

Interim accounts as at 30 June 2020

Company report

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Report by the Board of Directors on the Mid-year report as at June 30, 2020

Dear Ladies and Gentlemen

The Phoenix Mecano Group's half-year results reveal the significant impact of the COVID-19 pandemic. As a precautionary measure to protect employees, the company temporarily closed some production facilities. All plants are now operating again, although some are working at reduced capacity or with major fluctuations in capacity utilisation. As a result of the global economic downturn, propensity to invest declined in the Group's end markets in the second quarter.

Despite these difficult conditions, Phoenix Mecano pushed ahead resolutely with its strategic projects. The Group completed the acquisition and integration of MyHome and made initial investments in the industrial complex of DewertOkin Technology Group Co. in Jiaxing, south-west of Shanghai.

In a global market environment hit hard by the COVID-19 pandemic, the Phoenix Mecano Group's sales and incoming orders declined in the first half of 2020, and the operating result fell disproportionately. In response to the pandemic, Phoenix Mecano immediately expanded and stepped up the performance enhancement programme under way since 2019. In addition, short-time working was introduced in many places and non-operating expenses were reduced.

Consolidated gross sales fell by 7.6% in the first half of 2020, from EUR 326.8 million to EUR 302.1 million. In organic, local-currency terms, the decline was 10.7%. Net sales totalled EUR 299.5 million (previous year EUR 323.9 million). Incoming orders decreased by 1.9% from EUR 326.3 million to EUR 320.1 million. The book-to-bill ratio was 106.0% (previous year 99.9%).

The operating result was down by 61.5% from EUR 16.6 million to EUR 6.4 million, while the operating cash flow fell by 32.7% from EUR 27.5 million to EUR 18.5 million. The operating result includes subsequent one-off expenses of EUR 2.1 million from the performance enhancement programme launched in 2019, a number of whose measures have been stepped up. One-off expenses of EUR 1.4 million from the performance enhancement programme were included in the previous year's operating result.

The result of the period after taxes was EUR 1.2 million, down 89.5% on the previous year (EUR 11.6 million). The financial result fell by EUR 2.2 million year-on-year, mainly due to exchange-rate changes and currency hedging costs. At EUR 102.6 million, net indebtedness remained at a similar level to 30 June 2019 (EUR 103.2 million). The equity ratio was 43.3%, with the balance sheet free of goodwill.

Development of the Group's divisions

The **Enclosures** division was able to hold its own in a challenging market environment. Sales fell by 5.8% to EUR 89.9 million. Organic, local-currency sales were down by 8.5%. In its most important market, Germany, sales remained stable due to acquisition activity. The UK and Italy, both heavily impacted by the COVID-19 crisis, saw a double-digit percentage drop in sales. Sales were also down in other European markets, as well as in the Middle and Far East (-18.6%) and North and South America (-7.7%).

Demand for industrial enclosures declined in the traffic engineering, measurement and control technology, and mechanical and plant engineering sectors. In Asia, a drop in investment confidence in the oil and gas business was reflected in sales figures. By contrast, sales of operating units and electronic enclosures with state-of-the-art input systems remained almost unchanged. The operating result fell by 20.7% to EUR 8.7 million, with a corresponding reduction in operating margin from 11.5% to 9.7%. In China, the enclosures business was concentrated at a single site in Shanghai.

The **Mechanical Components** division saw gross sales decline by 5.2% to EUR 158.4 million. In organic, local-currency terms, they were down by 9.7%.

Both the industrial segment and the furniture and healthcare market recorded lower sales. Growth in the Americas and Asia slowed abruptly in the second quarter as customers in the furniture business had to close their factories for several weeks due to the pandemic. This decline was only partially offset by rising demand in the medical applications segment (Dewert) and in logistics for online business (Rose&Krieger).

The operating result decreased by 50.6% to EUR 4.5 million, while the operating margin shrank from 5.5% to 2.9%. As part of the package of measures to adjust capacity and streamline the product portfolio, further personnel adjustments were implemented. The associated one-off expenses impacted the division's H1 result by a total of approximately EUR 1 million.

Phoenix Mecano acquired the remaining shares in China-based Haining MyHome Mechanism Co., Ltd. ahead of schedule and successfully completed integration into the division. This acquisition means that customers can now purchase functional fittings and drive systems for adjustable armchairs from a single source. In a bid to concentrate its strategic and technological expertise, the Group pushed ahead with its investment in the DewertOkin Technology Group industrial complex in China.

In the **ELCOM/EMS** division, gross sales in the first half of 2020 fell by 16.5% to EUR 53.8 million. In organic, local-currency terms, they were down by 16.4%. All of the division's business areas recorded double-digit sales declines owing to the slump in demand in their industrial end markets, including the automotive and mechanical engineering sectors.

The operating loss was EUR 5.8 million, following an operating loss of EUR 1.6 million the previous year. The marked decline in sales combined with exceptional expenses for staff reductions and value adjustments on non-current and current assets resulted in losses in all three of the division's business areas. Phoenix Mecano successfully merged its production facilities in southern China at a new plant in Lechang, thereby eliminating duplications.

Outlook

The COVID-19 pandemic significantly dampened global capital goods activity in the second quarter. Phoenix Mecano's management reacted to the changed circumstances with immediate measures and additional structural adjustments, in order to cushion the negative impact on the business.

In the meantime, the industrial purchasing managers' indices have recovered somewhat in almost all countries, suggesting an improvement in the situation in H2. However, business development will depend to a large extent on how the pandemic evolves. The management continues to focus on liquidity and costs, but is also well prepared for a rapid economic recovery.

Phoenix Mecano expects the economic situation to remain challenging in the second half of the year. However, the Group is underpinned by a solid balance sheet structure and the modest decline in incoming orders and high book-to-bill ratio bode well. Barring any widespread second wave of contagion, the pandemic is likely to have less of an impact on the operating result in H2 than in H1, compared to the previous year.

Despite the challenging circumstances, Phoenix Mecano remains committed to pursuing forward-looking growth initiatives. For example, the Group is investing in strategic projects in the 'smart home' growth market and is further consolidating its market-leading position in system solutions and components for electrically adjustable upholstered furniture.

Kind regards

Benedikt Goldkamp
Executive Chairman

Dr. Rochus Kobler
CEO

Information for shareholders

Phoenix Mecano AG bearer shares are traded on main stock exchange in Zurich.

Ticker-Symbols

Valoren-No.	Inh. 218781
Reuters	PM.S
Bloomberg	PM SW Equity
Telekurs/Telerate	PM
ISIN	CH0002187810

Share indicators

		30.06.2020	30.06.2019
Share capital (bearer shares at nominal CHF 1.00)	Number	960'500	960'500
Entitled to dividend (as of 30 June)	Number	959'500	959'500
Entitled to dividend (on average)	Number	959'500	959'500
Operating income per share	EUR	6.7	17.3
Net result per share	EUR	1.6	12.3
Shareholders' equity (incl. Minority interest) per share	EUR	212.7	231.2

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Consolidated balance sheet (unaudited)

Assets (in EUR million)	30.06.2020	31.12.2019
Current assets		
Cash and cash equivalents	51.7	60.1
Trade receivables	101.9	113.6
Income tax receivables	3.7	1.4
Derivative financial instruments	0.0	0.1
Other current receivables	12.3	10.1
Inventories	149.4	148.0
Deferred charges and prepaid expenses	2.7	2.3
Total current assets	321.7	335.6
Non-current assets		
Tangible assets	134.9	136.4
Investment properties	0.0	0.1
Intangible assets	6.4	6.9
Investment in associated companies	0.6	0.5
Other financial assets	0.3	0.6
Deferred tax assets	7.0	8.0
Total non-current assets	149.2	152.5
Total assets	470.9	488.1

Consolidated balance sheet (unaudited)**Equity and liabilities**

(in EUR million)

30.06.2020**31.12.2019****Liabilities**

Trade payables	47.7	59.4
Short-term financial liabilities	63.5	36.5
Derivative financial instruments	1.6	0.6
Short-term provisions	17.8	19.3
Short-term pension obligations	0.2	0.2
Income tax liabilities	1.7	3.5
Other short-term liabilities	30.3	25.2
Deferred income	1.9	2.0
Short-term liabilities	164.7	146.7
Long-term financial liabilities	90.8	111.7
Long-term provisions	4.1	4.8
Long-term pension obligations	6.1	6.1
Deferred tax liabilities	1.1	1.4
Long-term liabilities	102.1	124.0
Total liabilities	266.8	270.7

Equity

Share capital	0.9	0.9
Treasury shares	-0.4	-0.4
Retained earnings	209.2	218.2
Translation differences	-6.5	-2.4
Equity attributable to shareholders of the parent company	203.2	216.3
Minority interests	0.9	1.1
Total equity	204.1	217.4
Total equity and liabilities	470.9	488.1

Consolidated statement of income (unaudited)

(in EUR million)	1st half 2020	1st half 2019
Net revenue	299.5	323.9
Changes in inventories	-3.1	2.6
Own work capitalised	0.4	0.9
Other operating income	2.7	1.7
Cost of materials	-143.6	-158.7
Personnel expenses	-100.7	-104.0
Depreciation on tangible assets	-9.8	-9.5
Depreciation on intangible assets	-1.4	-1.4
Impairment losses and reversal of impairment losses on tangible and intangible assets	-0.9	0.0
Other operating expenses	-36.7	-38.9
Operating result	6.4	16.6
Result from associated companies	0.1	-0.1
Financial income	2.6	2.4
Financial expenses	-5.4	-2.8
Financial result	-2.7	-0.5
Result before tax	3.7	16.1
Income tax	-2.5	-4.5
Result of the period	1.2	11.6
of which		
Shareholders of the parent company	1.5	11.8
Minority shareholders	-0.3	-0.2
Earnings per share		
Earnings per share - undiluted (in EUR)	1.6	12.3
Earnings per share - diluted (in EUR)	1.6	12.3

Consolidated statement of cash flow (unaudited)

(in EUR million)	1st half 2020	1st half 2019
Result of the period	1.2	11.6
Income tax	2.5	4.5
Result before tax	3.7	16.1
Depreciation on tangible assets	9.8	9.5
Depreciation on intangible assets	1.4	1.4
Losses / (gains) from the disposal of tangible and intangible assets	-0.6	0.0
Impairment losses / (reversal of impairment losses) on tangible and intangible assets	0.9	0.0
Losses and value adjustments on inventories	2.8	1.7
Result from associated companies	-0.1	0.1
Other non-cash expenses / (income)	3.3	0.1
Increase / (decrease) in long-term provisions and pension obligations	-0.7	0.2
Net interest expenses / (income)	1.2	0.7
Interest paid	-1.5	-1.2
Income tax paid	-5.9	-6.5
Operating cash flow before changing in working capital	14.3	22.1
(Increase) / decrease in inventories	-5.8	-8.1
(Increase) / decrease in trade receivables	9.7	-10.7
(Increase) / decrease in other receivables, deferred charges and prepaid expenses	-2.9	-1.0
Decrease / (increase) in trade payables	-11.1	3.1
Decrease / (increase) in short-term provisions and pension obligations	4.0	0.4
Decrease / (increase) in other liabilities and deferred income	-0.2	2.4
Cash flow from operating activities	8.0	8.2
Capital expenditure		
Tangible assets	-11.9	-10.5
Intangible assets	-0.9	-1.4
Financial assets / Investment in associated companies	0.0	-0.3
Acquisition of Group companies	-0.4	-21.3
Disinvestments		
Tangible assets	1.6	0.2
Intangible assets	0.0	0.3
Financial assets / Investment in associated companies	0.0	0.1
Interest received	0.3	0.3
Dividendes received	0.0	0.1
Cash used in investing activities	-11.3	-32.5
Dividends paid (including minority interest)	-9.1	-14.7
Issue of financial liabilities	19.2	30.3
Repayment of financial liabilities	-14.6	-8.7
Cash flow from financing activities	-4.5	6.9
Translation differences in cash and cash equivalents	-0.6	0.0
Change in cash and cash equivalents	-8.4	-17.4
Cash and cash equivalents as at 1 January	60.1	53.3
Cash and cash equivalents as at 30 June	51.7	35.9
Change in cash and cash equivalents	-8.4	-17.4

Consolidated statement of changes in equity (unaudited)

(in EUR million)	Share capital	Treasury shares	Retained earnings	Translation differences	Equity attributable to shareholders in the parent company	Minority interests	Total equity
Equity as at 31 December 2018	0.9	-0.4	267.9	-1.5	266.9	1.1	268.0
Result of the period			11.8		11.8	-0.2	11.6
Dividends paid			-14.6		-14.6	-0.1	-14.7
Translation differences				0.6	0.6		0.6
Change of minority interest			-0.2		-0.2	0.2	0.0
Netting of goodwill against equity			-42.4		-42.4		-42.4
Equity as at 30 June 2019	0.9	-0.4	222.5	-0.9	222.1	1.0	223.1
Equity as at 31 December 2019	0.9	-0.4	218.2	-2.4	216.3	1.1	217.4
Result of the period			1.5		1.5	-0.3	1.2
Dividends paid			-9.1		-9.1		-9.1
Translation differences				-4.1	-4.1	-0.1	-4.2
Change of minority interest			-0.2		-0.2	0.2	0.0
Adjustment of purchase price liability with impact on shadow statement			-1.1		-1.1		-1.1
Adjustment of purchase price liability through acquisition of minority interests			-0.1		-0.1		-0.1
Equity as at 30 June 2020	0.9	-0.4	209.2	-6.5	203.2	0.9	204.1

Compared with the published 2019 interim financial statements, there have been some minor changes in the changes of equity (see financial statements 2019). Equity decreased from EUR 268.2 million to EUR 268.0 million as at 31 December 2018.

Consolidated segment information (unaudited)

by division (in EUR million)	Enclosures		Mechanical Components		ELCOM/EMS		Total Segment		Reconciliation*		Total Group	
	1st half 2020	1st half 2019	1st half 2020	1st half 2019	1st half 2020	1st half 2019	1st half 2020	1st half 2019	1st half 2020	1st half 2019	1st half 2020	1st half 2019
Gross sales to third parties	89.9	95.4	158.4	167.0	53.8	64.4	302.1	326.8	0.0	0.0	302.1	326.8
Gross sales between divisions	0.3	0.3	0.0	0.4	1.7	2.2	2.0	2.9	-2.0	-2.9	0.0	0.0
Revenue reductions											-2.6	-2.9
Net revenue											299.5	323.9
Depreciation on tangible assets and intangible assets	-3.7	-3.3	-4.8	-4.2	-3.3	-2.9	-11.8	-10.4	-0.3	-0.5	-12.1	-10.9
Operating result	8.7	11.0	4.5	9.2	-5.8	-1.6	7.4	18.6	-1.0	-2.0	6.4	16.6
Financial result											-2.7	-0.5
Result before tax											3.7	16.1
Income tax											-2.5	-4.5
Result of the period											1.2	11.6
Purchases of tangible and intangible assets	1.3	4.1	7.2	3.4	3.9	4.1	12.4	11.6	0.4	0.3	12.8	11.9
Segment assets	102.1	106.4	194.8	200.2	106.9	114.6	403.8	421.2			403.8	421.2
Cash and cash equivalents									51.7	35.9	51.7	35.9
Other assets									15.4	14.5	15.4	14.5
Total assets	102.1	106.4	194.8	200.2	106.9	114.6	403.8	421.2	67.1	50.4	470.9	471.6
Segment liabilities	26.6	26.4	58.2	55.9	19.4	18.2	104.2	100.5			104.2	100.5
Interest-bearing liabilities									154.3	139.7	154.3	139.7
Other liabilities									8.3	8.3	8.3	8.3
Total liabilities	26.6	26.4	58.2	55.9	19.4	18.2	104.2	100.5	162.6	148.0	266.8	248.5
Net assets	75.5	80.0	136.6	144.3	87.5	96.4	299.6	320.7	-95.5	-97.6	204.1	223.1

*Included under Reconciliation are central management and financial functions that cannot be allocated to the divisions.

by region	1st half 2020	1st half 2019	by product group	1st half 2020	1st half 2019
Net revenue			Net revenue		
Switzerland	11.5	12.7	Industrial enclosures	83.5	89.2
Germany	99.7	110.8	Input systems	6.4	6.2
UK	5.9	8.0	Enclosures	89.9	95.4
France	8.1	9.6	Industrial assembly systems	21.3	25.0
Italy	5.7	7.1	Linear adjustment and positioning systems	137.1	142.0
The Netherlands	7.8	7.9	Mechanical Components	158.4	167.0
Rest of Europe	42.5	42.3	Electro-mechanical Components	23.9	28.6
North and South America	33.6	36.4	Power Quality	9.2	12.1
Middle and Far East	87.3	92.0	Electronic Manufacturing and Packaging	20.7	23.7
Gross sales	302.1	326.8	ELCOM/EMS	53.8	64.4
Revenue reductions	-2.6	-2.9	Gross sales	302.1	326.8
Net revenue	299.5	323.9	Revenue reductions	-2.6	-2.9
			Net revenue	299.5	323.9

Annex to the interim financial statements as at 30 June 2020

Consolidation and valuation principles

Principles underlying the interim financial statements

These unaudited interim financial statements for the Phoenix Mecano Group were drawn up in accordance with Swiss GAAP FER 31 "Complementary recommendation for listed companies". The consolidated half-yearly accounts do not cover all the information set out in the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2019.

The accounting and valuation principles used for the interim financial statements are the same as those applied for the consolidated financial statements under Swiss GAAP FER as at 31 December 2019.

Scope of consolidation

In first half year of 2020 and 2019 the scope of consolidation changed as follows:

Date	Company	Change	Division
2020			
27.05.2020	DewertOkin Services GmbH	Foundation	Mechanical Components
05.05.2020	Okin Vietnam Company Ltd.	Foundation	Mechanical Components
03.03.2020	Integrated Furniture Technologies Ltd.	Liquidation	Mechanical Components
28.01.2020	RK Antriebs- und Handhabungs- Technik GmbH	Foundation	Mechanical Components
2019			
01.04.2019	Haining My Home Mechanism Co. Ltd.	Acquisition	Mechanical Components

Assumptions and estimations

The preparation of the half-yearly accounts necessitates various assumptions and estimations. These are based on the management's assessments, which are regularly verified and amended as and when fresh information or findings necessitate changes.

Notes on the interim financial statements

Seasonality

The Phoenix Mecano Group is active in sectors that are subject to limited seasonal fluctuations. The interim financial statements as at 30 June 2020 have been heavily impacted by COVID-19. Business development in the second half of the year will depend to a large extent on how the pandemic evolves.

Acquisition of Group companies

On 1 January 2020, the Phoenix Mecano Group acquired, under asset deals, the business operations of APT GmbH Automation & Produktionstechnik (in provisional insolvency) and Linear- und Handhabungstechnik GmbH & Co KG, both active in system solutions for automation and production technology, which it merged to form a new company called RK Antriebs- und Handhabungs- Technik GmbH. The acquired businesses generated gross sales of almost EUR 4 million in 2019 and employed a total of 29 staff.

The acquired assets and assumed liabilities break down provisionally as follows:

	Fair value in EUR million
Non-current assets	0.2
Current assets	0.3
Liabilities	<u>0.0</u>
Identifiable net assets	0.5
Goodwill from acquisition	0.0
Purchase price	0.5
Residual purchase price liability (Earn-out)	-0.1
Purchase price paid in cash and cash equivalents	0.4
Cash and cash equivalents acquired	<u>0.0</u>
Change in funds (cash outflow)	0.4

Categories of financial instruments

The following table classifies the financial assets and liabilities measured at market value:

	30.06.2020 in EUR million	31.12.2019 in EUR million
Financial assets measured at market value		
Derivative financial instruments	0.0	0.1
Total	0.0	0.1
Financial liabilities measured at market value		
Derivative financial instruments	-1.6	-0.6
Purchase price liabilities from acquisitions	-11.0	-20.5
Total	-12.6	-21.1

Financial instruments consist solely of interest rate swaps and forward exchange transactions. The fair value corresponds to the present value of estimated future cash flows based on the terms and maturities of each individual contract, discounted at a current market interest rate at the measurement date.

The following table provides an update on purchase price liabilities from acquisitions:

	2020 in EUR million	2019 in EUR million
Balance as at 1 January / 1 January	20.5	1.3
Change in scope of consolidation	0.1	28.6
Currency differences	0.3	-0.2
Usage	-11.1	-14.3
Changes (via equity)	1.2	5.1
Balance as at 30 June / 31 December	11.0	20.5

The fair value of the purchase price liabilities is dependent on results (i.e. earnings) benchmarks, which are based partly on target figures. The purchase price liabilities may alter owing to a change in exchange rates, a change in the interest rate or a change in the parameters for determining the purchase price. The usage is mainly due to the early exercise of a call/put option for Haining My Home Mechanism Co., Ltd., where part of the fixed purchase price payment was made before and part after the balance sheet date. Because of their short-term nature, the remaining purchase price obligations would not change if the relevant future results were 10% higher and all other variables remained constant.

Impairment losses and reversal of impairment losses on tangible and intangible assets

Within the framework of the impairment tests on cash-generating units (CGUs) and assets at the balance sheet date, write-downs were performed in the reporting period, most notably a EUR 1.1 million devaluation of a building in Germany. The valuation of this building was based on the fair value. In addition, a write-up of EUR 0.7 million was performed on a building in China.

Financial result

The EUR 2.2 million reduction in financial result is attributable, among other things, to the balance sheet date valuation of forward exchange purchases of HUF for EUR, used to partially hedge the planned operating expenses in local currency in Hungary. Owing to the 8% fall in the value of the HUF against the EUR in the first six months of the year, the revaluation of the forward purchases resulted in an expense of EUR 0.9 million.

Further disclosures

In the shadow statement of goodwill, which shows the effects of a theoretical capitalisation of goodwill in the consolidated financial statements and is published in the annual report, the impairment tests on CGUs resulted in an impairment loss of EUR 2.3 million in the ELCOM/EMS division's Power Quality business area, due to changing market conditions.

Dividend payment

Pursuant to the decision taken by the Shareholders' General Meeting held on 20 May 2020, on 27 May 2020 shareholders were paid a dividend of CHF 10.00 per share (previous year CHF 17.00).

Events after the balance sheet date

Between 30 June 2020 and 10 August 2020, no events occurred that would alter the book values of the Group's assets and liabilities as at 30 June 2020 or that should be disclosed here.

Adoption of the condensed interim financial statements

The Board of Directors of Phoenix Mecano AG released this half-yearly report for publication on 10 August 2020.