

Media Release

Schaffhausen

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GF Piping Systems increases strong prior-year performance – swift actions to address automotive drop

- **Sales decrease 5.5% organically to CHF 1'915 million**
- **EBIT margin before one-off items of 8%**
- **Operating result (EBIT) before one-off items of CHF 153 million**
- **Measures at GF Casting Solutions generate one-off items of about CHF 65 million, of which CHF 48 million in 2019**
- **Implementation of Strategy 2020 is fully on track**

In the first half of 2019, geopolitical uncertainties such as the trade dispute between the USA and China, the situation in Middle East and the upcoming Brexit in Europe had a negative impact on the economic environment.

Sales at GF experienced a 5.5% organic decline in the first half-year of 2019. The decrease compared to the prior year of CHF 1'915 million (–20%) was due primarily to the divestment of two iron foundries in Germany at the end of 2018 with sales of approx. CHF 350 million. The operating result compared to the year before declined 26.4% to CHF 153 million, which is equal to an EBIT margin of 8.0% (prior year: 8.7%), or 7.3% if one-off items of CHF 14 million are taken into account. The return on invested capital (ROIC) was 13.8% compared to 21.2% in the first half of 2018. Net profit after minorities and one-off items was CHF 101 million compared to CHF 150 million in the first semester of 2018.

Free cash flow before acquisitions was CHF –58 million in the first semester compared to CHF –55 million during the same period in 2018. For the year as a whole, GF expects free cash flow before acquisitions to be in line with our published range of CHF 150 to 200 million.

Key figures								
	Corporation		GF Piping Systems		GF Casting Solutions		GF Machining Solutions	
CHF million	2019	2018	2019	2018	2019	2018	2019	2018
Order intake	1'923	2'406	913	981	505	875	506	551
Orders on hand	622	851	123	138	270	461	229	252
Sales	1'915	2'396	921	947	521	924	474	525
Sales growth %	-20.1	20.3	-2.7	14.6	-43.6	27.8	-9.7	18.2
Organic growth %	-5.5	11.9	-0.2	11.1	-11.1	11.3	-9.0	14.2
EBITDA	216	282	142	142	49	97	31	49
EBIT before one-off	153	208	117	115	20	60	24	42
One-off	14				14			
EBIT	139	208	117	115	6	60	24	42
Net profit after minorities	101	150						
Free cash flow before acquisitions/divestitures	-58	-55						
Return on sales before one-off (EBIT margin before one-off) %	8.0	8.7	12.7	12.1	3.9	6.5	5.1	8.0
Return on sales (EBIT margin) %	7.3	8.7	12.7	12.1	1.2	6.5	5.1	8.0
Invested capital (IC)	1'642	1'728	785	801	549	597	269	290
Return on invested capital (ROIC) %	13.8	21.2	25.6	25.6	2.0	20.7	14.6	24.7
Number of employees	14'938	16'864	6'890	6'793	4'556	6'636	3'399	3'350

GF Piping Systems was able to increase its profitability once again despite the challenging environment. Most of the production plants were well utilized in the first half of 2019. The ongoing focus on higher-margin products and solutions contributed to the result as well. The division continued to benefit from the global trend for sustainable and safe solutions for the transport of liquids, especially drinking water.

The strong sales in the first half of 2018 – corrected for currency effects – were maintained at CHF 921 million. The operating result of CHF 117 million was ahead of the prior-year result. The division was able to increase its EBIT margin above the prior-year period by 60 basis points to 12.7%. The strong momentum continued in the US and European markets in particular. The mood among Chinese customers was clouded by the trade tensions with the USA.

The business performance of **GF Casting Solutions** was impacted in the first half of 2019 by the steep drop in production figures for the automotive industry in Western Europe and China and by shifts within the product ranges by important customers. Due to the significant divestment of two large iron foundries in Germany at the end of 2018, sales fell by 43.6% (an organic decline of 11.1%) to CHF 521 million. The performance of organic sales corresponds to the decline in the key markets of China and Western Europe, which led to reduced capacity utilization at several production sites.

The operating result before one-off items fell from CHF 60 million to CHF 20 million, which is equal to an EBIT margin before one-off items of 3.9% (1.2% after one-time items).

The new light metal plant in Mills River (USA) has started operations. The ramp-up of new orders weighed on the half-year result in the amount of CHF 8 million. The large number of new orders required the expansion of the site.

GF is swiftly undertaking actions to ensure its competitiveness in Europe. Over the coming months, approximately 300 jobs should be shifted from the location in Werdohl (Germany) to Romania and Austria. The light metal casting plant has suffered in recent months from the changing market conditions and the shift by customers in their range of products. For the affected employees in Werdohl, the search is underway, together with the workers' council, for socially responsible solutions.

In line with its strategy, GF is also planning to divest the iron foundry in Herzogenburg (Austria), following the divestment of the plants in Singen and Mettmann (Germany). It is foreseen to close the transaction in the second half of 2019. The light metal foundry at the same location is not affected by this measure. This divestment will complete the strategic withdrawal from iron casting in the European automotive industry that was begun in December 2018.

These structural adjustments, including the divestment of the iron foundry in Herzogenburg, will reduce net profit in 2019 and 2020, with planned one-time costs of approximately CHF 65 million. Of these one-time costs, CHF 14 million will be in the first half 2019, approximately CHF 34 million in the second half, and another CHF 17 million in 2020.

At **GF Machining Solutions** the book-to-bill-ratio was at a good level of 1.1, not least thanks to the strong presence in the aerospace business. In the first half of the year, the division was able to win various large orders from well-known aircraft engine manufacturers.

Business in China posted a strong decline due to the trade tensions with the USA. Sales at the division fell from CHF 525 million to CHF 474 million, which is equal to an organic decline in sales of 9%. The operating result sank from CHF 42 million to CHF 24 million, which is equal to an EBIT margin of 5.1% (prior year: 8.0%).

The business with new and innovative solutions, such as micro-laser milling, experienced strong growth. The innovations and new partnerships are making greater contributions to sales at the division. Order intake with the new technologies (laser texturing, laser milling and 3D printing) grew by more than 70% in the first half of 2019.

The new innovation and production facility for milling machines in Biel (Switzerland) is currently in the ramp-up phase and will open mid-September. Concentrating all milling machine activities in one location creates the conditions for generating synergies and accelerating the speed of innovation.

Consistent implementation of Strategy 2020

GF is speeding up implementation of Strategy 2020. Priority in the coming months will be the strong focus on higher-margin businesses and the fast implementation of the measures taken at GF Casting Solutions. For the first time, the share of sales of regions outside Europe was above 50%, and GF Piping Systems accounted for sales of close to 50% of GF's turnover.

At GF Casting Solutions the emphasis is on light metal casting components and a greater focus on activities outside the automotive industry, especially in the aerospace and energy segments. The alignment of the global footprint to Eastern Europe, Asia, and America is in line with customer needs.

GF Machining Solutions is continuously increasing its sales in the growing aerospace sector. At the upcoming EMO in Hanover (Germany), the world's largest trade fair for machine tools, the division will introduce its new offering in the area of digital services.

New management team in place since April

At the Annual Shareholders' Meeting held on 17 April 2019, Andreas Müller and Mads Joergensen took over the functions of CEO and CFO of GF. These internal succession solutions ensure the consistent continuity of the Strategy 2020 and a successful and dynamic further development of the company.

Outlook for the full year 2019

Trade tensions and the clear slowdown in the automotive market are expected to continue to affect demand in various industries worldwide, especially in China. The portfolio shift to less cyclical businesses in all three divisions and the greater share of GF Piping Systems in the GF Portfolio will continue to help minimize the impact of the economic downturn.

The consistent focus of GF Casting Solutions, in combination with the measures that have been taken, will lead to one-time costs in 2019 and 2020, but after this, it will contribute to a significant improvement in operating performance. GF Machining Solutions has a solid order book, which should lead to a stronger second half-year.

Chances are therefore given for improved results for both sales and profitability in the second half of 2019. Barring unforeseen circumstances, GF expects to achieve for 2019 an EBIT margin before one-off items of about 8% and an ROIC between 14% and 18%. For 2020, GF continues to target the objectives that were revised upwards in 2018 of 9–10% ROS and 20–24% ROIC.

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Company profile

GF comprises three divisions: GF Piping Systems, GF Casting Solutions and GF Machining Solutions. Founded in 1802, the Corporation is headquartered in Switzerland and is present in 33 countries with 140 companies, 57 of them production facilities. Its 15'027 employees generated sales of CHF 4'572 million in 2018. GF is the preferred partner of its customers for solutions enabling safe transport of liquids and gases, lightweight casting components, and high-precision manufacturing technologies. More information is available at www.georgfischer.com.

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