

**TORNOS**



*Letter to the shareholders  
Course of business 2015*

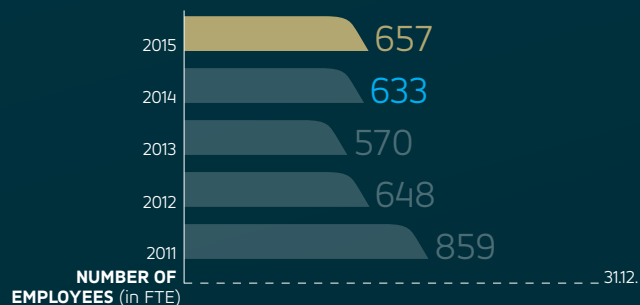
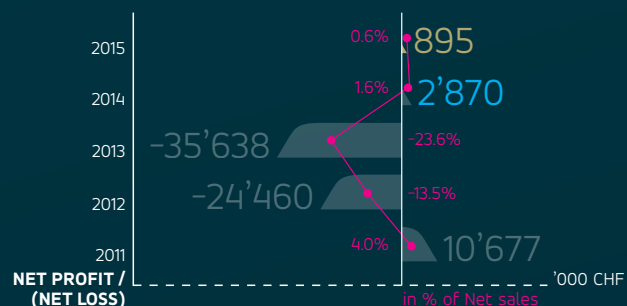
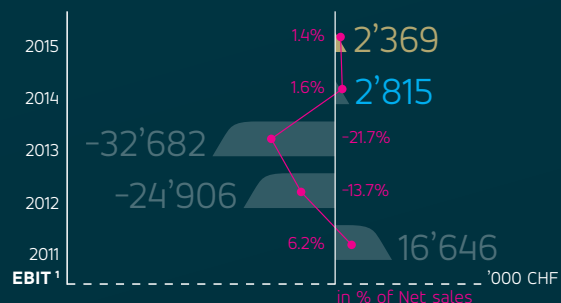
*Tornos Holding Ltd.*







<sup>1)</sup> The EBIT is made of the operating result and the non-operating result.



# Positive result in a challenging market and currency environment

*Ladies and gentlemen,  
Dear shareholders,*

*The main focus during the 2015 financial year was on continuing to implement the different major areas of our strategy, while further improving the company's financial performance.*

*The SNB's decision in early 2015 to remove the cap on the Swiss franc against the euro hit Swiss exporters hard at the start of the year. In order to cope with these new framework conditions, the Tornos Group had to re-examine its objectives and priorities and swiftly adopt appropriate measures. We reacted immediately by renegotiating prices with suppliers, amending the pricing for some of our products, and carrying out rigorous cost control, as well as increasing working hours by three hours a week at the Moutier and La Chaux-de-Fonds sites. For the latter, we should like to thank our employees in Switzerland most sincerely for their understanding. Despite shouldering this extra burden for nine months, their complete commitment proved invaluable and enabled the company to mitigate the negative effects of the difficult situation on the foreign exchange market.*

*In 2015, net sales came to CHF 164.0 million, down CHF 11.8 million or 6.7% on the previous financial*

*year. Over the year as a whole, the Group made an operating profit (EBIT) of CHF 2.4 million and a net result of CHF 0.9 million. While that fails to satisfy our expectations, it is nevertheless a respectable result given the challenging conditions in the year under review. In this context, it should also be noted that structural and organizational measures, along with tough cost discipline over the past three years, have enabled the Group to slash its breakeven point to sales of under CHF 170 million. This figure is now nearly CHF 50 million lower than in 2012, which allows the business to cope with fluctuations in demand much more flexibly.*

*Order intake amounted to CHF 160.0 million in the year under review, corresponding to a decrease of 12.7% compared with the prior-year period. Adjusted for exchange-rate effects, order intake dropped by 5.7%. This development is due to differing reasons in the specific market segments. Tornos suffered the negative effects of a fall in activity in the Swiss watchmaking industry, which is a major domestic market. Although such trends cannot easily be compensated by other segments, the Tornos Group enjoys a very wide customer base which covers automotive equipment manufacturers, medical*



François Frôté, Chairman and Michael Hauser, CEO

and dental technology, and the electronics industry, as well as other activities accounting for a good third of its order book. Furthermore, there were a number of sizeable orders for Almac machining centres.

Geographical analysis once again shows that demand grew in North and Latin America, although this did not make up for the declines in Europe – where Germany made progress but southern Europe lost ground compared with last year – and in Asia. In the latter region, a slowdown in Chinese growth, and a resulting decline in investment, has been observed for some time.

The strategic decisions taken, and especially the expansion of the standard products range – which took longer than expected – could not yet make up for the downward trends in the European and Asian markets during the 2015 financial year.

### **New Global Supply Chain Management business area**

Against this background, a new General Management-level area of responsibility called "Global Supply Chain Management" was created in the spring. This business area was entrusted to Mr Luc Widmer, the former CFO, who has wide experience of international supply chains. The resulting vacancy at the beginning of May was promptly filled with the appointment of Mr Bruno Edelmann as new CFO and member of General Management. Bruno Edelmann has many years of experience in finance and controlling within international industrial groups.

Increased external procurement via at least two suppliers who, moreover, are outside the Swiss franc zone, is essential in enabling Tornos to continue to improve its flexibility, which is already significantly better than in 2012. This results in



more attractive procurement conditions, with better security of supply and less dependence on exchange rate fluctuations.

### **Further restructuring of property portfolio**

As previously announced, focusing activities on a single site in Moutier is one of the preconditions for divesting property. To this end, work continued on renovating and transforming the Bechler tower block («Tour Bechler») into office and residential accommodation. The work is expected to be completed during the 2016 financial year. Some of the spaces have already been sold or leased. The old Junker factory will in future be used for our own purposes, while the hall (currently the staff restaurant) and the large industrial area in Rue de l'Ecluse are due to be given up in the medium term. The football pitch that used to form part of the Tornos property portfolio has been sold to the town of Moutier. This concentration on a single site has also the effect of reducing operating and maintenance costs while at the same time simplifying processes. These measures thus strengthen the competitiveness of Tornos, too.

### **Full range of standard products**

Around two-and-a-half years after the announcement of our joint venture in China, and about two years after the first joint product was unveiled, we are now able to offer a full range of standard machines to the market.

We have successfully strengthened our cooperation with our partner in Xi'an. It is now clear that the decision to manufacture standard products at that site was the right one, particularly in view of the high quality of our partner's production. This enables Tornos to use certain components from our own added value chain in the standard machines, which is particularly beneficial for delivery reliability and quality.

With the Swiss DT line and the CT 20 from Tornos Xi'an (China), as well as the Swiss GT line and the Swiss ST 26 from the factory in Taichung (Taiwan),

we now have six machines on offer, allowing us to grow further in the market for inexpensive single-spindle lathes that are nevertheless versatile and practical.

With the high-end machines produced in Moutier (EvoDECO, SwissNano, MultiSwiss), Tornos has a product portfolio offering an appropriate solution for each customer, both in the single-spindle and multispindle segments.

### **A third of the way still to go**

There are about eighteen months of the 2012-2017 strategy cycle still to go. We will continue to improve both our ability to withstand unforeseen events and our competitiveness. The Moutier assembly lines will therefore all be adopting "lean" principles, which will further shorten delivery times and contribute to the operational efficiency we are aiming for. In the services area, which in 2015 almost matched the previous year's level, machine overhauls and other offerings are set to make an increasing contribution to the result.

Our efforts will focus on developing the next generation of machines in the high-end single-spindle segment, since our innovative capacity will play a crucial role in our future success. The development of the SwissNano and the MultiSwiss has demonstrated that this is possible, and has enabled Tornos to set the standard in the sector. This leading market position must be defended and consolidated. The resulting momentum must be passed on to customers through other products.

### **Outlook 2016**

The economic situation is expected to remain challenging for the Swiss export industry, so more intensive marketing efforts will be required in individual regions. Appropriate measures have been taken with the aim of increasing sales volumes.

Tornos will also continue to press ahead with optimizing structures and processes in order to retain a high degree of flexibility while keeping costs under control.

Development efforts are aimed at expanding the portfolio of premium products from Moutier in the current year. In order to achieve this objective, slightly more resources will be allocated to development, as specified in the medium-term plan.

This year, more machines are expected to be produced in the Asian factories than in Switzerland. Regardless of where a product is manufactured, Tornos remains committed to offering its customers the same high level of quality with every machine delivered and every service provided, just as it has done for over a century.

Owing to the lack of visibility, the persistently unfavourable currency climate and the present uncertainty regarding the economic situation, Tornos is not making a prediction regarding its business performance in 2016.

#### **Thanks**

On behalf of the Board of Directors and General Management, we should like to thank all our shareholders for the confidence they have shown in us. We are also grateful to our customers and partners for the valuable collaboration that in many cases goes back several decades. Lastly, we particularly wish to thank all our employees, whose hard work has enabled the Tornos Group to achieve a positive result in challenging circumstances.



**François Frôté**  
Chairman of the  
Board of Directors



**Michael Hauser**  
President and Chief  
Executive Officer

**“Around two-  
and-a-half years  
after the  
announcement  
of our joint  
venture in China  
we are now  
able to offer a  
full range of  
standard  
machines to  
the market.”**

# Course of business 2015

*During the year under review, about two thirds of orders came from the four core segments: the automotive supply industry, medical and dental technology, micromechanics (watchmaking), and electronics. It has always been Tornos' practice to acquire an excellent knowledge of specific user requirements in other segments, such as aerospace and pneumatics and hydraulics, to help it diversify its existing customer base. For instance, the company succeeded in placing several MultiSwiss machines with a number of customers in the aerospace industry in Europe and the USA, and to convince a Swiss manufacturer of precision domestic appliances of the benefits of the Swiss GT 26, thus gaining a new customer.*

*In 2015 the automotive supply industry again proved to be the most important market in terms of share. Here, Tornos was able to win major orders, especially in Germany, the stronghold of the European automotive industry – no mean feat given the strength of the Swiss franc against the euro. The outstanding features of individual products and the strong, customer-oriented presence of the service network were both crucial factors in outstripping the foreign competition.*

*In medical and dental technology, a sector in which extremely high quality standards are imposed worldwide by health authority requirements, a number*

*of orders were received from well-known global companies. Tornos was selected as a “preferred partner” by one of the biggest medical technology groups, which means its name immediately appears on the list of possible suppliers of high-value machines whenever new investment is being considered.*

*The proportion of orders from the electronics industry increased slightly. Although there has been a marked decline in hard drives for the computer industry – once a very important segment for Tornos –, promising areas of application have opened up in the form of high-tech connectors for the aviation industrie, among others.*

*For some time now, the watchmaking industry has been struggling with the more challenging market environment. The ongoing transformation of Hong Kong, a trading centre and one of the world's largest consumers of luxury watches, is having a dampening effect on the Swiss watchmaking industry, making it less ready to invest in new machinery. It is therefore all the more noteworthy that a major order for the Almac BA 1008 HP was won from a well-known Swiss watch manufacturer. Before the order was placed, this project involved eighteen months of close collaboration with the customer, who is now gaining a customized solution for its very specific requirements in the production process.*



### **Platform concept brings synergies**

*At the same time, the model ordered is a perfect example of the platform concept that has been introduced by the Tornos Group: the Almac BA 1008 series is based on the SwissNano platform and thus exploits the cross-technology synergies between bar milling machines and Swiss-type lathes, both of which are in the high-precision range.*

*Sales of the SwissNano, which was specially developed to meet the needs of the watchmaking industry, surpassed the previous year's figure. This machine's impressive performance features also led to a significant repeat order from a watch component supplier in Switzerland. For some time now, the SwissNano has been conquering new territory beyond Switzerland, as orders from the USA and Asia testify. The SwissNano is also being used in other market segments there.*

*Thanks to the platform concept, four new models were added to the existing range of standard CT 20 and Swiss ST 26 machines in 2015. One new product for bar diameters of 13mm and one product for 26mm bars were launched in each of the Swiss GT and Swiss DT product families. These machines share a certain number of identical components and assemblies. In the year under review, it was therefore possible to expand the range of standard products to six machines despite the strict cost*

*constraints. Tornos now offers customers in all major market segments a selection of five- to seven-axis Swiss-type lathes which can be used to manufacture an almost unlimited range of parts. There has been an accompanying rise in the number of machines manufactured in Asia, with almost half of annual production now coming from the factories in Xi'an and Taichung.*

### **Expansion of high-end product range from Switzerland**

*In the high-end Swiss-type lathe segment, two products for bar diameters of 10mm and 16mm were added to the EvoDECO line, which now – together with the EvoDECO 20 and EvoDECO 32 – comprises four machines that are generally considered to be the most powerful and productive on the market. Their eight to ten axes give them maximum flexibility to manufacture the most complex parts, offering an advantage that can make all the difference to the customer's success.*

*Another workhorse product for Tornos is the MultiSwiss, which, together with the EvoDECO line and the SwissNano, forms the backbone of the high-end machines manufactured in Switzerland. The number of MultiSwiss machines sold has risen year on year ever since the model was launched in 2011.*

*This is confirmed by the high number of repeat orders and customers who used multispindle machines from other brands so far. Its design, which is a cross between a multispindle and a single-spindle, has enabled the MultiSwiss to persuade an increasing number of long-term users of Swiss-type lathes to switch over to it, thanks to advantages such as the fact that it requires significantly less floor space than several single-spindle machines installed side by side.*

*As the parts machined by the MultiSwiss constantly demonstrate exceptional precision and surface quality, this product is of particular interest to the automotive supply industry. Several orders were received from the top suppliers in this sector. They often have to process large volumes of parts, which are subject to particularly strict quality requirements to avoid the risk of mass-produced cars having to be subsequently recalled. As a result, the MultiSwiss is ideal for this purpose.*

*In the United States, the MultiSwiss has put Tornos into the lead in terms of the number of machines sold, so it can justifiably be claimed that Tornos has set a technological trend with this product.*

*In the Americas, order intake was more than two-and-a-half times higher compared to prior year. Starting in 2014, the dealer network was totally restructured and aligned with the new product mix. This began to bear fruit, making a key contribution to ensuring that this region will return to its previous level of success. Now that standard and high-end machines are all available there, the sales team has considerably more scope for greater involvement in the investment projects of existing and new customers in medical and dental technology and in the automotive supply industry, which has picked up again.*

*Order intake in Asia moved in the opposite direction to orders in the Americas. After a substantial increase in 2014, there was a downturn in the year under review. Where the watchmaking industry was concerned, this was caused by weaker demand for quality watches from China and Hong Kong. A certain reluctance to invest was observed in the other market segments, reflecting falling industrial output in China – the largest consumer and producer of machine tools – as a result of a decline in China's import and export figures. This hit the domestic market as well as the rest of Asia. Nevertheless, orders spanning the entire product range of Tornos machines were placed there. Major European suppliers to the automotive industry have built new production facilities in the Greater China market region (China, Hong Kong, Taiwan). In this regard this region offers growth potential for the Tornos Group in the next few years.*

*Europe remains the core region for Tornos, and will continue to play the most important role as a market for high-end machines over the next few years. The sales figures for standard machines from Tornos Xi'an and Tornos Taiwan show that the company has succeeded in positioning and selling its products in Europe, too. Here, Tornos faces fierce competition from Asia in the single-spindle segment, especially from Japanese manufacturers. The market for multispindle machines is very competitive, particularly since German rivals can reap price advantages because of the weakness of the euro against the Swiss franc. This is why the success of Tornos continues to depend on launching new, innovative solutions that are superior to the products of its rivals.*

### **Reliable contribution to sales from the service business**

*Despite the decline in the machine business, sales in the service business were on a par with the previous year's figures. The longevity of the machines, and especially the large number that have already been installed throughout the world, offer significant potential in terms of maintenance, spare parts sales and general overhauls. When a machine has been in operation for fifteen years or more, an overhaul may be attractive to a customer who is not primarily interested to invest in a replacement. Instead, they can have the machine thoroughly overhauled by Tornos technicians. This segment grew further in the year under review.*

### **Significant efficiency improvements apparent**

*As reported, the entire procurement organization, including production, was transferred to the Global Supply Chain Management business area and placed under new leadership. At the same time, the Group pushed ahead with the switch to lean assembly. These structural and organizational adjustments have paid off, reducing assembly time by up to 30% per machine. In addition, the number of machines in stock was deliberately increased so that they can be quickly fitted and delivered with customer-specific options if required. Improvements to production processes allowed some machines to be taken out of service, thus reducing costs sustainably.*

*The capacities freed up through increased efficiency led to a reduction in the number of temporary staff, whereas employees with many years' service were deployed to new areas of activity to ensure their expertise is retained.*

**“The longevity of the machines, and especially the large number that have already been installed, offer significant potential in terms of maintenance, spare parts sales and general overhauls. This segment grew further in the year under review.”**



We keep you turning

tornos.com

TORNOS HOLDING LTD

Rue Industrielle 111  
CH-2740 Moutier  
Phone +41 (0)32 494 44 44  
Fax +41 (0)32 494 44 03  
contact@tornos.com

Tornos  
throughout  
the world

