

Finacrotec - ANNUAL REPORT 2018

VARDECO SA

K I F
P A R E C H O O

PIERHOR
- GASSER

butech pro fil

WATCHDEC SA
Microdécolletage CNC

AFT
MICROMÉCANIQUE

Sigatec SA

décovi
CENTRE DE DÉCOLLETAGE

**GENÉRALE
RESSORTS**

STS
Saulcy Traitement de Surface

μ DEC

JP

Pp
Petitpierre

PreciPro
PRODUITS PRÉCIEUX

H2i

Mimotec
Microparts for great ideas

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Definitions :

- **Finacrotec** consolidation at Finacrotec SA level (100% owned by Groupe Acrotec 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 acquisitions (as if the 2018 acquisitions were made on 1st of January 2018). Concerning the 2018 acquisitions, the full year effect for 2017 includes a twelve months period while in 2018 the pro forma impact represents only the portion before the integration to Finacrotec. Concerning the 2017 acquisitions, the pro forma impact for 2017 includes the portion before the integration to Finacrotec.

FROM THE CHAIRMAN

2018: Another great year for Finacrotec

We are delighted to announce that our Group has delivered solid growth, with 11% pro forma revenue growth combined with 18% pro forma EBITDA growth.

In terms of sectors, the watch market had another impressive year with pro forma growth of 4% to finish the year at CHF 109 Mio; meanwhile the non-watch sector had a very strong year with pro forma growth of 20% to finish the year at CHF 86 Mio.

In line with our “buy and build” strategy, we acquired Butech, a strategic supplier of precision cutting wires, which are notably a key input to the production process at Pierhor Gasser.

We also acquired Watchdec, a watch movement component supplier, which broadens Group’s customer base and adds to our range of technical know-how.

Finally, we acquired AFT, a key strategic move into the medtech sector. AFT supplies top of the range customers in the sector, with specialised components notably in the areas of spinal implantable devices, orthopaedic implants and instruments.

These acquisitions demonstrate our continued ambition for sustained strategic growth. The AFT acquisition is an important step for our Group in our diversification strategy and will serve as a corner step for further acquisitions in this sector. Indeed, further medtech add-ons are already in advanced discussions.

All the 2018 acquisition were funded with the Group’s own cash and the remaining portion of the 2017 bond issue.

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 Group’s governance relies on a federal structure promoting autonomy for the entrepreneurs in their divisions, with strong support of Group management and central functions such as finance.

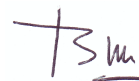
Supported by Castik Capital, the Group is increasing its cross-departmental activities to take advantage of industrial and commercial synergies. Our intercompany sales level has grown c.60% in 2018, showing the success of synergetic initiatives, such as the internalisation of activities and more importantly the development and assembling of products involving several companies of the Group.

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

All the companies of the Group follow the procedures and strategy predetermined together, notably regarding budgeting, controlling and accounting.

Finally, I would like to express my gratitude to all the 811 employees at Finacrotec who have contributed to this remarkable performance.

François Billig
Chairman Finacrotec

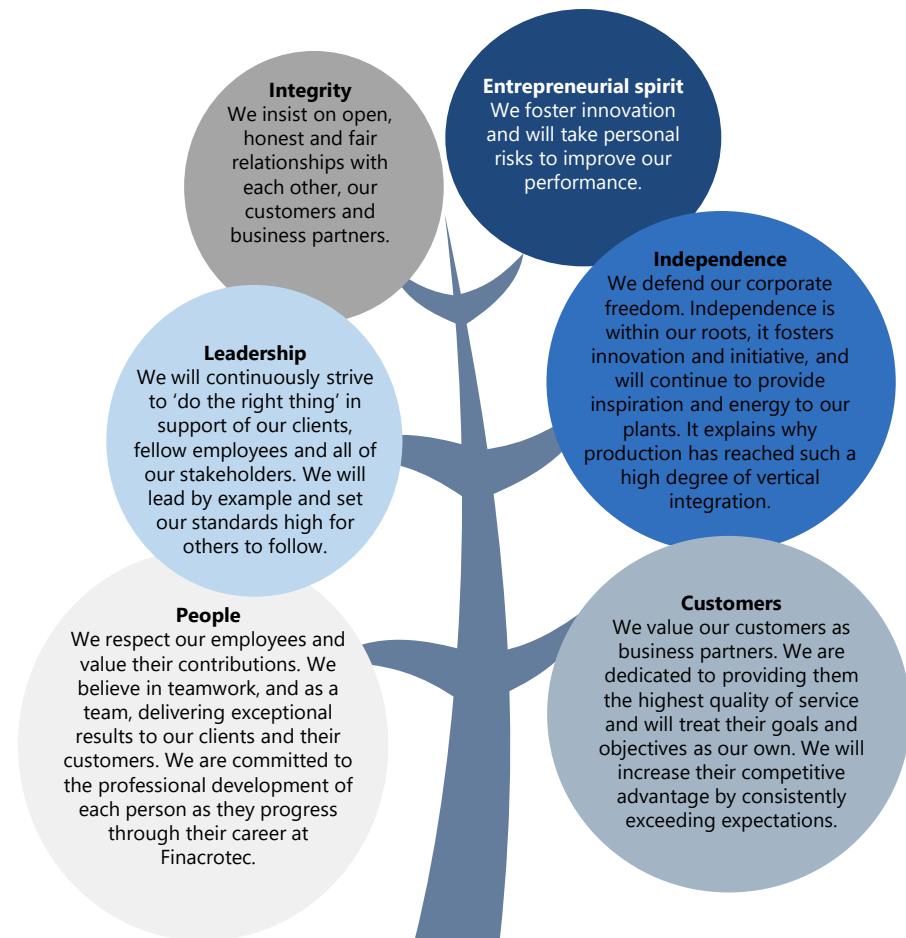


2 – OUR STRATEGY, CULTURE AND VALUES

“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.”

**Michael Phillips,
Managing Partner of Castik Capital**

“We are very pleased and proud to partner with Finacrotec, which delivers year on year a track record of consistent organic and external growth, while maintaining excellence in the margin performance.”



Our values at Finacrotec

3 – 2018 IN NUMBERS

Pro forma figures

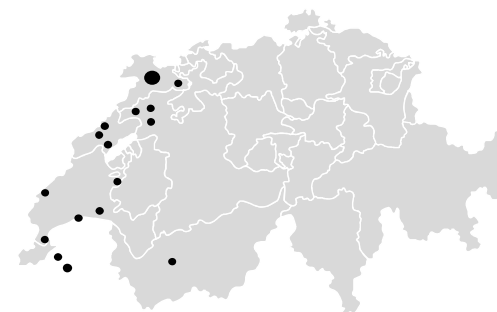
**Net sales CHF195m,
+11% vs. 2017**
**EBITDA CHF53m,
+18% vs. 2017**

Employees

**+800 employees at
December 2018**

16 locations

14 in Switzerland, 2 in France



3 acquisitions in 2018

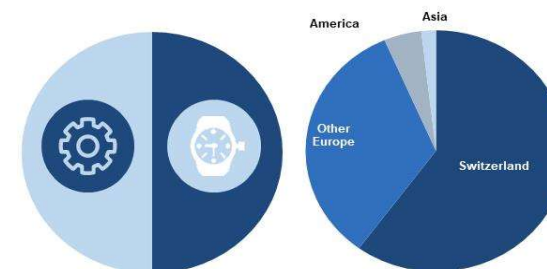


2018 EBITDA pro forma margin

27%

Balanced diversification

Sales breakdown



4 – OVERVIEW OF FINACROTEC: Industrial sector

A.F.T Mécanique SAS



Fillinges



Founded in 1997, AFT is a specialised medtech company, producing components such as spinal implants (hooks, titanium cages, Peek cages), instruments and orthopaedic implants (screws, plate screw implants).

AFT is certified ISO 9001/2008 and ISO 13485/2003 and works with leading customers within the medtech sector.

D.J.C Décolletage Jean Cordier SAS



Thyez



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 its revenues from the automotive and turbocharger end-markets.

Vardeco SA



Develier



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.

4 – OVERVIEW OF FINACROTEC: Watchmaking sector

Butech SA



Tavannes



Butech is a specialist producer of calibrated wire for honing hard metal and gemstones.

It also produces cutting wire for medtech applications such as ophthalmology, hearing aides and micromotors.

H2i Sàrl



Cortailod



Based in Cortailod, 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.

Kif-Parechoc SA



Le Sentier



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 components for mechanical watch movements meeting the requirements of a global watch industry clientele.

mu-DEC SA



Develier



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

4 – OVERVIEW OF FINACROTEC: Industrial & Watchmaking sector

Décovi SA



Val Terbis



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.

Pierhor SA & Gasser-Ravussin SA



Ecublens



During 2017 Finacrotec acquired two historical 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 per year.

Générale Ressorts SA



Bienne



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.

Mimotec SA / Sigatec SA



Sion



The company is recognised in Switzerland and abroad for its expertise in the fields of microengineering and micromechanics.

Our technology named UV-LIGA provides an industrial solution for the miniaturisation of components: Automobile, MedTec, Connectivity, Micro fluidics and Micro moulds and our CLR-LIGA technology leads the fight against counterfeiting.

4 – OVERVIEW OF FINACROTEC: Industrial & Watchmaking sector

Petitpierre SA



Cortaillod



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.

PRECIPRO SA



La Chaux-de-Fonds



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.

STS Group



*Le Sentier
Develier
Meyrin
La Chaux-de-Fonds*



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 at four sites in Le Sentier, La Chaux-de-Fonds, Meyrin and Develier.

Watchdec SA



Develier



Watchdec was founded in 2013 and is principally active in the watch sector.

Watchdec produces precision microcomponents for high end customers.

5 – FINANCIALS: Profit & Loss

Finacrotec | Profit and loss statement - Reported

CHF000	FY18	FY17
Net sales	179 620	154 312
Other income	4 228	4 731
Revenues	183 848	159 043
Cost of goods sold	(54 064)	(51 293)
Gross profit	129 784	107 750
Payroll expenses	(66 117)	(54 759)
Other operating expenses	(15 736)	(14 189)
EBITDA	47 931	38 802
Depreciation of fixed assets	(11 236)	(9 775)
Amort. and impair. on intangible fixed assets	(7 239)	(5 700)
EBIT	29 456	23 327
Financial results	(6 438)	(5 032)
Non operating and exceptional items	(1 574)	(556)
Income tax	(5 377)	(6 313)
Minority interests	(411)	(372)
Net results	15 656	11 054

KPI (as a % of net sales)

Net sales growth	16.4%	29.6%
Gross margin	72.3%	69.8%
EBITDA margin	26.7%	25.1%
Net margin	8.7%	7.2%

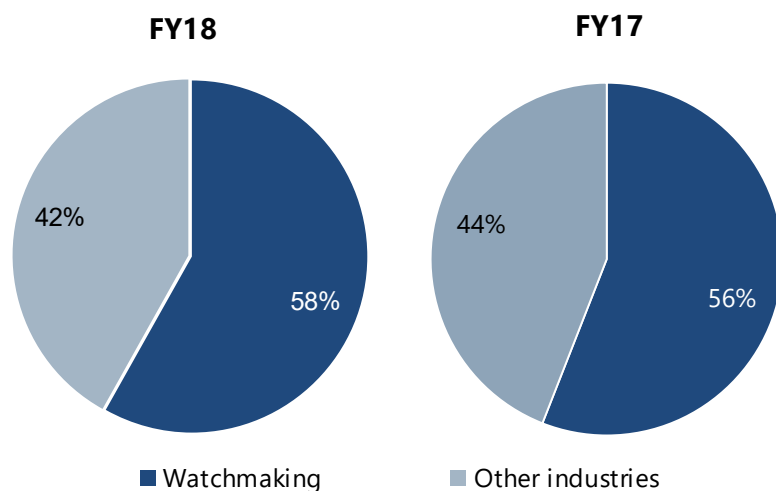
The net sales increase between 2018 and 2017 was driven by strong organic growth (+CHF25 Mio) and the three acquisitions (+CHF 1 Mio). Organic growth results from:

- 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 watch sector; and
- Strong electronics market in particular related to connectors.

EBITDA as reported increased by CHF9.1 Mio and EBITDA margin increased by 1.6%, as margins recovered following the more difficult market conditions in the first half of 2017.

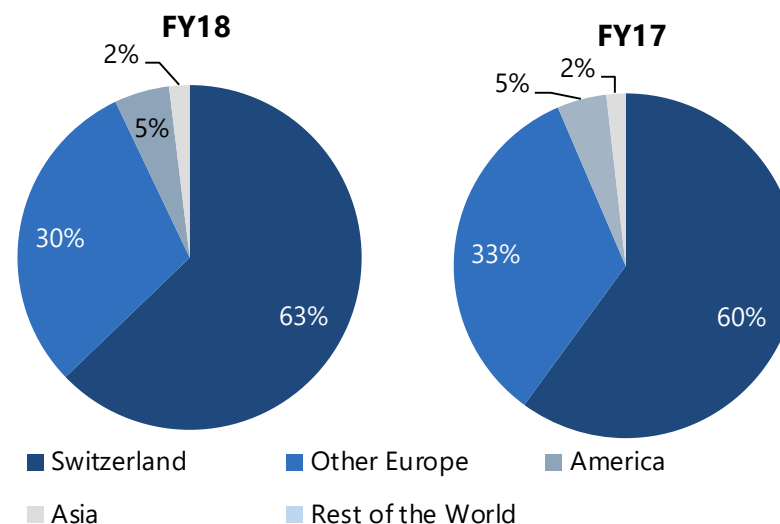
5 – FINANCIALS: Net sales

Finacrotec | Net Sales by sector - Reported



Finacrotec continued to invest in both the watchmaking and industrial sectors in 2018. Given the timing of acquisitions during the year, the proportion of sales within watchmaking increased slightly during 2018.

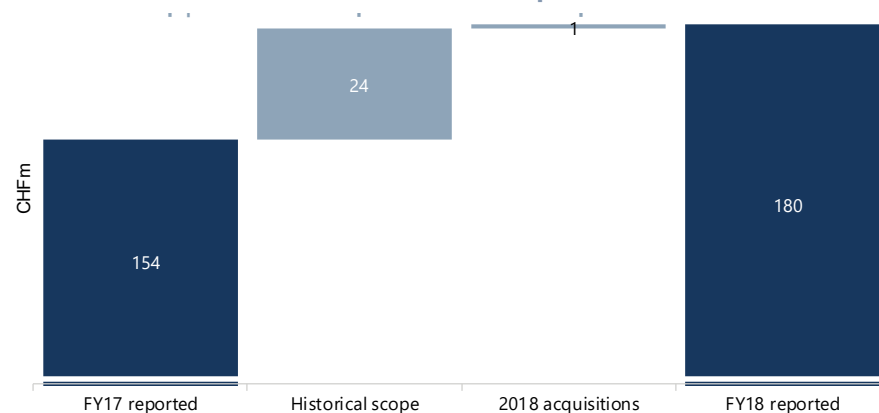
Finacrotec | Net Sales by geography - Reported



Net sales are mainly generated in Switzerland due to the predominance of the activity with the watch sector. The proportion of sales generated in Switzerland increased marginally in 2018, given the location and timing of the acquisitions.

5 – FINANCIALS: Net sales development

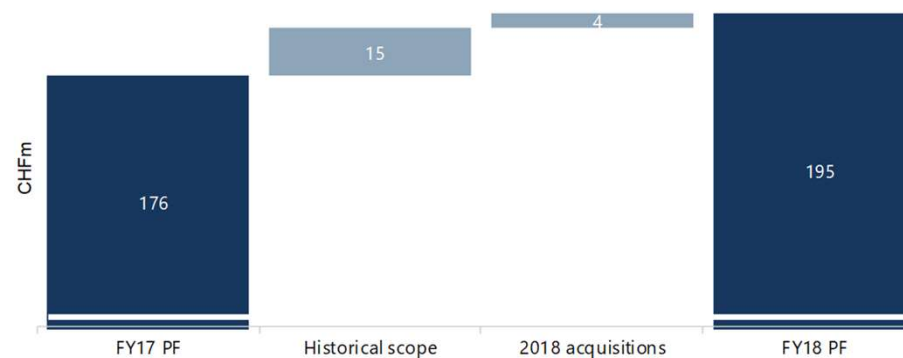
Finacrotec | Net Sales dev. 2017-2018 - Reported



The impact of 2018 acquisitions is limited in the FY18 reported numbers due to the timing of the acquisitions which mainly occurred towards the end of 2018.

On a pro forma basis, the 2018 acquisitions have a relatively higher contribution to the 11% net sales growth, given that the pro forma figures include the full year impact of 2018 acquisitions.

Finacrotec | Net Sales dev. 2017-2018 – Pro forma



5 – FINANCIALS: EBITDA Pro forma

In the course of 2018, Finacrotec continued its expansion with several strategic acquisitions: one acquisition in June (Butech); one acquisition in October (Watchdec), and one acquisitions at the end of December (AFT).

Finacrotec | EBITDA - Pro forma

CHF000	FY18	FY17
EBITDA as reported	47 931	38 802
Pro forma impact	5 128	6 249
EBITDA pro forma	53 059	45 051
KPI		
EBITDA as reported margin	26.7%	25.1%
EBITDA pro forma margin	27.3%	25.6%

Pro forma impact note: 2017 shows the full EBITDA of the 2018 acquisitions and full year effect of 2017 acquisitions. 2018 shows only the EBITDA prior to the acquisitions which is not included in the reported numbers.

5 – FINANCIAL: Balance sheet & Intangible assets

Finacrotec | Lead balance sheet - Reported

CHF000	Dec18	Dec17
Tangible assets	104 623	89 115
Intangible assets	129 655	112 736
Financial assets	4 495	5 460
Non-current assets	238 773	207 311
Inventories	44 512	37 215
Trade receivables	22 964	19 407
Trade payables	(7 707)	(8 090)
Trade working capital	59 769	48 532
Other current assets	4 598	5 352
Other current liabilities	(14 657)	(10 479)
Non-trade working capital	(10 060)	(5 127)
Total working capital	49 709	43 405
Cash and bank balances	37 779	42 386
Borrowings	(188 656)	(170 445)
Deferred tax	(16 029)	(15 433)
Provisions	(150)	(950)
Other long-term liabilities	(598)	(697)
Net debt and similar items	(167 654)	(145 139)
Net assets	120 828	105 577
Share capital	5 203	5 203
Reserves	98 711	88 076
Profit for the year	15 656	11 054
Minority interests	1 258	1 243
Total equity	120 828	105 577

Finacrotec | Intangible assets - Reported

CHF000	Dec18	Dec17	Var .
Capitalised development costs	2 957	1 493	1 465
<i>of which related to 2018-2017 acquisitions</i>	240	364	
Deferred tax assets	705	419	285
Goodwill	125 993	110 824	15 169
<i>of which related to historical scope</i>	104 374	63 898	
<i>of which related to 2018-2017 acquisitions</i>	21 619	46 926	
Intangible assets	129 655	112 736	16 919

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

5 – FINANCIALS: Net working capital & Net financial debt

Net working capital increased in line with our level of activity and remains consistent at around 26% of net sales.

Finacrotec - Net working capital - Reported

CHF000	Dec18	Dec17	Dec17 PF	Var. 17-16 : 17-16PF	
Inventories	44 512	37 215	38 092	7 297	6 419
Trade receivables	22 964	19 407	21 514	3 557	1 450
Trade payables	(7 707)	(8 090)	(9 516)	383	1 809
Trade working capital	59 769	48 532	50 090	11 237	9 678
Other current assets	4 598	5 352	5 534	(754)	(936)
Other current liabilities	(14 657)	(10 479)	(10 340)	(4 178)	(4 317)
Non-trade working capital	(10 060)	(5 127)	(4 806)	(4 933)	(5 253)
Finacrotec - Net working capital	49 709	43 405	45 284	6 304	4 425

Finacrotec net debt has developed over 2018 in line with the three acquisitions all financed through our own cash.

Finacrotec | Net financial debt presentation - Reported

CHF000	Dec18	Dec17
Cash and bank balances	37 779	42 386
Third parties loans	(3 765)	(5 779)
Bank loans	(4 430)	(1 928)
Leases	(19 232)	(14 591)
Mortgages	(14 065)	(15 486)
Shareholder loans	(147 164)	(132 662)
Borrowings	(188 656)	(170 445)
Finacrotec net financial debt	(150 877)	(128 060)
KPI		
Net financial debt / Reported EBITDA	3.1x	3.3x
Net financial debt / PF EBITDA	2.8x	2.8x

5 – FINANCIALS: CAPEX

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, Group's pro forma free cash flow is CHF30.1 Mio for 2018, compared to CHF25.6 Mio for 2017. Please refer to the EBITDA pro forma table and comments for the definition of the pro forma figures.

Finacrotec | CAPEX - Reported

CHF000	FY18			FY17			FY17
	Total	o/w acquisition of subsidiaries	o/w maint. and growth capex	Total	o/w acquisition of subsidiaries	o/w maint. and growth capex	PF
Undeveloped Land	2 075	-	-	2 080	1 813	-	
Land, buildings and properties	27 897	-	249	27 700	4 083	10	
Technical equipment & machinery	66 533	8 319	13 628	53 330	6 584	12 836	
Other equipment & fixtures	6 955	1 196	2 971	4 888	69	2 155	
In progress	1 163	-	890	1 117	-	726	
Total	104 623	9 515	17 738	89 115	12 548	15 726	18 510
Net sales			179 620			154 312	
Capex/net sales			9.9%			10.2%	
Depreciation charges of fixed assets			(11 236)			(9 775)	
Capex/Dep. charges			158%			161%	

6 – CONCLUSIONS AND OUTLOOK

After the solid 2018 performance, we intend to maintain our ambitious growth targets in 2019 with a budgeted high single digit organic revenue growth.

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 will finalize the implementation of Salesforce, our CRM 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 materialize by the end of the year.

We have finalized the acquisition of Watchdec SA, a company specialized in precision swiss turning and located in the direct vicinity of Vardeco SA. Watchdec SA will move to another location and free up the existing space for the expansion of Vardeco SA.

Acquisitions will also allow us to accelerate our diversification.

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

We already acquired AFT at the end of 2018, a leading MedTech CMO located in Fillinges, France which will reinforce our position in this sector.

We are currently in advanced discussions with two additional MedTech targets.

In 2019 we have also already acquired Roch Mécanique de précision, a company specialized in medium and larger components mainly for the aerospace sector. This acquisition will be a door opener into another fast growing industry.

With all these activities in progress, we believe that we are uniquely positioned to further develop our 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.

TEAM





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.

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