

Komax's financial base remains robust: as at 31 December 2019, shareholders' equity totalled CHF 244.6 million (2018: CHF 281.6 million), while the equity ratio stood at 50.8% (2018: 60.8%). As a result of major investments in four new production and development buildings in Switzerland, Germany, and Hungary as well as two acquisitions, free cash flow amounted to CHF –36.9 million (2018: CHF –4.3 million). Net debt stood at CHF 106.2 million (2018: CHF 39.4 million).

Payout ratio of 52.3%

The Board of Directors is proposing to the Annual General Meeting of 21 April 2020 a dividend of CHF 1.80 per share (2018: CHF 7.00), corresponding to a payout ratio of 52.3% (2018: 52.0%). Komax is thus achieving its strategic target of a payout ratio of 50%–60%. Of the CHF 1.80 per share, CHF 0.20 will be distributed from capital contribution reserves. They are tax-free for natural persons domiciled in Switzerland who hold shares as part of their private assets.

Board of Directors confirms strategy and adapts targets

In 2020, vehicle production is likely to stagnate at the 2019 level or even drop, depending on the severity of the impact of the coronavirus. According to IHS Markit analyses, a return to slight growth can be expected from 2021 on. In view of the current assessment of developments in the automotive markets over the next few years, the Board of Directors has decided to adapt its mid-term targets (2017–2021) and define a new time horizon, namely 2023. The Board confirms the strategy that has been pursued so far, and continues to expect that Komax will not only participate in the growth of the automotive market (number of vehicles produced), but will also capture additional growth of at least 2%–3% as a result of the trend towards automation. Komax is seeking to achieve the following targets for 2023: revenues of CHF 450–550 and EBIT of CHF 50–80 million, as well as a payout ratio of 50%–60% of EAT. A RONCE target will not be communicated in the future.

Outlook

The Komax Group's medium- and long-term growth outlook remains positive as customers continue to target a significant increase in the level of automation in wire processing going forward. What is more, trends such as autonomous driving and e-mobility will power growth at Komax. That said, the company will suffer over the short term as the entire automotive industry comes under enormous pressure to adapt its value chain. Komax expects 2020 to be another challenging year. For this reason, it has already initiated measures to reduce costs over the long term. In addition, Komax is adapting its structures to be even better aligned with momentum in the markets. Since business development visibility is very low and the implications of the coronavirus outbreak are presently impossible to gauge, a forecast can currently not be made for the 2020 financial year.

Yours sincerely,

Dr. Beat Kälin
Chairman of the
Board of Directors

Matijas Meyer
CEO

10 March 2020