

# Strategy

Customer focus creates value

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We create added value with our products and services – for our customers, our employees and our shareholders. This value can be traced to our detailed application know-how, outstanding technical expertise and our creativity. A thorough understanding of the customer and close customer relationships are vital in all three respects.

## **Surrounded by SFS products every day**

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People come into contact with SFS products every day. Most times unknowingly because many of the often success-critical components we make are embedded within the products of our customers and are rarely visible from the outside. SFS products are used in a vast range of applications.

Contact with SFS products begins at home, where SFS fastening systems serve a number of important functions in doors, windows and kitchens, for example. SFS know-how is also used to make electric shavers and high-quality coffee machines. In a car, people are surrounded by scores of SFS products: in the automotive interior, the vehicle structure, and in numerous safety systems, ranging from seatbelts and airbags to brake systems, where our products help to save lives in the event of an emergency. And when passengers on board a modern airplane notice how quiet the plane is, SFS fastening solutions that reduce vibration in the aircraft cabin are partly the reason. SFS products also perform vital functions in smartphones and hard disk drives, or in adventure cameras used to capture thrilling action shots.

Our customers put their trust in us when they choose SFS as their development partner, solution provider or C-parts supplier.

## **SFS in brief**

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SFS is a leading global provider of mechanical fastening systems and precision formed components. The company operates in the three segments Engineered Components, Fastening Systems and Distribution & Logistics, which represent the company's differing business models.

In the Engineered Components segment, SFS partners with customers to develop and manufacture customer-specific precision formed components, fastening solutions and assemblies. This segment operates in the Automotive, Electronics and Industrial divisions, and sells its products under the SFS intec (Automotive, Industrial) and Unisteel (Electronics) brands.

In the Fastening Systems segment, which consists of the Construction and the Riveting divisions, SFS develops, manufactures and markets application-specific mechanical fastening systems under the SFS intec (Construction) and GESIPA® (Riveting) brands.

In the Distribution & Logistics segment with the SFS unimarket brand, SFS is a leading supplier and logistics partner for manufacturers and skilled crafts and trades in Switzerland. Its product range consists of fastening systems, tools and architectural hardware. The segment also offers customized logistics solutions that play a key role in making customers more competitive.

SFS Group is a global player with manufacturing sites and distribution companies at more than 70 locations in 25 countries around the world. Sales in business year 2015 amounted to CHF 1.376 billion and the workforce numbered approximately 8,300 (FTE).

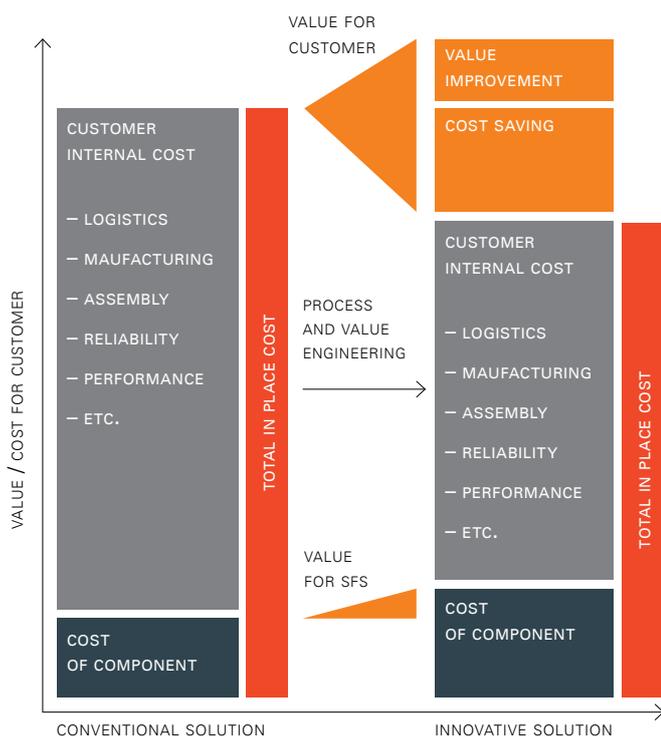
### Creating value for customers

The direct costs of SFS products are relatively low compared to the overall end product costs, but the related costs for the customer are several times higher. These additional costs can be traced to factors such as administrative sourcing activities, logistics costs and to the variety of parts required.

We always try to put ourselves in the shoes of the customer. That means keeping an eye on the cost of each specific part and, in particular, optimizing overall costs (see value proposition). This perspective helps us to identify cost-savings potential and create sustainable added value. The advantage for us: These custom-tailored products and solutions give us a more distinct profile and strengthen the partnerships we have with our customers.

Our resolve to generate added value fuels our innovative drive and is a fundamental aspect of our corporate culture. This basic philosophy is predicated on five core values: know, understand, create, move and trust.

### Value proposition of the SFS Group



### KNOW what makes customers more competitive

A focus on specific core technologies and core competencies enables us to constantly improve what we do, often by pushing the limits of technology, and claim a leadership position. We also support our customers by offering end-to-end logistics solutions that help them to achieve significant efficiency gains and cost optimization, and thus sharpen their competitive edge.

### UNDERSTAND the issues market partners are facing

Listen attentively, exchange ideas, set goals, ensure smooth and efficient execution: these are the guiding principles that SFS employees have followed for years when collaborating with customers around the globe. Focused business units and dedicated key account teams that possess the relevant applications knowledge give us a deep understanding of each customer's needs and challenges. Diversification across various end markets engenders stability and helps to avoid excessive exposure to a particular target market.

### CREATE fascinating solutions for customers

Connecting customer needs and desires to our highly sophisticated technology and process expertise creates a pipeline for exceptional ideas. In their constant search for new solutions, SFS people often push the limits of technology and create convincing products that add value for the customer and set us apart from the competition.

In each of the three segments, the role of innovator is interpreted differently. In the Engineered Components segment SFS, acts as a development partner in creating solutions that meet specific customer requirements. Value is manifested in the resulting customer-specific solutions. In the Fastening Systems segment, SFS is a solutions partner and offers mechanical fastening systems for selected applications. Value is added through functionality add-ons or by improving ergonomics, reliability or efficiency within the fastening process. In the Distribution & Logistics segment, SFS is a leading supplier and logistics partner in Switzerland. Added value is created for customers by combining attractive product ranges with clever, technologically superior logistics systems. Customers use these systems to lower their process costs, optimize their supply of stock and increase supply availability of products.

## **MOVE to get customers ahead**

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The ability to quickly develop a concept into actual products and services has become an increasingly critical success factor. Being able to scale up a project from the prototype stage to series production with millions of units in just a few short weeks is a key differentiating factor, especially in markets with short product life cycles. Meanwhile, very demanding process and quality standards must also be met. Having total control over the entire value creation chain is a major advantage that clearly boosts execution speed.

SFS has a manufacturing platform that spans the globe and allows it to serve its customers as a local supplier. This means multinational customers, for example, can profit from the same set of skills and competencies in America, Europe and Asia, and have their global needs addressed by one partner. Compared to competitors that in many cases are only local players, this global footprint has given SFS a significant competitive edge.

## **TRUST to build strong customer relationships**

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Successful solutions beget trust. Trust is the basis on which close and stable partnerships are built – and a precondition for early engagement in customers' innovative projects, which is crucial for a successful positioning as a development partner and innovator. We pride ourselves on having built close partnerships with leading players across a wide range of industries and appreciate the growth that we have achieved together with them over the years. The many awards of distinction we have received as a supplier serve as an important confirmation that we are on the right track, and they also strengthen our resolve to maintain our superior performance in the future.

## **Innovation and acquisition-driven growth**

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Our positioning in growth markets, our leadership in selected market niches and our focus on megatrends such as health protection and demand for greater efficiency give us many opportunities to demonstrate our capabilities and strengths with a steady flow of innovation. Meanwhile, our international production platform will help us to enter new markets. The significant appreciation of the Swiss franc posed major challenges to the Swiss production sites. Implementation of a wide range of measures brought short-term relief from the negative currency situation. Looking ahead, the factories in Switzerland will focus even more on knowledge and capital-intensive products and processes.

In addition to organic growth, acquisitions have long been part of SFS's growth strategy. Selective acquisitions will be made to capture new markets and address new customer groups and application areas, and thereby create new opportunities for organic growth. Rather than make large acquisitions, we are seeking to strengthen our overall performance by acquiring well-positioned small and mid-sized companies. In light of our positioning in growth markets, our strong partnerships with the leading players in these markets, and our innovation capabilities, we are targeting 5–7% annual sales growth over the medium term (3–5 years), well above the projected rate of global economic growth.

## **Achieve attractive profitability**

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SFS operates with good margins. We see this as confirmation that we are pursuing the right market strategy and successfully delivering on our value proposition and unwavering commitment to generate added value for every SFS customer. Good profitability is also the cornerstone of a solid balance sheet and a guarantee of our long-term entrepreneurial freedom.

In the medium term, we are aiming to increase SFS Group's EBITA margin to more than 15%. The targeted improvement in profitability will be achieved through above-average growth in profitable business areas, the ongoing improvement in our operating efficiency, and the launch of innovative products.

### **Strategic priorities for 2016**

- Strengthen our position with existing customers by focusing on the generation of added value
- Selectively widen the customer base and enter new application areas
- Intensify business activities in the aerospace and medical components sectors
- Continue the globalization of SFS activities
- Accelerate the pace of innovation
- Achieve further progress in standardization and efficiency gains in C-part logistics



Continuous dialog and the sharing of knowledge and experience are crucial for an understanding of demanding customer specifications and creation of the appropriate application-optimized solutions.

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# Markets

Technological expertise – applied in a wide range of markets and countries

Close relationships with customers are paramount for us. Being as close as possible to the customer allows us to truly understand what they need and want. A well-developed production and sales network across Europe, Asia and America provides a sound platform for close customer contact, and the two latter regions offer particularly strong growth potential.

## The leader in selected markets

To effectively deliver on SFS's high performance promise and generate added value, we address markets and customers that fit a certain profile. The fundamental preconditions are innovation and high production volumes, as the benefits of SFS technology are most tangible when production quantities are high. It is also vital that there are opportunities for us to put innovation into practice. After all, innovation has long been the cornerstone of our business activities and profitable growth, and it ensures our standing as a strong creator of value for our customers.

We focus our activities in our respective markets on the major innovation-driven trends and strive to establish close partnerships with the leading players in every market. Examples of today's major innovation drivers include safety, comfort, ergonomics, energy and process efficiency, as well as digitalization. SFS's innovative product range helps customers to strengthen their market position. Our objective is and will always be to serve our customers as a top-tier supplier and partner by delivering outstanding solutions and services.

## Supplying global players from local sources

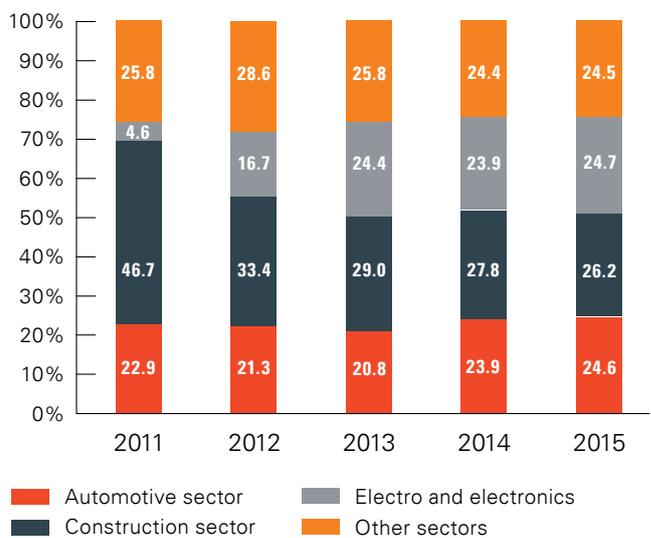
Knowing exactly what the customer needs and wants is another precondition for creating value. This necessitates a focus on selected markets and applications. We want to put ourselves in the position of the customer or end user, to expand our understanding of what we can do to improve their performance. We achieve these objectives by operating in compact business units and with key account teams that

possess the relevant applications knowledge. A well-developed distribution and production network across North America, Europe and Asia enables us to serve our customers locally from one of more than 70 sites worldwide (see map page 14). Our global presence is increasingly valued by customers as it allows them to collaborate closely with just one partner. This worldwide distribution and production network is a powerful tool of differentiation that sets us apart from the competition, which often operates only locally.

## Good momentum in the automotive industry

Although we are highly focused in terms of core technologies, we are more broadly diversified in terms of end markets and applications. This reduces our vulnerability to cyclical downturns in any one industry, yet also necessitates the focused and systematic exploitation of business opportunities in these same markets by applications specialists.

Share of sales by end markets 2011–2015 in %



Some marked changes in the share of sales generated in the various markets arose during the period from 2011 to 2015. The proportion of sales in the electro and electronics industry increased from 4.6% to 24.7% after the acquisition of Unisteel Technology.

Good growth momentum has been achieved in the automobile industry, where SFS has significantly increased its business volumes by introducing innovative products that address trends toward greater efficiency and increased safety and comfort. The corresponding share of sales in this industry in 2015 was 24.6%. Average annual sales growth in the automobile business during the period 2011–2015 was 8.6%.

The percentage of sales in the construction industry showed a sharp decline to 26.2% in 2015. Business here was damaged by both a negative currency effect and slowing construction activity, as most of these sales are generated in Europe. The decline of the share of construction industry can further be traced to the disposal of activities in the field of reinforcement systems.

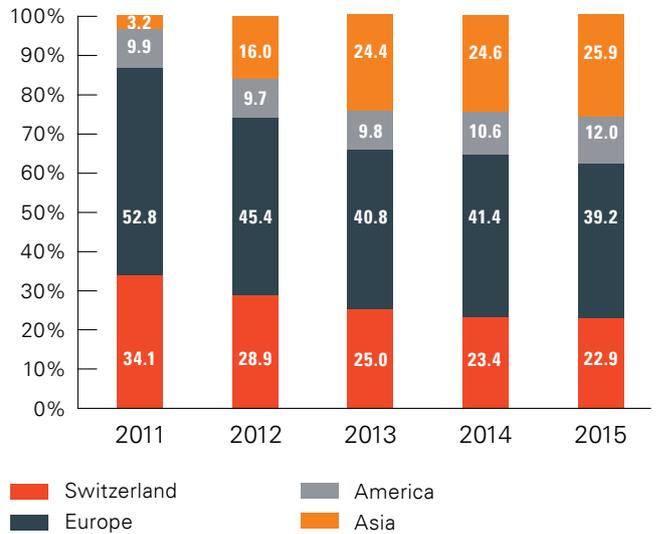
The proportion of sales in all other sectors was relatively stable, and some industries, such as aerospace or medical technology, showed very pleasing developments.

**Greater diversification thanks to growth in America and Asia**

Just as we have a wide footprint in terms of targeted end markets, we are well diversified in terms of our market geographies. An extensive on-the-ground presence allows us to respond in a flexible manner to regional developments with targeted measures.

Thanks to the persisting positive economic environment in the US and the progressive, scheduled launch of new projects, America’s share of sales increased once again and accounted for 12% of total 2015 sales. After stagnating in the previous year, sales in Asia showed a pleasing development and accounted for 25.9% of total sales. As sales in Asia are mainly driven by innovation projects and end products made in Asia to satisfy demand from around the world, the often discussed slowdown in China's economic growth had little impact on SFS. Europe's share of Group sales fell below the 40% mark. This reflects subdued construction activity and a highly adverse currency translation effect. The turmoil on foreign currency markets also left a mark on sales in Switzerland in 2015. Currency-induced price markdowns and subdued demand from manufacturing customers reduced Switzerland's share of total sales to 22.9%.

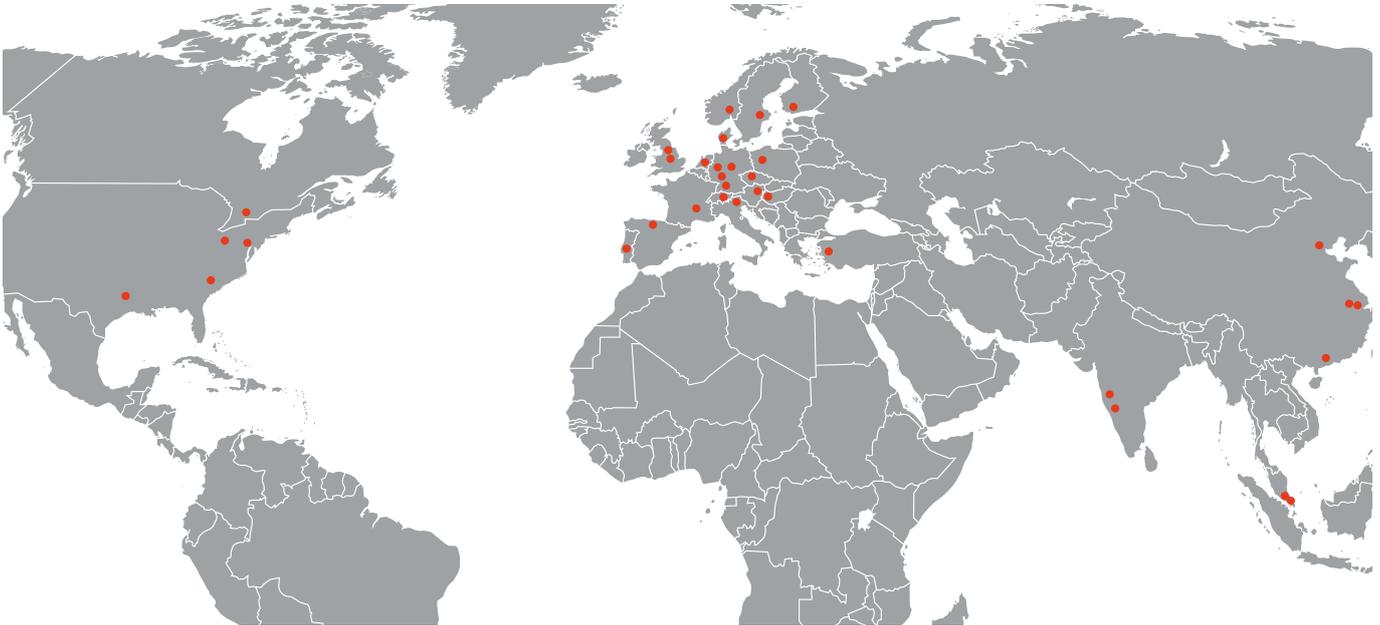
Share of sales by region 2011–2015 in %



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**Worldwide sales offices and production sites**


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**Good growth momentum in Engineered Components**

– Sales in the Engineered Components segments, where we partner with customers to develop customer-specific precision formed components and assemblies, are showing good growth momentum. The segment's share of sales has climbed to 53.8% in 2015. Growth has been driven in particular by successful product launches in the Automotive division, which were also largely to credit for the aforementioned increase in America's share of total sales.

We expect the Engineered Components segment to grow at a faster than average pace over a medium-term horizon. This forecast is predicated on innovation-driven projects at all three divisions, and which should lead to proportionately higher growth in America and Asia. Whereas sales in the Fastening Systems segment should grow more or less in line with overall Group sales, the Distribution & Logistics segment is expected to lag the Group's growth rate. This can be traced to the projected slow growth of the Swiss economy, particularly in export-oriented industries.



“Local for Local”: An increasing number of customers are demanding this from SFS Group. This is why, for example, identical torsion bars are manufactured to uniform standards at our plants in Heerbrugg (CH), Medina (USA) and Tianjin (CN).