Finacrotec SA

Annual report 2016

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1 | From the Chairman

2016 was a very eventful and successful year for Acrotec Group.

Many major events have marked 2016 for Acrotec Group.

DJC and mu-DEC joined Acrotec Group in February. DJC, our first acquisition outside Switzerland, strengthens our position in the automotive sector, while also reducing our exposure to the strong Swiss Franc. Mu-DEC, specialised in small series of highly complex components will improve and diversify our business offering for the watch sector.

In May, Precipro and Petitpierre joined Acrotec Group. Precipro opens the door to the jewellery market and brings its expertise in precious metals to enhance synergies with our watch offer. Petitpierre considerably strengthens our expertise in automation of assembly machines and will allow us to significantly expand our product and service offering to new clients.

In June 2016, Quilvest Private Equity, our partner and shareholder since 2012, sold its participation in Acrotec Group to EPIC funds, managed by Castik Capital S.à r.l. This new partner will be on our side to lead our ambitious growth projects, both organic and through acquisitions.

With this goal in mind, we refinanced our debt in September with the successful issue of a first CHF 106 million mini-bond on the Swiss market.

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.

Our core business focuses on watch, jewellery, electronic, healthcare, automotive, and aerospace and defence sectors.

Acrotec Group's governance relies on a federal structure promoting autonomy for entrepreneurs in their own businesses.

Supported by Castik Capital, Acrotec Group is boosting its transversal activities to take advantage of industrial and commercial synergies. Acrotec Group can rely on many technical specialists, in various fields such as chemical, micro technology or automotive. The commercial team has also been strengthened with a sales director for the non-watch sector and the nomination of a coordinator for watch sales. We aim at reinforcing and cementing our relationships with our clients and further meeting their expectations.

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

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

As a result of all of this, we outperformed our market despite the downturn in the watch industry, with 6.5% organic sales growth, and are well positioned to benefit from its future recovery.

François Billig

Chairman Acrotec Group

2 | Our strategy, culture and values

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:

- Join an ambitious group project with a clear and voluntarist industrial strategy
- Join the Group by bringing their company into a win-win process
- Benefit from industrial and commercial synergies
- Take the opportunity to share successes and to be supportive in difficult moments
- Find support and expertise in specialised areas: Technical, Commercial, Finance, Legal, Taxes ...
- Actively participate in group management while maintaining an entrepreneurial spirit
- Integrate a Group with a federal structure, which leaves a large autonomy to the directors of subsidiaries
- Benefit from a privileged dialogue with industrial partners
- Continue to exercise your passion while reducing personal risks
- Rely on technical specialists from various industries (chemical, micro technology, automobile ...)
- Take the opportunity to rely on the Group debt capacity to finance investments

Credo: Independence and complementarity

3 | 2016 in numbers

Pro forma figures

Net sales CHF133m, +4% vs. 2015

EBITDA CHF37m, +22% vs. 2015

Employees

8 locations

7 in Switzerland, 1 in France

4 acquisitions in 2016

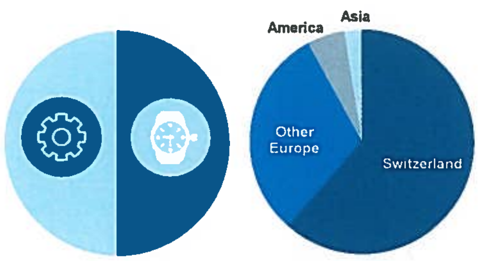
Petitpierre

PreciPro
PRODUITS PRÉCIEUX

2016 EBITDA pro forma margin

Balanced diversification

Sales breakdown



4 | Introduction to Acrotec Group

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.

Vicques

Sectors

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.

Thyez

Sectors

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.

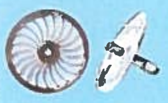
Bienne

Sectors

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.

Le Sentier

Sectors

mu-DEC 	mu-DEC is a manufacturer of micro-turned parts, specialised in geometrically complex components for watch movements such as wheels, balances and screws.	Develier Sectors
Petitpierre  	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.	Cortaillod Sectors
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 Sauley 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  	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

Finacrotec SA | Profit and loss statement

CHF000	FY16	FY15
Net sales	119'036	87'062
Other income	3'369	3'819
Revenues	**122'405**	**90'881**
Cost of goods sold	(36'744)	(29'538)
Gross profit	**85'661**	**61'342**
Payroll expenses	(42'983)	(33'884)
Other operating expenses	(10'899)	(7'015)
EBITDA	**31'780**	**20'444**
Depreciation of fixed assets	(7'161)	(5'613)
Amort. and impair. on intangible fixed assets	(3'498)	(2'106)
EBIT	**21'120**	**12'725**
Financial results	(3'649)	(1'782)
Non operating and exceptional items	2'033	(980)
Income tax	(6'289)	(2'925)
Minority interests	(480)	(238)
Net results	**12'735**	**6'800**

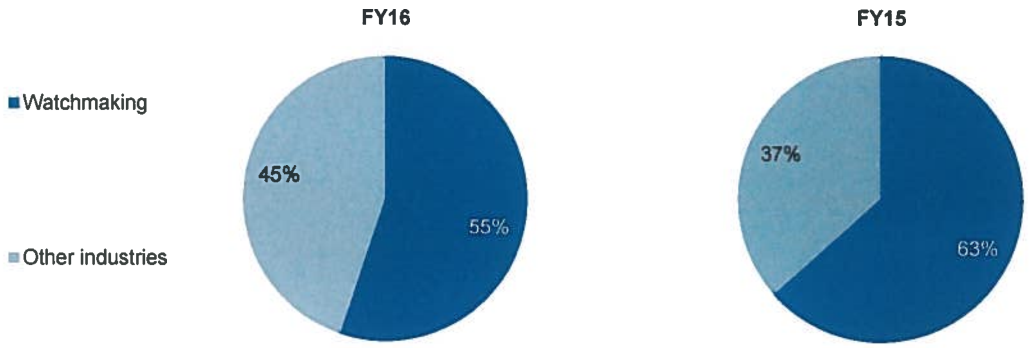
KPI (as a % of net sales)		
Net sales growth	*36.7%*	*12.2%*
Gross margin	*72.0%*	*70.5%*
EBITDA margin	*26.7%*	*23.5%*
Net margin	*10.7%*	*7.8%*

The net sales increase between 2016 and 2015 was mainly driven by acquisitions (+CHF26m) in addition to a strong organic growth the core Group of 6.1% (+CHF5m). 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 sector average; and
- Industrial sector benefiting from automotive growth.

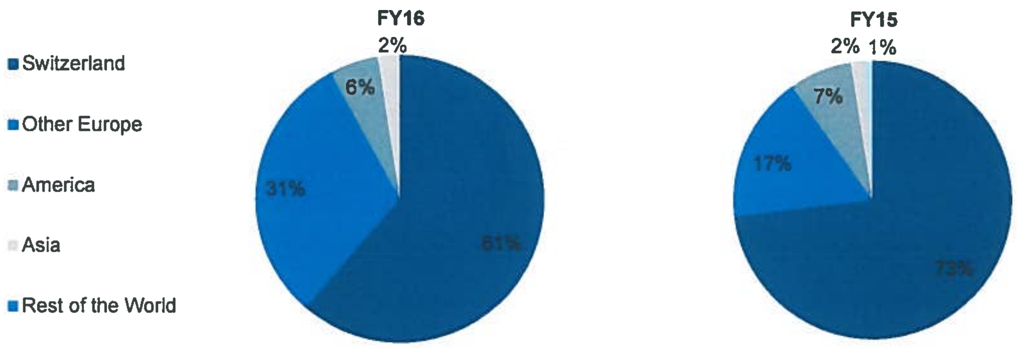
2016 EBITDA margin increased by 3.0%, positively impacted by (i) higher volumes, (ii) improved product mix and (ii) effective cost management.

Finacrotec SA | Net sales by sector



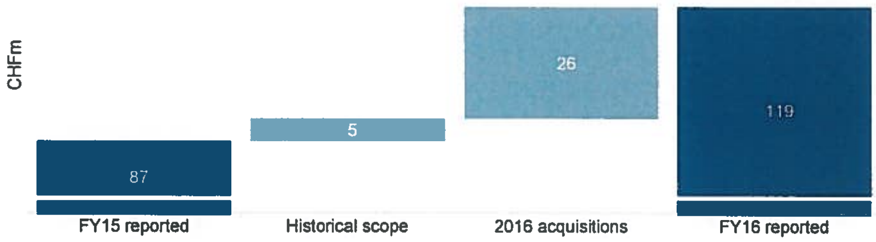
Finacrotec has maintained its diversification strategy of targeting attractive and growing industrial sectors. As a result the contribution the non-watchmaking industry has increased in 2016 from 37% to 45%.

Finacrotec SA | Net sales by geography

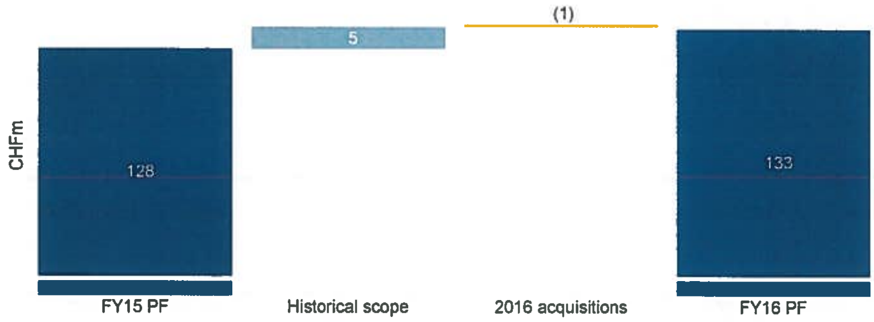


Net sales are still mainly generated in Switzerland due to the predominance of the activity with the watch sector but the sales realised in the rest of Europe grew significantly, in large part due to the acquisitions executed in 2016.

Finacrotec SA | Net sales development 2015-2016



Finacrotec SA | Net sales development 2015-2016



Finacrotec SA | EBITDA pro forma [(1)]

CHFm	FY16	FY15
EBITDA as reported	31'780	20'444
Full year effect of 2016 acquisitions [(2)]	5'495	10'031
EBITDA pro forma [(1)]	**37'275**	**30'475**
KPI		
EBITDA as reported margin	*26.7%*	*23.5%*
EBITDA pro forma [(1)] margin	*28.1%*	*23.8%*

Note [(1)]: Pro forma figures presented above are prepared with a constant currency rate* for the foreign companies of Finacrotec. In addition, the 2015 figures do not include the restatements implemented in 2016 to bridge the Swiss Code of Obligations accounting standards, in place at subsidiaries level, to the Swiss GAAP.

In the course of 2016, Finacrotec has been reshaped through several strategic acquisitions: two acquisitions in February (DJC and mu-DEC); two acquisitions in June (Petitpierre and Precipro); and the creation of STS3, specialised in surface treatment for the non-watch industry.

Note [(2)]: Reported EBITDA presents the performance of the acquired companies since the date of closing of the respective acquisitions and pro forma EBITDA presents the full-year effect of the acquisition (as if acquisitions were made on 1st of January 2016). The full year effect for 2015 includes a twelve months period of EBITDA when in 2016 the full year effect represents only the EBITDA portion before the integration to Finacrotec.

*1.07364

Finacrotec SA | Balance sheet

CHF000	Dec16	Dec15
Tangible assets	**71'007**	**44'946**
Intangible assets	68'835	30'340
Financial assets	2'754	900
Non-current assets	**142'597**	**76'186**
Inventories	31'555	19'069
Trade receivables	16'163	10'140
Trade payables	(6'494)	(3'192)
Trade working capital	**41'224**	**26'017**
Other current assets	4'137	2'149
Other current liabilities	(9'315)	(8'660)
Non-trade working capital	**(5'178)**	**(6'511)**
Total working capital	**36'046**	**19'505**
Cash and bank balances	14'565	7'937
Borrowings	(105'682)	(61'053)
Deferred tax	(12'062)	(8'292)
Provisions	(150)	(150)
Other long-term liabilities	(1'001)	-
Net debt and similar items	**(104'329)**	**(61'558)**
Net assets	**74'313**	**34'133**
Share capital	5'203	4'203
Reserves	55'159	21'961
Profit for the year	12'735	6'800
Minority interests	1'216	1'169
Total equity	**74'313**	**34'133**

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

Finacrotec SA | Intangible assets

CHF000	Dec16	Dec15
Capitalised development costs	726	130
of which related to 2016 acquisitions	*465*	-
Deferred tax assets	98	-
Goodwill	68'011	30'210
of which related to historical scope	*28'225*	*30'210*
of which related to 2016 acquisitions	*39'786*	-
Intangible assets	**68'835**	**30'340**

Finacrotec SA - Net working capital

CHF000	Dec16	Dec15	Dec15 PF
Inventories	31'555	19'069	25'232
Trade receivables	16'163	10'140	16'605
Trade payables	(6'494)	(3'192)	(5'671)
Trade working capital	**41'224**	**26'017**	**36'167**
Other current assets	4'137	2'149	3'386
Other current liabilities	(9'315)	(8'660)	(10'578)
Non-trade working capital	**(5'178)**	**(6'511)**	**(7'192)**
Finacrotec SA - Net working capital	**36'046**	**19'505**	**28'975**

Net working capital increased at 31 December 2016 vs. 31 December 2015 as a result of:

- Acquisitions made in 2016;
- Higher revenues; and
- Change in method of stock valuation.

The Dec15 pro forma includes the net working capital positions of the 2015 acquisitions to present a comparable scope to Dec16.

Finacrotec SA | Net financial debt presentation

CHF000	Dec16	Dec15
Cash and bank balances	14 565	7 937
Bank loans	(903)	(35 659)
Leasing	(11 569)	(5 027)
Mortgage	(17 210)	(11 298)
Shareholder loans	(76 000)	(9 070)
Borrowings	**(105 682)**	**(61 053)**
Finacrotec SA net financial debt	**(91 117)**	**(53 116)**
KPI		
EBITDA / net financial debt	*2.9x*	*2.6x*
Net financial debt / PF EBITDA	*2.4x*	*1.7x*

Finacrotec has refinanced its debt in 2016 through a mini-bond issue in order to finance the acquisitions.

Finacrotec SA - Property, plant and equipment movements

CHF000	FY16			FY15		
	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	120	-	120	-	-	-
Land, buildings and properties	12'099	11'949	164	1'255	-	1'424
Technical equipment & machinery	26'351	16'309	9'367	3'460	-	5'400
Other equipment & fixtures	11'482	10'301	1'506	1'597	-	1'709
In progress	392	1'264	629	-	-	-
Total	**50'444**	**39'823**	**11'786**	**6'313**	**-**	**8'533**
Net sales			119'036			87'062
Capex/net sales			*9.9%*			*9.8%*
Depreciation charges of fixed assets			(7'161)			(5'613)
Capex/Dep. charges			*165%*			*152%*

Finacrotec 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, Finacrotec's pro forma free cash flow is CHF21.2m for 2016. Please refer to the EBITDA pro forma table and comment for the definition of the pro forma figures.

6 | Conclusions and outlook

We remain highly vigilant for the recovery of the watchmaking industry which is expected for the second half of 2017, after two years of decline. The recovery will allow us of, further accelerate the growth of our watchmaking cluster which represents nearly half of our activity. Meanwhile, we will maintain the strong momentum from 2016, which allowed us to over-perform in a soft market and to deliver sales growth of 6.8% for the first quarter of 2017.

Our ability to deliver in this context should also motivate new companies to join Acrotec Group.

In this manner Gasser-Ravussin SA decided to join us in April 2017. As a long-established family-run business, it has specialised for more than 90 years in the field of semi-precious stones, such as rubies, shapers and ceramics intended for the watchmaking industry. It enables us to reinforce our independent position, in securing our supply and in extending our range of components.

Acrotec Group also acquired H2i in April 2017: H2i designs and manufactures innovative measuring tools to answer specific needs regarding chronometry and magnetism. H2i will work in close cooperation with Petitpierre, to which they will provide highly complementary skills.

In the non-watchmaking industry, we aim to drive organic growth by continuing to invest and specialise our companies in the niche markets in which we operated. This has allowed us to create close and lasting ties to our customers, and to increase the barriers to entry in such markets. First quarter of 2017 confirms our belief in strategy with a 14.4% growth for the other industries.

We have a significant pipeline of tangible acquisition opportunities that we are working on and expect to materialise by the end of the year. We are focusing on specialized market segments in industries such as medical or automotive within highly technical applications.

By nature of its product range, Acrotec Group establishes itself as a key partner in the manufacturing and R&D strategy of its clients.

Acrotec Group is uniquely positioned to secure this leading position, by using the know-how, network and the skills of its managers, while benefiting the support and expertise of Castik Capital in particular for M&A operations.

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 to whom we are glad to work with in the future.

Disclaimer

Also, 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

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