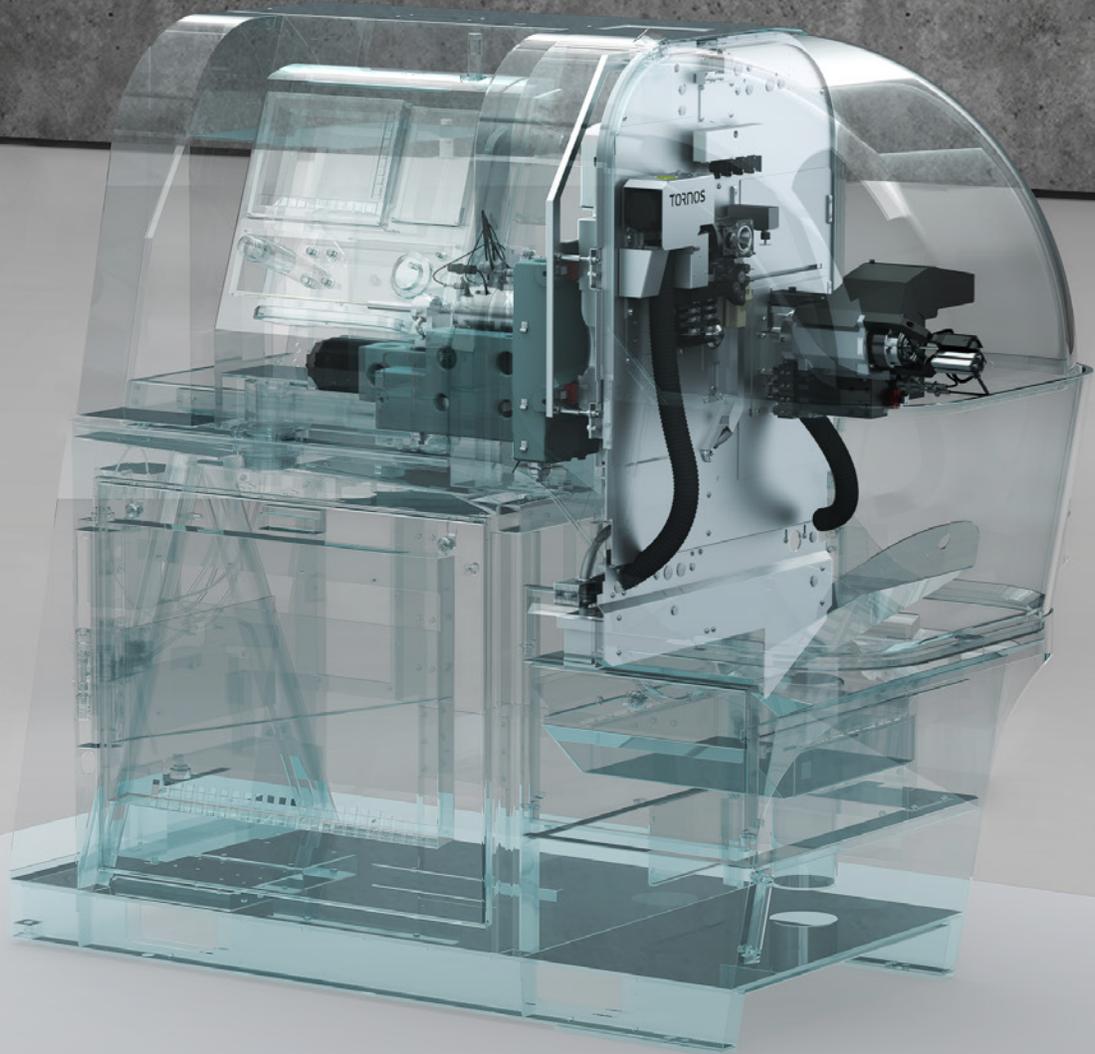


TORNOS



*Report on the
first half of 2020*

Tornos Group



Key Figures

Tornos Group

Unaudited, in CHF 1'000*	1 st HY 2020 1.1.–30.6.2020	1 st HY 2019 1.1.–30.6.2019	Difference	Difference in %
Order intake	42'834	76'878	-34'044	-44.3%
Net sales	56'170	117'154	-60'984	-52.1%
EBITDA**	-10'988	11'017	-22'005	n/a
<i>in % of Net sales</i>	-19.6%	9.4%		
EBIT**	-13'089	8'922	-22'011	n/a
<i>in % of Net sales</i>	-23.3%	7.6%		
Net result	-13'908	9'047	-22'955	n/a
<i>in % of Net sales</i>	-24.8%	7.7%		
Cash flow from operating activities	-8'781	-9'455	674	7.1%
Cash flow from investing activities	804	-2'789	3'593	n/a
Free cash flow**	-7'977	-12'244	4'267	34.8%
	30.6.2020	31.12.2019		
Net cash**	-9'436	-874	-8'562	n/a
Total equity	93'594	107'809	-14'215	-13.2%
<i>in % of total balance sheet</i>	65.4%	64.4%		
Total balance sheet	143'028	167'507	-24'479	-14.6%
Employees (full-time equivalents)***	636	729	-93	-12.8%

* Unless otherwise stated

** Non-GAAP financial measure, refer to Interim Consolidated Financial Statements 2020, pages 8 and 9

*** Without apprentices

In addition to historical information, this report contains statements about the future which include risks and uncertainties.

Tornos committed to the fight against Covid-19

The coronavirus pandemic has prompted Tornos to review its priorities and intensify its commitment to those who have fought, and are still fighting on a daily basis, to save lives. Medical equipment manufacturers—though less in the spotlight than nurses, doctors, and other health care workers—have been under great pressure and are still working hard to deliver life-saving equipment to intensive care units as quickly as possible. Among this equipment are the well-known ventilators from Hamilton Medical, the Graubünden-based company that suddenly caught the attention of the general public. Yes, Hamilton is involved in saving lives, as is

Gloor Medical in Burgdorf, Switzerland, which produces devices to regulate the pressure and flow of medical gases. In addition to their joint presence in intensive care, these two companies have another thing in common. Both have been counting on Tornos' expertise for several decades for the production of key parts for their devices. In this way, Tornos is indirectly participating in the general effort to combat the coronavirus. And there are many examples of this, as a number of companies worldwide place their trust in Tornos and use our machines to produce essential parts for devices that help professionals in the medical sector to save lives.



Tornos faces major challenges

*Dear Sir or Madam,
dear Shareholders,*

The Tornos Group was also severely affected by the coronavirus crisis. At times, our business was practically paralyzed worldwide. The outbreak of the pandemic occurred when demand for our Swiss-type automatic lathes and multispindle machines had already fallen sharply due to the economic situation. Last year, structural change in the automotive industry and the uncertain geopolitical situation had led to a marked cooling of our sales markets and to an unusually low order backlog at the beginning of 2020. The financial results of the Tornos Group for the first half of 2020 were correspondingly negative. Positive signs in this very difficult environment include the recovery in demand from China towards the end of the first half of 2020 and the slight revival of the markets in Germany and Italy—although this is still at a very modest level. In addition, we were able to win a number of interesting orders from the medical technology industry, such as for machines to manufacture the respiratory equipment urgently needed during the coronavirus crisis.

Overall, our Group achieved net sales of CHF 56.2 million in the first half of 2020 (first half of 2019: CHF 117.2 million, -52.1%) and order intake of CHF 42.8 million (first half of 2019: CHF 76.9 million, -44.3%). The operating result (EBIT*) for the first half of 2020 amounted to CHF -13.1 million (first half of 2019: CHF 8.9 million) and the net result was CHF -13.9 million (first half of 2019:

CHF 9.0 million). It should be noted that the net result was impacted by the increase in allowance on inventories of CHF 8.1 million and relieved by the sale of the factory building on Rue de l'Ecluse in Moutier for CHF 3.2 million. If sales pick up again in the future and the inventory is decreased, the allowance could be reduced accordingly with an effect on the result.

All sales markets and all machine types were affected by the significant changes. As is usual in economically difficult times, there was a shift in the product mix from the higher-priced machines produced in Switzerland to the medium- and lower-priced machines from our production in China and Taiwan.

Far-reaching austerity measures

In view of the very difficult economic situation, Tornos has introduced far-reaching cost-cutting measures. The number of employees in the Group fell from 729 at the end of 2019 to 636 at the end of June 2020. A large part of this reduction related to temporary jobs. Tornos introduced short-time working at various locations in Switzerland and abroad. In addition, the Board of Directors has decided to waive the dividend originally planned for our shareholders.

Even in this difficult situation, the Group's liquidity remained secure at all times.

* Non-GAAP financial measure, refer to Interim Consolidated Financial Statements 2020, pages 8 and 9

SwissDECO and SwissNano 7 still in demand in medical and dental technology

The SwissDECO and SwissNano 7 Swiss-type automatic lathes produced in Switzerland found further convinced customers in the medical and dental technology and electronics industries in the first half of 2020. Overall, however, Tornos suffered a significant decline in orders for all product groups. Due to the economic situation, demand is currently particularly weak for multispindle machines.

New automation solutions

The scalable and user-friendly TISIS machine programming and communication software has already been installed on 2000 Tornos machines. In the first half of 2020, Tornos continued to develop automation solutions and implemented various product additions and updates.

Centralization in Moutier completed

In Moutier, both the centralization of production at the main site on Rue Industrielle and the renovation of the administrative building with a new reception center and conference rooms have been fully completed. A specialized third-party company now operates part of the warehouse, including the related logistics. This has helped to further increase the flexibility of our company. Production at the new premises in Xi'an has started well.

Changes in the General Management

Bruno Edelmann, CFO, and Bruno Allemand, Head of Sales & Marketing, both decided in June 2020 to leave the Tornos Group to take on new challenges. The Board of Directors and the Executive Committee would like to thank Bruno Edelmann and Bruno Allemand for their great commitment to the Tornos Group. Tornos will take the opportunity to adapt its management organization to the current market conditions. Bruno Edelmann will hand over on 1 September 2020 to the current Head of Global Supply Chain Management, Luc Widmer, who served as CFO of the Tornos Group from 2012 to 2015. Tornos will choose Bruno Allemand's successor in the coming weeks.

Outlook

It is extremely difficult to provide an outlook at present due to the current uncertainties. We are facing great challenges. Tornos is expecting a slow recovery of the global markets in 2021.

Overall we do not yet anticipate any fundamental changes in the second half of 2020. We estimate net sales on a par with those in the first half of 2020. Accordingly, EBIT and the net result will also be similarly negative. In the medium and long-term, however, Tornos remains confident. The Group will be ready for the upturn following the economic downswing, which was massively aggravated by the coronavirus crisis, with its product portfolio carefully tailored to customer requirements and its expanded services.



François Frôté
Chairman of the
Board of Directors



Michael Hauser
President and Chief
Executive Officer

In the medium and long-term, Tornos remains confident.

➤ With the mission of constantly innovating and exploring new markets, Tornos seized the unique opportunity at the end of January 2020 to showcase its SwissNano 7 to the Brazilian market during the 38th Sao Paulo International Dental Show and Congress (CIOSP) in Brazil.

TORNOS

IMPLANTES DENTÁRIOS

Benefícios à saúde para você sorrir mais
Peças desafiadoras? A Tornos é referência em soluções de
usinagens inteligentes. Descubra a SwissNano 7 e seja você
também o diferencial no mercado.

DENTAL IMPLANTS

Health benefits you
Discover our intel
for the most cl



Management Report

General

The structural change in the automotive industry had led to a slump in demand for Swiss-type automatic lathes and multispindle machines in the course of the 2019 financial year. During the first half of 2020, the Tornos Group was also severely affected by the coronavirus crisis. At times, almost all activities were paralyzed. And not only in machine sales but also in the service business: during the lockdown, service technicians in various countries were forbidden to visit customers. All of this had a very negative impact on the financial results of the Tornos Group in the first half of 2020.

During the second half of 2019, Tornos had already introduced various measures in response to the negative market developments, such as rigorous cost savings and a reduction in the workforce, which mainly affected temporary employees. Tornos continued to implement these cost-cutting measures in the first half of 2020. As a result, the Group has succeeded in keeping operating losses within limits. However, the result was greatly affected by the allowance on inventories in the amount of CHF 8.1 million which had to be made due to the longer storage period and lower consumption.

It is currently difficult to estimate the future development of the turning machine market or to predict when the next economic upturn will begin. The Tornos Group is preparing for a longer period of modest order intake and is therefore systematically implementing further cost reduction measures in line with its flexibility strategy.

Coronavirus pandemic

The coronavirus pandemic has affected the individual Tornos sites in different ways. In China, a lockdown was already ordered at the end of January. In February, the Xi'an plant came to a standstill, and in March work resumed. There was no lockdown at the production site in Taichung (Taiwan). In Europe, national governments imposed strict measures between mid-March and mid-May, which in some cases led to work interruptions. In the USA, corresponding measures were introduced at a relatively late stage. Many of these measures are still in force in July 2020.

Tornos responded to the coronavirus crisis with measures including the following:

- Introduction of short-time working or the reduction of working hours with wage savings. The corresponding systems vary greatly from country to country.
- Application for Covid-19 loans, which have only been partially used so far
- Staff reductions
- Implementation of rigorous cost-saving measures in all areas

Tornos currently expects to continue these measures to a similar extent in the second half of 2020. They are intended to ensure the continued existence of the Group. Further information on the Covid-19 measures can be found in the Interim Consolidated Financial Statements 2020 (note 7, Impact of Covid-19 pandemic).

Order intake and backlog

The Tornos Group achieved total order intake of CHF 42.8 million in the first half of 2020 (first half of 2019: CHF 76.9 million, -44.3%). All market segments and machine types were affected by this significant change. In less favorable economic times, Tornos generally sells more machines from its Asian production facilities which are in the medium and lower price segments. Investments in machines in the higher price segment, such as those produced by Tornos in Moutier, are often postponed by customers until better times.

Thus, almost 60% of the machines sold by Tornos in the first half of 2020 (in terms of units) come from the production sites in China and Taiwan.

In Europe, the most important region for Tornos, order intake fell from CHF 36.9 million in the first half of 2019 to CHF 17.2 million (-53%). In Asia (including the rest of the world), where there were already signs of a market recovery, order intake fell by only CHF 0.2 million to CHF 7.6 million (-3%) compared with the same period of the previous year, with Tornos even increasing by 50% in China compared with the first half of 2019. In America, on the other hand, where the number of coronavirus cases is still very high, Tornos suffered a 61% drop in order intake—from CHF 10.1 million to CHF 3.9 million.

The medical and dental technology market segment accounted for 27% of total order intake in the first half of 2020. It was followed by the electronics and watchmaking industries with 11% each. The automotive industry, which had been the largest market segment for Tornos in previous years, only contributed 7% of the order intake in the first half of 2020. The remaining 44% came from subcontractors (known as 'job shops') that supply parts to the four aforementioned industries as well as to other markets such as aviation, pneumatics and hydraulics. The job shops invest mainly in machines in the medium and lower price segments.

The Tornos Group's order backlog stood at CHF 20.2 million as at 30 June, 2020. This represents a 41% decline in the first half of 2020 (31 December 2019: CHF 34.2 million).



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

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

Net sales

The Tornos Group generated net sales of CHF 56.2 million in the first half of 2020 (first half of 2019: CHF 117.2 million, -52.1%). At constant currency rates, net sales for the first half of 2020 would have been CHF 57.8 million (-50.7% compared with the first half of 2019). In the Group's home market of Switzerland, net sales of CHF 14.7 million were CHF 11.7 million below the figure for the first half of 2019 (-44%). In the rest of Europe, they declined by CHF 43.3 million, or 67%, to CHF 21.0 million.

In the Americas, net sales decreased by CHF 4.1 million from CHF 12.8 million to CHF 8.7 million. Asia (including the rest of the world) accounted for sales of CHF 11.8 million in the first half of 2020, about 14% below the figure for 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 2020: Switzerland 26% (first half of 2019: 22%); rest of Europe 37% (first half of 2019: 55%); Americas 16% (first half of 2019: 11%); Asia (including rest of the world) 21% (first half of 2019: 12%).

In the service and spare parts business, Tornos generated net sales of CHF 15.0 million in the first half of 2020. This is CHF 9.1 million less than in the corresponding period of the previous year (first half of 2019: CHF 24.1 million). The sale of spare parts suffered particularly badly, although the service business also fell considerably, as service technicians were unable to visit their customers during the lockdown.

Gross profit

In the first half of 2020, the Tornos Group's gross profit fell by CHF 32.6 million to CHF 6.5 million compared with the corresponding period of the previous year (first half of 2019: CHF 39.1 million). CHF 20.3 million of this decline was volume-related. The CHF 12.3 million reduction in margins is mainly due to the significant increase in the allowance on inventories.

As already stated in the management report for the 2019 financial year, inventories have increased sharply over the past year. This is due to the abrupt decline in orders from the automotive industry. Certain parts and components must be ordered several months in advance in order to guarantee a market-driven delivery time for the machines. Due to the coronavirus pandemic, the planned reduction in inventories was only possible to a small extent. As a result of the longer storage period and lower consumption, allowance on inventories have increased massively. In the first half of 2020, they worsened the result of the Tornos Group by CHF 8.1 million. Tornos expects the allowance on inventories to increase further in the second half of 2020. From today's perspective, they should no longer increase in 2021. If sales pick up again in the future and the inventory is decreased, the allowance could be reduced accordingly with an effect on the result.

In addition, inventories worth CHF 1.1 million were disposed of in the first half of 2020. This was in connection with the relocation of a large part of the raw material warehouse to an external partner. The remaining CHF 3.1 million of the margin decline relates to the product mix. Compared with the corresponding period of the previous year, more machines in the medium and lower price segments with a lower gross margin were sold in the first half of 2020 than machines in the higher price segment.

The gross profit margin for the first half of 2020 was 11.5% (first half of 2019: 33.4%).



➤ Certified ISO 9001 in December 2018, Tornos Xi'an passed its surveillance audit in April 2020.

Operating expenses

The rigorous cost-cutting measures introduced by the Tornos Group in the second half of 2019 have now taken effect in the first half of 2020. Operating expenses were reduced by CHF 7.1 million to CHF 22.9 million compared with the same period of the previous year (first half of 2019: CHF 30.0 million). Marketing and sales costs were reduced by CHF 4.0 million and research and development costs by CHF 2.0 million. General and administrative expenses decreased by CHF 1.1 million.

Non-operating result

The non-operating result includes the income of CHF 3.2 million from the sale of the former production property "Rue de l'Ecluse 49" and the net income from the non-operating residential property "Tour Bechler" (CHF 0.1 million). The residential property is fully rented.



Following the opening of its new customer centers in the United States, Thailand and China, Tornos has decided to pursue its strategy in Italy as well, by building the new Customer Center Milan. The Grand Opening is planned for October 2020.

EBITDA and EBIT*

Earnings before financial expense, tax, depreciation and amortization (EBITDA) came to CHF -11.0 million for the first half of 2020 (first half of 2019: CHF 11.0 million). The EBITDA margin was -19.6% (first half of 2019: 9.4%). Earnings before financial expense and tax (EBIT) amounted to CHF -13.1 million (first half of 2019: CHF 8.9 million). The impact of exchange rates on EBIT was insignificant in the first half of 2020. The EBIT margin was -23.3% (first half of 2019: 7.6%).

Net result

Net financial expense in the first half of 2020 was slightly lower than in the previous year. Due to the strengthening of the Swiss franc against the euro and the US dollar, individual balance sheet items were devalued, which had a negative impact on the exchange rate result. This amounted to CHF -0.7 million in the first half of 2020 (first half of 2019: CHF +0.4 million). The net result for the first half of 2020 came to CHF -13.9 million (first half of 2019: CHF 9.0 million). The margin was -24.8% (first half of 2019: 7.7%).

Balance sheet

Total assets declined by CHF 24.5 million compared with 31 December 2019, to CHF 143.0 million. On the assets side of the balance sheet, cash and cash equivalents decreased by CHF 1.5 million to CHF 12.9 million. Trade receivables declined by CHF 4.4 million to CHF 12.5 million due to the lower sales revenue. Inventories decreased by CHF 17.5 million to CHF 84.4 million. CHF 8.1 million of this decrease is due to the aforementioned significant increase in the allowance on inventories. Other receivables and prepaid expenses increased by CHF 0.5 million.

At CHF 27.0 million, the non-current assets of the Tornos Group as at 30 June 2020 were around CHF 1.7 million lower than on 31 December 2019. A large part of the decrease was due to the sale of the "Rue de l'Ecluse 49" property. On the liabilities and equity side, interest bearing borrowings increased by CHF 7.1 million to CHF 22.2 million. Of this amount, CHF 5.0 million are loans from the main shareholder and CHF 2.1 million are Covid-19 loans from banks. Trade payables decreased by CHF 13.5 million compared to 31 December 2019. This is due to the reduced purchasing volume. Other liabilities fell by CHF 2.6 million to CHF 5.6 million. This includes customer prepayments, which decreased due to the lower order intake in the first half of 2020. Provisions fell by CHF 1.1 million as a result of the reduction in warranty provisions on the machines sold. The other items on the liabilities and equity side changed only marginally compared with 31 December 2019.

As of 30 June 2020, Net cash* amounted to CHF -9.4 million (31 December 2019: CHF -0.9 million).

Equity decreased by CHF 14.2 million to CHF 93.6 million in the first half of 2020 (31 December 2019: CHF 107.8 million). As of 31 December 2019, minority interests of CHF 0.4 million from the thirty percent third-party stake in the production company in Xi'an (CN) are reported. Tornos acquired this share from its Chinese partner in January 2020 and now owns 100% of the company. The equity ratio rose by one percentage point to 65.4% (31 December 2019: 64.4%).

* Non-GAAP financial measure, refer to Interim Consolidated Financial Statements 2020, pages 8 and 9

Cash flow

Cash flow from operating activities amounted to CHF -8.8 million in the first half of 2020 (first half of 2019: CHF -9.5 million). It was influenced by the negative half-year result (CHF -13.9 million) and by the increase in net working capital (CHF -2.9 million), less the allowance and write-offs (CHF 8.7 million). The item "Disposal of property, plant and equipment" (see Interim Consolidated Financial Statements 2020) includes the sale of the property "Rue de l'Ecluse 49".

The related final cash flow of CHF 2.0 million in the first half of 2020 is shown under cash flow from investing activities. Investments in the first half of 2020 amounted to CHF 1.0 million (first half of 2019: CHF 2.6 million). These cash flows resulted in Free Cash flow* of CHF -8.0 million in the first half of 2020 (first half of 2019: CHF -12.2 million). To cover the cash outflow, Tornos received a loan of CHF 5.0 million from its main shareholder. In addition, subsidiaries in Germany, France and the USA obtained Covid-19 loans in the amount of CHF 2.1 million. A further cash outflow (CHF 0.7 million) was due to the purchase of the thirty percent minority share in Tornos Xi'an. The net cash flow therefore came to CHF -1.7 million (first half of 2019: CHF -17.2 million).

Changes in the General Management

Bruno Edelmann, CFO, and Bruno Allemand, Head of Sales & Marketing, both decided in June 2020 to leave the Tornos Group to take on new challenges. Bruno Edelmann will hand over on 1 September 2020 to the current Head of Global Supply Chain Management, Luc Widmer, who served as CFO of the Tornos Group from 2012 to 2015. Bruno Allemand will leave Tornos at the end of 2020. The Board of Directors and the Executive Committee thank Bruno Edelmann and Bruno Allemand for their great commitment to the Tornos Group. Tornos will take the opportunity to adapt its management organization to the current market conditions.

Employees

As at 30 June 2020, the Tornos Group had 636 employees (full-time equivalents) and 35 apprentices (31 December 2019: 729 employees and 35 apprentices). Most of the reduction concerned the Swiss sites of Moutier and La Chaux-de-Fonds. The reduction was mainly in the number of temporary staff. Tornos also reduced the number of jobs at its production plants in China and Taiwan and at its sales and service companies. The reductions in the workforce resulted in savings of CHF 9.3 million, and the introduction of short-time working had a positive effect on the half-year accounts of CHF 3.8 million.

Outlook

It is extremely difficult to provide an outlook at present due to the current uncertainties. Tornos faces great challenges. The Group is expecting a slow recovery of the global markets in 2021. Overall Tornos does not yet anticipate any fundamental changes in the second half of 2020. The Group estimates net sales on a par with those in the first half of 2020. Accordingly, EBIT and the net result will also be similarly negative. In the medium and long-term, however, Tornos remains confident. The Group will be ready for the upturn following the economic downswing, which was massively aggravated by the coronavirus crisis, with its product portfolio carefully tailored to customer requirements and its expanded services.

* Non-GAAP financial measure, refer to Interim Consolidated Financial Statements 2020, pages 8 and 9



✦ The construction of the new Tornos plant in Xi'an was completed in January 2020. The official inauguration of the premises had to be postponed due to the coronavirus pandemic, and is planned for October 2020.



We keep you turning

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throughout
the world

