

Press release

First semester results for 2018 financial year Pleasing organic growth with stable profitability development

Arbon, 14 August 2018 – Adjusted for the discontinued Industrial Services and Profile Systems Business Units in the second half of 2017, Arbonia Group grew by CHF 87 million, or 15.6% to a revenue of CHF 645.6 million in the first half of 2018. EBITDA rose from CHF 34.5 million in the period a year prior to CHF 44.2 million in the first half of 2018. EBITDA without special effects increased from CHF 35.7 million to CHF 40.5 million. EBIT rose from CHF 6.9 million in the same period last year to CHF 12.1 million in the first half of 2018. EBIT without special effects, increased from CHF 7.5 million to CHF 8.4 million. Operating income after tax with continuing operations amounted to CHF 6.7 million compared to CHF 0.5 million in the same period last year. By mid 2018, Arbonia is on track to achieve its financial targets.

The development of the net indebtedness was mainly influenced by the financing of the acquisition of the Vasco Group and the investments made for further development. The net indebtedness increased from CHF 43.3 million as of 31 December 2017 to CHF 137.3 million as of 30 June 2018. As a result, the equity ratio decreased from 60.9% at the end of 2017 to 57.0%, although it increased slightly to CHF 868.6 million in absolute terms.

The general market environment

During the first half of 2018, Germany was once again Arbonia's largest sales market, followed by Switzerland, Poland, Italy and France. During the reporting period, the company generated 82% of its sales in these markets.

With the US Federal Reserve gradually raising interest rates, the European Central Bank has also announced the end of bond purchases in the euro zone. Increased raw material prices, especially crude oil, now pose a risk to economic growth and market development. Higher wages, especially in the countries where Arbonia's European plants are located, will also put additional burdens on companies. Overall, political instability and the escalating trade conflict are leading to an increasingly uncertain global economic environment.

New residential construction in Germany remained at a high level. Compared to the previous year, however, the economy is likely to slow down, due to the global economic conditions, rising prices and bottlenecks for craftsmen and plots of land. The Swiss domestic market is maintaining its existing level; however, construction activity is likely to consolidate. The market in Poland continued to develop positively, although a shortage of skilled workers is also becoming apparent here in the medium term. This risk also applies to the economically expanding Eastern European countries Slovakia and the Czech Republic. Political instability in Italy at the beginning of the first half of 2018 led to delayed investments. In France, during the first five months of 2018, construction commencements fell and the outlook for new private residential construction deteriorated.

Strategies and developments by divisions

The **HVAC Division** was formed on 1 January 2018 by the merger of two Business Units following the spin-off of the Sanitary Equipment Business Unit from the former Building Technology Division. This new division is therefore reporting its own key figures for the first time in the reporting period. At CHF 224.5 million, net revenue in the first half of 2018 was 20.2% higher than the corresponding figure for the previous year (CHF 186.9 million);

adjusted for currency and acquisition effects, growth amounted to 8.1%. EBITDA rose from CHF 17.5 million in the previous year to CHF 21.8 million. EBIT rose from CHF 10.9 million to CHF 12.2 million.

Higher material costs, especially for sheet metal and copper, were offset by price increases. In addition, the massive investment programme to cut costs and increase productivity at the Plattling (D) site also had a positive effect on business development.

The new panel radiator production facility in Stupino, Russia (Moscow area), will be ready for the machine park to move in during the second half of 2018, so that the first radiators for the Russian market can be produced there according to plan in the second quarter of 2019. Despite political and economic turbulence, Sabiana, the ventilation and air conditioning specialist, also continued to perform very well both in its home market of Italy and in selected export markets.

The integration of the Vasco Group, acquired in May, into the HVAC Division is proceeding according to plan. Vasco's leading brands established in the Benelux countries will continue to operate independently in the market. In addition, following successful integration, Vasco's markets, which are predominantly complementary to the existing sales markets of the HVAC Division, offer attractive growth potential both in sales and earnings. The Vasco Group's current key figures are within the expected range.

The **Sanitary Equipment Division**, also newly formed on 1 January 2018 from a Business Unit of the former Building Technology Division, generated a revenue of CHF 74.2 million during the first half of 2018. In the previous year, revenue amounted to CHF 72.2 million. Adjusted for currency effects, revenue declined by 3.7%. EBITDA fell from CHF 6.3 million in the previous year (CHF 7.5 million without special effects) to CHF 5.8 million. EBIT fell from CHF 4.3 million (CHF 5.5 million without special effects) to CHF 3.7 million.

The decline, which affected the sales markets of Germany and especially France, was due to several factors. On the one hand, the lack of sanitary and heating installers had a negative impact in Germany. On the other hand, the acquisition of Koralle also led to certain shrinkage effects in Germany, which were now evident after a year long delay. The unsatisfactory situation in France was due to a noticeable downtrading of the market, in which low-cost private labels are favoured. These developments led to reduced revenue with the sales partner in France. The sales situation in Switzerland remains satisfactory.

Comprehensive measures to strengthen profitability were introduced in the first half of 2018; however, they will only take full effect during the course of 2019. Following the relocation of Vlotho's (D) production of Koralle products to the existing Plattling (D) site, the processes were further adapted and standardised. The targeted production efficiency is then to be achieved by the end of 2018.

The **Windows Division** can look back on a positive performance characterised by sales growth in all of its core markets. The main focus of the division is currently on ramping up production output at the wood competence centre in Langenwetzendorf (D) to many times the previous year's level. This site is scheduled to replace the plant in Altstätten (CH) in 2019. At present, this condition presents considerable pressure on the divisional profitability with CHF 4.0 million. Despite the challenging situation in the labour market, the workforce has doubled in the meantime, thanks to intensive recruitment of skilled workers. In addition, productivity at the site has improved significantly in recent months, thanks to the implementation of a comprehensive package of measures.

However, the earnings situation was differentiated: the division's EBITDA was positively influenced by Dobroplast in Poland, Slovaktual in Slovakia and EgoKiefer in Switzerland. However, the negative impact of the ramp-up in production at Wertbau and the associated maintenance of production at Altstätten (CH) had a significant impact on the division's results in the reporting period. In addition, compared to the previous year, exchange rate effects in Switzerland had an additional negative impact on the result.

In the first half of 2018, revenue of CHF 165.7 million was 16.6% higher than in the same period last year (previous year CHF 142.2 million). EBITDA rose to CHF 1.6 million (previous year CHF 0.2 million). Without special effects, however, EBITDA fell from CHF –0.4 million in the previous year to CHF –2.5 million. This was mainly driven by the EUR/CHF exchange rate effect. EBIT fell from CHF –6.5 million in the previous year to CHF –7.3 million; without special effects, EBIT was CHF –11.5 million (previous year CHF –7.1 million).

The **Doors Division** performed very well in the first half of 2018. Revenue and EBITDA were significantly higher than during the same period of the previous year. In the first half of 2018, revenue increased from CHF 157.3 million in the previous year to CHF 181.1 million; adjusted for currency effects, growth amounted to 7.7%. EBITDA improved from CHF 17.2 million to CHF 20.1 million, without special effects, for the reporting period EBITDA was actually CHF 20.6 million. EBIT increased from CHF 5.9 million in the previous year to CHF 9.7 million, without special effects, for the reporting period EBIT was CHF 10.1 million.

The good business figures of the Doors Division are based in particular on the successful integration of the door companies Prüm, Garant and Invado, which were acquired with Looser Group at the end of 2016. These had brought Arbonia to a new company size and strategic positioning as a leading European supplier of interior doors. Other decisive success factors were a strong production footprint and the optimally complementary product portfolio of the four brands Prüm, Garant, Invado and RWD Schlatter. In Switzerland, for example, business with the specialist trade in functional doors from RWD Schlatter and standard doors from Prüm was significantly bolstered.

The two plants in Germany and the plant in Poland are working to capacity limits due to good demand and continuing strong order intake. Accordingly, Arbonia is currently investing heavily in these three locations. In Switzerland, margin pressure increased due to rising purchase prices, which also had an impact on margins at RWD Schlatter and made price increases necessary. Price increases were hesitantly accepted by the market at first, but then in a wider context. In addition, the internal efficiency enhancement measures showed positive results.

Outlook

For Arbonia Group, we expect the revenue and earnings development of the first half of 2018 to weaken in the second half of the year due to the macroeconomic environment described (the economic forecasts for our main markets are more cautious than for the beginning of the year). In addition, the development of the Windows Division is being hampered by the delays at the site in Eastern Germany and the strengthening of the euro. The Sanitary Equipment Division continues to operate more strongly in a challenging market environment.

Nevertheless, Arbonia is sticking to the guidance for 2018 as a whole: it expects organic growth of 3% and EBITDA of at least CHF 110 million.

For 2019, Arbonia continues to expect organic revenue growth of 3 to 5% and EBITDA of around CHF 125 million. The company aims to generate substantial free cash flow from 2019 and to pay a dividend again for the first time for the 2018 reporting year.

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You can find this release, the 2018 midyear report, the key figure overview and other information about Arbonia on our website www.arbonia.com.

Arbonia is a focused building supplier that is listed on the SIX Swiss Exchange and has its head office in Arbon, in the canton of Thurgau (Switzerland). The group is active worldwide with its own distribution companies as well as offices and partners in more than 70 countries. Its main production sites are located in Switzerland, Germany, the Czech Republic, Poland, Slovakia, Italy, Belgium and the Netherlands. A total of around 8,200 employees work for Arbonia Group.

The divisions that make up Arbonia are active in the following sectors: heating technology, air-conditioning and ventilation technology, sanitary equipment, windows, and exterior and interior doors.