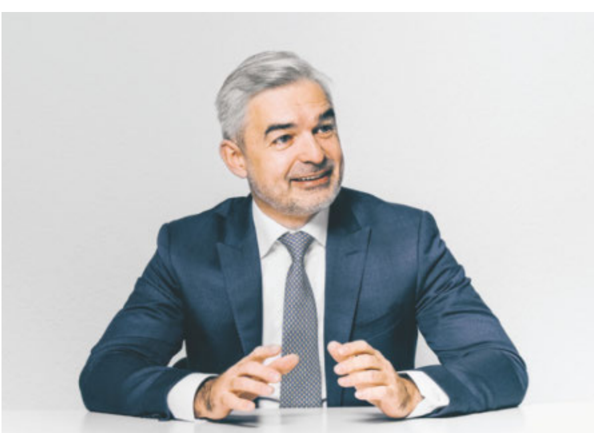
2020 financial year and outlook

# MEGATRENDS WORKING IN KOMAX'S FAVOR

In 2020, Komax mastered huge challenges, cut costs, made its organization more agile, and achieved progress on innovation projects. It sees itself as well positioned for the future, and is sticking with its mid-term targets.



**Matijas Meyer, CEO**

**Matijas Meyer, what was the greatest challenge for Komax in the crisis year of 2020?**
Matijas Meyer: Planning uncertainty. With the automotive industry having already weakened in 2019, making it a difficult year for us, we were expecting 2020 to be challenging too. We had prepared for this eventuality, having already initiated a cost savings program the previous year. But within the space of just a few weeks, the coronavirus pandemic completely altered the investment mindset of our customers, exacerbating our situation to an extent that could not have been predicted. Particularly as no-one was in a position to gauge how long the pandemic would last, and how it would impact capacity utilization at our customers' factories. This in turn made it difficult to estimate their short- and medium-term need for our automation solutions. With the result that any kind of planning became hugely challenging.

**How did you respond?**
Matijas Meyer: We immediately put together a comprehensive package of measures that would allow us to bring down costs in all of our companies. Revenues dropped significantly in the spring, as many automotive factories were shut down at this point for several weeks. This made it all more important that we had started to reduce our cost base consistently at an early stage. In Switzerland, for example, our employees had already been on short-time working from March onwards.

**Beat Kälin, you have held various functions at Komax since 2006, and have experienced a great deal during this period. How does the 2020 financial year rank compared with these experiences?**
Beat Kälin: It was without doubt one of the most intensive and difficult years in our history, and one that placed huge demands on both the Executive Committee and the workforce as a whole. In contrast to 2009, when Komax had to contend with the repercussions of the global financial crisis, 2020 was a challenge from more than just an economic perspective. Due to the coronavirus pandemic, all employees found themselves facing a completely new and trying situation which had a huge impact on their personal lives in particular. So in the knowledge that the headwinds were extreme in many ways during this unprecedented year, I am very happy with the way that Komax mastered the situation.

**Beat Kälin, Chairman**

> "We have reduced costs by more than CHF 50 million."
>
> **Matijas Meyer**

**The company nonetheless reported negative Group earnings after taxes…**
Beat Kälin: It's the first time that Komax has unveiled a loss since 2009. Obviously, our expectations for 2020 were very different. But no one could have predicted a pandemic in 2020 that would result in 15 million – or 17% – fewer vehicles being produced than in 2019. Given these circumstances, and bearing in mind that we reported Group earnings after taxes of CHF –11.6 million mid-year, it is impressive that the loss was reduced to just CHF –1.3 million by year-end. This also confirms that we have a robust business model capable of reacting to changing parameters within a reasonable period of time.

**What does this mean for the dividend?**
Beat Kälin: Our strategy is to distribute 50%–60% of Group earnings after taxes to our shareholders. Clearly, we have nothing to distribute for 2020 given the negative result, which is why we are proposing to the Annual General Meeting that payment of a dividend be waived.

**What is the total magnitude of cost savings in 2020?**
Matijas Meyer: In comparison with the previous year, we have reduced costs by more than CHF 50 million.

**How much in terms of these savings will also feed through into 2021?**
Matijas Meyer: A significant proportion of the savings relates to short-time working compensation, which we claimed in various countries. In keeping with the improvement in the market situation, we consistently reduced the proportion of short-time working over the course of 2020. Our aim is obviously to have no short-time working at all as soon as possible. After all, this would reflect the return of our business to robust health. A number of cost reductions arose almost automatically in 2020 due to the coronavirus pandemic – such as savings on travel and trade fairs that never took place.

**So these costs will return – but what savings are sustainable?**
Matijas Meyer: We reduced headcount across the whole of the Komax Group by around 10% in 2020. Unfortunately, this could not be achieved without redundancies in certain companies, which is something I greatly regret. As a result, we lost some highly qualified staff and valuable expertise. Many of these employees will not leave the Group until the first half of 2021, as notice was served in the final quarter of 2020. But it is not only the cost savings associated with headcount reduction that are sustainable – so too are the savings achieved through structural adjustments in various companies. For example, in the first half of 2020 we consolidated our North American production sites for testing systems. Since then, production has been concentrated exclusively at our new site in Juárez, Mexico, and no longer either elsewhere in Mexico or in the United States. Thanks to these numerous other measures, we have sustainably reduced our cost base by more than CHF 10 million.

**Has the fundamental situation changed for Komax as a result of the coronavirus pandemic?**
Beat Kälin: The megatrends remain exactly the same as they were before the pandemic started. In other words, trends such as e-mobility and autonomous driving are leading to the need for an increasing amount of and new types of wiring in vehicles. And as the degree of automation in wire processing remains very low, Komax has considerable growth potential. Rising wage costs and more rigorous quality requirements, as well as the greater scarcity of personnel resources are factors that are favorable for our business, as they increase the pressure on customers to invest in automation solutions. So our fundamental situation remains very good, and we have made the most of this crisis year to position ourselves even more strongly for the years ahead.

**Can you be more specific?**
Matijas Meyer: Thanks to structural adjustments in a number of companies, not only did we cut our costs, we also streamlined our organization and made it more agile. With communication paths and decision-making processes now shorter, we are hoping to be able to react even more quickly to the changing needs of our customers. In addition, we have driven forward both internal and external digitalization in order to create competitive advantages for our customers. The appointment of Tobias Rölz to the Executive Committee is also part of this drive to give even more weight to digitalization. He heads up the newly created Market & Digital Services unit, which is enabling us to optimally exploit the potential offered by digitalization across the board, i.e. from product development right through to distribution.

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>
> **Beat Kälin**

**Are there other factors that will have a positive effect going forward?**
Matijas Meyer: Yes – there are numerous other areas in which we made decisive progress in 2020. I would like to mention two of these explicitly here – let’s start with the integration of Artos and Exmore. We acquired these two companies in 2019, and they have already become an important part of the Komax Group. We integrated Artos and Exmore into the Komax network very smoothly in 2020. With the expertise that they possess, they have not only enriched the Group, but also strengthened our market position. The US company Artos has a strong track record in the development of innovative applications. Thanks to Artos, we now have engineering expertise in North America, and have been able to reinforce our customer proximity in this market as a result. Exmore is also strong in the area of application development. Our Belgian colleagues specialize in applications relating to the processing of sensor cables. These are a hugely important aspect in the megatrend of autonomous driving. And our acquisition of Exmore means that we are superbly positioned in this area.

**So what is the second area in which you made decisive advances in 2020?**
Matijas Meyer: We achieved breakthroughs in a number of innovation projects. That might sound rather paradoxical, given that numerous development staff have been on short-time working, and we consequently invested almost CHF 12 million less in R&D than we did in the prior year. But a number of our innovation projects were already so far advanced that field tests at selected customers were scheduled for 2020. We were able to conduct these tests and structure them successfully despite the coronavirus pandemic. The progress we have made on these key projects is definitely right up there as one of my highlights of the year. I am convinced that these innovations will lead to additional competitive advantages for our customers, thereby allowing us to further strengthen our technology leadership. I don’t want to give too much away, but I will say that we are working furiously to ensure that we can unveil a number of these innovations in November 2021 at Productronica in Munich, our most important trade fair in Europe.

**And what was your highlight, Mr. Kälin?**
Beat Kälin: I was delighted to see the completion of our new production and development building at our headquarters in Dierikon. This has been the largest investment project in Komax’s history. We invested no less than CHF 75 million, and for good measure delivered the project slightly below budget after a construction period of some two-and-a-half years. That is never a given with a large-scale project of this nature, and reflects very well on the project management team. Unfortunately, the coronavirus pandemic meant that we have not yet been able to host an opening celebration, and as the majority of the local workforce have been working from home for months, the building is not yet fully occupied either. Nonetheless, efficiency improvements are already evident in both production and logistics. As production and R&D staff now work together on the individual floors of this

vertical factory, rather than apart, I'm convinced that the innovation process will be accelerated going forward thanks to shorter pathways.

> "Our employees put in outstanding work throughout the year."
>
> **Matijas Meyer**

**In addition to all the positive aspects, the newbuild has also contributed to a high level of net debt. How much did this weigh on the Group during this crisis year?**
Matijas Meyer: Liquidity planning was hugely important. In the first quarter of 2020, we increased our syndicated loan facility by a further CHF 30 million. In addition, we agreed adjustments to the financial covenants that apply to this syndicated loan for 12 months with effect from mid-2020. This adjustment gave us some breathing space, but it obviously came at a cost. Specifically, it entailed a significantly higher interest burden, as is reflected in our financial result. Reducing the level of net debt therefore had the highest priority, but this is easier said than done in a crisis environment. Thanks to the great dedication of our employees, we nonetheless managed to bring net debt down by CHF 13.8 million to CHF 92.4 million. Our employees put in outstanding work in their specialist areas throughout the year, despite the hostile environment. So on behalf of the Executive Committee, I would like to express my deep gratitude to the entire workforce for its commitment in this extremely challenging year.

**You encountered a number of costly problems that affected customer-specific projects in 2019. How did the project business develop in 2020?**
Matijas Meyer: The important thing was for us to have learned the right lessons from the errors made in 2019, and to conclude the projects referred to within a reasonable period of time. We did precisely that, strengthening our risk management function as a result and adjusting processes. We are now back on a solid footing, and were therefore able to benefit in 2020 from the strong demand for automation solutions in the processing of special cables, particularly data lines. Based on the trend towards highly-automated or even autonomous vehicles, we are expecting the need for automation in this area to increase further over the next few years.

**Are the 2023 targets still realistic – or too ambitious?**
Beat Kälin: They are no doubt ambitious, but from today's standpoint we still believe that they are achievable. When the Board of Directors defined the mid-term targets at the beginning of March 2020 – namely CHF 450 to 550 million for revenues and EBIT of between CHF 50 and 80 million – the world was a different place. At that time, we were anticipating some 97 million vehicles being produced in 2023. But the analysts at IHS Market are now expecting production volumes to work at around 6 million lower.

**Why are you nonetheless confident about achieving these targets?**
Beat Kälin: The production volume currently predicted for 2023 is only 3 million below the level of 2018, when we recorded revenues of CHF 480 million. Moreover – and this is a much more important aspect – it became abundantly clear in 2020 that our customers are determined to increase their levels of automation. This mindset is down to the megatrends evident in the automotive industry, and is not related to an increase in vehicle production. For as we saw in 2020, the latter simply has not occurred. And although our volume business – i.e. crimp-to-crimp machinery – declined significantly against this backdrop, we were able to sell our customers many machines from our broad product portfolio, particularly in the second half of the year. Added to this is the fact that our innovation pipeline is very well stocked, as Matijas Meyer has already mentioned, and I think it's fair to say that my confidence is not misplaced. Nonetheless, these targets remain challenging, particularly if the volume business continues to be depressed, given that it makes a disproportionately high contribution to EBIT.

**What can we expect from 2021?**
Matijas Meyer: Our capacity planning is based on 2021 being significantly better than the previous year, but nonetheless with revenues around 10% lower than in 2019. The magnitude of the increase in EBIT will ultimately depend on the extent to which the volume business bounces back. And depending on how revenues develop, we have options for responding on the cost side. Essentially, however, I am convinced that we are well positioned and will emerge strengthened from this crisis.