DEAR SHAREHOLDER

The coronavirus pandemic posed a significant challenge for the Komax Group in 2020 and had a substantial impact on the result for the year. The slump in demand in the automotive industry triggered a sizeable decrease in order intake and revenues. Thanks to the swift implementation of comprehensive cost-cutting measures, Komax proved the robustness of its business model, recording EBIT of CHF 11.3 million despite the adverse circumstances.

The automotive industry, in which Komax generates around 80% of its revenues, was drastically affected by the coronavirus pandemic in 2020. Many automotive plants were shut down for a number of weeks, operating at reduced capacity utilization levels over several months. This resulted in only 74 million vehicles being produced worldwide in 2020 according to analyses by IHS Markit, a drop of some 15 million versus 2019. This marked decline in production volumes left many Komax customers facing excess capacities. As a consequence, they significantly scaled back their investments in automation solutions, which correlate directly to the number of vehicles produced.

Its broad product portfolio and customer proximity allowed Komax to keep the decline in demand within limits, however, and it recorded an order intake of CHF 345.3 million. This represents a decrease of 15.5% on the previous year (CHF 408.7 million). Customer demand remained solid in particular for solutions linked to new technologies such as autonomous driving and e-mobility, and/or which play a role in further increasing the level of automation in wire processing. Revenues were down 21.6% to CHF 327.6 million (2019: CHF 417.8 million). This revenue result was attributable to a sizeable organic decline (–20.8%), acquisition-driven growth (+2.6%), and negative foreign currency effects (–3.4%). The market situation improved gradually from mid-2020 on, so much so that both order intake (first half 2020: CHF 143.8 million, second half 2020: CHF 201.5 million) and revenues (first half 2020: CHF 145.2 million, second half 2020: CHF 182.4 million) were significantly higher in the second half of the year than in the first, with the last few months of 2020 in particular contributing to this increase.

Global decline in revenues

The decline in revenues was considerable in all regions and, at –32.8%, was most substantial in North/South America. The impact of the coronavirus pandemic was felt last of all in this market area. Accordingly, the recovery also set in later here than in other regions and was, in fact, still outstanding in South America. Komax registered its lowest drops in sales in Asia (–9.5%) and Africa (–12.2%). Asia witnessed the most rapid improvement in the market situation, which was almost back at the prior-year level towards the end of 2020. In Europe, Komax posted revenues that were down 23.4% on the 2019 figure. At the mid-year point, the decline amounted to 32.4%, the biggest drop of all the regions. In evidence for several years already, the trend among wire manufacturers towards relocating part of their production to North Africa due to a growing shortage of personnel in Eastern Europe continued in 2020.

The coronavirus pandemic also made itself felt in the other market segments in which Komax operates. Aerospace was especially hard hit, recording even bigger falls than the automotive industry. Of all the market segments, industrial fared best in the crisis year of 2020. Industrial customers such as control cabinet manufacturers, for instance, remained focused on increasing the level of automation and thus productivity in wire processing, investing in Komax solutions as a result.

Comprehensive cost-cutting measures

Given the lack of volume business in particular in 2020, a business which makes a disproportionately high contribution to Komax's operating profit (EBIT), EBIT declined by 53.2%

to CHF 11.3 million (2019: CHF 24.0 million). The EBIT margin narrowed from 5.8% to 3.4%, with negative foreign currency effects accounting for a contraction of 1.2 percentage points in the margin compared with the previous year. In the first half of 2020, when the market situation was even worse, EBIT amounted to CHF –4.7 million (second half 2020: CHF 16.0 million).

Since Komax reacted swiftly, putting in place comprehensive cost-saving measures as early as the first quarter of the year, it was able to mitigate the negative financial repercussions. Action taken included structural adjustments, the introduction of short-time working, a reduction in external services (e.g. research and development), and a downsizing of positions around the world. Overall, Komax reduced its workforce by around 10%, although a number of employees at various companies will not leave the Group until the first half of 2021.

As a consequence of the cost-saving measures, research and development expenditure decreased to CHF 29.8 million (2019: CHF 41.5 million) or 9.1% (2019: 9.9%) of revenues, which is roughly in line with the strategic target of 8%–9%. Despite this considerable scaling back of the spend on innovation, which was due primarily to short-time working, Komax launched a number of new products in 2020, thereby underscoring its technology leadership.

Solid financial foundation

Group earnings after taxes (EAT) decreased by 110.0% to CHF –1.3 million (2019: CHF 13.2 million). Both the financial result of CHF –8.9 million (2019: CHF –4.9 million) and the extraordinary tax rate of 156.7% (2019: 31.1%) weighed on the result. The tax rate can be attributed to the fact that Komax does not capitalize tax-loss carry forwards. Over the medium term, Komax is expecting a tax rate in the vicinity of 20%. The financial result comprises above all unrealized foreign exchange losses on loans to subsidiaries in emerging markets as well as higher interest costs.

2020 confirmed that Komax has a solid financial foundation that gives it operating flexibility even in challenging market environments. As at 31 December 2020, shareholders' equity totaled CHF 236.5 million (2019: CHF 244.6 million), while the equity ratio stood at 52.3% (2019: 50.8%).

Reduction in net debt

Despite the many challenges faced, Komax decreased its net debt by 13.0% in 2020 to CHF 92.4 million (2019: CHF 106.2 million), which will also bring down the level of interest charges in the first half of 2021. Free cash flow likewise witnessed a positive development, amounting to CHF 15.4 million, after the significantly negative figure recorded in 2019 (CHF –36.9 million). A particular contributory factor here was the lower level of investment activity compared with the previous year.

In 2020, Komax invested primarily in the completion of the new production and development building at its headquarters in Switzerland. The move into the building took place in the first half of the year, and April saw the first machines being produced there. The extension building, in which Komax invested over CHF 75 million between 2017 and 2020, is designed as a vertical factory with total floor space of more than 20000 m^2, spread across a lower ground floor, ground floor and five stories. As the move to the new building allowed Komax to give up a rented site, it now operates just two locations in Switzerland.

Waiver of dividend

In accordance with its strategic goals, every year Komax seeks to distribute 50%–60% of Group earnings after taxes to its shareholders. Since this result was negative in 2020, the Board of Directors is proposing to the Annual General Meeting to be held on 14 April 2021 that the distribution of a dividend be waived.

Outlook

The crisis year of 2020 showed that customers continue to target a significant increase in the level of automation in wire processing going forward. Trends such as autonomous driving and e-mobility will remain drivers of growth for Komax. The current market situation is better than in the year just past, but visibility as regards how business will develop is low. Given the vehicle production volumes forecast, our capacity planning is geared to revenues of around 10% lower than in 2019. Depending on how revenues develop, we have the necessary flexibility to be able to adapt costs. Although the parameters have changed, Komax is sticking with its mid-term targets: by 2023, Komax is seeking to achieve revenues of CHF 450–550 million and EBIT of CHF 50–80 million.

Yours sincerely,

Dr. Beat Kälin
Chairman of the Board of Directors

Matijas Meyer
CEO

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