

# Engineered Components

Innovation projects as growth drivers

Engineered Components delivered solid growth on the back of innovation projects. The segment was able to recoup much of the margin erosion caused by unfavorable exchange rates in the second half of the year.

### Key figures Engineered Components

in CHF million

	2015	±	2014	2013
Third party sales	740.1	1.8%	727.2	672.9
Sales growth comparable*		4.3%		
Net sales	756.1	1.7%	743.5	686.8
EBITDA	185.3	-2.8%	190.7	175.0
As a % of net sales	24.5		25.7	25.5
EBITA	134.1	-6.2%	143.0	129.9
As a % of net sales	17.7		19.2	18.9
Net operating assets	1,290.6	-2.7%	1,326.1	1,182.0
Investments	70.3	12.3%	62.6	45.8
Employees (FTE)	5,635	-6.7%	6,038	4,488

\* at constant exchange rates and on the same scope of consolidation

### Solid growth in local currency achieved

The Engineered Components segment achieved solid growth of 6.1% in local currency. On a reported basis, growth amounted to 1.8%, which represents sales of CHF 740 million. Growth was primarily fueled by the production ramp-up of numerous new products and the continuing market success of key customers' end products. Robust demand for automobiles, a major market segment, also contributed to the good sales performance. The slowdown in growth momentum compared to the first half of the year can be traced to comparison base effects. In absolute terms, sales were higher in the second half of 2015 than in the first half of the year, but lower than in the very strong second half of the previous year.

Significant productivity gains were achieved through greater use of automated production solutions. That and the divestment of a non-core company in Asia led to a reduction in the number of employees to 5,635 (FTEs).



In addition modern machinery and equipment, the people who work for SFS Group also play a critical role in ensuring compliance with demanding quality specifications.

### Significant margin recovery achieved

Engineered Components, the segment with the highest profitability, attained another high EBITA margin of 17.7% in 2015 (previous year: 19.2%). The margin contraction compared to the previous year is directly attributable to the strong appreciation of the Swiss franc. The Automotive and Industrial divisions supply their European customers primarily from their three factories located in Switzerland. Prices for these customers are quoted almost exclusively in euros, whereas most of the operating expenses are incurred in Swiss francs. Foreign-exchange transaction effects and one-time effects were accordingly negative. The full-year margin contraction was ultimately confined to 150 basis points as the measures taken in Switzerland during the spring gained traction and good results were achieved outside Switzerland. At the mid-year mark, the segment margin was still 300 basis points lower year-on-year. If the effect of exchange-rate movements were excluded, profitability would have been clearly higher than in the previous year.

**High performance substantiated by new projects and customer awards**

High customer satisfaction, and, consequently, a sense of trust in a supplier's capabilities, are key preconditions that must be met for suppliers to be involved in projects as development partners at an early stage. Early integration in development processes is also an ideal opportunity to deploy the full potential that technology offers and to generate value for the customer.

Our reliability and capabilities were proven on the one hand by the various large projects that were acquired during the period under review and which will support growth in the coming years, and, on the other hand, by the numerous awards of excellence SFS received from various customers, including Bosch and Continental.



Parts-specific assembly lines are designed and built in-house by SFS Group specialists. This capability is often a key differentiating factor when bidding for and winning groundbreaking projects.

**Engineered Components segment**

In the Engineered Components segment, SFS partners with customers to develop and manufacture customized precision components, fastening solutions and assemblies. Tailor-made solutions create added value for customers by enhancing overall system performance, for example, or by reducing the complexity of the parts and components required. Besides the applications knowledge, technical expertise on the manufacturing side is also imperative. The Engineered Components segment consists of three divisions, each focused on its particular markets.

**Automotive division**

SFS has established long-standing partnerships with leading customers of the automotive industry and their suppliers. The services and products offered under the SFS intec brand focus on applications that improve safety and comfort, or which reduce the fuel consumption and exhaust emissions of internal combustion engines.

**Electronics division**

A leading supplier of precision components and miniature screws, this division boasts a large presence in Asia. Its products, sold under the Unisteel brand, can be found in smartphones, tablets, game consoles and hard disk drives.

**Industrial division**

In the Industrial division, SFS sells market leaders with diverse needs operating in attractive niches a wide range of products under the SFS intec brand. The companies that profit from the division's vast know-how operate in industries ranging from aerospace, electrical engineering, architectural hardware and metal cutting to medical components industry.



## Automotive division

### Growing in the wake of new project ramp-ups

– Measured in local currency, the Automotive division posted high growth again. This growth was mainly driven by new project ramp-ups, which is why the slight downturn in growth momentum in the global automobile market had little impact on SFS's top line. The trend towards autonomous driving is the number one growth driver for this division - and will probably remain so for the coming years. SFS is developing and manufacturing actuators for electric brake systems for this particular market segment. The ramp-up phase for these products is proceeding as planned. Additional project wins underscore the competitive abilities of SFS as a development partner, as well as high levels of customer satisfaction with SFS products and services. A global production platform is a significant competitive advantage in an industry characterized by a large number of smaller sized players that often operate on only a local scale.

Infrastructure at Indo Schöttle (India) and Sunil SFS intec (China) was expanded to lay the groundwork for the subsequent realization of growth projects. Sunil SFS intec, a joint venture not included in the scope of consolidation, has good access to well-known western firms, as well as Korean and, increasingly, Chinese customers.

The Automotive division expects its positive business trends to be sustained during the course of 2016. It should also receive some tailwind from the slightly higher rate of growth projected for the automobile market.

## Electronics division

### Strong market position achieved

– Sales at the Electronics division were slightly higher than the good previous year levels, thanks to the continuing market success of major end products. Demand for hard disk drives, a demanding application field, has declined as notebooks are increasingly supplanted by tablets. Uni-steel's performance advantages and innovation skills were, however, able to offset these negative factors to some extent. Various new projects were successfully completed – for example, with leading Chinese manufacturers of smartphones – and had a positive effect. The Electronics division has successfully positioned itself in the still young market segment of wearable electronics (e.g. smartwatches) and it sees good opportunities to capture some of the anticipated growth.

Key priorities in 2016 are continuing and expanding the development partnerships with customers on the basis of its powerful, advanced technologies. In this very dynamic and volatile business, growth is heavily dependent on the product launch schedules of customers.

## Industrial division

### Good results in the aircraft manufacturing and medical components industries

– The major growth driver in the Industrial division remains the ramp-up of production for the Airbus A350, for which SFS supplies fastening solutions for the cabin interior. Compared to the previous year, sales of these products nearly doubled.

Growing cost pressure in the medical components sector is making companies more amenable to collaboration with highly capable partners that offer proven skills in the industrialization of manufacturing processes. With its vast know-how in the field of titanium cold forming processes and in plastic injection moulding, SFS is well positioned to participate in this trend. This still small division showed positive developments during the period under review. By creating structures tailored to the needs of medtech customers, SFS can further strengthen the division's positioning and improve opportunities for future growth.



## Position as competent partner in growth segment of smartwatches established

Thanks to its strong innovation skills and competence in the field of miniature components, SFS has successfully established itself as a partner of leading manufacturers in the young and growing smartwatch product segment. SFS offers precision formed components, miniature screws and assemblies. This also includes high-quality aesthetic coatings and surface treatments.

## Creating value for customers and end users through product innovation

The launch of the Airbus A350XWB is an important growth driver for the coming years. SFS developed systems for fastening the cabin interior panels used in this and other aircraft. These systems offer added value in the form of simple and quick assembly and disassembly, a lightweight design, and noise-reducing features since SFS fastening solutions play a significant function in vibration control.

## Fascinating customers with our enthusiasm and superior performance

SFS was the sole supplier in Switzerland to be honored with the “Bosch Global Supplier Award 2015” from Robert Bosch GmbH. SFS received this award in the “Mechanics” category. Bosch is a long-standing key customer that sources primarily ready-to-fit parts for ABS systems from the Automotive division. The current award covers the years 2013 and 2014 and this is the seventh time that SFS has been honored by Bosch as an outstanding supplier.

Bosch also presented SFS with the “Crazy for suCCess Award”, one of only five suppliers to receive this inaugural award. This new Bosch award acknowledges superior services rendered related to cost reduction, innovation and global presence. The many awards of excellence that SFS has received as a supplier serve as an important confirmation that it is on the right track and strengthen its resolve to maintain its superior performance in the future.