

Groupe **Acrotec**

ANNUAL REPORT 2021

VARDECO S.A.

K I F
P A R E C H O C

décovi
CENTRE DE DECOLLETAGE

**GENERALE
RESSORTS**

STS
Saulcy Traitement de Surface

ja
CENTRE DE JEAN LEBLANC

Pp
Petitpierre

PreciPro
PRODUITS PRÉCIEUX

μ DEC

H2i

Mimotec
Micropièces pour grandes idées

Sigatec SA

**PIERHOR
— GASSER**

butech
profil

WATCHDEC SA
Microdécolletage CNC

ROCH
mécanique de précision

AFT
MICROMÉCANIQUE

tectri
Precision machining
for high-tech industries

DIENER
Precision Pumps

Diener AG
Precision Machining

Acrotec R&D

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From the chairman

2021: back on track

2020 was a year of transition due to the COVID-19 pandemic. The resilience shown by the group during this period is testament to our unique culture and operating model. We were hoping that 2021 would put us back on the 2019 dynamic which served as a benchmark for our growth. Our aspirations were more than matched.

At the beginning of 2021, Carlyle acquired a majority stake in our group with the ambition of helping us to grow even faster than ever.

The Watch & Jewelry division experienced a very strong rebound in 2021. Watches turnover landed at CHF 157.4 Mio, 27% above 2020 but also 15.2% above the 2019 pre-Covid levels. This performance exceeded our expectations by almost 8%, confirming the competitiveness of our companies in a sector which only partly recovered to pre Covid levels.

The Medtech division performed well in 2021, showing a good recovery on implants and instruments due to a lower impact from the cancellation of elective procedures related to COVID-19. The performance of our hospital equipment sector exceeded our expectations, supported by diagnostic and dialysis subsectors with a strong demand all along the year. Turnover reaches CHF 67.3 Mio, 16% above 2020.

The Precision High Tech division had a great performance in 2021, reaching CHF 82.2 Mio to achieve more than 29% net sales growth. This was mainly driven by the electronics industry, while the automotive industry was impacted by the semiconductor crisis, and the aerospace market (although not representing a material portion of our total sales) continued to suffer from the low level of the global demand for airplanes. The other sub-markets followed the favorable economic environment.

From an R&D perspective, our group continued to develop innovative solutions, fostering transversal projects and exploring new technologies, materials which will help us adapting our group to continue to deliver value for our customers.

On the M&A front we acquired three companies in 2021 :

- Microweld, specialized in laser processing (welding, marking and cutting), in particular for the medtech sector and based in Annecy, France.
- Easydec, a producer of high-precision micro-mechanical parts mainly for the watch sector and based in Delemont, Switzerland.
- Politrempe, specialized in surface treatment and finishing mainly for the watch sector and based in Courrendlin, Switzerland.

Parallel to that we continued to invest in our installations and machinery in order to continue to increase the capacity and productivity of our units and serve our clients with high-quality products on a timely basis.

Finally, I would like again to express my thanks to all people working at Acrotec Group : your commitment and motivation has allowed us to reach new limits and see beyond them with optimism for the years to come.



François Billig

Chairman Acrotec Group



Our strategy, culture and values

“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 purpose:

“Federating talents to better serve our customers”



2021 in numbers

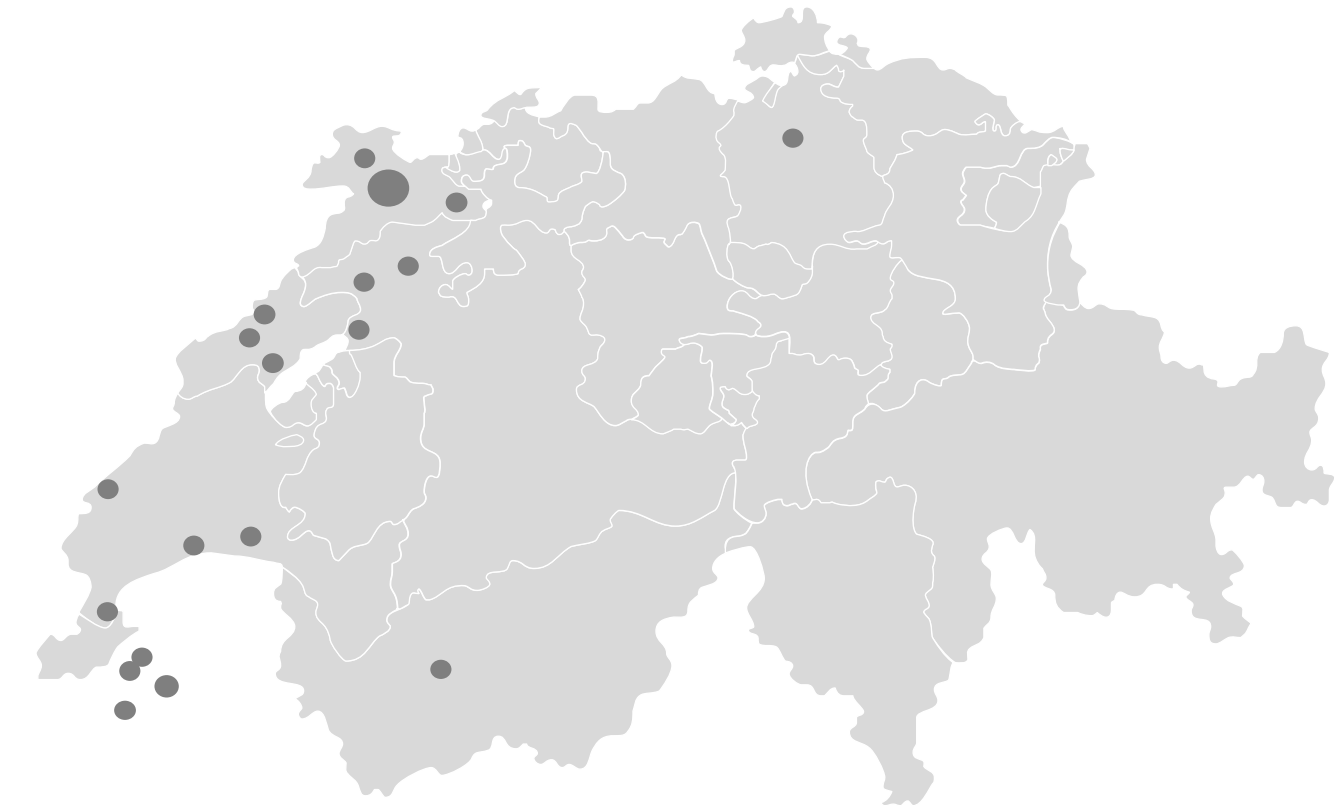
Pro forma figures

Net sales
CHF313.2m, 18% vs.
2020
EBITDA CHF81.7m,
32% vs. 2020

Employees

+1450 employees at
December 2021

23 locations
18 in Switzerland, 4 in France, 1 in USA



3 acquisitions in 2021

easyDec

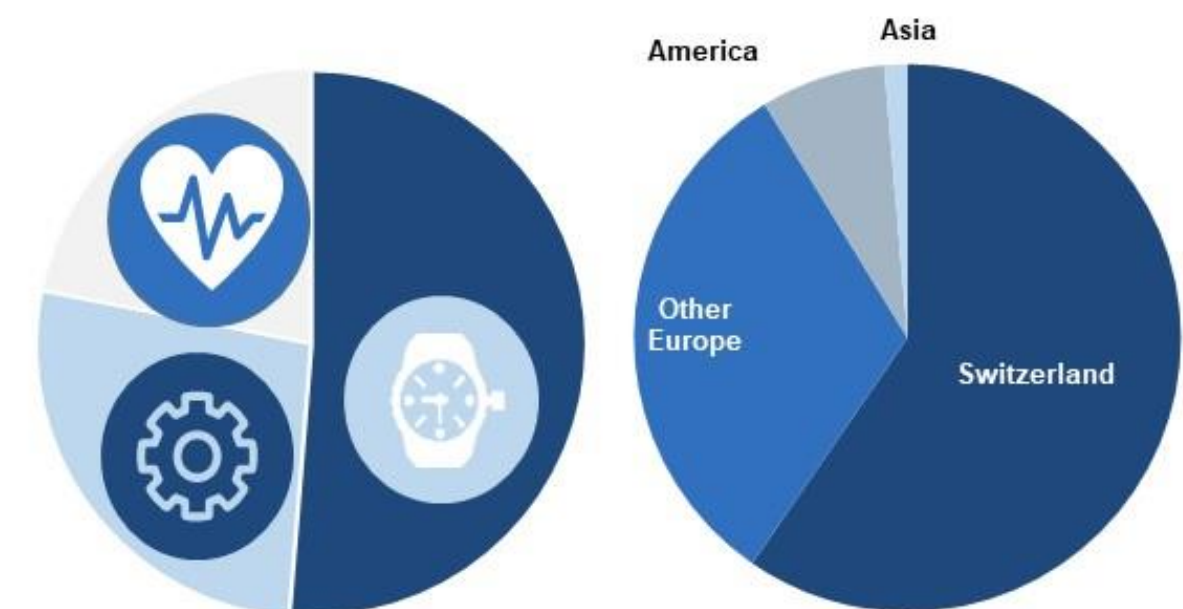
PoliTrempe
Atelier de terminaison SA

MICROWELD[®]
LIGHT

2021 EBITDA pro forma margin

26.1%

Balanced diversification *Sales breakdown*



Overview of Acrotec group

WATCHES & JEWELLERY

Description

The Watches and Jewellery sector is the original core business of Acrotec, being a leading independent supplier of critical movement components for the high-end Swiss watch industry, characterised by strong expertise, exacting quality standards and a scarce number of independent suppliers.

This segment also includes high precision jewellery supplied to blue chip brands.

Acrotec has long-standing relationships with blue-chip customers among high-end watch manufacturers and has leading positions in specific niche markets such as springs & spring barrels, shock absorbers and oscillating weights, representing key components of the watch movement.

Performance

The Watches and Jewellery sector represented 51% of group net sales in 2021

The sector showed strong growth in 2021, with net sales growth of c.+27% compared to 2020. Although COVID-19 continued to have a minor impact on our operations throughout the year, in particular through employee absences, the demand was strong, most factories were running full operations for much of the year and we clearly outperformed the market. Swiss exports of watches recovered in 2021 to beat their value record at CHF 22.3 Bio. However volumes continued to decrease dramatically : 6.1 Mio mechanical watches have been exported in 2021 vs 7.2 Mio in 2019. Only the segment with an export price > 2000 CHF is showing growth in both value and volume. The market was driven by two countries: the United States and China whilst most other countries remained under their 2019 level. Overall we remain confident that the market will continue to recover in 2022.

Steadily increasing global wealth continues to be a key driver in this sector, driving the personal luxury market growth which includes premium Swiss mechanical watches as well as premium jewellery.



Overview of Acrotec group

MEDTECH

Description

During 2019, MedTech was established as a new business segment to further pursue our diversification strategy outside the Watch & Jewellery and Precision High Tech sectors.

The MedTech sector was further strengthened following the previous acquisitions of AFT, Diener and Tectri, with the acquisition of Microweld in 2021.

Our MedTech sector is a producer of precision components and sub-assemblies for medical devices and a partner for the production of dental implants. Our MedTech clients generally have very tight tolerance similar to the Watch and Jewellery sector, allowing Acrotec to leverage its core expertise for high-precision components.

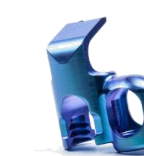
The MedTech sector provides us with access to a highly attractive, non-cyclical and growing industry.

Performance

The MedTech sector represented 22% of group net sales in 2021.

The sector showed strong growth in 2021, with net sales growth of c.+16% compared to 2020. The implants and instruments sub-sector showed modest growth as the COVID-19 pandemic had a lower impact on cancellations or the postponements of elective surgeries from Q2. In particular, the dental sub-sector recovered to pre COVID-19 pandemic levels. The hospital equipment sub-sector continued the strong growth trend, driven by the COVID-19 related requirements for the COVID-19 diagnostic equipment using our precision pumps, as well as dialysis equipment.

We are confident that the MedTech sector continues to represent a highly attractive market, driven by demographic ageing and increased healthcare penetration.



Overview of Acrotec group

PRECISION HIGH TECH

Description

The Precision High Tech sector was the driver of Acrotec's initial diversification away from the historical Watch and Jewellery base, offering diversification to attractive, growing industrial sectors.

The sector develops high-precision industrial applications for various end markets such as automotive, electronics, aerospace, connectors, micromechanics and automation.

Our industrial processes are deeply entrenched in the manufacturing processes of our clients given the often long certification processes and high switching barriers. The healthy mix of end-markets in the Precision High Tech sector increases Acrotec's resistance to the cyclicity in the watch sector.

Performance

The Precision High Tech sector represented 27% of group net sales in 2021.

This sector also showed strong growth in 2021, with net sales growth of c.+29% compared to 2020. Electronics mainly contributed to this performance, while automotive had a good rebound in first half followed by a major slow-down due to the semiconductor shortage. Aerospace was relatively flat year-on-year, still impacted by the COVID-19 pandemic and subsequent lockdowns and travel restrictions. We remain convinced that aerospace will return to growth in the medium term and continue to support and invest in our business unit specialized in this market.

Acrotec's product positioning in the automotive sector, in particular with turbocharger technology for CO2 emissions reduction and connectors which benefit from increasing electrification of the automotive sector, continue to serve as a counter to the downward trend in the subsector as a whole.

Acrotec has actively supported the PHT sector over the year by developing new market opportunities to compensate the impact on aerospace and anticipate the mutation of the automotive industry.



Financials – Profit & loss

Acrotec Group | Profit and loss statement - Reported

CHF000	FY21	FY20
Net sales	306 918	244 304
Other income	96	184
Revenues	307 014	244 488
Cost of goods sold	(91 506)	(74 734)
Gross profit	215 509	169 755
Payroll expenses	(113 294)	(92 686)
Other operating expenses	(21 925)	(19 167)
EBITDA	80 290	57 902
Depreciation of fixed assets	(21 322)	(18 923)
Amort. and impair. on intangible fixed assets	(21 424)	(20 270)
EBIT	37 543	18 708
Financial results	(21 633)	(11 257)
Non operating and exceptional items	(18 853)	1 486
Income tax	(8 555)	(5 048)
Minority interests	(431)	(387)
Net results	(11 929)	3 502

KPI (as a % of net sales)

Net sales growth	25.6%	9.4%
Gross margin	70.2%	69.5%
EBITDA margin	26.2%	23.7%
Net margin	(3.9%)	1.4%

The net sales increase between 2021 and 2020 was driven by strong organic growth (+CHF 46.4 Mio) and the three acquisitions (+CHF 16.2 Mio).

Organic growth results from:

A very strong rebound to reverse back to our historical performance after a year impacted by the COVID-19 pandemic.

A very strong development with our PrecHighTech customers operating in the automotive and electronic markets.

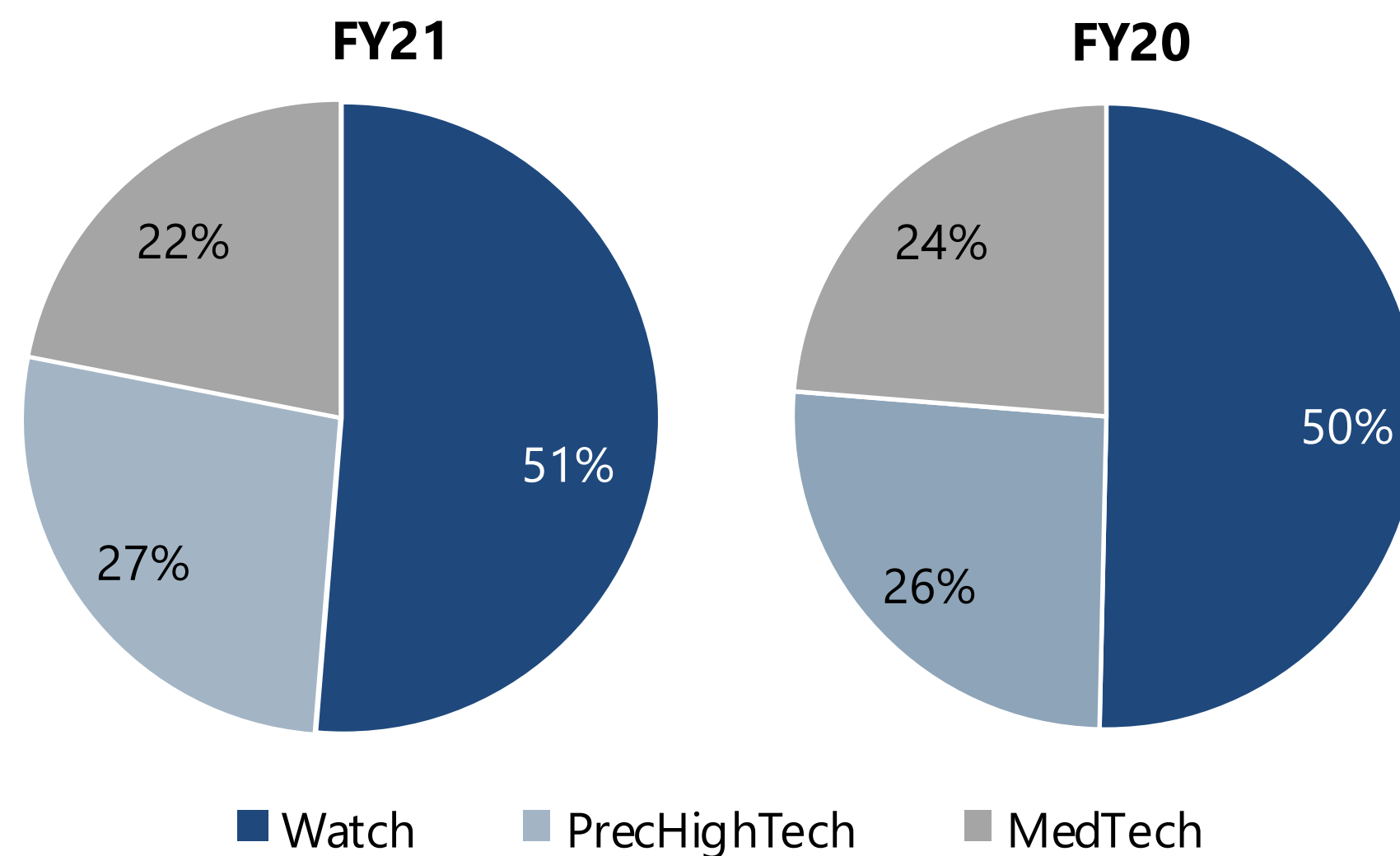
Strong growth of the Watch & Jewellery division.

EBITDA as reported increased by CHF 22.4 Mio and EBITDA margin increased by 2.5%, as resources were consumed in a more profitable way.

The net result showed a loss in 2021 mainly explained by the transaction fees resulting from the change of the majority shareholder.

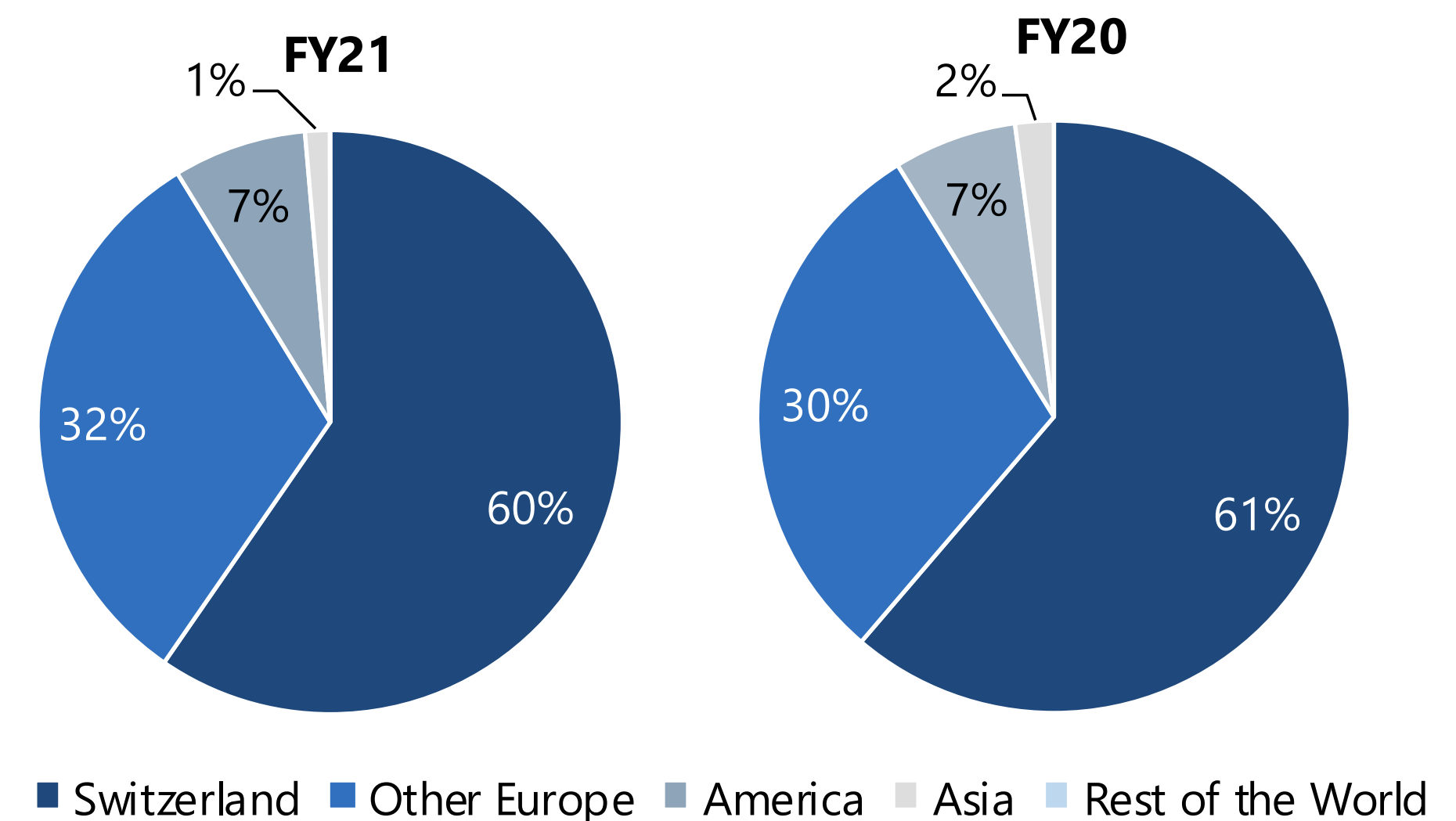
Financials – Net sales

Acrotec Group | Net sales by sector - Reported



The Watch & Jewellery and PrecHighTech divisions increased their proportions of net sales thanks to their strong growth.

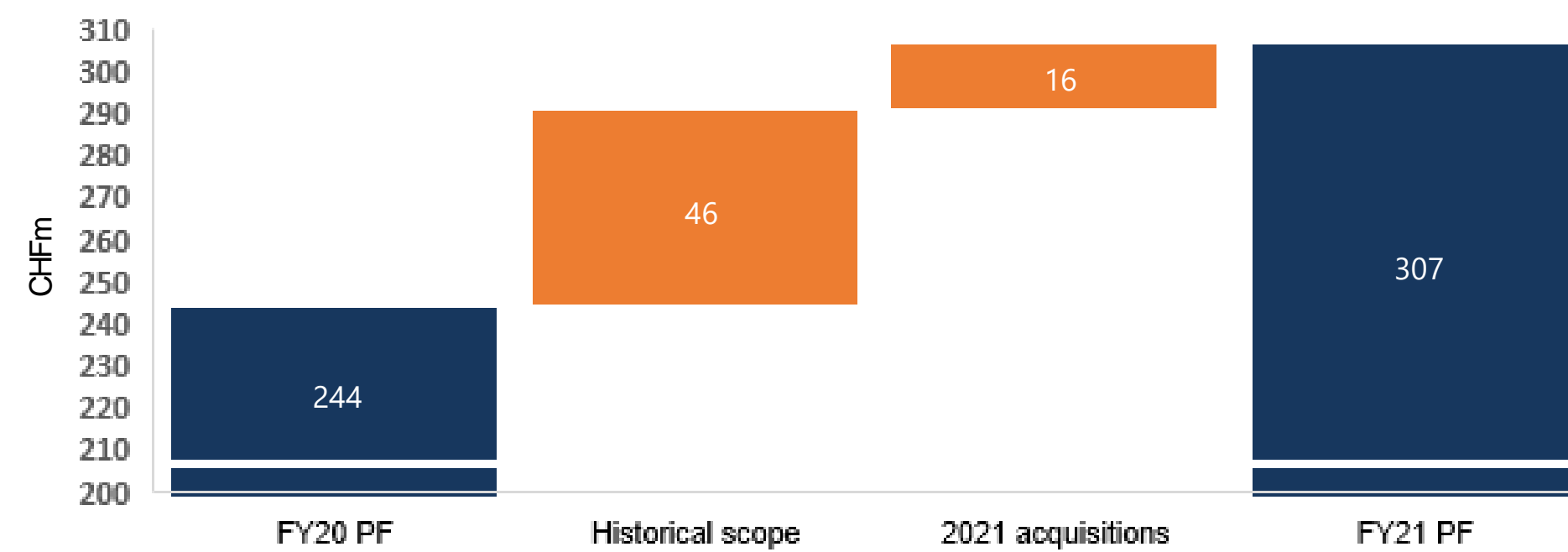
Acrotec Group | Net sales by geography - Reported



Net sales are mainly generated in Switzerland due to the predominance of the activity with the Watch & Jewellery division. The proportion of sales generated in Europe increased in 2021 in relation to the strong growth in the PrecHighTech sector.

Financials – Net sales development

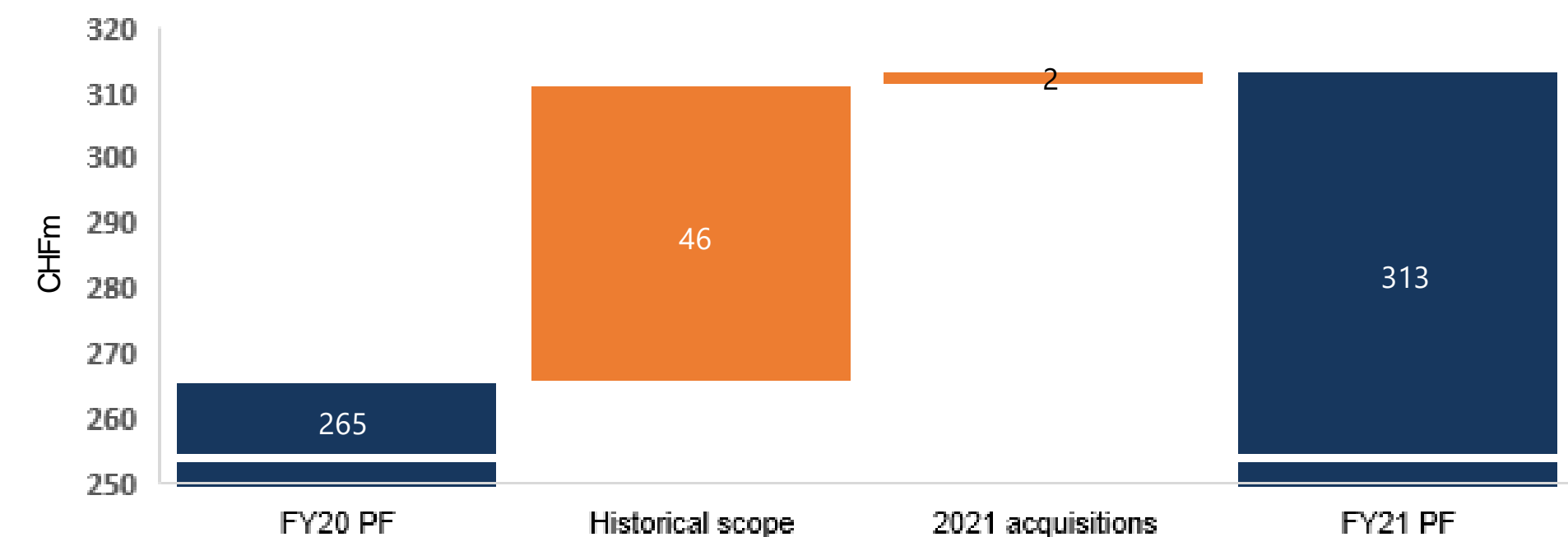
Acrotec Group | Net sales development 2020-2021 - Reported



In 2021, Acrotec Group achieved a massive organic growth of +CHF 46 Mio to reverse back to its pre-Covid performance and even exceeded it.

On a pro forma basis, the organic growth has a higher contribution to the 18.1% net sales growth as sales were impacted by the COVID-19 pandemic in 2020.

Acrotec Group | Net sales dev. 2020-2021 - Pro forma



Financials – EBITDA pro forma

In the course of 2021, Acrotec Group continued its expansion with several strategic acquisitions: one acquisition in March (Easydec) and two acquisitions in May (Microweld and Politrempe).

Acrotec Group | EBITDA - Pro forma

CHF000	FY21	FY20
EBITDA as reported	80 290	57 902
Pro forma impact	1 415	3 940
EBITDA pro forma	81 705	61 842
KPI		
EBITDA as reported margin	26.2%	23.7%
EBITDA pro forma margin	26.1%	23.3%

*Pro forma impact note: 2020 shows the full EBITDA of the 2021 acquisitions and full year effect of 2020 acquisitions.
2021 shows only the EBITDA prior to the acquisitions which is not included in the reported numbers.*

Financials – Balance sheet & intangible assets

Acrotec Group | Lead balance sheet - Reported

CHF000	Dec21	Dec20
Tangible assets	175 274	150 738
Intangible assets	275 354	275 581
Financial assets	4 277	7 491
Non-current assets	454 905	433 810
Inventories	71 642	58 374
Trade receivables	31 783	30 134
Trade payables	(13 473)	(8 816)
Trade working capital	89 951	79 691
Other current assets	6 664	7 054
Other current liabilities	(22 374)	(18 094)
Non-trade working capital	(15 710)	(11 040)
Total working capital	74 241	68 651
Cash and bank balances	39 047	64 475
Borrowings	(338 015)	(326 457)
Deferred tax	(24 294)	(22 705)
Provisions	(11 943)	(10 723)
Other long-term liabilities	(1 036)	(950)
Net debt and similar items	(336 240)	(296 360)
Net assets	192 906	206 101
Share capital	100	100
Reserves	203 113	200 693
Profit for the year	(11 929)	3 502
Minority interests	1 622	1 806
Total equity	192 906	206 101

Acrotec Group | Intangible assets - Reported

CHF000	Dec21	Dec20	Var .
Capitalised development costs	7 834	6 896	939
Deferred tax assets	2 114	1 850	263
Goodwill	247 475	247 732	(257)
<i>of which related to historical scope</i>	231 300	247 732	(16 433)
<i>of which related to 2021-2020 acquisitions</i>	16 176	-	16 176
Customer relationship	14 983	17 160	(2 177)
Software	2 693	1 441	1 252
Other intangible assets	255	502	(247)
Intangible assets	275 354	275 581	(227)

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

Financials – Net working capital & debt net

Acrotec Group | Net financial debt presentation - Reported

CHF000	Dec21	Dec20
Cash and bank balances	39 047	64 475
Third parties loans	(3 005)	(1 249)
Bank loans	(229 032)	(18 813)
Leases	(29 811)	(26 549)
Mortgages	(27 011)	(22 435)
Bonds	(33 300)	(251 000)
Shareholder loans	(15 856)	(6 411)
Borrowings	(338 015)	(326 457)
Acrotec Group net financial debt	(298 967)	(261 982)
KPI		
Net financial debt / Reported EBITDA	3.7x	4.5x
Net financial debt / PF EBITDA	3.7x	4.2x

In 2021, Acrotec Group restructured its debts and accessed to new sources of financing. Thanks to this, almost all Bonds could be refunded in 2021.

In addition, Acrotec Group repaid all COVID loans with its own cash.

In 2021, the Net financial debt / PF EBITDA ratio improved by 0.3x its historical target of 4x.

Acrotec Group - Net working capital - Reported

CHF000	Dec21	Dec20	Var. 21-20
Inventories	71 642	58 374	13 268
Trade receivables	31 783	30 134	1 649
Trade payables	(13 473)	(8 816)	(4 656)
Trade working capital	89 951	79 691	10 260
Other current assets	6 664	7 054	(391)
Other current liabilities	(22 374)	(18 094)	(4 279)
Non-trade working capital	(15 710)	(11 040)	(4 670)
Acrotec Group - Net working capital	74 241	68 651	5 590

Net working capital increased mainly due to the 2021 acquisitions and the inventories that is in line with the growing activity in 2021.

Financials – CAPEX

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 and the pro forma maintenance and growth capex, Acrotec Group's pro forma free cash flow is CHF 47.2 Mio for 2021, compared to CHF 37.7 Mio for 2020. Please refer to the EBITDA pro forma table and comments for the definition of the pro forma figures.

Acrotec Group | CAPEX - Reported

CHF000	FY21			FY20		
	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	362	100	-	262	-	-
Land, buildings and properties	55 929	7 699	2 937	46 841	-	326
Technical equipment & machinery	104 041	8 579	20 548	91 705	-	13 267
Other equipment & fixtures	11 629	2 988	2 373	9 937	-	2 856
In progress	3 313	-	2 827	1 992	-	1 919
Total	175 274	19 366	28 685	150 738	-	18 367
Net sales			306 918			244 304
Capex/net sales			9.3%			7.5%
Depreciation charges of fixed assets			(21 322)			(18 923)
Capex/Dep. charges			135%			97%

Conclusion & Outlook

2021 has been a fantastic year for Acrotec, its companies, its customers, its suppliers, its employees and its shareholders. The global economic environment and demand helped us put our group “back on track” and deliver an exceptional growth, thanks to all our great customers, partners and employees.

Expectations were for 2022 to also be a great year as all our indicators were indicating that we would continue to increasingly deliver great value for our customers.

We intend to continue developing our M&A strategy and ambitions in 2022, intensifying our growth efforts in the MedTech sector, in new geographies such as the US, but also in Europe.

Succession planning and ESG remain focus areas for our group and we will strengthen our efforts in these fields to continue playing a role as a prime responsible economic actor in the industry.

Sadly, a war recently darkened our skies, with millions of civilians having to flee their homes and leave Ukraine, and our thoughts go to all those who have lost everything within a couple of weeks in that conflict.

Groupe Acrotec

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.

Groupe **Acrotec**

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