

Groupe **Acrotec**

ANNUAL REPORT 2020

VARDECO SA

K I F
P A R E C H O C

décovi
CENTRE DE DECOLLETAGE

**GENERALE
RESSORTS**

STS
Saulcy Traitement de Surface



Pp
Petitpierre

PreciPro
PRODUITS PRÉCIEUX

μ DEC

H2i

Mimotec
Micropièces pour grandes idées

Sigatec SA

**PIERHOR
- GASSER**

butech
profil

WATCHDEC SA
Microdécolletage CNC

ROD
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

2020: A challenging year

While the year started well, from March the impact of the COVID 19 pandemic and its slowdown on the global economy started to hit us, as was the case for most industrial companies. As always, our first priority was the good health of our employees, and we immediately took measures to protect our work force. From a business perspective, we could count on our staff and our unique group model to react promptly and flexibly, proving our resilience and to be able to end the year with a moderate decrease of about 10% in our proforma sales for the group.

In terms of performance, the Watch & Jewellery sector, showed a decrease of 10.4% in net sales. During March most of our major customers announced factory shutdowns with an immediate short-term impact, which forced us to adapt with partial unemployment measures. In the second half of the year, we saw a (partial) recovery (to nearly full capacity) which is a good sign for the years to come.

The Precision High Tech sector has also been impacted by this crisis (12.2% decrease of net sales), especially in the aerospace market, although this sub sector does not represent a material portion of our total sales. The other markets followed more or less the trend of the global economy, showing signs of recovery towards the end of the year.

Finally, our Medtech sector was negatively impacted due to the mobilization of hospital resources to resist to the pandemic's devastating impacts. We also had the chance to deliver parts for respiratory devices and bring our small contribution in the fight against the COVID 19. The net sales declined by about 9.7% compared to 2019 for this sector.

I announced last year the creation of Acrotec R&D. The R&D team has been working hard on promising projects which will undoubtedly deliver value for the years to come. We also have a large number of ongoing transversal projects and the R&D team and our CTO are helping to find suitable solutions for their development.

At the end of 2020 we announced that Carlyle Europe would acquire a majority stake in our group, and this transaction closed in early 2021. As a result, a refinancing package has been put in place, and according to the terms of our three bonds, we are offering to repurchase all outstanding bonds from the bondholders.

Finally, I would like again to express my gratitude to all the employees at Acrotec Group who have been contributing to this effective demonstration of the resilience of our group.

François Billig

Chairman Acrotec Group

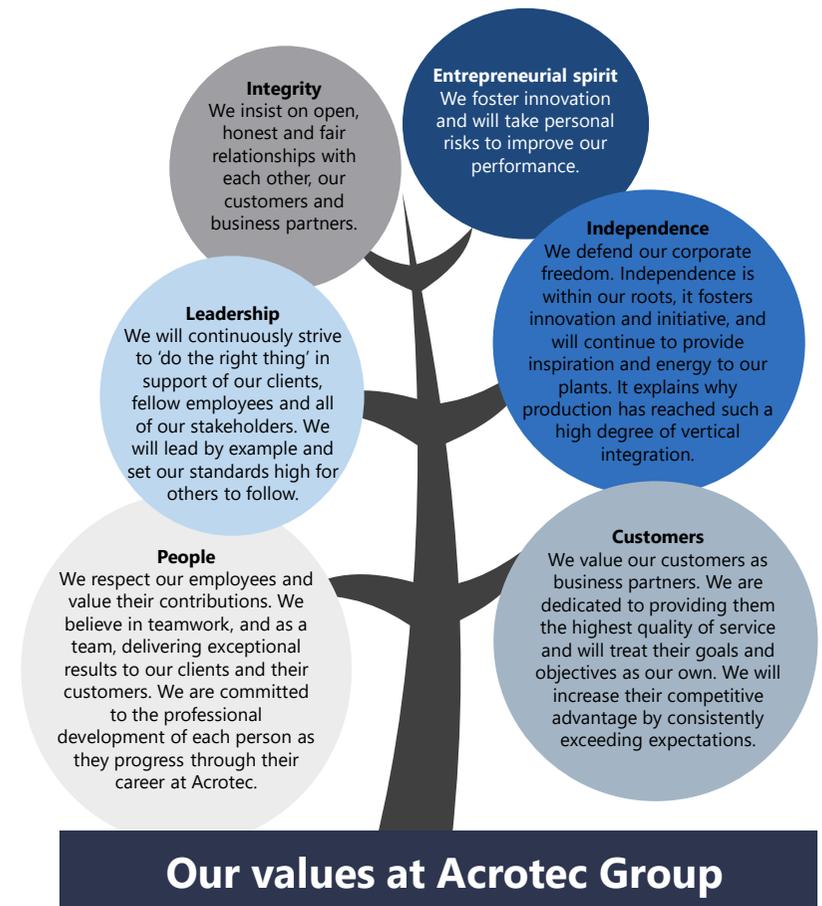


Our strategy, culture and values

“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”



2020 in numbers

Pro forma figures

Net sales CHF244m,
-10.2% vs. 2019
EBITDA CHF57.9m,
-23.9% vs. 2019

Innovation

New R&D division

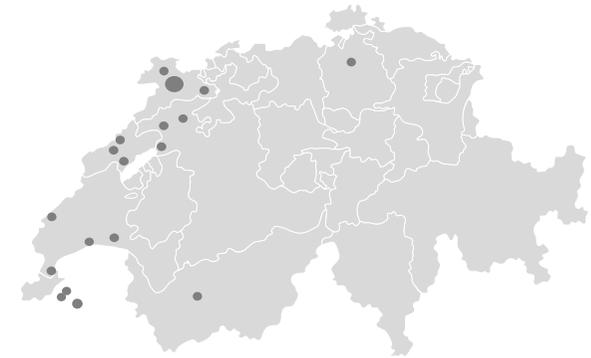
Employees

+1200 employees at
December 2020

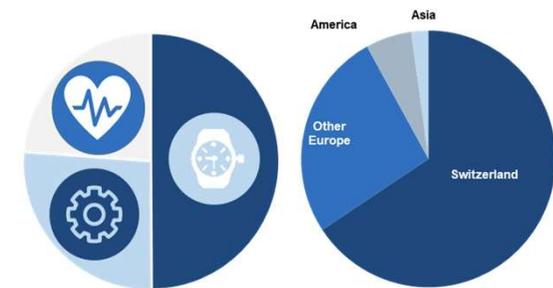
2020 EBITDA pro forma margin

23.7%

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



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 2020, compared to 50% of group sales in 2019.

The division showed a very strong resilience during 2020 with a decrease limited to 10.4% in a market which decreased by 21.8% in value and 33.3% in volume in the export statistics from the FH (Federation of the Swiss Watch Industry). The year was marked by March 17th when the entire watch industry decided to shutdown its factories forcing us to shutdown nine of our own factories. While the industry shutdown lasted until June we re-opened as soon as early April which allowed us to perfectly satisfy all our customers requests but also to quickly learn to operate under the new COVID-19 conditions.

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 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 2020, compared to 24% of group sales in 2019.

Performance across the sector was variable depending on MedTech subsectors across the year. For instance, the COVID-19 pandemic impacted our activity within the spine segment due to the cancellation or postponements of elective surgeries. In addition, lockdowns and "stay at home" orders led to less activity in the trauma segment and specific sanitary restrictions limited the revenues in the dental segment. Conversely, all COVID-19 related requirements naturally increased in activity, especially for the COVID-19 diagnostic equipment using our precision pumps, as well as components for respirators.

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 26% of group sales in 2020, compared to 26% of group sales in 2019.

Performance was mixed across the Precision High Tech sector under the impact of the COVID-19 pandemic. The pandemic, subsequent lockdowns and travel restrictions had a direct impact on the aerospace industry, with a subsequent knock-on impact to our business unit specialised in this subsector.

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	FY20	FY19
Net sales	244'304	223'361
Other income	184	16
Revenues	244'488	223'377
Cost of goods sold	(74'734)	(62'610)
Gross profit	169'755	160'767
Payroll expenses	(92'686)	(83'063)
Other operating expenses	(19'167)	(15'648)
EBITDA	57'902	62'056
Depreciation of fixed assets	(18'923)	(14'667)
Amort. and impair. on intangible fixed assets	(20'270)	(16'256)
EBIT	18'708	31'132
Financial results	(11'257)	(8'465)
Non operating and exceptional items	1'486	(2'066)
Income tax	(5'048)	(6'712)
Minority interests	(387)	(406)
Net results	3'502	13'484

KPI (as a % of net sales)

Net sales growth	9.4%	16.4%
Gross margin	69.5%	72.3%
EBITDA margin	23.7%	26.7%
Net margin	1.4%	4.5%

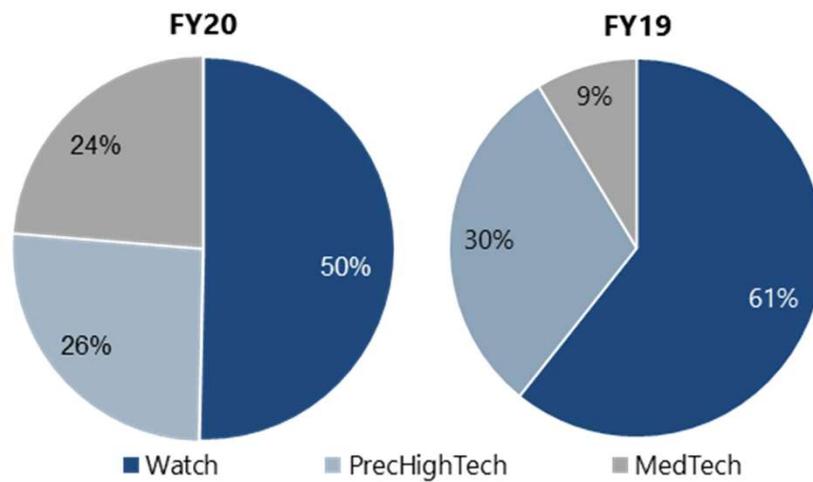
The reported net sales increase between 2020 and 2019 was driven by the full year impact of 2019 acquisitions.

In 2020, the general positive organic and external sales development has been temporarily impacted by the COVID-19 pandemic. Indeed, most of the entities did not work at their full capacity during this year.

As a result of the net sales decrease, EBITDA as reported decreased by CHF4.2 Mio and EBITDA margin decreased by 3%. During these challenging times, the top priority of Group Acrotec was to guarantee job security to its employees.

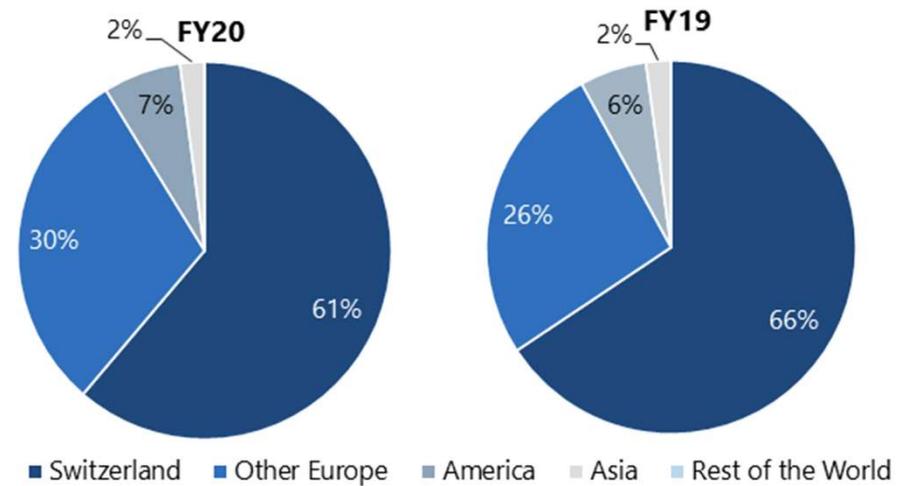
Financials – Net sales

Acrotec Group | Net sales by sector - Reported



Acrotec Group invested significantly in the MedTech sector in 2019, in line with its diversification strategy.

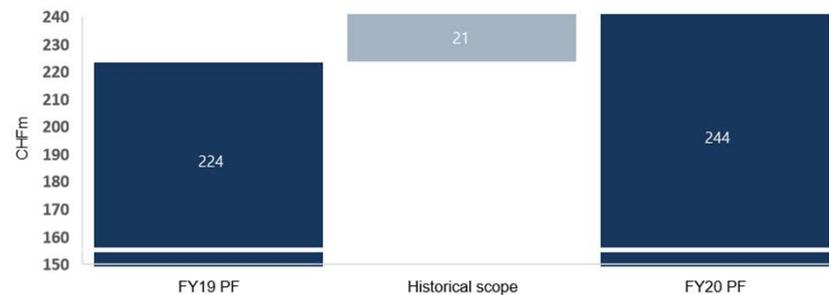
Acrotec Group | Net sales by geography - Reported



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 decreased in 2020 in relation to its development in the MedTech sector.

Financials – Net sales development

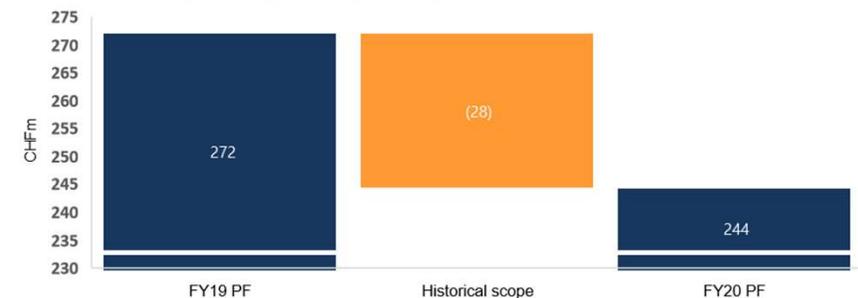
Acrotec Group | Net sales development 2019-2020 - Reported



The decline of 2019 sales of CHF28 Mio was driven by the COVID-19 pandemic. The Watch & Jewellery and Precision High Tech sectors were particularly impacted by the March-20 COVID Lockdown and the crisis on sectors such as aerospace and automotive, respectively.

In 2020, the increase of CHF 21 Mio is entirely related to the full year impact of 2019 acquisitions. No acquisitions were made during this year as the M&A market was slowed due to the COVID-19 pandemic.

Acrotec Group | Net sales dev. 2019-2020 - Pro forma



Financials – EBITDA pro forma

Group Acrotec focused on its existing business during the COVID-19 pandemic and nevertheless, the EBITDA pro forma margin has been maintained to high standards.

Acrotec Group | EBITDA - Pro forma

CHF000	FY20	FY19
EBITDA as reported	57'902	62'056
Pro forma impact	-	14'019
EBITDA pro forma	57'902	76'075
KPI		
EBITDA as reported margin	23.7%	27.8%
EBITDA pro forma margin	23.7%	28.0%

Pro forma impact note: 2019 shows the full EBITDA of the 2020 acquisitions and full year effect of 2019 acquisitions. 2020 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	Dec20	Dec19
Tangible assets	150'738	157'755
Intangible assets	275'581	286'054
Financial assets	7'491	9'496
Non-current assets	433'810	453'305
Inventories	58'374	56'978
Trade receivables	30'134	35'187
Trade payables	(8'816)	(11'952)
Trade working capital	79'691	80'212
Other current assets	7'054	6'214
Other current liabilities	(18'094)	(19'657)
Non-trade working capital	(11'040)	(13'443)
Total working capital	68'651	66'769
Cash and bank balances	64'475	64'917
Borrowings	(326'457)	(320'443)
Deferred tax	(22'705)	(22'766)
Provisions	(10'723)	(38'394)
Other long-term liabilities	(950)	(897)
Net debt and similar items	(296'360)	(317'583)
Net assets	206'101	202'491
Share capital	100	100
Reserves	200'693	187'489
Profit for the year	3'502	13'484
Minority interests	1'806	1'419
Total equity	206'101	202'491

Acrotec Group | Intangible assets - Reported

CHF000	Dec20	Dec19	Var .
Capitalised development costs	6'896	6'143	753
<i>of which related to 2020-2019 acquisitions</i>	-	2'711	(2'711)
Deferred tax assets	1'850	584	1'267
Goodwill	247'732	258'825	(11'093)
<i>of which related to historical scope</i>	247'732	215'863	31'869
<i>of which related to 2020-2019 acquisitions</i>	-	42'962	(42'962)
Customer relationship	17'160	19'125	(1'965)
Software	1'441	1'223	218
Other intangible assets	502	154	348
Intangible assets	275'581	286'054	(10'473)

Balance sheet variations mainly arise from measures for fighting the COVID-19 pandemic crisis.

In 2020, the decrease of intangible assets is related to the yearly depreciation.

Financials – Net working capital & debt net

Acrotec Group | Net financial debt presentation - Reported

CHF000	Dec20	Dec19
Cash and bank balances	64'475	64'917
Third parties loans	(1'249)	(1'016)
Bank loans	(18'813)	(5'385)
Leases	(26'549)	(24'634)
Mortgages	(22'435)	(23'504)
Bonds	(251'000)	(251'000)
Shareholder loans	(6'411)	(14'905)
Borrowings	(326'457)	(320'443)
Acrotec Group net financial debt	(261'982)	(255'526)
KPI		
Net financial debt / Reported EBITDA	4.5x	4.1x
Net financial debt / PF EBITDA	4.5x	3.4x

Acrotec Group net debt has developed over 2020 in line with actions taken against impacts from the COVID-19 pandemic.

Acrotec Group could rely on its strong cash position to face the lockdown financial pressure.

Acrotec Group - Net working capital - Reported

CHF000	Dec20	Dec19	Var. 20-19
Inventories	58'374	56'978	1'396
Trade receivables	30'134	35'187	(5'053)
Trade payables	(8'816)	(11'952)	3'136
Trade working capital	79'691	80'212	(521)
Other current assets	7'054	6'214	841
Other current liabilities	(18'094)	(19'657)	1'562
Non-trade working capital	(11'040)	(13'443)	2'403
Acrotec Group - Net working capital	68'651	66'769	1'882

Net working capital increased mainly due to the non-trade working capital that is in line with the level of activity in 2020.

Financials – CAPEX

In 2020, Acrotec Group continued to do essential capex during the COVID-19 pandemic.

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 CHF37.7 Mio for 2020, compared to CHF43.8 Mio for 2019. Please refer to the EBITDA pro forma table and comments for the definition of the pro forma figures.

Acrotec Group | CAPEX - Reported

CHF000	FY20			FY19		
	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	262	-	-	2'075	-	-
Land, buildings and properties	46'841	-	326	51'780	21'672	599
Technical equipment & machinery	91'705	-	13'267	90'789	21'300	16'764
Other equipment & fixtures	9'937	-	2'856	10'269	3'187	3'319
In progress	1'992	-	1'919	2'841	749	2'076
Total	150'738	-	18'367	157'755	46'909	22'758
Net sales			244'304			223'361
Capex/net sales			7.5%			10.2%
Depreciation charges of fixed assets			(18'923)			(14'667)
Capex/Dep. charges			97%			155%

Conclusion & Outlook

2020 has been an extraordinary year for Acrotec, its companies, its customers, its suppliers, its employees and its shareholders. It required a lot of resilience and agility to permanently adapt to an ever-changing environment. Whilst our primary objective was always the protection of our employees, the lack of visibility around the development of the pandemic, the decisions of the governments, the requirements of our customers, the capabilities of our suppliers proved to be a real challenge which we were able to confront thanks to the exceptional engagement of our employees supported by the agility of our organization.

Although the pandemic is not over and the visibility still limited, but improving, we expect a strong recovery in 2021. At the end of February our decline has already reduced to 4% against a very strong 2020 and as of March we should see good growth in all our divisions thanks to good order books. The environment will nevertheless remain challenging: the sanitary situation is still very tense and requires a lot of care and discipline, the economical situation is clearly improving but we still experience very disparate circumstances from customer to customer.

Another highlight of 2020 was a change in our shareholding structure. After 4.5 successful years with Castik Capital we were able to convince The Carlyle Group to acquire Castik's interest in the Company. Together with the capital of our new partner we will be able to continue and even intensify our successful Build & Buy strategy. To support this acquisitive strategy, we will of course rely on the proven expertise, engagement and creativity of our entrepreneurs, supported by a series of strategic and cross-departmental initiatives.

After a year of consolidation due to COVID-19, 2021 will see a restart of our Build & Buy strategy with two potential targets already under LOI and likely to be acquired before the end of April. Jointly with Carlyle we will particularly intensify our growth efforts in the European MedTech sector, but also focusing on our strategic ambition to enter the US market.

Succession planning and ESG are two other focus areas which have been identified with our new investor and which will see increased efforts in 2021 and the years after.

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.

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