

A young man with short, light brown hair is smiling broadly at the camera. He is wearing a dark grey quilted vest over a grey long-sleeved shirt and blue jeans. The vest has the word 'TORNOS' printed on the left chest. He is holding a black laptop in front of him with both hands. The background is a factory or industrial setting with various pieces of machinery, including a large grey machine with a control panel on the left and another large machine on the right. The floor is light-colored concrete. The overall lighting is bright and even.

TORNOS

Report on the first half year of 2019

Tornos Group



↳ Visitors to Tornos customer centers receive the same consistently warm welcome worldwide.

Key Figures

Tornos Group

Unaudited, in CHF 1'000*	1 st HY 2019 1.1.–30.6.2019	1 st HY 2018 1.1.–30.6.2018	Difference	Difference in %
Order intake	76'878	128'453	-51'575	-40.2%
Net sales	117'154	103'989	13'165	12.7%
EBITDA	11'017	7'275	3'742	51.4%
<i>in % of Net sales</i>	9.4%	7.0%		
EBIT	8'922	5'507	3'415	62.0%
<i>in % of Net sales</i>	7.6%	5.3%		
Net result	9'047	5'466	3'581	65.5%
<i>in % of Net sales</i>	7.7%	5.3%		
Cash flow from operating activities	-9'455	3'749	-13'204	n/a
Cash flow from investing activities	-2'789	-1'388	-1'401	100.9%
Free cash flow	-12'244	2'361	-14'605	n/a
	30.6.2019	31.12.2018		
Net cash	18'520	35'663	-17'143	-48.1%
Total equity	110'196	105'356	4'840	4.6%
<i>in % of total balance sheet</i>	64.8%	59.8%		
Total balance sheet	170'168	176'247	-6'079	-3.4%
Employees (full-time equivalents)**	760	728	32	4.4%

* Unless otherwise stated

** Without apprentices



➤ The Intelligent Manufacturing Conference, held June 27, in Rottweil, Germany, further strengthened Tornos' position as a thought leader in the automotive market segment.

➤ Tornos' new SwissNano 7 has particularly impressed manufacturers in dental technology and the high-tech electronics sectors.

➤ The grand opening of Tornos' new Customer Center Chicago generated great interest among guests.



Tornos once again significantly increases sales, EBIT and productivity

*Dear Sir or Madam,
dear Shareholders,*

In the first half of 2019, the Tornos Group was able to make good use of the record order backlog from the beginning of the year and significantly increase both sales and EBIT again in comparison to the previous year. The Group has successfully managed to further improve its efficiency and productivity and tap into new, promising markets – for example, in medical and dental technology, and the area of electronics (5G network technology). At the same time, Tornos noted a significant decline in demand from the automotive industry. In this market segment, various factors such as international trade disputes, discussions about the diesel engine, approval delays in Germany and the unforeseeable development of electromobility led to uncertainty in the sector and ultimately, for Tornos, to a significant decline in order intake. Now, it appears that Tornos' strategic thrust has proven to be correct: thanks to internationalization, flexibilization and a focus on different market segments, the Group is well prepared for such developments and uncertainties.

In the first half of 2019, the Tornos Group achieved net sales of CHF 117.2 million (first half of 2018: CHF 104.0 million, +12.7%) and order intake of CHF 76.9 million (first half of 2018: CHF 128.5 million, -40.2%). The operating result (EBIT) for the first half of 2019 amounted to CHF 8.9 million (first half of 2018: CHF 5.5 million, +62.0%), the net result was CHF 9.0 million (first half of 2018: CHF 5.5 million, +65.5%) and free cash flow came to CHF -12.2 million (first half of 2018: CHF +2.4 million). The cash flow can be attributed in particular to the increase in goods on hand and the decline in customer payments. The headcount (in full-time equivalents) of the Tornos Group increased: from 728 at the end of 2018 to 760 at the end of June 2019. This increase

is primarily due to the high order backlog that Tornos had to work off in the first half of 2019.

In the medical and dental technology, electronic, and watchmaking industry markets and in the job shops, which supply parts to the industries mentioned, demand remained stable overall. Here, Tornos was again able to significantly increase order intake in the first six months of 2019 in some cases. However, this was not enough to compensate for the sharp decline in demand from the automotive industry.

SwissNano 7 sets the standard

Tornos succeeded in markedly increasing sales for Swiss-type automatic lathes produced in Switzerland in the first half of 2019. This was predominantly thanks to SwissNano 7, which was launched onto the market in the second half of 2018. It sets new standards with regard to space requirements, ergonomics, energy consumption, tool consumption and low noise performance. SwissNano 7 has impressed customers in dental technology and the high-tech electronics industry in particular.

New automation solutions

The scalable and user-friendly machine programming and communication software TISIS is Tornos' gate to Industry 4.0. In the meantime, 1,500 Tornos machines have been equipped with TISIS. In the first half of 2019, Tornos pushed ahead with the further development of automation solutions and realized various product enhancements and updates. These include additional functions for a module with a six-axis robot that is attached directly to the machine and which allows automatic loading, unloading, palletizing and handling of pallets.

Tornos developed DT 26 S Swiss-type automatic lathes especially for the requirements of the Chinese market.

Following the numerous recent successful product launches, Tornos is already preparing the next innovation drive for 2020.

Maximum proximity to customers

Proximity to customers around the world is important to Tornos. In May 2019, Tornos opened new customer centers with showrooms, replacement part storage and office spaces in Chicago (USA) and Bangkok (Thailand). Tornos will open a customer center near Milan (Italy) in January 2020, and plans to open a customer center in Pforzheim (Germany) in spring 2021.

In Moutier, a large proportion of the renovations and extensions have been completed ready for the merging of assembly for all Tornos machines produced in Switzerland. The refurbishment of the administration building with a new reception center and conference rooms is fully underway. All work will be completed by the end of 2019.

The Tornos Academy in Moutier got off to a very good start in the first half of 2019. Here, customers receive tailored training from Tornos to get the best out of Tornos products. The courses, which are individually designed with the customer's needs and wishes in mind, are offered at all of Tornos' sites. However, they can also be held at customers' premises if desired.

The i-moutier incubator in the Tornos Precision Park acts as a cooperative platform for microtechnology, bringing together universities, institutions, start-ups and partner companies. In an initial successful project, several manufacturers from the region have developed a cell for integrated production together. Two other promising projects in the areas of IT and microtechnology are already making good progress. With the incubator, the cumulative expertise of an entire region is being made available to customers and partners of Tornos.

Further development of the sites in Asia

The expansion of the site in Taichung, Taiwan, into a completely autonomous plant able to assemble all types of Swiss GT machines, has had a positive impact on the quality of processes and on the flexibility of the operation. As at the mid-year point, the plant is at full capacity until the end of 2019.

In April 2019, Tornos decided to independently develop its subsidiary in China, Tornos (Xi'an) Machine Works Co., Ltd., and repurchase the minority share of 30% of the share capital from Chinese company Shaanxi Robot Automation Technology Co., Ltd. by the end of 2019 at the latest. Tornos will obtain new premises in Xi'an this year.

Outlook

In all probability, the uncertainty in the automotive industry will continue to have a negative impact on order intake in the second half of the year. Developments in the medical and dental technology market and the electronics market, on the other hand, open up interesting new sales opportunities for the Tornos Group, which has a product portfolio carefully tailored to customer requirements. EMO, the leading trade show taking place in Hanover in September, is also expected to stimulate demand.

Overall, Tornos is expecting profitability for 2019 to be on a par with the previous year.

With its flexible cost structure, the Tornos Group is well positioned to deal with fluctuations in demand in the markets and any decline in sales depending on the market conditions.



François Frôté
Chairman of the
Board of Directors



Michael Hauser
President and Chief
Executive Officer

➤ Extraordinary attention to detail is a hallmark of SwissNano 4 and the SwissNano 7 assembly in Moutier, Switzerland.



Management Report

General

Following the boom in 2018, the global economy has cooled again this year. Forecasts for the coming months are much more cautious than they were a year ago. The automotive industry has recently reported falling sales figures; many Tier 1 suppliers are hesitant to place orders or reduce order quantities. In China, cuts in subsidies have had a negative impact on sales of electric vehicles. What's more, the direction of automotive power systems over the next five to ten years is by no means clear. Finally, geopolitical tensions are not helping to calm the situation. Fortunately, there are also industries that so far remain unaffected by the current economic climate, such as medical and dental technology and the electronics industry. New applications are emerging in these innovative markets on an almost daily basis. This can benefit the mechanical engineering sector – including Tornos. In the watchmaking industry, things are still going well. Here, capital expenditure to replace old machinery with new is on the increase.

Tornos is watching the markets very closely. Its flexible cost structure and sharply reduced break-even point enable the Group to react promptly so as to be able to achieve good results, even after any declines in sales. Thanks to its fully revised product portfolio, internationally oriented production sites, restructured service department and innovative customer solutions, Tornos is perfectly positioned.

Order intake and backlog

The Tornos Group achieved total order intake of CHF 76.9 million in the first half of 2019 (first half of 2018: CHF 128.5 million, -40.2%). The marked year-on-year change is due mainly to the decline in sales for the automotive industry. In this market segment, various influencing factors such as international trade disputes, discussions around diesel engines, delays to registrations in Germany and the unforeseeable direction of e-mobility led to uncertainty in the sector and ultimately to a sharp decline in

orders for Tornos. Linked to this is the reduction in sales of MultiSwiss machines, which are used mainly in the automotive industry. Other machine ranges also failed to sustain the very good prior-year results.

In Europe, the most important region for Tornos, order intake fell from CHF 82.6 million in the first half of 2018 to CHF 36.9 million (-55%); in Asia (including the rest of the world), it dropped from CHF 15.4 million to CHF 7.8 million (-49%). In the Americas, on the other hand, order intake rose by 20%, from CHF 8.4 million to CHF 10.1 million.

Unlike in the automotive industry, Tornos lifted order intake in the medical and dental technology and electronics segments compared with the first half of 2018; by 78% in the medical and dental technology segment and by 19% in the electronics segment. Order intake in the market segment comprising the watchmaking industry remained on a par with the previous year. For the first time in many years, the automotive industry was no longer the largest market segment for Tornos, accounting for around 9% of order intake. Ahead of it were the market segments comprising medical and dental technology (27%), electronics (23%) and the watchmaking industry (10%). The remaining 31% of total order intake came from subcontractors (known as 'job shops') that supply parts to the four aforementioned industries as well as other markets such as aviation, pneumatics and hydraulics.

The Tornos Group's order backlog stood at CHF 63.4 million as at June 30, 2019. It therefore dropped by 37% in the first half of 2019 (December 31, 2018: CHF 101.0 million).

Net sales

The Tornos Group generated net sales of CHF 117.2 million in the first half of 2019 (first half of 2018: CHF 104.0 million, +12.7%). At constant currency rates, net sales for the first half of 2019 would have been CHF 118.3 million (+13.8% compared with the first half of 2018).

In the Group's home market of Switzerland, net sales were up by CHF 7.7 million on the figure for the first half of 2018 to a substantial CHF 26.4 million (+41%). In the rest of Europe, they declined by CHF 1.6 million, or 2%, to CHF 64.2 million. In the Americas, Tornos doubled net sales year on year, from CHF 6.1 million to CHF 12.8 million. Sales in Asia (including the rest of the world) were up by around 3% on the prior-year figure to CHF 13.7 million in the first half of 2019.

Overall, the individual regions accounted for the following shares of the Tornos Group's net sales in the first half of 2019: Switzerland 22% (first half of 2018: 18%); rest of Europe 55% (first half of 2018: 63%); Americas 11% (first half of 2018: 6%); Asia (including rest of the world) 12% (first half of 2018: 13%).

In the service and spare parts business, Tornos generated net sales of CHF 24.1 million in the first half of 2019. Once again, therefore, the Group achieved a slight increase on the solid prior-year figure (first half of 2018: CHF 23.9 million).

Gross profit

The Tornos Group achieved a gross profit margin of 33.4% in the first half of 2019 (first half of 2018: 34.5%). The 1.1 percentage point reduction in the margin is attributable to the changing composition of the product mix.

Overall, Tornos lifted gross profit by CHF 3.3 million to CHF 39.1 million (first half of 2018: CHF 35.8 million). A volume-related increase of CHF 4.6 million was partly offset by a decline in the margin of CHF 1.3 million.

Operating expenses

The Tornos Group's operating expenses amounted to CHF 30.0 million in the first half of 2019 (first half of 2018: CHF 30.1 million). While marketing and sales expense as well as general and administrative expense each rose by CHF 0.4 million, research and development expense declined by CHF 0.9 million.



✎ Board of Directors: Walter Fust, François Frôté, Till Fust, Michel Rollier

➤ General Management: Bruno Allemant, Michael Hauser, Luc Widmer, Bruno Edelmann

Non-operating result

The non-operating result comprises the net expense related to the residential investment property "Tour Bechler". The renovation was completed at the end of 2017. The building is now almost fully rented.

EBITDA and EBIT

Earnings before financial expense, tax, depreciation and amortization (EBITDA) came to CHF 11.0 million for the first half of 2019 (first half of 2018: CHF 7.3 million). The EBITDA margin was 9.4% (first half of 2018: 7.0%). Earnings before financial expense and tax (EBIT) amounted to a gratifying CHF 8.9 million (first half of 2018: CHF 5.5 million). At constant currency rates, EBIT for the first half of 2019 would have been CHF 8.7 million. Once again, Tornos lifted the EBIT margin, which stood at 7.6% (first half of 2018: 5.3%).

Net result

Net financial expense in the first half of 2019 was on a par with the previous year. The depreciation of the Swiss franc against the euro and the US dollar increased the value of some balance sheet items, which had a positive impact on net income from exchange rate differences. This stood at CHF +0.4 million in the first half of 2019 (first half of 2018: CHF +0.3 million).

The net result for the first half of 2019 came to CHF 9.0 million (first half of 2018: CHF 5.5 million). The margin was a gratifying 7.7% (first half of 2018: 5.3%).

Balance sheet

Total assets declined by CHF 6.1 million compared with December 31, 2018, to CHF 170.2 million.

On the assets side of the balance sheet, cash and cash equivalents decreased by CHF 17.2 million to CHF 18.7 million. A portion of cash and cash equivalents went into inventories, which increased by CHF 11.9 million to CHF 93.5 million due to high production volumes. Trade receivables declined slightly, by CHF 3.2 million to CHF 21.5 million. Other receivables and prepaid expenses rose by CHF 1.6 million.

Non-current assets were up by around CHF 0.8 million compared with December 31, 2018 to CHF 28.7 million as at June 30, 2019.

On the liabilities and equity side, trade payables increased by CHF 2.3 million compared with December 31, 2018. Conversely, other liabilities dropped sharply, by CHF 17.0 million to CHF 12.6 million. This includes prepayments received from customers, which fell due to lower order intake in the first half of 2019. Accrued liabilities and deferred income rose (CHF +3.1 million). The other items on the liabilities and equity side changed only marginally compared with December 31, 2018.

Net cash and cash equivalents stood at CHF 18.5 million as at June 30, 2019 (December 31, 2018: CHF 35.7 million).

Equity rose by CHF 4.8 million in the first half of 2019 to CHF 110.2 million (December 31, 2018: CHF 105.4 million), of which CHF 0.5 million (December 31, 2018: CHF 0.5 million) was attributable to minority interests. The equity ratio rose by 5.0 percentage points to 64.8% (December 31, 2018: 59.8%).

Cash flow

Free cash flow amounted to CHF -12.2 million in the first half of 2019 (first half of 2018: CHF +2.4 million). The cash outflow was due in particular to the increase in working capital (CHF +22.2 million), caused by the increase in inventories (CHF +12.8 million) and the decline in prepayments received from customers (CHF -16.2 million). Net capital expenditure amounted to CHF 2.8 million (first half of 2018: CHF 1.4 million). This mostly comprised investments in the renovation of the technology and customer centres in Moutier (Switzerland) and Des Plaines near Chicago (USA) as well as in software and hardware. A further cash outflow was attributable to the distribution of a dividend of CHF 5.4 million to shareholders. In addition, Tornos sold CHF 0.6 million worth of its own shares to employees under the Group's Management and Board Participation Plan. The net decrease in cash and cash equivalents was therefore CHF 17.2 million (first half of 2018: net increase of CHF 3.9 million).



➤ Lean assembly and careful use of resources are the guiding principles behind all production planning and an integral part of the entire production process at all Tornos sites, as shown here at the Taichung, Taiwan site.

Employees

As at June 30, 2019, the Tornos Group had 760 employees (full-time equivalents) and 43 apprentices (December 31, 2018: 728 employees and 44 apprentices). This increase is primarily due to the high order backlog that Tornos had to work off in the first half of 2019. The three assembly plants in Switzerland, China and Taiwan accounted for a large portion of this. In addition, Tornos bolstered its sales and service companies on all three continents.

Outlook

In all probability, the uncertainty in the automotive industry will continue to have a negative impact on order intake in the second half of the year. Developments in the medical and dental technology market and the electronics market, on the other hand, open up interesting new sales opportunities for the Tornos Group, which has a product portfolio carefully tailored to customer requirements. EMO, the leading trade show taking place in Hanover in September, is also expected to stimulate demand. Overall, Tornos is expecting profitability for 2019 to be on a par with the previous year.

We keep you turning



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