



Acrotec Group

Annual report 2017

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Definitions:

- **Acrotec Group** consolidation at Groupe Acrotec SA level (shareholder of Finacrotec SA).
- **Reported** presents the performance of the acquired companies since the date of closing of the respective acquisitions.
- **Pro forma** presents the full-year effect of the acquisition (as if the 2017 acquisitions were made on 1st of January 2017). Concerning the 2017 acquisitions, the full year effect for 2016 includes a twelve months period while in 2017 the full year effect represents only the portion before the integration to Acrotec Group. Concerning the 2016 acquisitions, the full year effect for 2016 includes the portion before the integration to Acrotec Group.

1 | From the Chairman

2017 was a year of solid performance in a very active environment

Overall, 2017 has been a very good year for Acrotec Group with a like for like 5% revenue growth, 5.4% above Budget.

As expected, the watch market experienced a difficult first half of 2017, but Acrotec watch sales recovered in second half of the year to finish the year at CHF 92 Mio, 1.3% above LY and 2.1% above Budget.

Non-watch sales have been particularly robust, closing at CHF 72 Mio, 10.3% above LY and 12.5% above Budget.

In line with our “build and buy” strategy, we acquired Mimotec SA (incl. its stake in Sigatec SA), a very unique and innovative company, using the UV-LIGA technology to produce highly complex and precise components, mainly for the watchmaking industry.

We also acquired H2i Sàrl, a start-up created by two engineers who specialized in the design and engineering of innovative measuring systems. Their main product is called Oneof (www.one-of.com), a “plug and play” device which measures the watch accuracy and demagnetises it, without opening the watch case. H2i Sàrl is collaborating closely with Petitpierre SA to bring soft and hardware together.

With these two acquisitions our group marks its willingness to further use innovative techniques to serve our customers.

Acrotec acquired two other companies, Gasser-Ravussin SA and Pierhor SA, both producing synthetic jewels. We reorganized the activities of the two companies in one location at the end of 2017 to become the undisputed leading Swiss independent jewels suppliers for the watch industry.

All the 2017 group acquisitions have been funded with the group's own cash, and the issuance of a CHF 70 Mio bond. Part of the proceeds from the bond have been earmarked for future acquisitions.

Our Group is and will remain an independent group, composed of companies with a high degree of specialisation in the engineering and manufacturing of high-end micro components.

The Acrotec Group's governance relies on a federal structure promoting autonomy for the entrepreneurs in their businesses, with strong support of a centralized finance organization.

Supported by Castik Capital, the Group is increasing its cross-departmental activities to take advantage of industrial and commercial synergies.

The commercial team has been strengthened with the aim of reinforcing and cementing our relationships with our current clients whilst developing new ones.

Our managers and entrepreneurs have developed a relationship of absolute trust and transparency with the Group and are nourishing the dialogue with each other.

Last but not least, all the companies of the Acrotec Group follow the procedure and strategy predetermined together, notably regarding budgeting, controlling and accounting.



François Billig
Chairman Acrotec Group

A handwritten signature in blue ink, appearing to read 'F. Billig'.

Our Mission

“Our mission is to support our clients with best-in-class quality and increase their competitive advantage by offering state-of-the-art products and processes that improve both productivity and efficiency.”

Our values at Acrotec Group



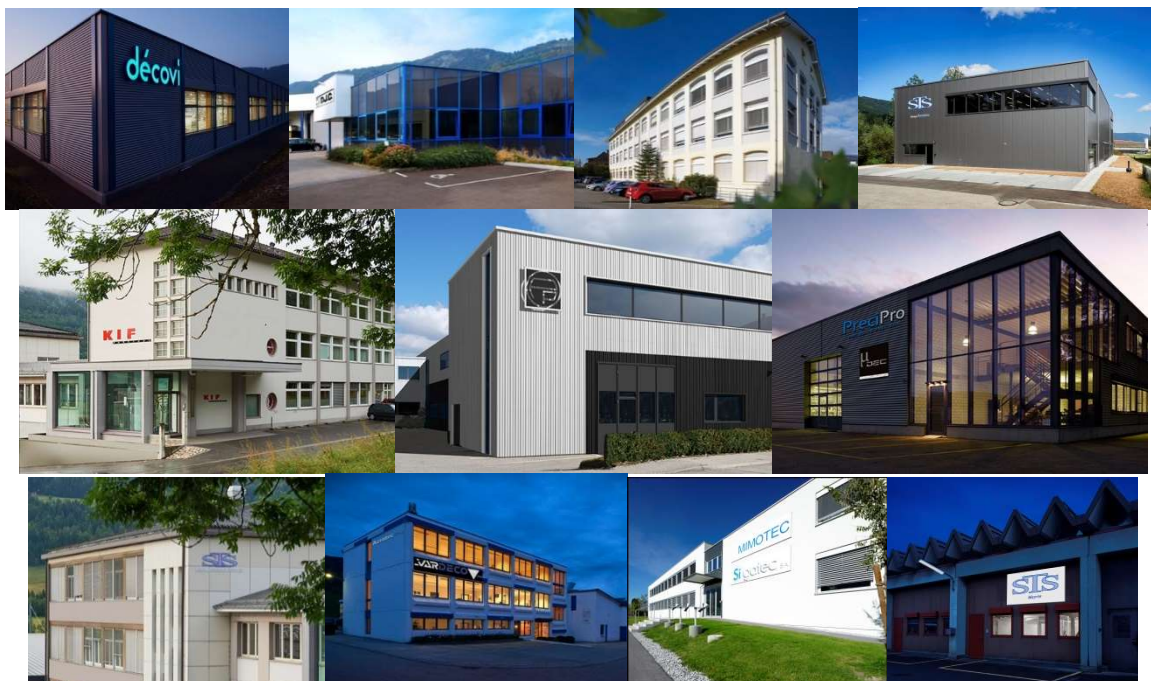
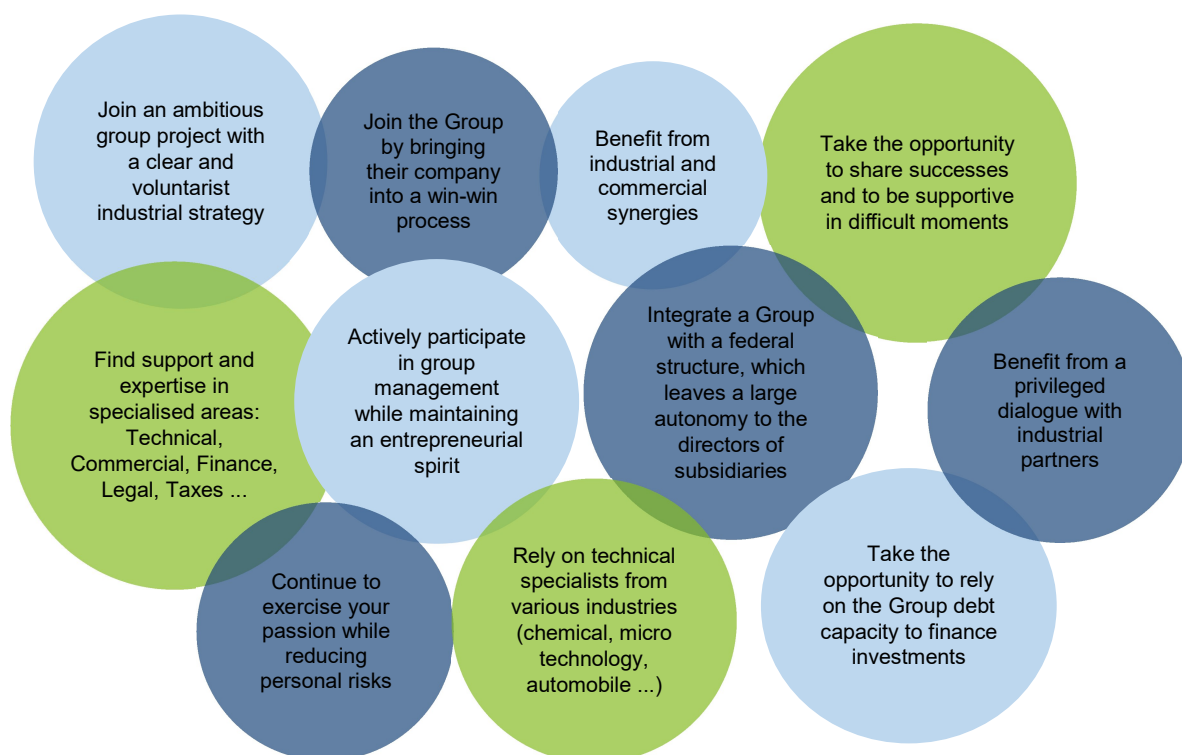
Michael Phillips, Managing Partner of Castik Capital



“Given Acrotec’s world-beating expertise, stellar reputation and excellent management team, we see significant scope for strong growth. We are proud to partner with such a strong team of true entrepreneurs and will support their strategy of further growing the business through acquisitions when opportunities arise.”

Our mission statement

Joining Acrotec Group means:



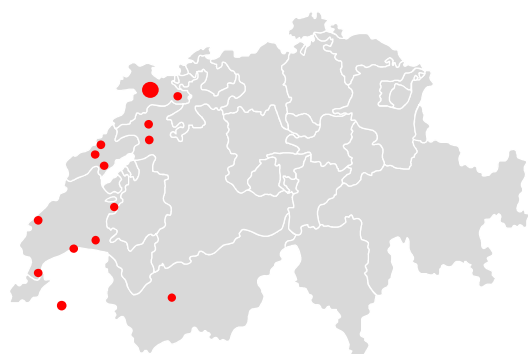
Pro forma figures

Net sales CHF164m,
+5% vs. 2016
EBITDA CHF43m,
+15% vs. 2016

Employees

750 employees at
December 2017

14 locations



13 in Switzerland, 1 in France

4 acquisitions in 2017

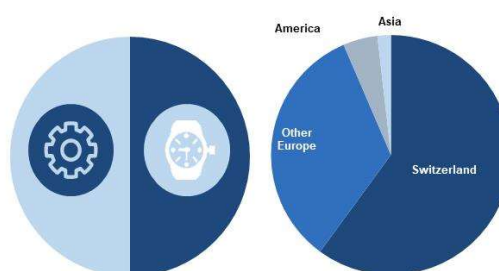


2017 EBITDA pro forma margin

26%

Balanced diversification

Sales breakdown



4 | Introduction to Acrotec

 	<p>For 70 years, Décovi has been a manufacturer of precision turned parts, mainly oscillating weights and barrel covers for the watch market as well as connectors and fittings for industrial end-markets (aeronautics, defence, cabling and connectors industries) and implants and equipment for the medical market. Décovi is certified ISO 9001, 14001 and 13485 and owns also an integrated ERP.</p>	<p>Vicques</p>  <p>Sectors</p> 
 	<p>DJC is specialised in high capacity production of precision turned parts from metal bars. It is located in Thyez, in France. Its product portfolio includes: turbocharges, braking components and hydraulic connectors. It derives all its revenues from the automotive and turbocharger end-markets.</p>	<p>Thyez</p>  <p>Sectors</p> 
 	<p>During 2017 Acrotec Group acquired two historic players in the ruby and synthetic jewel sector: Pierhor which was founded in 1899 and Gasser-Ravussin founded in 1927. The two companies have been integrated into one production site at Ecublens. The site groups together the largest independent synthetic jewel producer for the watch sector with a production capacity of 80 million stones.</p>	<p>Lucens</p>  
 	<p>Générale Ressorts is a manufacturer of springs for various industrial end-markets and spring barrels (fully assembled barrels or standalone) for watch movements, located in Biel/Bienne. It derives most of its revenues from the watch end-market.</p>	<p>Bienne</p>  <p>Sectors</p> 

	<p>Based in Savigny, H2i provides performance, precise and adapted tools for Swiss horology manufacturers. Several worldwide patents have been registered, notably for new precise measuring methods for mechanical watches, facilitating the young company to build strong partnerships with leading watch brands.</p>	<p>Savigny</p>   
	<p>Based in Vallée de Joux, Kif Parechoc is a manufacturer and assembler of watch movement components including shock absorbers, regulators, screws and barrels. Kif Parechoc produces exclusively mechanical watch movement's components meeting the requirements of a global watch industry clientele.</p>	<p>Le Sentier</p>   <p>Sectors</p> 
	<p>The company is recognised in Switzerland and abroad for its expertise in the fields of microengineering and micromechanics. Through constant innovation and with the permanent acquisition of new competences, the company continues its development in all fields related to microfabrication.</p>	<p>Sion</p>   
	<p>mu-DEC is a manufacturer of micro-turned parts, specialised in geometrically complex components for watch movements such as wheels, balances and screws.</p>	<p>Develier</p>   <p>Sectors</p> 
	<p>Petitpierre is a manufacturer of machine tools for the watch-making industry as well as a service provider for the assembly and control of precision components. It is located in Cortaillod. Its expertise includes engineering and production of assembling tools and automation for industrial and watch applications. It derives the majority of its revenues from the watch end-market.</p>	<p>Cortaillod</p>   <p>Sectors</p> 

PreciPro
PRODUITS PRÉCIEUX

Precipro is a manufacturer of jewellery such as bracelets, necklaces, rings and ear-rings made from precious metals with designs provided by customers. It is located in La Chaux-de-Fonds. Precipro derives the majority of its revenues from the jewellery end-market, with the rest coming from watches.

La Chaux-de-Fonds



Sectors



STS

Saulcy Traitement de Surface SA



STS is specialised in surface treatment for the watch industry including electroplating, thermal treatment, galvanisation and varnishing processes. It caters to the watch industry and is located in Le Sentier, La Chaux-de-Fonds and Develier. It currently operates two manufacturing sites, with a third one in development in order to diversify into the non-watch market.

Le Sentier, La Chaux-de-Fonds and Develier



Sectors



VARDECO SA



Vardeco is a manufacturer of specialised pins and connectors for automotive, electronics, aerospace, medical and telecommunications end-markets with a specialisation in bar turning, polishing, heat and galvanic treatment and high speed turning techniques. It is located in Develier. Its product portfolio includes connectors and pins used for automotive, electronics, aerospace, medical and telecommunication applications.

Develier



Sectors



5 | Financial review

Acrotec Group | Profit and loss statement - Reported

CHF000	FY17	FY16
Net sales	154 312	119 286
Other income	4 731	3 369
Revenues	159 043	122 655
Cost of goods sold	(51 293)	(36 744)
Gross profit	107 750	85 911
Payroll expenses	(54 759)	(42 983)
Other operating expenses	(14 215)	(11 348)
EBITDA	38 777	31 581
Depreciation of fixed assets	(9 775)	(7 161)
Amort. and impair. on intangible fixed assets	(11 603)	(6 450)
EBIT	17 398	17 970
Financial results	(6 795)	(6 737)
Non operating and exceptional items	(327)	1 744
Income tax	(6 350)	(6 290)
Minority interests	(372)	(480)
Net results	3 554	6 207

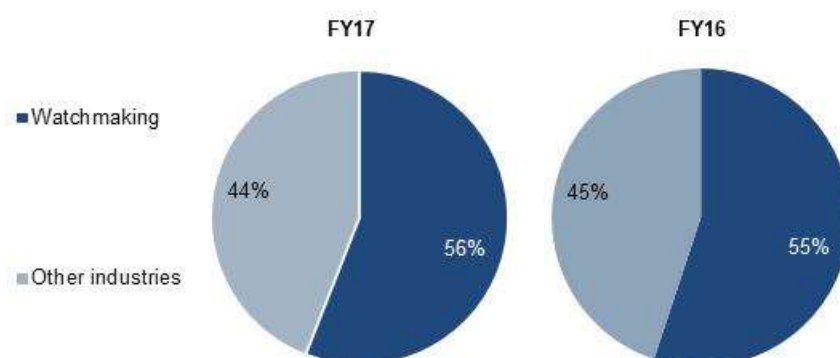
KPI (as a % of net sales)		
Net sales growth	29.4%	36.7%
Gross margin	69.8%	72.0%
EBITDA margin	25.1%	26.7%
Net margin	2.3%	10.7%

The net sales increase between 2017 and 2016 was driven by acquisitions (+CHF 11 Mio), by the full year effect of 2016 acquisitions (+CHF14 Mio) in addition to a strong organic growth of the core Group of 7.0% (+CHF10 Mio). Organic growth results from:

- Success of proposed solutions for assembled products (higher value added products);
- Increasing market share in the oscillating weights market;
- More resilient customer mix than the average for the sector; and
- Industrial sector benefiting from growth in the automotive sector.

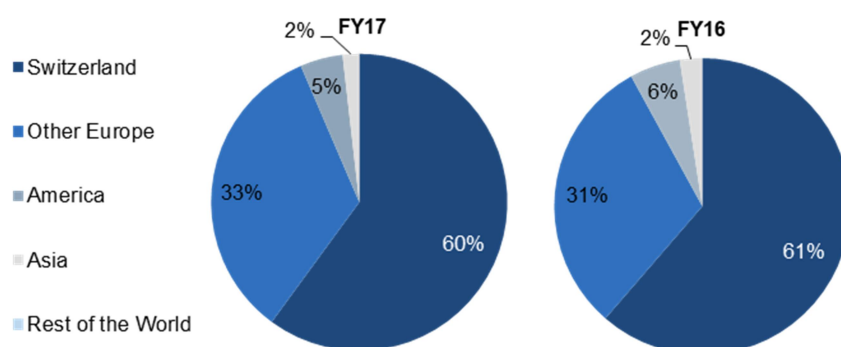
Although EBITDA increased by CHF 7.1 Mio in value, we observed a decrease in EBITDA margin (-1.4%) mainly due to the difficult watchmaking industry environment (competition fighting harder for market shares) as well as projects absorbing EBITDA for their first year of operation (H2i Sàrl, STS Develier SA, STS Meyrin SA).

Acrotec Group | Net sales by sector - Reported



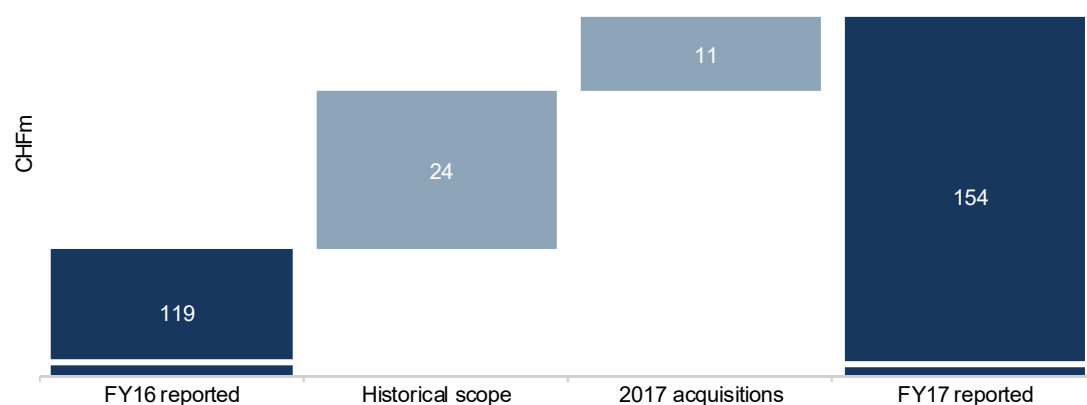
Acrotec Group made significant acquisitions in the watchmaking sector in 2017 which maintained a stable ratio between watchmaking and industrial sectors despite the watchmaking sector crisis.

Acrotec Group | Net sales by geography - Reported

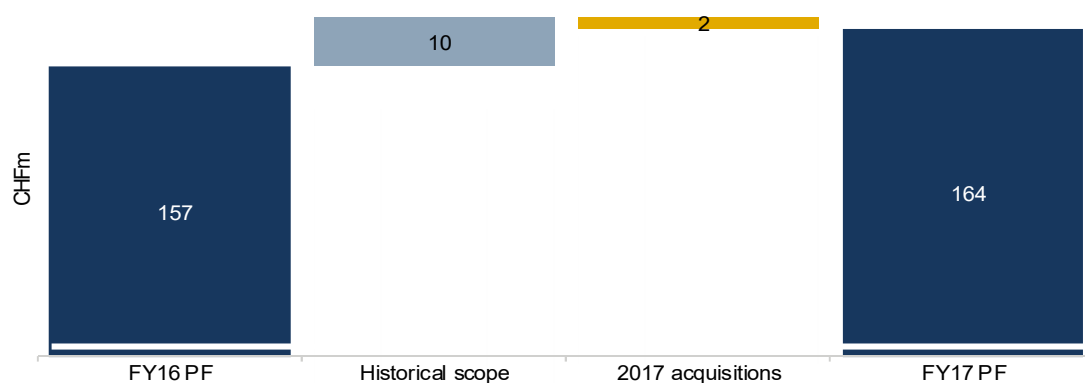


Net sales are still mainly generated in Switzerland due to the predominance of the activity with the watch sector and sales to the rest of Europe grew marginally, driven by the strong performance of the non-watch sector.

Acrotec Group | Net sales development 2016-2017 - Reported



Acrotec Group | Net sales dev. 2016-2017 - Pro forma



Acrotec Group | EBITDA - Pro forma

CHF000	FY17	FY16
EBITDA as reported	38 777	31 581
Full year effect of 2017 acquisitions	3 810	5 495
EBITDA pro forma	42 586	37 076
KPI		
EBITDA as reported margin	25.1%	26.5%
EBITDA pro forma margin	25.9%	23.7%

In the course of 2017, Acrotec Group continued its expansion with several strategic acquisitions: one acquisition in April (H2i Sàrl); two acquisitions in July (Mimotec SA and 50% of Sigatec SA through Mimotec), Gasser in April and Pierhor in June; and the creation of STS Meyrin SA, specialized in surface treatment for the Geneva area. The 2017 acquisitions are showing a decline in EBITDA due to i) the development phase of H2i Sàrl and ii) the low demand for the jewels from Pierhor SA and Gasser SA.

Acrotec Group | Lead balance sheet - Reported

CHF000	Dec17	Dec16
Tangible assets	89 115	71 007
Intangible assets	221 945	183 948
Financial assets	6 120	2 852
Non-current assets	317 180	257 807
Inventories	37 215	31 555
Trade receivables	19 424	16 163
Trade payables	(8 202)	(6 511)
Trade working capital	48 437	41 207
Other current assets	4 973	3 675
Other current liabilities	(12 395)	(9 912)
Non-trade working capital	(7 421)	(6 237)
Total working capital	41 016	34 970
Cash and bank balances	67 455	14 599
Borrowings	(226 355)	(135 682)
Deferred tax	(15 433)	(12 062)
Provisions	(950)	(150)
Other long-term liabilities	(697)	(1 001)
Net debt and similar items	(175 980)	(134 295)
Net assets	182 216	158 482
Share capital	100	100
Reserves	177 318	150 958
Profit for the year	3 554	6 207
Minority interests	1 243	1 216
Total equity	182 216	158 482

Balance sheet variations are mainly driven by acquisitions and the financing of them (cf. below analysis of the variation of the intangible assets).

Acrotec Group | Intangible assets - Reported

CHF000	Dec17	Dec16	Var .
Capitalised development costs	1 493	726	766
<i>of which related to 2017 acquisitions</i>	364	465	
Deferred tax assets	419	98	321
Goodwill	220 033	183 123	36 910
<i>of which related to Finacrotec</i>	109 209	115 113	
<i>of which related to historical scope</i>	63 898	28 225	
<i>of which related to 2017/2016 acquisitions</i>	46 926	39 786	
Intangible assets	221 945	183 948	37 997

Acrotec Group - Net working capital - Reported

CHF000	Dec17	Dec16	Dec16 PF	Var. 17-16	17-16PF
Inventories	37 215	31 555	36 419	5 660	795
Trade receivables	19 424	16 163	18 147	3 261	1 277
Trade payables	(8 202)	(6 511)	(7 326)	(1 690)	(875)
Trade working capital	48 437	41 207	47 240	7 230	1 197
Other current assets	4 973	3 675	3 994	1 298	980
Other current liabilities	(12 395)	(9 912)	(11 290)	(2 482)	(1 105)
Non-trade working capital	(7 421)	(6 237)	(7 296)	(1 184)	(125)
Acrotec Group - Net working capital	41 016	34 970	39 944	6 046	1 072

Net working capital increased at 31 December 2017 vs. 31 December 2016 as a result of:

- Acquisitions made in 2017;
- Higher revenues; and
- Change in method of inventory valuation of one company in order to apply the costs method.

The Dec16 pro forma includes the net working capital positions of the 2016 acquisitions to present a comparable scope to Dec17.

Acrotec Group | Net financial debt presentation - Reported

CHF000	Dec17	Dec16
Cash and bank balances	67 455	14 599
Third parties loans	(5 779)	-
Bank loans	(1 928)	(903)
Leases	(14 591)	(11 569)
Mortgages	(15 486)	(17 210)
Bonds	(176 000)	(106 000)
Shareholder loans	(12 571)	-
Borrowings	(226 355)	(135 682)
Acrotec Group net financial debt	(158 900)	(121 083)
KPI		
EBITDA / net financial debt	4.1x	3.8x
Net financial debt / PF EBITDA	3.7x	3.3x

Acrotec Group issued a second mini-bond of CHF 70 Mio in order to finance 2017 and future acquisitions.

Acrotec Group | CAPEX - Reported

CHF000	FY17			FY16		
	Total	o/w acquisition of subsidiaries	o/w maint. and growth capex	Total	o/w acquisition of subsidiaries	o/w maint. and growth capex
Undeveloped Land	2 080	1 813	-	267	-	120
Land, buildings and properties	27 700	4 083	10	24 105	11 949	164
Technical equipment & machinery	53 330	6 584	12 836	41 693	16 309	9 367
Other equipment & fixtures	4 888	69	2 155	4 551	10 301	1 506
In progress	1 117	-	726	392	1 264	629
Total	89 115	12 548	15 726	71 007	39 823	11 786
Net sales			154 312			119 286
Capex/net sales			10.2%			9.9%
Depreciation charges of fixed assets			(9 775)			(7 161)
Capex/Dep. charges			161%			165%

Acrotec Group maintained a level of capex in line with its strategy and growth projections.

Taking into consideration, the pro forma EBITDA, the pro forma change in net working capital (from the change in inventory valuation method as highlighted in the audited financial report) and the pro forma maintenance and growth capex, Acrotec Group's pro forma free cash flow is CHF 25.4 Mio for 2017 (CHF22.1 Mio for 2016). Please refer to the EBITDA pro forma table and comment for the definition of the pro forma figures.

6 | Conclusions and outlook

After the solid 2017 performance, we are even more ambitious for 2018 with a budgeted organic revenue growth of 7.6%.

Watch sales are expected to pass the CHF 100 Mio mark whilst non watch sales are expected to reach CHF 75 Mio.

To support this organic growth, we can of course rely on the proven expertise, motivation and creativity of our entrepreneurs.

They will be supported by a number of strategic and cross-departmental initiatives.

Amongst them we are currently implementing Sales Force, CRM software which is expected to significantly improve the efficiency of our sales processes.

Other initiatives include the development of new assembled product offerings, new innovative materials, the integration of existing technologies and the expansion of current technologies in new market segments.

We also have a significant pipeline of tangible acquisition opportunities that we are working on and expect to materialise by the end of the year.

We have already acquired Butech SA, a small supplier of the jewels industry and will strengthen our position in this sector.

We have also signed an agreement with Watchdec SA, that is located in the direct vicinity of Vardeco SA. The deal will become effective in the second half of 2018, after which Watchdec SA will move to another location and free the space for the expansion of Vardeco SA.

We are in active discussions with a number of other watch industry suppliers.

MedTech has been identified as a strategic sector for the Acrotec development, due to attractive end-market dynamics, technological synergies and diversification in less cyclical end-markets.

MedTech could become our next strategic division and we have spent a lot of time and resources to perform a systematic market screen and we are currently in active discussion with four of the identified potential targets.

With all these activities in progress, we believe that we are uniquely positioned to further develop our unique position of independent actor of the micro-mechanic industry.

But all of this would not be possible without the dedicated efforts, motivation, and professionalism of our employees, clients, suppliers and all of our partners that we would like to thank and with whom we are glad to work with in the future.



Disclaimer

Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Acrotec Group

décovi
CENTRE DE DÉCOLLETAGE



**GENERALE
RESSORTS**

K I F
P A R E C H O C



P
Petitpierre

PreciPro
PRODUITS PRÉCIEUX

STS
Saulcy Traitement de Surface SA

VARDECO
Groupe Acrotec

 **Mimotec**
Microparts for great ideas

Sigatec SA

 H2i

**PIERHOR
— GASSER**

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