SFS Group AG
Half year report 2020

Inventing success together

1H 20

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Financial overview

Profitability defended

Income statement in CHF million (unaudited)	**2020 1H**	2019 1H	2018 1H	2017 1H	2016 1H
Third party sales	773.7	867.8	855.9	778.6	688.8
Change to previous year in %	–10.8	1.4	9.9	13.0	2.7
thereof currency impact	–3.8	–0.8	3.1	–1.3	2.1
thereof change in scope	3.4	4.6	–0.3	6.9	0.7
thereof organic growth	–10.4	–2.4	7.1	7.4	–0.1
Net sales	775.6	868.4	854.6	779.5	688.2
EBITDA	120.3	152.6	159.5	153.0	140.2
As a % of net sales	15.5	17.6	18.7	19.6	20.4
Operating profit (EBIT)	71.0	105.5	116.0	80.7	58.8
As a % of net sales	9.2	12.1	13.6	10.4	8.5
Operating profit (EBIT) adjusted[1]	71.0	109.2	116.0	110.9	88.9
As a % of net sales	9.2	12.6	13.6	14.2	12.9
Net income	53.9	88.6	88.9	61.0	42.7
As a % of net sales	7.0	10.2	10.4	7.8	6.2

Balance sheet in CHF million	**30.06.2020 (unaudited)**	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Assets	1,608.5	1,638.6	1,619.3	1,519.0	1,469.7
Net cash (+)/-debt (–)	–11.4	68.7	59.1	34.7	0.5
Average Capital Employed[2]	1,130.2	1,134.9	1,070.8	947.4	846.6
Invested Capital[2]	2,195.8	2,153.2	2,058.3	1,960.9	1,692.2
Equity	1,169.0	1,237.2	1,204.6	1,087.0	987.8
As a % of assets	72.7	75.5	74.4	71.6	67.2

Cash flow statement in CHF million (unaudited)	**2020 1H**	2019 1H	2018 1H	2017 1H	2016 1H
Cash flow from operating activities	102.5	105.1	104.3	81.5	94.8
Purchase of property, plant, equipment and software	–56.6	–56.4	–69.5	–48.3	–30.1
Acquisition (–)/Disposal (+) of subsidaries, net of cash	–59.5	–91.6	0.6	–3.1	–32.6

Employees	**30.06.2020 (unaudited)**	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Full-time equivalents (FTE)	10,312	10,571	10,231	9,478	9,021

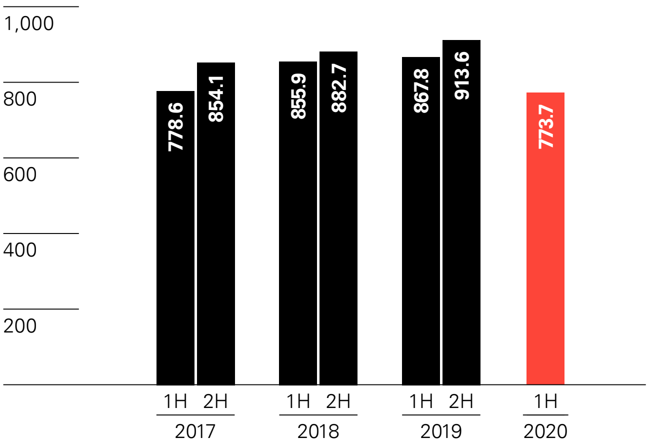
Financial key ratios (unaudited)	**2020 1H**	2019 1H	2018 1H	2017 1H	2016 1H
ROCE in %[2] (Return on Capital Employed)	12.6	19.5	21.7	22.9	19.4
ROIC in %[2] (Return on Invested Capital)	5.3	8.3	9.5	9.6	8.7

[1] Adjustments are explained in the half year report on page 24.
[2] The calculation methodology of the key figure is shown in the annual report 2019 on page 104. Prior year periods were restated.

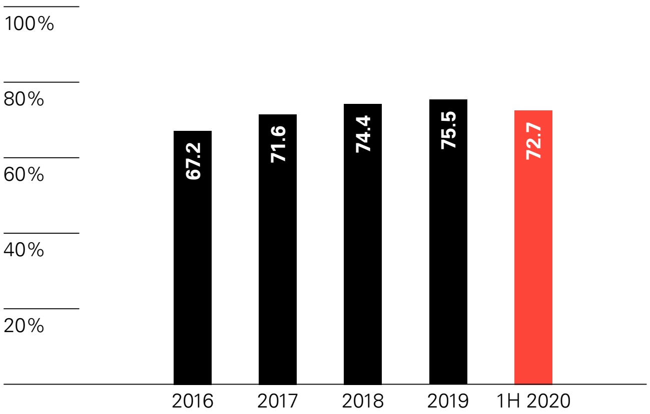
Key takeaways

Strongly financed

Q1 with slight growth; Q2 influenced by COVID-19
in CHF million



Strong balance sheet and liquidity secured
Equity as a % of assets



Measures implemented to defend robust profitability
EBIT margin 1H 2020

9.2%

Thanks to its good profitability and the early and resolute implementation of measures, SFS was still able to generate a solid operating profit in this extraordinary situation. EBIT amounted to CHF 71.0 million and the resulting EBIT margin was 9.2% (prior-year period, adjusted: 12.6%). Group net income amounted to CHF 53.9 million.

Investments in growth projects continued
in CHF million

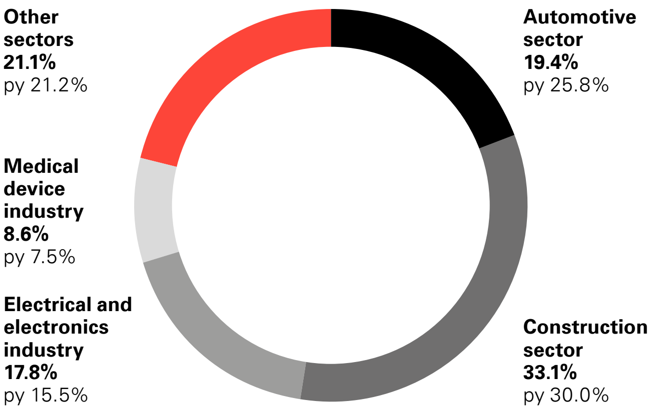
56.6

Capital expenditure for the first half year amounted to CHF 56.6 million, which corresponds to 7.3% of sales (prior-year period: 6.5%). In order to be able to continue to implement customer projects and the associated growth in the Industrial and Medical divisions, SFS is investing in extensive site expansions in Switzerland and the US.

Sustainability activities strengthened
SFS published its first standalone Sustainability Report, based on the GRI Standards (Core option), in early June 2020. The decision to publish a standalone Sustainability Report and launch a dedicated sustainability website underscores the company's commitment to sustainability. In 2020 SFS is focusing the following target areas:
- Economic performance
- Occupational health and safety
- Training and development
- Emissions
- Socioeconomic compliance

More at: sustainability.sfs.biz →

Highly divergent developments in end markets
Share of sales by end market in %



Letter to the shareholders

Solid half year results

The first half of the year was impacted by the COVID-19 pandemic, which had a clearly negative effect on the course of business at our company in the second quarter. Amid this extraordinary situation, management's focus was on employee health and safety, temporary production capacity adjustments, strict cost management in order to defend profitability, and continued innovation activities. Sales for the period profited from the well-balanced exposure to different end markets and regions, and organic growth in some divisions. Gross sales amounted to CHF 773.7 million. This corresponds to a decline of –10.8% compared to the prior-year period. Despite this decline in first-half sales, SFS achieved a robust EBITDA margin of 15.5% and an EBIT margin of 9.2%.

Dear Shareholders

The unexpected and unprecedented developments of the recent months has left a deep mark on many aspects of global social and economic life. Many of our production sites and target markets have been negatively affected by slowing demand and by government-mandated factory shutdowns. Operations at our factories in China, Malaysia, India and Italy were temporarily shut down, but all other production plants were able to maintain production at, however, reduced levels in response to lower demand. Numerous measures were quickly and rigorously implemented in order to protect employee health, ensure our ability to fulfill customer orders and cushion the impact of lower capacity utilization rates on profit, including:

- Preventive measures to protect employee health with the corresponding communication of rules of conduct and hygiene guidelines, and adjustments to the work organization to minimize physical contact (e.g. working from home)
- Strict cost management and temporary capacity adjustments using instruments such as hiring freezes, draw down of overtime and unused vacation leave, short-time work and voluntary salary cuts by board members and senior executives. Contrary to the initial proposal, the dividend was cut by 10% from the previous year.

Innovation programs and investments for the implementation of growth projects continued as planned.

Group sales benefited from the good growth momentum in the Electronics and Medical divisions. The balanced mix of different end markets and regions lessened the impact of the COVID-19 pandemic. Although slight organic growth was achieved in the first quarter, sales declined considerably in the second quarter. Gross sales for the first half amounted to CHF 773.7 million, corresponding to a decline of –10.8% compared with the prior-year period. The acquisitions of Triangle Fastener Corporation, Inc (TFC, 1 April 2019), MBE Moderne Befestigungselemente GmbH (MBE, 1 January 2020) and Truelove & Maclean, Inc (T&M, 1 April 2020) added 3.4% to first-half sales, while currency translation lowered reported sales by –3.8%.

Thanks to comprehensive measures robust profitability defended
The slowdown in demand beginning in the second quarter and the ensuing decline in capacity utilization rates had a material impact on profitability. Thanks to its good profitability and the early and resolute implementation of numerous measures, SFS was able to generate a solid operating profit in this extraordinary situation. EBIT amounted to CHF 71.0 million and the resulting EBIT margin was 9.2% (prior-year period, adjusted: 12.6%). Group net income amounted to CHF 53.9 million.

Investment activity focused on innovation projects and manufacturing capacity in order to implement growth projects. Investment amounted to CHF 56.6 million in the first half of the year, corresponding to 7.3% of sales (previous year period: 6.5%). In order to be able to continue to implement customer projects and the associated growth in the Industrial and Medical divisions, SFS is investing in extensive site expansions in Switzerland and the US. This increased the investment rate by 230 basis points.

With an equity ratio of 72.7%, the financial position of SFS is very solid and liquidity ensured.

Engineered Components (EC)
Different divisional developments
The various end markets targeted by the EC segment showed clearly divergent developments. Demand in the Electronics and Medical divisions was less adversely affected by the COVID-19 pandemic and the two divisions achieved positive growth, whereas the Automotive and Industrial divisions were faced with the temporary closure of major customers' factories and in some cases sharply lower order inflows. Total segment sales amounted to CHF 380.1 million, which corresponds to a decline of –16.3% compared to the prior-year period. Consolidation effects had a positive effect of 1.3% on reported sales, while the currency translation effect was –4.1%.

The EC segment's positioning in its targeted markets remains solid, as reflected in the ongoing commitment of its customers to growth projects. The segment is investing in the selective expansion of its sites in order to provide future production capacity. Furthermore, with the acquisition of T&M SFS added deep-drawing capability in North America to its global production platform. The new plant in Nantong (China) showed a pleasing development after its first few months of operation: as expected, the Electronics division had already achieved initial efficiency gains and the previously leased sites were vacated.

Against this background, the EC segment generated an EBIT of CHF 35.1 million in the first half year, corresponding to an EBIT margin of 9.1% (prior-year period, adjusted: 16.1%).

Fastening Systems (FS)
Continued expansion of market reach
The restrictions imposed on the construction industry to limit the spread of COVID-19 pandemic were comparatively less drastic than on the key markets addressed by the Riveting division. Therefore, the resulting decline in demand was clearly greater in magnitude in the Riveting division.

The segment invested in the expansion of its presence in the construction market and it improved its access to the central European market in fastening systems for the building envelope with the acquisition of MBE in Germany. Both MBE and TFC, which was acquired in the spring of 2019, had a positive effect on the segment's performance in the first half of 2020. Although the Riveting division also benefited to some extent from the expansion of the Construction division's market reach, its exposure to European customers in the automotive and capital goods industries was the more dominant factor. Already before the outbreak of the COVID-19 pandemic, the division was faced with an uncertain market outlook and demand weakened even further from early spring on.

Segment sales for the first half of 2020 amounted to CHF 234.0 million, corresponding to a decline of –5.8% versus the prior-year period. EBIT amounted to CHF 22.7 million and the EBIT margin came in at 9.5% (prior-year period: 9.4%).

Distribution & Logistics (D&L)
Positive development in a difficult environment achieved
The D&L segment benefited in the first half year from its well-balanced positioning, which reduced the negative impact of COVID-19 pandemic on its business. Sales of construction and personal protective equipment products showed positive trends. SFS even experienced temporary bottlenecks in the supply chain for face masks due to the surge in demand. D&L's multi-channel sales approach has proven to be an important strategic cornerstone. Its online shop effectively supplemented the other sales channels during the lockdown period.

Segment sales amounted to CHF 159.6 million, a decline of –3.4% compared with the first half of 2019. There was an improvement in EBIT compared with the previous year to CHF 14.5 million, with a corresponding margin of 8.9% (prior-year period, adjusted: 7.9%).

Sustainability activities strengthened
SFS published its first standalone Sustainability Report, based on the GRI Standards (Core option), in early June 2020. Sustainability issues had previously been reported on in a separate section of the annual report. The decision to publish a standalone Sustainability Report and launch a dedicated sustainability website (**sustainability.sfs.biz →**) underscores the company's commitment to sustainability. In 2020, SFS is focusing on targets and progress in the following areas as defined in its materiality analysis:

- Economic performance
- Occupational health and safety
- Training and development
- Emissions
- Socioeconomic compliance

Slight recovery in demand expected in the second half of the year
Due to the unclear further course of the COVID-19 pandemic and the still volatile political and economic environment, it is difficult to assess further business development. We expect slightly higher sales in the second half of the year, with an approximately comparable EBIT margin as in the first half of 2020. This assessment is based on currently available information and the assumption that no second massive global wave of COVID-19 pandemic further affects economic development.

Management will continue to focus on the protection of employee health and safety, while ensuring the company's supply capabilities, keeping costs under control and pushing innovation projects forward.

Heinrich Spoerry
Chairman of the Board
of Directors

Jens Breu
CEO

The Automotive division's ongoing engineering activities for new projects underscore the strength of its market position in growth applications.

Engineered Components

Different market developments

The first half of 2020 was characterized by the repercussions of the COVID-19 pandemic, which had a varying impact on the end markets addressed by the segment. Management focused primarily on employee health and safety, ensuring the company's supply capabilities and balancing its manufacturing capacities and operating costs. The divisions showed divergent developments with the Electronics and Medical divisions benefiting from more stable demand.

Business significantly impacted by the COVID-19 pandemic
From the second quarter, the segment was severely affected by the effects of the COVID-19 pandemic. Compared to the first half year 2019, sales developed negatively at –16.3% (organically –13.5%). Management's general focus was on protection of employee health, maintenance of the company's supply capabilities, adjustment of local manufacturing capacities and cost management to protect profitability. Temporary measures were taken to offset the occasional sharp decline in demand, while ensuring the ongoing execution of our customers' innovation projects.

The various end markets and divisions were affected differently by the COVID-19 pandemic. Demand in the Electronics and Medical divisions was affected less, whereas the Automotive and Industrial divisions were confronted with temporary shutdowns of manufacturing plants of major customers and in some cases sharply reduced order inflows. Consolidation effects supported sales development by 1.3%, while currency translation had a negative effect of –4.1%.

Still well positioned in every end market
The segment's positioning in its targeted markets remains solid, which is reflected in the growth projects pursued by its customers and the respective investments by SFS. The company is investing in the expansion of its operations to ensure required manufacturing capacity for future growth (see info box p.10 "Investments in future growth"). Capital expenditures amounted to CHF 48.6 million in the first half year. With the acquisition of T&M as of 1 April 2020, SFS added the deep drawing technology in North America to its global production platform. The acquisition will allow SFS to

Key figures Engineered Components

in CHF million (unaudited)	**2020 1H**	+/– PY	2019 1H	2018 1H
Third party sales	380.1	–16.3%	454.2	473.2
Sales growth comparable[1]		–13.5%		
Net sales	386.2	–15.8%	458.4	476.1
EBITDA	69.1	–28.3%	96.4	112.5
As a % of net sales	17.9		21.0	23.6
Operating profit (EBIT)	35.1	–46.4%	65.4	83.9
As a % of net sales	9.1		14.3	17.6
Operating profit (EBIT) adjusted[2]	35.1	–52.5%	73.9	83.9
As a % of net sales	9.1		16.1	17.6
Average Capital Employed	710.3	4.4%	680.6	624.8
Capital Employed	725.8	5.0%	691.0	645.5
thereof assets	863.4	3.1%	837.8	781.5
thereof liabilities	137.6	–6.2%	146.8	136.0
Net Working Capital	233.4	–6.3%	249.2	245.9
Investments	48.6	9.6%	44.3	52.8
Full-time equivalents (FTE)	6,978	–4.5%	7,310	6,600
ROCE in %[3] (Return on capital employed)	9.9		21.7	26.9

[1] At constant exchange rates and on the same scope of consolidation
[2] Adjusted for one-time costs relocation Nantong in the first half of the year 2019
[3] EBIT annualized and adjusted in % of average capital employed

offer its North American customers locally manufactured deep-drawn components.

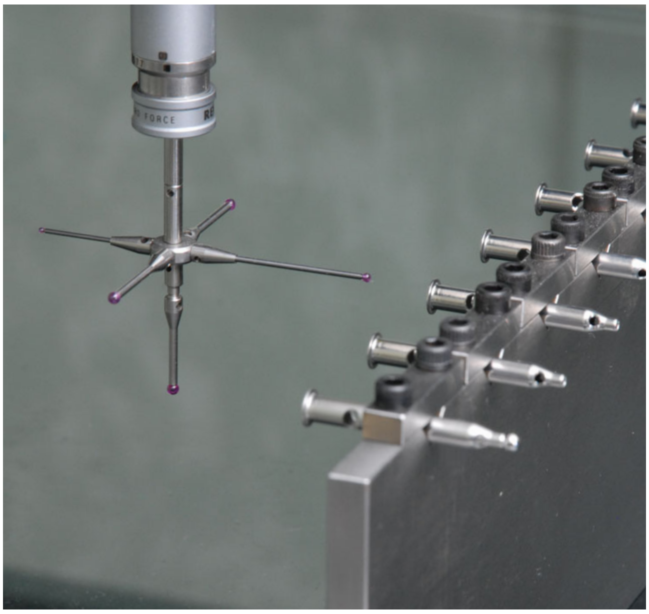
Expectations met at new site in Nantong (China)
After the smooth commissioning of the new plant in Nantong (China), SFS is pleased with the development after the first several months of operation. As expected, the Electronics division had already achieved initial efficiency gains and the previously leased sites were vacated. Thanks to continous technolgy transfer, the Automotive division is benefiting from the site's capacity to develop automobile components for locally domiciled customers.

Profitability burdened by decline in utilization rate
To offset the lower capacity utilization comprehensive temporary measures were taken, ranging from a reduction in the number of temporary workers, a hiring freeze, the introduction of short-time work and strict cost management. Against this background, the Engineered Components segment achieved an EBIT of CHF 35.1 million, which corresponds to an EBIT margin of 9.1% (prior-year period, adjusted: 16.1%).

Automotive

Challenging market environment accentuated by COVID-19
Demand in the automotive market remained slack in the first half of 2020 and was additionally burdened by the COVID-19 pandemic. This resulted in significantly lower demand in the supply chain and temporary factory shut-downs by customers in the automotive industry. The Automotive division responded by temporarily reducing its capacity – through draw-down of employees' accrued vacation leave and overtime hours – and the introduction of short-time work. These measures cushioned the impact on profitability and allowed to retain the technical expertise for the anticipated recovery in the second half year.

Focused on the future
The divisions' ongoing engineering activities for new projects underscore the strength of its market position in growth applications such as electric brake systems and camera and sensor housings. In this context, SFS evaluates the expansion of the production capacity at the site in Heerbrugg (Switzerland). Business relationships with local customers in Nantong (China) are off to a good start and several R&D projects are now in the early stages of execution. With the acquisition of T&M, SFS has added deep-drawing capability in North America to its global production platform (see info box on p. 9 "Truelove & Maclean – acquisition complements global production platform"). This will allow SFS to offer to the combined customer base locally manufactured deep-drawn components and thus the company can bridge a strategic gap in its local manufacturing presence. The new site has already won its first customer orders.



Truelove & Maclean – acquisition complements global production platform

With the acquisition of Truelove & Maclean (T&M), SFS is methodically implementing its "local for local" strategy and adding the manufacturing process of deep drawing to its existing manufacturing and development platforms in North America. T&M is a leading supplier of deep-drawn components, primarily for the automotive industry.

Facts and figures
- Sales of approx. USD 36 million in 2019
- 110 employees by the end of 2019
- Headquarters in Watertown, Connecticut
- Celebrated its 75-year anniversary in 2019

Subdued demand expected in the medium-term
Due to the current economic and political uncertainty, the Automotive division expects subdued market demand in the medium-term. Its aim to outperform the market remains intact thanks to the realization of growth projects.

Electronics

Demand for smartphone and lifestyle electronics products intact
The Electronics division was heavily impacted by the COVID-19 pandemic in the first quarter of the year. Due to a government-imposed lockdown, operations in Nantong (China) came to a complete standstill for approximately one week directly after the local New Year holidays. Thanks to still positive demand for lifestyle electronics and smartphones and the rapid resumption of operations after the lockdown, the lost production time was subsequently offset. Once again the local organization demonstrated an impressive ability to ramp up operations quickly and efficiently.

A slower than expected decline in demand for hard disk drive (HDD) components also contributed positively to the results. In the medium-term, the manufacturing capacity in Malaysia that is no longer required due to the shrinking HDD market will be used to produce components for medical device customers in the region and to support realization of customer projects in the area of lifestyle electronics in South-East Asia.

Expectations met at new site
Capacity utilization at the new site in Nantong (China) could again be increased compared with the end of 2019 and all previously leased properties were returned to the lessors. Thanks to the ensued cost-savings, the adverse effects of the COVID-19 pandemic on profitability could be reduced.

Stable development expected
The division expects a seasonal increase in the second half of the year compared to the first half year. This forecast is based on an unchanged general market environment and the usual seasonal product launches of customers in the smartphone and lifestyle electronics market. Due to the expected increase in cost pressure in the electronics market, customers are expected to revise their product strategies and portfolios. The impact these adjustments might have on the medium-term growth forecasts for the divisions' current product lines should be more accurately assessable in the coming months. Short innovation cycles and sophisticated product configurations remain key growth drivers for the division.


Groundbreaking at Stamm AG in Hallau, December 2019

Investments in future growth

In order to be able to continue to implement customer projects and the associated growth in the Industrial and Medical divisions, SFS is investing in extensive site expansions in Switzerland and the US.

- Hallau (Switzerland): Micro injection molding components
- Franklin (US): Medical technology components

Industrial

Demand from industrial customers sharply reduced
Sales and operating results of the Industrial divisions' various business units were impacted, in some cases severely, by the COVID-19 pandemic. Relatively stable, sustained sales were achieved in the area of plastic applications, whereas demand from other end markets was in some cases significantly weaker. In the Aircraft business, uncertainty regarding the future demand of commercial aircraft already in service or yet to be commissioned was clearly perceptible. This uncertainty has rippled through the entire aircraft supply chain and demand forecasts were revised sharply lower. As in the Automotive division, the Industrial division took temporary capacity measures ranging from the drawdown of accrued vacation leave and overtime hours and introduced short-time work in response to economic developments. These measures also helped to reduce the impact on earnings from weak demand.

Site expansion for micro moulding technology projects initiated
The division continues to make selective investments in the development and ramp-up of customer projects. The expansion of Stamm AG's production site for injection molded components in Hallau (Switzerland) is proceeding as scheduled.

The division expects continued reduced demand in the second half of the year.

Medical

Growth sustained
Solid demand for medical device components and the ongoing ramp-up of new projects led to renewed sales growth in the Medical division. As in the previous year period, growth was spread across different applications and sites. In the second quarter there was a slight slowdown in growth due to the COVID-19 pandemic, attributable to the pent-up demand for surgical instruments. The implementation of employee health protection measures and lost work hours due to higher-than-average absence rates resulted in capacity bottlenecks and margin pressure.

Long-term future secured
Tegra Medical's headquarters in Franklin, Massachusetts (US), has been operating at full capacity in the wake of its good growth in recent years. To ensure the division's development at the strategically important life sciences and medtech hub in Boston over the long-term, the division is investing in a larger industrial property in the immediate vicinity of its current headquarters (see info box p.10 "Investments in future growth").

The Medical division expects second-half-year sales to grow at approximately the same rate as in the first half.

Due to the good demand and continued growth momentum the Medical division is pushing its production capacity to the limit at the location in Franklin (US). It is therefore investing in a larger property near this location.

Fastening Systems

Expansion of market reach

Business at the Fastening Systems segment was increasingly affected by the repercussions of the COVID-19 pandemic during the course of the first half year. The restrictions imposed on the construction industry to limit the spread of the pandemic were comparatively less drastic than on the key markets addressed by the Riveting division. Therefore, the resulting decline in demand was clearly greater in magnitude in the Riveting division, than in the Construction division. Recent investments to expand the segment's market reach, namely the acquisition of Triangle Fastener Corporation, Inc (TFC) and MBE Moderne Befestigungselemente GmbH (MBE), had a positive effect on the segment's results.

Acquisitions strengthen performance
The takeover of MBE in Germany expanded the Construction division's presence in the Central European market. Both MBE and TFC, which was acquired in spring 2019, had a positive effect on the segment's performance in the first half of 2020. Business with the structural timberwork product portfolio also remained positive. The combination of organic growth and M&A thus confirms to be a successful approach to sustained development of this division.

Although the Riveting division also benefits to some extent from the expansion of the Construction division's market presence, its exposure to European customers in the automotive and capital goods industries is the more dominant factor. Already before the outbreak of the COVID-19 pandemic, the division was confronted with an uncertain market outlook and demand weakened even further from early spring on.

Sales and profitability burdened by decline in demand
Total segment sales amounted to CHF 234.0 million, which corresponds to a decline of –5.8% versus the prior-year period. The positive consolidation effects from the acquisition of TFC and MBE contributed 9.5% to the segment's sales. On a comparable basis sales declined by –10.0% due to the repercussions of the COVID-19 pandemic. Currency translation had a negative effect of –5.3%.

The impact of weaker demand on the segment's operating results was offset by temporary reductions in capacity and

Key figures Fastening Systems

in CHF million (unaudited)	**2020 1H**	+/– PY	2019 1H	2018 1H
Third party sales	234.0	–5.8%	248.3	213.0
Sales growth comparable[1]		–10.0%		
Net sales	239.0	–6.4%	255.4	221.1
EBITDA	32.2	–5.6%	34.1	29.5
As a % of net sales	13.5		13.4	13.3
Operating profit (EBIT)	22.7	–5.4%	24.0	20.7
As a % of net sales	9.5		9.4	9.4
Average Capital Employed	288.5	–2.1%	294.8	248.1
Capital Employed	279.8	–9.1%	307.7	259.2
thereof assets	349.6	–10.1%	388.9	331.1
thereof liabilities	69.8	–14.1%	81.2	71.9
Net Working Capital	146.5	–5.3%	154.7	129.1
Investments	4.3	–52.6%	9.1	8.2
Full-time equivalents (FTE)	2,386	–3.0%	2,459	2,012
ROCE in %[2] (Return on capital employed)	15.7		16.3	16.7

[1] At constant exchange rates and on the same scope of consolidation
[2] EBIT annualized in % of average capital employed

strict cost management and by the structural adjustments at the Riveting division taken already in 2019. At 9.5%, the EBIT margin was slightly above the previous year's period of 9.4%.

Construction

Solid results despite difficult economic environment
After a good first quarter with moderate organic growth, the division which does most of its business with customers in Europe and North America was faced with a decline in demand in the second quarter due to the outbreak of the COVID-19 pandemic. This was reflected primarily in lower sales with large system providers and distributors. Meanwhile, demand from speciality retailers and installers increased. Production and sales capacities were temporarily reduced to lessen the impact on operating results.

Market access in Germany expanded further
The division invested in the expansion of market access for its comprehensive offering of fastening systems for the building envelope in its geographic target markets. At the beginning of 2020 it acquired MBE, a manufacturer of painted fasteners for premium façade systems. This acquisition gives SFS direct access to speciality retailers for premium façade solutions in Central Europe. In addition, MBE's distribution partners and end customers will benefit from the complementary products offered by SFS. The integration of TFC acquired in spring 2019 has gone well and the expected synergies can be realized. In addition, the division continues to expand its e-commerce activities.

The division expects a slight seasonal increase in demand in the second semester compared to the first semester.

With the acquisition of MBE SFS expands its offering in fastening systems and its market reach in central Europe.

Riveting

Recovery slowed by COVID-19 pandemic
The difficult market environment faced by the Riveting division, which does business primarily with customers in the automotive industry and industrial manufacturing sectors, was accentuated by the COVID-19 pandemic. Uncertainty over implementation of Brexit continues to weigh on its business, too. These factors led to a significant decline in sales in the first half of 2020. Temporary capacity adjustment measures helped to cushion the impact on profitability. The positive effect of the structural measures taken during the previous year has been delayed by the COVID-19 pandemic. The division continues to focus on the development and launch of innovative products in order to complement its product portfolio, thereby increasing market penetration and ensuring sustained business growth.

Due to the ongoing economic and regulatory uncertainties among key customers, the Riveting division expects continued reduced demand in the second half of the year.

The blind riveting machines from GESIPA® are specially designed for use in industrial production, wherever many rivets have to be set efficiently in a short time.

Distribution & Logistics

Positive development

Amid a challenging economic environment, the Distribution & Logistics (D&L) segment achieved an improved result in the first half year. Business with construction and personal protective equipment showed a positive development, the latter driven also by precautionary measures recommended by the government in connection with the COVID-19 pandemic.

Positive impact from business with construction customers and personal protective equipment
The D&L segment benefited in the first half year from its well-balanced positioning, which reduced the negative impact of the COVID-19 pandemic on its business. Sales of construction and personal protective equipment products showed positive trends. SFS even experienced temporary bottlenecks in the delivery of face masks due to the tremendous demand. Segment sales amounted to CHF 159.6 million, a slight decline of –3.4% versus the prior-year period. Currency translation reduced earnings by –0.8%.

Benefited from multi-channel approach
D&L's multi-channel sales approach has proven to be an important strategic cornerstone. Its online shop effectively supplemented the other sales channels during the lockdown period imposed in response to the COVID-19 pandemic. Sales with speciality retailers served by Allchemet, who sell their products primarily to private end customers, developed positively versus the prior-year period. Conversely, business conducted through the segment's nationwide chain of 29 speciality retail stores (HandwerkStädte) for professional craftsmen was, as expected, affected more strongly by the repercussions of the pandemic. The restrictions imposed even included the temporary closure of stores. Direct sales to industrial customers were similarly affected due to the temporary shutdown of operations and a decline in demand.

Change in segment management
The announced change in management of the D&L segment took place at the beginning of 2020 when Josef Zünd officially retired. Josef Zünd held numerous positions at SFS during his 49 years with the company, which began with an apprenticeship, and he left a distinctive mark on the successful development of the D&L segment and the entire SFS

Key figures Distribution & Logistics

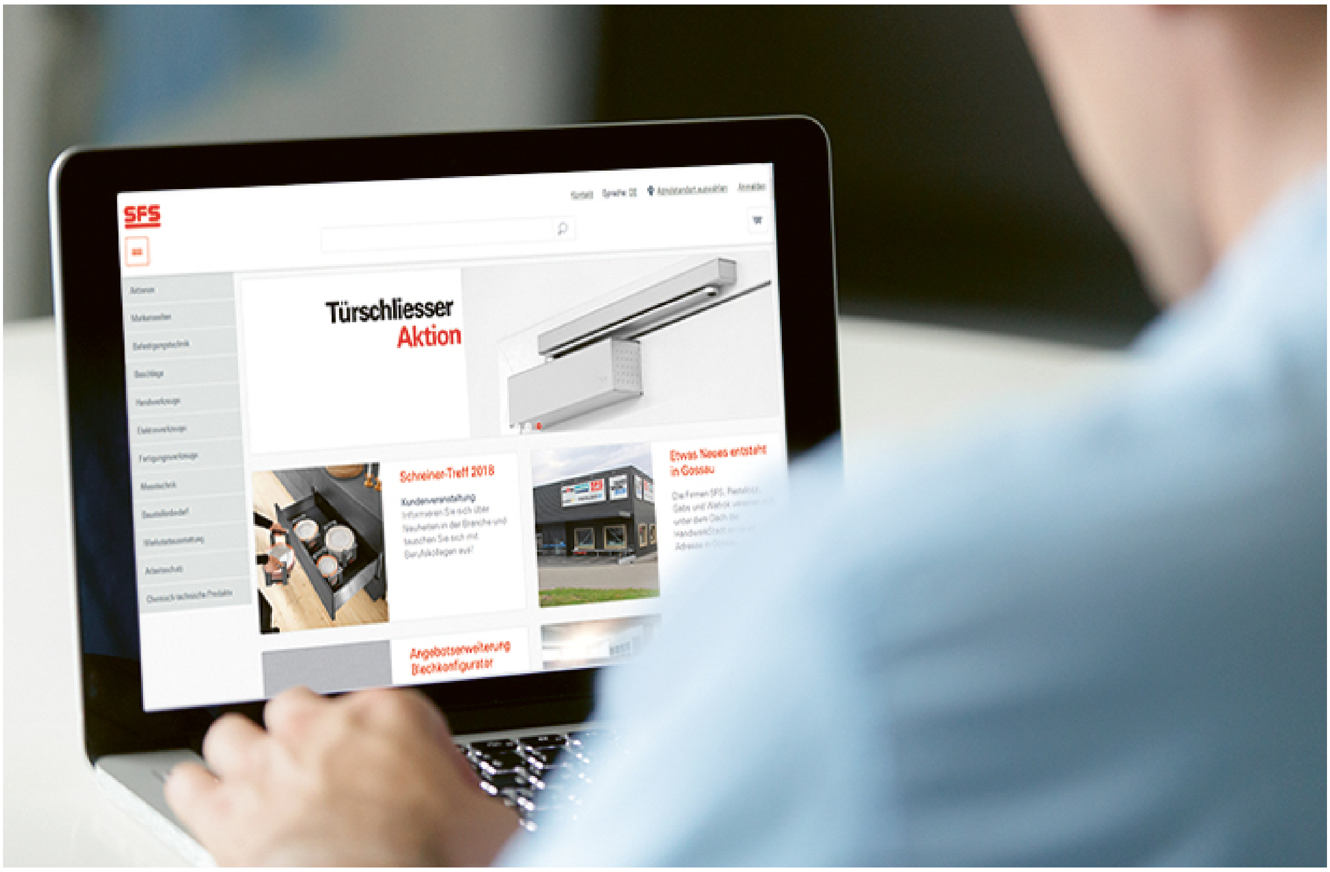
in CHF million (unaudited)	**2020 1H**	+/– PY	2019 1H	2018 1H
Third party sales	159.6	–3.4%	165.3	169.7
Sales growth comparable[1]		–2.6%		
Net sales	161.8	–3.6%	167.9	172.7
EBITDA	17.2	–19.0%	21.2	15.4
As a % of net sales	10.6		12.6	8.9
Operating profit (EBIT)	14.5	–20.3%	18.1	12.4
As a % of net sales	8.9		10.8	7.2
Operating profit (EBIT) adjusted[2]	14.5	8.8%	13.3	12.4
As a % of net sales	8.9		7.9	7.2
Average Capital Employed	129.0	–6.9%	138.5	143.2
Capital Employed	130.8	–4.2%	136.6	145.3
thereof assets	165.7	–5.0%	174.5	181.4
thereof liabilities	34.9	–7.9%	37.9	36.1
Net Working Capital	93.2	–1.5%	94.6	101.6
Investments	1.9	16.6%	1.6	3.2
Full-time equivalents (FTE)	595.0	–3.7%	618	618
ROCE in %[3] (Return on capital employed)	22.4		19.2	17.4

[1] At constant exchange rates and on the same scope of consolidation
[2] Adjusted for book gains on the disposal of non-core assets in the first half of the year 2019
[3] EBIT annualized and adjusted in % of average capital employed

Group. Iso Raunjak, an executive with many years of experience in various management positions, was appointed the new head of the segment. In his new role, Iso Raunjak also became a member of the Group Executive Board of SFS Group AG, effective 1 January 2020. Segment strategy remains unchanged.

Due to the introduction of temporary capacity adjustments and strict cost management, first-half year EBIT increased to CHF 14.5 million, resulting in an EBIT margin of 8.9% (previous year, adjusted: 7.9%).

The segment expects continued reduced demand in the second half of the year.



The segment's multi-channel approach provided customers with access to the product range even during lockdowns.

Financial report consolidated

Income statement

in CHF million (unaudited)	Notes	2020 1H		2019 1H		+/–%
Net sales	6	**775.6**	**100.0%**	868.4	100.0%	–10.7%
Other operating income		7.2		13.2		
Change in work in progress and finished goods		–3.5		0.4		
Material expenses		–293.0		–309.5		
Contribution margin		486.3	62.7%	572.5	65.9%	–15.1%
Personnel expenses		–242.8		–277.8		
Other operating expenses		–123.2		–142.1		
Depreciation property, plant and equipment		–47.5		–45.4		
Amortization of intangible assets		–1.8		–1.7		
Total operating expenses		**–415.3**	**–53.5%**	–467.0	–53.8%	–11.1%
Operating profit (EBIT)		**71.0**	**9.2%**	105.5	12.1%	–32.6%
Financial result		–3.6		–2.2		
Share of profit/(loss) from related entities		–0.2		–0.4		
Earnings before tax		**67.2**		102.9		–34.7%
Income taxes	7	–13.3		–14.3		
Net income		**53.9**	**7.0%**	88.6	10.2%	–39.1%
Attributable to non-controlling interests		0.4		0.5		
Attributable to owners of SFS Group AG		53.5		88.1		
Earnings per share of the owners of SFS Group (in CHF) basic and diluted	9	**1.43**		2.35		–39.2%

The notes on pages 22 to 24 are an integral part of this half year financial report as of 30 June 2020.

Balance sheet

Assets in CHF million	30.06.2020 (unaudited)		31.12.2019 (audited)		+/–%
Cash and cash equivalents	129.5		130.7		
Trade receivables	258.6		313.3		
Other current receivables	29.1		35.7		
Inventories	347.8		341.1		
Prepayments and accrued income	29.5		12.2		
Current assets	**794.5**	**49.4%**	833.0	50.8%	–4.6%
Property, plant and equipment	719.9		710.0		
Intangible assets	13.4		13.6		
Financial assets	44.8		47.4		
Deferred tax assets	35.9		34.6		
Non-current assets	**814.0**	**50.6%**	805.6	49.2%	1.0%
Assets	**1,608.5**	**100.0%**	1,638.6	100.0%	–1.8%

Liabilities and equity in CHF million	30.06.2020 (unaudited)		31.12.2019 (audited)		
Trade payables	78.4		117.9		
Current borrowings	19.1		9.8		
Other current payables	55.0		54.6		
Accrued liabilities and deferred income	89.0		89.3		
Current liabilities	**241.5**	**15.0%**	271.6	16.6%	–11.1%
Non-current borrowings	121.8		52.2		
Pension benefit obligations	5.9		6.0		
Non-current provisions	15.4		14.6		
Deferred tax liabilities	54.9		57.0		
Non-current liabilities	**198.0**	**12.3%**	129.8	7.9%	52.5%
Liabilities	**439.5**	**27.3%**	401.4	24.5%	9.5%
Share capital	3.8		3.8		
Capital reserves	11.5		11.5		
Retained earnings	1,137.2		1,205.5		
Equity attributable to SFS	**1,152.5**	**71.7%**	1,220.8	74.5%	–5.6%
Non-controlling interests	16.5		16.4		
Total equity	**1,169.0**	**72.7%**	1,237.2	75.5%	–5.5%
Liabilities and equity	**1,608.5**	**100.0%**	1,638.6	100.0%	–1.8%

The notes on pages 22 to 24 are an integral part of this financial report as of 30 June 2020.

Statement of changes in equity

in CHF million	Share capital	Capital reserves	Goodwill offset against equity	Cash flow hedging	Currency translation adjustments	Other retained earnings	Retained earnings	Equity attributable to SFS	Non-controlling interests	Total equity
Balance as at 31.12.2018 (audited)	**3.8**	**73.8**	–912.8	1.2	–11.1	2,027.2	**1,104.5**	**1,182.1**	**22.5**	**1,204.6**
Changes of cash flow hedges	**–**	**–**	–	–1.0	–	–	**–1.0**	**–1.0**	**–**	**–1.0**
Acquisitions	**–**	**–**	–70.0	–	–	–	**–70.0**	**–70.0**	**–**	**–70.0**
Currency translation adjustments	**–**	**–**	–	–	–7.9	–	**–7.9**	**–7.9**	**–0.3**	**–8.2**
Net income	**–**	**–**	–	–	–	88.1	**88.1**	**88.1**	**0.5**	**88.6**
Dividend for 2018	**–**	**–62.3**	–	–	–	–12.7	**–12.7**	**–75.0**	**–**	**–75.0**
Other changes	**–**	**–**	–	–	–	0.2	**0.2**	**0.2**	**–**	**0.2**
Balance as at 30.06.2019 (unaudited)	**3.8**	**11.5**	–982.8	0.2	–19.0	2,102.8	**1,101.2**	**1,116.5**	**22.7**	**1,139.2**
Changes of cash flow hedges	**–**	**–**	–	0.5	–	–	**0.5**	**0.5**	**–**	**0.5**
Change of minorities	**–**	**–**	–1.9	–	–	3.5	**1.6**	**1.6**	**–5.4**	**–3.8**
Currency translation adjustments	**–**	**–**	–	–	–13.1	–	**–13.1**	**–13.1**	**–**	**–13.1**
Net income	**–**	**–**	–	–	–	117.2	**117.2**	**117.2**	**0.7**	**117.9**
Dividend for 2018	**–**	**–**	–	–	–	–	**–**	**–**	**–1.6**	**–1.6**
Other changes	**–**	**–**	–	–	–	–1.9	**–1.9**	**–1.9**	**–**	**–1.9**
Balance as at 31.12.2019 (audited)	**3.8**	**11.5**	–984.7	0.7	–32.1	2,221.6	**1,205.5**	**1,220.8**	**16.4**	**1,237.2**
Changes of cash flow hedges	**–**	**–**	–	–0.6	–	–	**–0.6**	**–0.6**	**–**	**–0.6**
Acquisitions	**–**	**–**	–29.8	–	–	–	**–29.8**	**–29.8**	**–**	**–29.8**
Change of minorities	**–**	**–**	–1.0	–	–	–	**–1.0**	**–1.0**	**–0.1**	**–1.1**
Currency translation adjustments	**–**	**–**	–	–	–21.7	–	**–21.7**	**–21.7**	**–0.2**	**–21.9**
Net income	**–**	**–**	–	–	–	53.5	**53.5**	**53.5**	**0.4**	**53.9**
Dividend for 2019	**–**	**–**	–	–	–	–67.5	**–67.5**	**–67.5**	**–**	**–67.5**
Other changes	**–**	**–**	–	–	–	–1.2	**–1.2**	**–1.2**	**–**	**–1.2**
Balance as at 30.06.2020 (unaudited)	**3.8**	**11.5**	–1,015.5	0.1	–53.8	2,206.4	**1,137.2**	**1,152.5**	**16.5**	**1,169.0**

The notes on pages 22 to 24 are an integral part of this half year financial report as of 30 June 2020.

Cash flow statement

in CHF million (unaudited, condensed version)	Notes	2020 1H	2019 1H	+/–%
Cash flow before changes in net working capital		113.4	123.3	–8.0%
Changes in net working capital		–10.9	–18.2	–40.1%
Cash flow from operating activities		**102.5**	105.1	–2.5%
Purchases of property, plant and equipment		–55.6	–55.4	
Proceeds from sale of property, plant and equipment		2.1	8.9	
Purchases of intangible assets		–1.0	–1.0	
Acquisition of subsidiaries, net of cash acquired	10	–59.5	–91.6	
Changes in loans granted		1.2	–0.1	
Investment in/dividends from joint ventures and associates		–0.2	–2.5	
Proceeds from interest and securities		0.4	0.4	
Cash flow from investing activities		**–112.6**	–141.3	–20.3%
Proceeds/repayment from/of current borrowings		9.6	35.0	
Proceeds/repayment from/of non-current borrowings		69.7	78.4	
Dividends to the shareholders		–67.5	–75.0	
Cash flow from financing activities		**11.8**	38.4	
Translation adjustment on cash and cash equivalents		–2.9	–0.7	
Changes in cash and cash equivalents		**–1.2**	1.5	
Cash and cash equivalents at beginning of period		130.7	129.7	
Cash and cash equivalents at end of period		**129.5**	131.2	

The notes on pages 22 to 24 are an integral part of this half year financial report as of 30 June 2020.

Notes

1 General information
SFS Group is a global development, manufacturing and supply partner for customized precision cold formed parts, special fasteners and assemblies as well as tailor-made logistic solutions which are sold under the brand names SFS, Unisteel, GESIPA and Tegra Medical.

SFS Group is a limited company according to Swiss law, incorporated and domiciled in Heerbrugg, municipality of Widnau/SG, Switzerland. SFS Group AG is the parent company of all SFS Group companies and therefore the ultimate holding company of the SFS Group. It is listed on the SIX Swiss Stock Exchange AG in Zurich with the security code symbol SFSN.

All amounts are in CHF million unless otherwise stated.

2 Summary of significant accounting policies
This consolidated and condensed half year financial report has been prepared in accordance with Swiss GAAP FER 31 para 9 to 12 Interim Reporting. It is to be considered in conjunction with the consolidated financial statements 2019 and has been prepared using the same accounting and valuation methods. No new standards have been implemented.

3 Critical accounting estimates and judgements
Recognized critical accounting estimates and judgements as well as the financial risk management used in the consolidated financial statements 2019 have been continued unchanged in the first half of the year 2020. Similarly, there are no material changes in the financial risk.

4 Seasonality and other effects
In the second quarter of the year 2020, the COVID-19 pandemic caused a significant decline in business activities. Capacities were reduced to match the lower demand from customers. Cost savings due to short-time work and other measures led to a positive effect within personnel expenses of CHF 23 million in the first half of the year 2020. Any further impacts that the COVID-19 pandemic may have on the current financial year are difficult to predict.

Due to seasonal variations in the segments, higher net sales and a higher operating profit can be achieved in the second half of the year.

Usually SFS Group expects the strongest characteristics in the end user markets electronic industry and construction sector. In the electronic industry, new products of important end customers will be launched as well as higher sales due to the holiday season can be realized. The construction sector generally benefits from seasonally strong fall months. In the other end markets, sales are more balanced throughout the year.

In the previous year relocation and one-off costs in connection with the consolidation of the Chinese business activities in Nantong were offset by book gains on the disposal of non-core assets in Switzerland. This impacted EBIT by CHF –3.7 million. No such special effects occurred in the first half of 2020.

5 Segment information
SFS Group is divided into the three segments Engineered Components, Fastening Systems and Distribution & Logistics.

The monitoring and assessment of the financial results and the valuation of the assets are in line with the same principles as in the financial report 2019.

Detailed information about segments are presented on pages 8 to 16.

In addition to the elimination of intercompany transactions, the segment «Corporate» contains corporate revenues and expenses relating to Technology, the cross-functions Corporate Services as well as Corporate IT & Finance.

Reconciliation of segment results to income statement and balance sheet

Income statement	2020 1H	2019 1H
Engineered Components	35.1	65.4
Fastening Systems	22.7	24.0
Distribution & Logistics	14.5	18.1
Corporate	–1.3	–2.0
Operating profit (EBIT)	**71.0**	**105.5**
Financial result	–3.6	–2.2
Share of profit from related entities	–0.2	–0.4
Earnings before tax	**67.2**	**102.9**

Assets	30.06.2020	31.12.2019
Engineered Components	863.4	893.2
Fastening Systems	349.6	360.7
Distribution & Logistics	165.7	154.7
Corporate	55.2	51.2
Operating assets	**1,433.9**	**1,459.8**
+ Cash and cash equivalents	129.5	130.7
+ Derivative financial instruments	0.3	0.7
+ Financial assets	44.8	47.4
Assets	**1,608.5**	**1,638.6**

Liabilities and equity	30.06.2020	31.12.2019
Engineered Components	137.6	187.8
Fastening Systems	69.8	72.3
Distribution & Logistics	34.9	32.0
Corporate	56.3	47.3
Operating liabilities	**298.6**	**339.4**
+ Current borrowings	19.1	9.8
+ Long-term borrowings	121.8	52.2
Liabilities	**439.5**	**401.4**
Equity (Net assets)	**1,169.0**	**1,237.2**

6 Sales

	2020 1H	2019 1H
Third party sales	773.7	867.8
Other items	1.9	0.6
Net sales	**775.6**	**868.4**

7 Income taxes

In the financial report the income taxes have been recorded on the basis of local tax rates.

In the previous year, the approval of the federal act on tax reform and AHV financing (STAF) resulted in a non-recurring deferred tax income of CHF 5.2 million.

8 Dividend

The dividend distribution for fiscal year 2019 of CHF 1.80 per share was approved at the annual general meeting and paid out in the total amount of CHF 67.5 million in April 2020.

9 Earnings per SFS share

	2020 1H	2019 1H
Weighted average number of shares	37,500,000	37,500,000
Net income attributable to owners of SFS Group AG	53.5	88.1
Earnings per share (in CHF) basic and diluted	**1.43**	**2.35**

10 Changes in scope of consolidation

2020

SFS Group acquired 100% of MBE Moderne Befestigungselemente GmbH (MBE) as of 1 January 2020. The company is a leading supplier of painted fasteners for high-performance façade systems. MBE is based in Menden (Germany) and achieved in 2019 with 75 employees a turnover of EUR 10 million. The company is part of the Segment Fastening Systems.

As of 1 April 2020 SFS Group acquired 100% of Truelove & Maclean, Inc (T&M). The company is based in Connecticut (US). In 2019 T&M achieved with 110 employees a turnover of USD 36 million. It has profound expertise in the deep drawing technology and mainly serves customers in the automotive industry in North America. T&M is reported in Segment Engineered Components.

In April 2020 SFS Group increased its share in Tegra Medical from 98.8% to 100%.

2019

As of 1 April 2019 the SFS Group acquired 100% of Triangle Fastener Corporation, domiciled in Pittsburgh (USA). The company achieved in 2018 with 200 employees a turnover of USD 70 million. It is part of Segment Engineered Components.

Change in scope of consolidation	2020 1H	2019 1H
Purchase price	**61.3**	92.8
Cash and cash equivalents	–1.8	–1.2
Consideration cash flow statement	**59.5**	91.6

11 Exchange rates

Income statement average rate	2020 1H	2019 1H
CNY 100	13.728	14.694
EUR 1	1.064	1.130
GBP 1	1.225	1.293
USD 1	0.966	1.000

Balance sheet closing rate	30.06.2020	31.12.2019
CNY 100	13.445	13.879
EUR 1	1.065	1.085
GBP 1	1.167	1.276
USD 1	0.951	0.966

12 Events after the reporting period

The Board of Directors has approved this half year financial report on 20 July 2020. SFS is not aware of other events that occurred after the balance sheet date that could have a material impact on the consolidated statements for this financial report.

Explanation regarding alternative performance measurements

In addition to financial key figures defined by general accounting principles, SFS Group uses alternative performance measurements for its segments and divisions. The basis of calculation and the explanation of alternative performance measurements are described in the financial report 2019 on page 104. The reconciliation to the adjusted operating profit (EBIT) for the first half of the year 2020 is presented below.

Adjusted operating profit (EBIT) and adjusted EBIT margin

in CHF million	2020 1H	2019 1H	2018 1H	2017 1H	2016 1H
Operating profit (EBIT)	71.0	105.5	116.0	80.7	58.8
– Book gain on disposal of non-operating assets	–	–4.8	–	–	–1.4
+ Amortization of customer relationship Unisteel	–	–	–	30.2	31.5
+ Relocation cost CN-Nantong	–	8.5	–	–	–
Operating profit (EBIT) adjusted	**71.0**	**109.2**	**116.0**	**110.9**	**88.9**
Net sales	775.6	886.4	854.6	779.5	688.2
EBIT margin adjusted	**9.2%**	**12.6%**	**13.6%**	**14.2%**	**12.9%**

SFS

Information for shareholders

The registered shares of the SFS Group AG of CHF 0.10 each are listed on the SIX Swiss Exchange AG since 7 May 2014. Since 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER.

Number of shares in 1,000	**30.06.2020**	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Registered shares	37,500	37,500	37,500	37,500	37,500
Shares ranking for dividend	37,500	37,500	37,500	37,500	37,500
Weighted average number of shares	37,500	37,500	37,500	37,500	37,500
Number of shareholders	7,869	8,353	7,960	7,530	6,641
Stock exchange closing quotation (in CHF)					
Year high	96.50	97.00	121.80	123.50	83.15
Year low	58.85	68.60	73.80	82.55	60.45
End price	88.70	93.10	76.30	113.20	83.10
Share key data					
Earnings per share in CHF	1.43	5.47	5.14	4.24	3.32
Distribution per share in CHF	n/a	1.80	2.00	1.90	1.75
Payout ratio in % of consolidated net income	n/a	32.7	38.7	44.8	52.6
Price/earnings ratio (P/E end price)	n/a	17.0	14.8	26.7	25.0
Market capitalization					
In CHF million (end price × number of shares ranking for dividend)	3,326.3	3,491.3	2,861.3	4,245.0	3,116.3
As a % of net sales	214.4	195.9	164.7	259.7	216.9
As a % of equity	284.6	282.2	237.5	390.5	315.5

Agenda

Wednesday, 9 September 2020	4th SFS Investor Day
Friday, 29 January 2021	First information on business year 2020
Friday, 5 March 2021	Publication results business year 2020
Thursday, 22 April 2021	28th Annual General Meeting of SFS Group AG

Security-no.	23.922.930
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SIX Swiss Exchange AG	SFSN
Reuters	SFSN.S
Bloomberg	SFSN SW
Fact Set	SFSN-CH

Annual report 2020
The half year report is available in German and English. The German language version of the half year report is the only legally binding version.

Exclusion of liability
This half year report includes forward looking statements. These statements reflect the SFS Group's current assesment of market conditions and future events. The statements are therefore subject to risks, uncertainities and assumptions. Unforseen events may lead to deviations of the actual results from the forecasts and estimates made in this presentation and in other published information. To this extent, all forward looking statements in this half year report are subject to such limitations.

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