

Groupe **Acrotec**

ANNUAL REPORT 2019

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



RP
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

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From the chairman

2019: a year of Robust growth and new directions for Acrotec

I am very pleased to present our 2019 performance in this management report. Overall, our Group has delivered robust growth again, with 6.5% pro forma revenue growth combined with 17.3% pro forma EBITDA growth.

In 2019 we have taken major steps to organize our business in three main sectors, providing each of them with its own executive leadership and coordination:

- Watch & Jewellery
- Precision High Tech
- MedTech

In terms of performance, the Watch & Jewellery sector, representing 50% of our business grew 17.6%. This has been achieved through strengthening our market share with our long-term customers as well as building new customer relationships with other actors in this sector.

The Precision High Tech sector representing about 26% of our turnover delivered 19.5% growth. This is to be put in perspective with the relatively weak business context for the automotive, partly offset by the other electronics and industrial sub-sectors.

Finally, our Medtech sector developed organically (+4.8%) as well as externally showing our willingness to develop this sector in the coming years through two major acquisitions:

- Tectri, a company active in cost-effective, manufacturing of sophisticated turned and milled parts in metals; and
- Diener, specialised in precision mechanics production for the MedTech sector and an innovative developer of sophisticated medical pumps.

A CHF 75 million, 6 years maturity bond was successfully issued on the market in 2019, allowing us to pursue our strategic development.

For the years to come, we will develop many technical and synergetic projects to continue serving our customers in all sectors with top Swiss quality components. In this line we have made the decision to centralize and reinforce our R&D function into one new company, Acrotec R&D SA, led by Mr Philippe Jacot. I am very excited with the multiple projects that are already being handled by this team in coordination with our business units.

In 2019, we have also reworked our succession planning, making sure, should an unexpected event occur, that all key positions within our group can be filled within a reasonable delay.

Unfortunately as you all know, 2020 has started with a major global challenge. There is no doubt that the performance of the Acrotec Group will be impacted from the economic situation, in particular in the watch market. Nevertheless, we strongly believe that the work done by our teams to strengthen the financial condition of our group will allow us to come out of this difficult period in relatively good shape.

Finally, I would like to express my gratitude to the 1,200 employees at Acrotec Group who have contributed to this remarkable 2019 performance.

François Billig

Chairman Acrotec Group

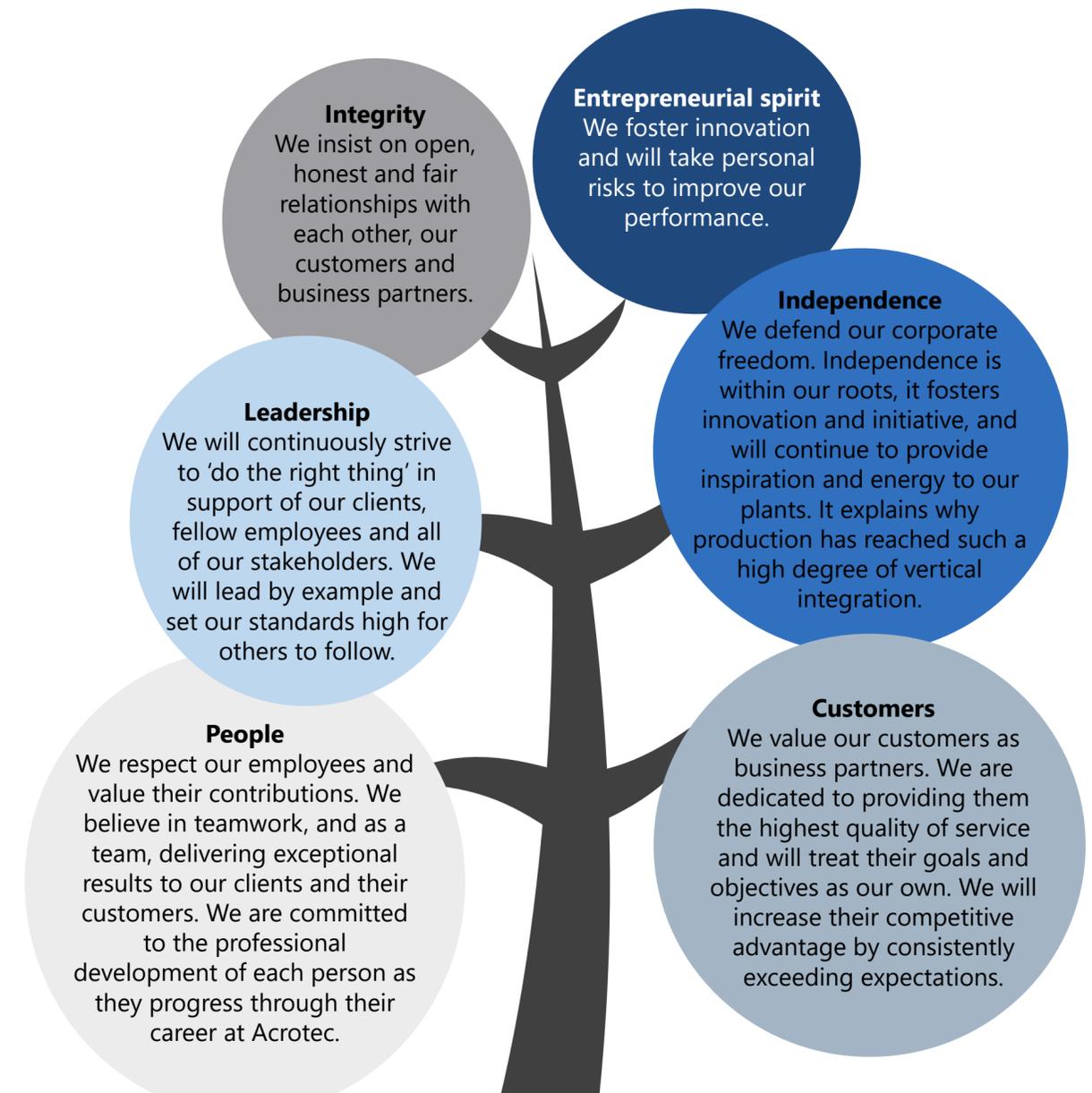


Our strategy, culture and values

“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.”

Michael Phillips,
Managing Partner of Castik Capital

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



Our values at Acrotec Group

2019 in numbers

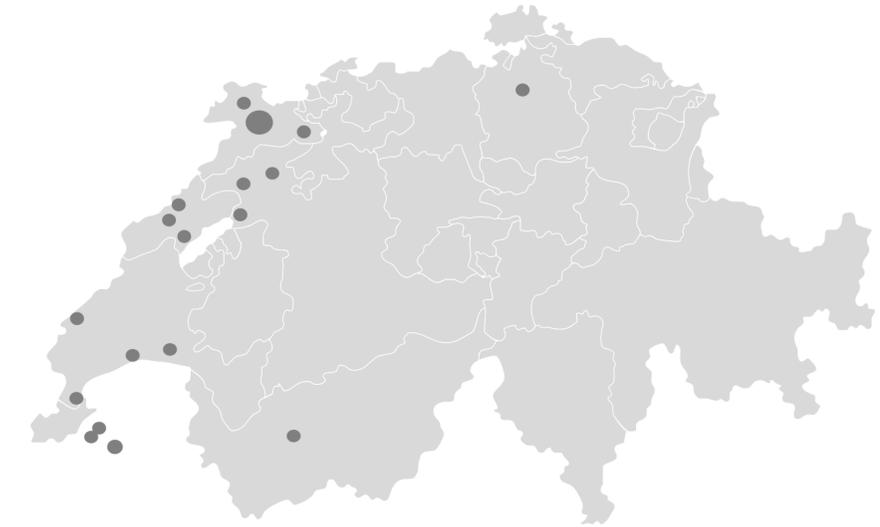
Pro forma figures

Net sales CHF272m,
+6.5% vs. 2018
EBITDA CHF76.1m,
+17.3% vs. 2018

Employees

+1200 employees at
December 2019

19 locations
15 in Switzerland, 3 in France, 1 in USA



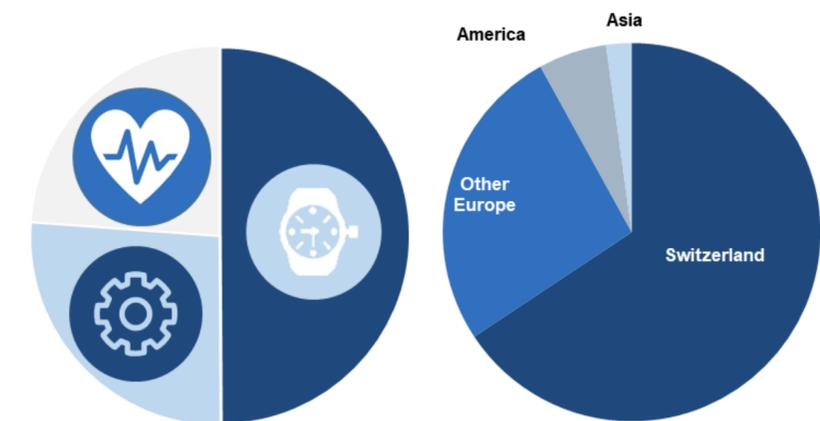
4 acquisitions in 2019



2019 EBITDA pro forma margin

28%

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 50% of group sales in 2019, compared to 49% of group sales in 2018.

The sector achieved strong double digit growth from 2018 to 2019 in line with the positive dynamics in the industry and with our key customers.

Steadily increasing global wealth is a key driver in this sector, driving the personal luxury market growth which is synonymous with our customers and products.

Acquisitions

In line with Acrotec's strategy of focussing on diversification, in particular to our Precision High Tech sector and our new MedTech sector, no acquisitions were made in the Watches and Jewellery sector during 2019.

A number of acquisition targets were however reviewed during the year in this sector on an opportunistic basis and going forward we will continue to analyse suitable watch and jewellery targets opportunistically.



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 26% of group sales in 2019, compared to 28% of group sales in 2018.

The sector achieved a stable performance from 2018 to 2019, outperforming some of the end markets which it serves.

In particular, current uncertainties over the direction of technology in the automotive sector have led to a lack of confidence amongst end consumers. Acrotec's product positioning in this sector, in particular with turbocharger technology for CO2 emissions reduction and connectors which benefit from increasing electrification of the automotive sector, have served as a counter to the downward trend in the sector as a whole.

Acquisitions

In March 2019, Acrotec acquired Roch mécanique de Précision ("Roch"), a family owned company founded in 1965 and specialised in CNC milling, profile turning and assembly of mechanical components, in particular for the aerospace industry. Roch is certified ISO 9001 since 1996 and EN 9100 since 2003 and is located at Reignier-Esery, France, close to our existing operations of AFT and DJC.

The acquisition of Roch provides Acrotec with access to the aerospace industry, producing various technical components such as for cockpit instruments, windscreen wiping systems and external lighting.



Overview of Acrotec group

MEDTECH

Description

During 2019 a third business sector was established by Acrotec to further pursue our diversification strategy outside the Watch and Jewellery sector.

The MedTech sector was further strengthened following the acquisition of AFT at the end of 2018, through the acquisitions of Diener and Tectri in 2019.

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 24% of group sales in 2019, compared to 23% of group sales in 2018.

The sector achieved strong double digit growth from 2018 to 2019 in line with the dynamics of the industry. We operate in a highly attractive market, driven by demographic ageing and increased healthcare penetration.

Acquisitions

In September 2019 Acrotec acquired Tectri, a company specialised in cost-effective, manufacturing of sophisticated turned and milled parts in metals for the MedTech sector. Products include implants, screws, ortho plates, dental pillars and dental / surgical instruments.

In October 2019 Acrotec acquired Diener Precision Machining and Diener Precision Pumps ("Diener"), specialised in precision mechanics production for the MedTech sector and an innovative developer of sophisticated medical pumps. Products include screws, plates, implants, surgery instruments and medical pumps.

Both acquisitions have given Acrotec access to a blue-chip customer base in MedTech with which the companies have very long-established relationships.



Financials – Profit & loss

Acrotec Group | Profit and loss statement - Reported

| CHF000 | FY19 | FY18 |
|---|----------------|----------------|
| Net sales | 223 361 | 179 620 |
| Other income | 3 321 | 4 228 |
| Revenues | 226 682 | 183 848 |
| Cost of goods sold | (62 933) | (54 064) |
| Gross profit | 163 749 | 129 784 |
| Payroll expenses | (83 063) | (66 117) |
| Other operating expenses | (18 630) | (15 763) |
| EBITDA | 62 056 | 47 904 |
| Depreciation of fixed assets | (14 667) | (11 137) |
| Amort. and impair. on intangible fixed assets | (16 256) | (13 241) |
| EBIT | 31 132 | 23 526 |
| Financial results | (8 465) | (8 174) |
| Non operating and exceptional items | (2 066) | (1 468) |
| Income tax | (6 712) | (5 414) |
| Minority interests | (406) | (411) |
| Net results | 13 484 | 8 058 |

KPI (as a % of net sales)

| | | |
|------------------|-------|-------|
| Net sales growth | 24.4% | 16.4% |
| Gross margin | 73.3% | 72.3% |
| EBITDA margin | 27.8% | 26.7% |
| Net margin | 6.0% | 4.5% |

The net sales increase between 2019 and 2018 was driven by strong organic growth (+CHF27 Mio) and the four acquisitions (+CHF 16 Mio).

Organic growth results from:

A very strong and significantly above market performance with all our watch customers, which more than compensated the decline with the Swatch Group

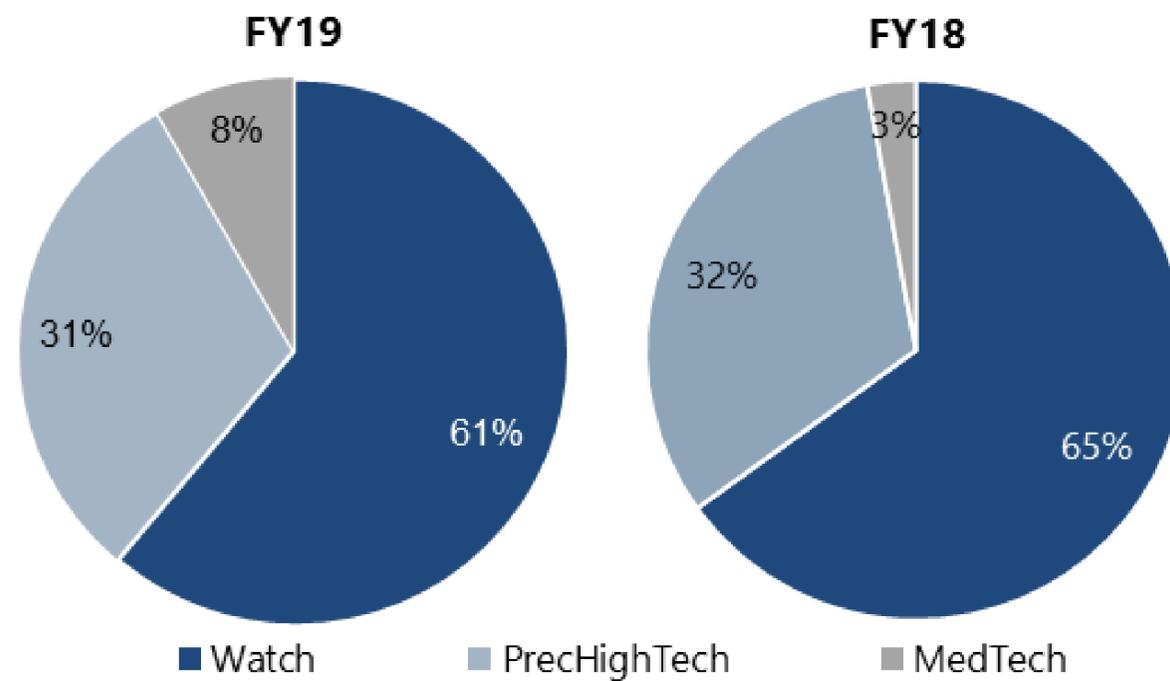
A very strong development with our top 4 Medtech customers with growth rates between 22% and > 200%

A strong electronics and aeronautics market which compensated the relative softness of the automotive market.

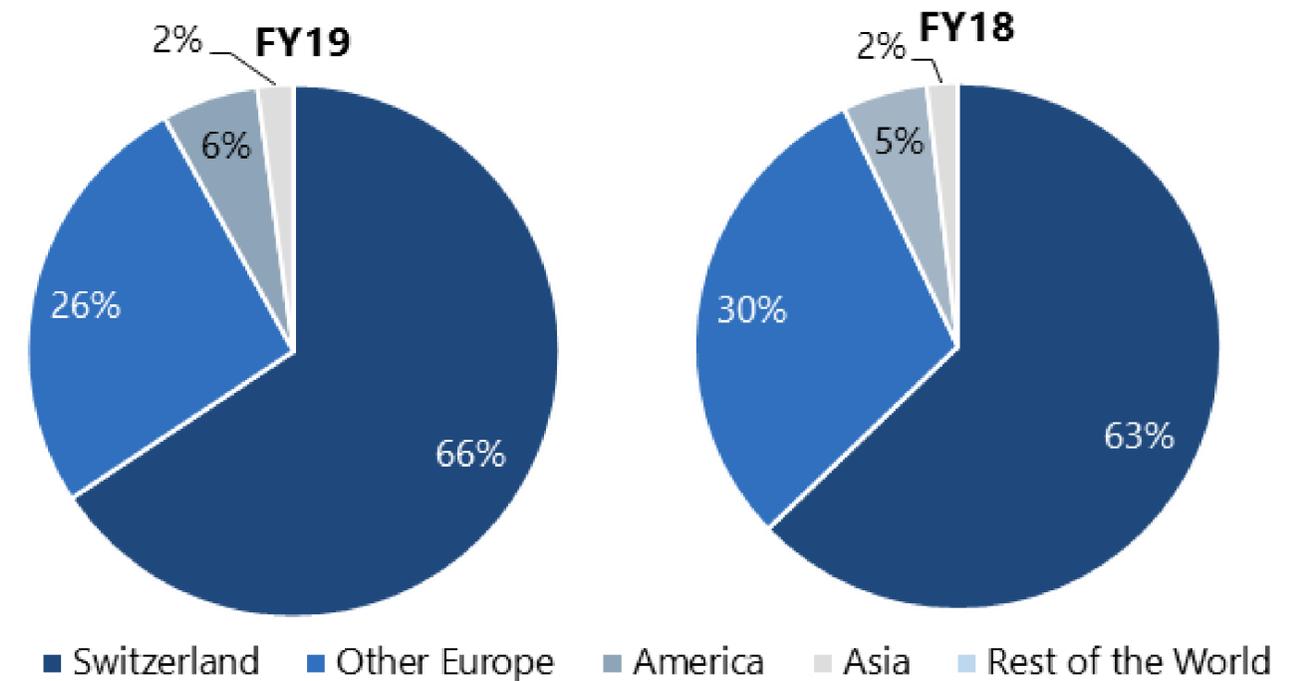
EBITDA as reported increased by CHF14.2 Mio and EBITDA margin increased by 1.1%, as resources were consumed in a more profitable way.

Financials – Net sales

Acrotec Group | Net sales by sector - Reported



Acrotec Group | Net sales by geography - Reported



Acrotec Group invested significantly in the MedTech sector in 2019. Given the timing of acquisitions during the year, the proportion of sales within watchmaking decreased during 2019.

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 2019, given the location and timing of the acquisitions.

Financials – Net sales development

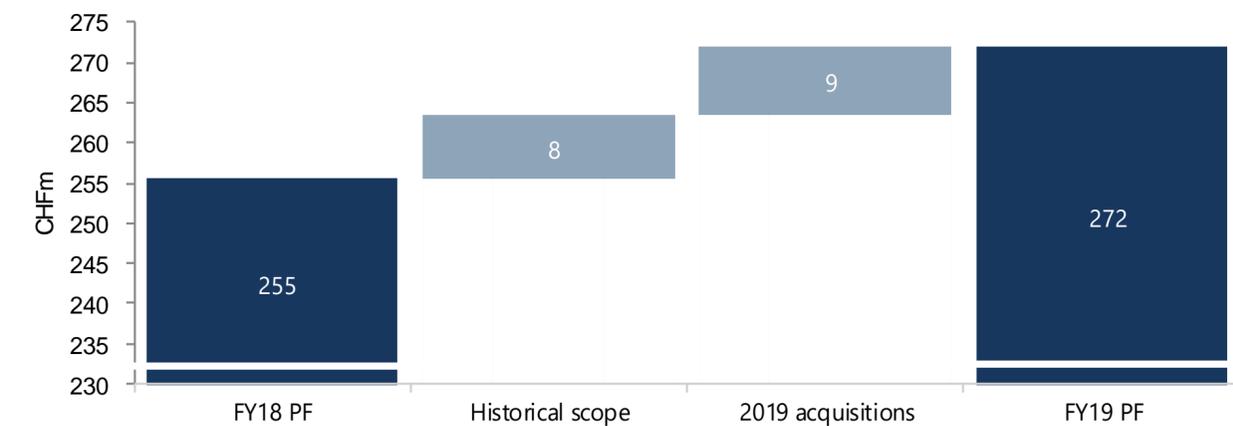
Acrotec Group | Net sales development 2018-2019 - Reported



The impact of 2019 acquisitions is +CHF16 Mio in the FY19 reported numbers although the main acquisitions occurred towards the end of 2019.

On a pro forma basis, the 2019 acquisitions have a relatively higher contribution to the 6% net sales growth, given that the pro forma figures include the full year impact of 2019 acquisitions.

Acrotec Group | Net sales dev. 2018-2019 - Pro forma



Financials – EBITDA pro forma

In the course of 2019, Acrotec Group continued its expansion with several strategic acquisitions: one acquisition in March (Roch); one acquisition in September (Tectri), and two acquisitions in October (Diener Precision Pumps and Diener Precision Machining).

Acrotec Group | EBITDA - Pro forma

| CHF000 | FY19 | FY18 |
|---------------------------|---------------|---------------|
| EBITDA as reported | 62 056 | 47 904 |
| Pro forma impact | 14 019 | 16 971 |
| EBITDA pro forma | 76 075 | 64 875 |
| KPI | | |
| EBITDA as reported margin | 27.8% | 26.7% |
| EBITDA pro forma margin | 28.0% | 25.4% |

Pro forma impact note: 2018 shows the full EBITDA of the 2019 acquisitions and full year effect of 2018 acquisitions. 2019 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 | Dec19 | Dec18 |
|-----------------------------------|------------------|------------------|
| Tangible assets | 157 755 | 103 872 |
| Intangible assets | 286 054 | 233 712 |
| Financial assets | 9 496 | 7 678 |
| Non-current assets | 453 305 | 345 262 |
| Inventories | 56 978 | 44 512 |
| Trade receivables | 35 187 | 22 964 |
| Trade payables | (11 952) | (7 719) |
| Trade working capital | 80 212 | 59 756 |
| Other current assets | 6 214 | 3 542 |
| Other current liabilities | (19 657) | (14 687) |
| Non-trade working capital | (13 443) | (11 145) |
| Total working capital | 66 769 | 48 610 |
| Cash and bank balances | 64 917 | 38 788 |
| Borrowings | (320 443) | (224 382) |
| Deferred tax | (22 766) | (16 029) |
| Provisions | (38 394) | (1 753) |
| Other long-term liabilities | (897) | (598) |
| Net debt and similar items | (317 583) | (203 973) |
| Net assets | 202 491 | 189 900 |
| Share capital | 100 | 100 |
| Reserves | 187 489 | 180 483 |
| Profit for the year | 13 484 | 8 058 |
| Minority interests | 1 419 | 1 258 |
| Total equity | 202 491 | 189 900 |

Acrotec Group | Intangible assets - Reported

| CHF000 | Dec19 | Dec18 | Var . |
|---|----------------|----------------|---------------|
| Capitalised development costs | 6 143 | 2 957 | 3 186 |
| <i>of which related to 2019-2018 acquisitions</i> | <i>2 711</i> | <i>240</i> | |
| Deferred tax assets | 584 | 705 | (121) |
| Goodwill | 258 825 | 229 299 | 29 526 |
| <i>of which related to Finacrotec</i> | <i>97 403</i> | <i>103 306</i> | |
| <i>of which related to historical scope</i> | <i>118 460</i> | <i>104 374</i> | |
| <i>of which related to 2019-2018 acquisitions</i> | <i>42 962</i> | <i>21 619</i> | |
| Customer relationship | 19 125 | - | 19 125 |
| Software | 1 223 | 751 | 473 |
| Other intangible assets | 154 | - | 154 |
| Intangible assets | 286 054 | 233 712 | 52 342 |

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

In 2019, a purchase price allocation (PPA) analysis was made for the 2019 acquisitions that allowed to value the customer relationship at CHF19 Mio.

Financials – Net working capital & debt net

Acrotec Group | Net financial debt presentation - Reported

| CHF000 | Dec19 | Dec18 |
|---|------------------|------------------|
| Cash and bank balances | 64 917 | 38 788 |
| Third parties loans | (1 016) | (3 765) |
| Bank loans | (5 385) | (4 430) |
| Leases | (24 634) | (18 285) |
| Mortgages | (23 504) | (14 065) |
| Bonds | (251 000) | (176 000) |
| Shareholder loans | (14 905) | (7 837) |
| Borrowings | (320 443) | (224 382) |
| Acrotec Group net financial debt | (255 526) | (185 594) |
| KPI | | |
| Net financial debt / Reported EBITDA | 4.1x | 3.9x |
| Net financial debt / PF EBITDA | 3.4x | 2.9x |

Acrotec Group net debt has developed over 2019 in line with the four acquisitions financed through the issuance of a new bond and our own cash.

Acrotec Group - Net working capital - Reported

| CHF000 | Dec19 | Dec18 | Dec18 PF | Var. 19-18 | Var. 19-18PF |
|--|-----------------|-----------------|-----------------|----------------|----------------|
| Inventories | 56 978 | 44 512 | 53 985 | 12 466 | 2 992 |
| Trade receivables | 35 187 | 22 964 | 35 052 | 12 223 | 134 |
| Trade payables | (11 952) | (7 719) | (12 235) | (4 232) | 283 |
| Trade working capital | 80 212 | 59 756 | 76 803 | 20 457 | 3 410 |
| Other current assets | 5 451 | 3 201 | 5 008 | 2 250 | 444 |
| Other current liabilities | (19 657) | (14 687) | (16 943) | (4 969) | (2 714) |
| Non-trade working capital | (14 206) | (11 486) | (11 935) | (2 719) | (2 270) |
| Acrotec Group - Net working capital | 66 007 | 48 270 | 64 868 | 17 737 | 1 139 |

Net working capital increased in line with our level of activity.

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 CHF44.5 Mio for 2019, compared to CHF32.8 Mio for 2018. Please refer to the EBITDA pro forma table and comments for the definition of the pro forma figures.

Acrotec Group | CAPEX - Reported

| CHF000 | FY19 | | | FY18 | | |
|--------------------------------------|----------------|---------------------------------|-----------------------------|----------------|---------------------------------|-----------------------------|
| | 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 | 2 075 | - | - | 2 075 | - | - |
| Land, buildings and properties | 51 780 | 21 672 | 599 | 30 566 | - | 249 |
| Technical equipment & machinery | 90 789 | 21 300 | 16 764 | 64 189 | 8 319 | 13 628 |
| Other equipment & fixtures | 10 269 | 3 187 | 3 319 | 6 059 | 1 177 | 2 085 |
| In progress | 2 841 | 749 | 2 076 | 983 | - | 890 |
| Total | 157 755 | 46 909 | 22 758 | 103 872 | 9 495 | 16 852 |
| Net sales | | | 223 361 | | | 179 620 |
| Capex/net sales | | | 10.2% | | | 9.4% |
| Depreciation charges of fixed assets | | | (14 667) | | | (11 137) |
| Capex/Dep. charges | | | 155% | | | 151% |

Conclusion & Outlook

After the solid 2019 performance, we entered 2020 with an ambitious growth target of 4.4%, despite a more uncertain environment dominated by the trade war with China, the Hong Kong protests, the fear of a recession and the climate crisis.

To support this organic growth, we would of course rely on the proven expertise, engagement and creativity of our entrepreneurs, supported by a series of strategic and cross-departmental initiatives. To support the latter we have created Acrotec R&D SA, a group of experienced engineers. This Group will be led by Philippe Jacot who joins Acrotec as CTO.

2019 also saw us accelerate our diversification. MedTech had 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 acquired two significant Medtech CMO's, Diener and Tectri making us one of the top European Medtech CMO's. We also 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 and another milestone in our diversification strategy. For 2020 a number of new targets have already been identified and first discussions have taken place.

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

At the end of February our growth rate was 7.3%. But then came Covid 19. Until the end of February the only implication was the permanent adaptation of our hygiene and security measures in all our sites. Beginning of March the situation started to escalate although the business still remained almost unimpacted. On March 17th the situation changed dramatically with all major watch companies shutting down their operations leaving us no other choice than to follow the stream. Precision High Tech and MedTech were less impacted and all our sites continued to operate with strict hygiene and security measures to protect our staff. Beginning of April most of our factories have restarted, at least partially, their operations. It is difficult at this stage to predict the outcome of the crisis: we have implemented all possible measures to limit the impact of the crisis on the business and we are ready to restart full speed as soon as the conditions allow it. But we don't know when and how this will happen.

But all of this would not have been possible without the dedicated efforts, engagement, and professionalism of our employees in a really difficult, challenging and even frightening period.

Groupe Acrotec

Team



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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