

Segment report – Engineered Components

High utilization and profitability

The 2021 financial year in the Engineered Components segment was characterized by catch-up effects in the automotive and industrial areas as well as persistently strong demand in the Electronics division. The situation in the Medical division developed differently depending on the area of application. Semiconductor supply shortages put a damper on recovery in the second half of the year. Profitability developed positively based on good capacity utilization.

Strong catch-up effects – negatively impacted by supply chain bottlenecks in the second half of the year

The Engineered Components (EC) segment, which is geared toward industrial applications, benefited substantially in 2021 from the recovery that began in the wake of the COVID-related slump of the 2020 financial year. This recovery – like the slump in 2020 – followed different patterns depending on the end market. In the automotive industry, recovery had already begun in the third quarter of 2020 and persisted into the first half of 2021. Bottlenecks in the semiconductor supply chain started putting pressure on OEMs' production quantities in the summer months, which then also impacted call-offs at SFS. While the trend in the various industrial niche markets served by the Industrial division exhibited a similar yet delayed pattern, supply chain problems impacted this division to a much lesser degree. The Aircraft business lingered at a low level but started showing initial signs of a recovery toward the end of the year. The Electronics division, which had to measure up against a strong baseline due to the extremely good results it generated in the previous year, profited from a persistently positive market environment that was also hit by semiconductor scarcity in the second half. The repercussions here were, however, less pronounced than in the automotive industry. While demand in the Medical division followed an upward trend, the trend varied greatly depending on the area of application. Pandemic-related postponements of non-essential operations curbed demand, especially in the orthopedic end market.

Overall, the segment generated sales of CHF 975.2 million. Whereas year-on-year growth in the first half amounted to 28.6%, this figure dropped to 8.6% for the year as a whole. In addition to the supply chain bottlenecks mentioned above,

Key figures Engineered Components

In CHF million

	2021	+/- PY	2020	2019
Third party sales	975.2	8.6%	898.3	957.1
Sales growth comparable		7.9%		
Net sales	985.0	8.2%	910.4	964.2
EBITDA	244.1	15.8%	210.8	210.1
As a % of net sales	24.8		23.2	21.8
Operating profit (EBIT)	168.2	19.1%	141.2	147.0
As a % of net sales	17.1		15.5	15.2
Operating profit (EBIT) adjusted ¹	168.2	19.1%	141.2	164.1
As a % of net sales	17.1		15.5	17.0
Average capital employed	736.5	2.2%	720.5	700.4
Investments	89.1	7.2%	83.1	94.1
Employees (FTE)	7,008	-3.9%	7,293	7,153
ROCE (%) ²	22.8		19.6	23.4

¹ 2019 adjusted for relocation costs Nantong (China) CHF 17.1 million

² EBIT adjusted in % of average capital employed

the strong baseline effect is another factor that contributed to the declining growth rate. Sales growth was almost exclusively organic in nature; the impact of foreign currency and consolidation effects were minor with -0.5% and $+1.2\%$. Sales generated during the period under review slightly exceeded those of 2019 (pre-pandemic).

Responsiveness and regional supply chains proved beneficial

By focusing on temporary capacity adjustments in the 2020 financial year, SFS was able to largely preserve jobs and hold on to expertise; that, in turn, put SFS in a position in the financial year just ended to respond swiftly to the sudden increase in demand experienced in the first half of the year. This also allowed for a higher number of customer call-offs to be allocated to SFS in certain areas of application, which then translated to market share gains.

Looking back, both SFS’s long-term “local for local” strategy as well as the decision to nearly exclusively make temporary adjustments to production capacities during the now two-year pandemic have proven correct. Doing so enabled SFS to largely maintain its ability to fill customer orders despite challenges presented by material availability, occasionally long delivery times and logistics.

Strong competitive position lays foundation for future growth

The EC segment focuses on innovation trends that again proved robust in the 2021 financial year. The divisions’ ample competitive edge enabled important new project wins and increased order allocations, which in turn lay the foundation for their future growth.

The investments in buildings and equipment go hand-in-hand with growth and amounted to CHF 89.1 million in 2021 (PY CHF 83.1 million). These were driven by project-specific investments and the construction of the new production hall in Heerbrugg (Switzerland) for the Automotive division. This additional production hall will offer the capacity required for manufacturing assemblies for electric brake systems. Construction work is proceeding on schedule and commissioning will take place in the third quarter of 2022. Current projects, including those acquired in 2021, will already lead to utilization of some 2/3 of the building’s capacities under construction.

Preparations for the announced expansion of the production platform in Nantong (China) are proceeding according to schedule and construction will begin in 2022. The expansion will increase the location’s production area by around 70% and be available for use by the Electronics, Automotive, Industrial, Riveting, Distribution & Logistics and Medical divisions in late 2023 to implement their growth projects. The expansion of the location in Hallau (Switzerland) for the Industrial and Medical divisions was completed on schedule and successfully put into operation. An existing production hall in close proximity to the main Unisteel Malaysia factories, located in Johor Bahru (Malaysia) was purchased to facilitate the new projects expected in the areas of Hard Disk Drives and Medical.

Profitability has benefited from high capacity utilization

The good demand situation resulted in a high overall level of capacity utilization that was beneficial for the EC segment’s profitability. The EBIT margin rose by 160 basis points and amounts to 17.1% for the 2021 financial year, which is on a par with the pre-COVID level. Supply chain bottlenecks resulted in a lower utilization of capacities in the second half of the year, which then caused the EBIT margin to contract slightly. Raw material prices began rising considerably by mid-year, but since this development had already become apparent early in the year, they were negotiated with customers in a timely manner and increases could be passed on.



Visualization of the expanded production platform in Nantong (CN).

Automotive division

High demand slowed down by supply chain bottlenecks

The pronounced, broad-based recovery that took hold in the automotive industry in the second half of 2020 continued and remained dynamic during the first half of the period under review. This recovery was then slowed down substantially by semiconductor component shortages from the summer months onward. In Switzerland, this development prompted a return to short-time work in production at the end of the third quarter. For the full year, however, a solid year-on-year growth could still be achieved. Because of its high responsiveness and the ramp-up of new projects, the division has again succeeded in significantly outpacing overall market growth.

Project acquisitions are testimony to strong competitive position

Over the years, SFS has successfully positioned itself as a development partner and supplier for customers in the automotive industry. Innovation in this industry is being driven by the trends towards greater comfort, improved safety, increased efficiency, and, from a higher perspective, autonomous driving technology. The associated electrification of vehicles, applicable also to vehicle brake systems, is a promising growth area from which SFS is benefiting. These innovation drivers have proven robust again in the current period under review. SFS's strong competitive position is evidenced both in the awards it has received, such as the Global Supplier Award from Bosch, and especially through key project acquisitions and an expanded customer base in electric brake system applications in North America and Europe. One lighthouse project is a major order acquired at the Heerbrugg (Switzerland) location that covers precision components for a new generation of electric brake systems; this order will generate total sales in excess of CHF 100 million from 2024–2033. The acquired projects lay the foundation for a continuation of SFS's growth trajectory. Against the backdrop of the proven and successful "local for local" strategy, advances were also made in 2021 to localize projects for automotive customers at the location in Nantong (China).

Investment projects to generate growth

An additional production hall is currently being erected at the Heerbrugg location to create the additional capacities needed for growth. The construction project is proceeding according to schedule. It will be completed in the summer of 2022 and subsequently put into operation.

SFS was also able to acquire plots of land adjacent to the current location in Flawil (Switzerland), which has specialized in deep drawing technology. This land will enable SFS to carry out its medium-term expansion plans.



New production building

- To realize projects in the field of electric braking systems
- Investment volume in buildings ca. CHF 35 million
- Creates around 100 new jobs at the site in Heerbrugg (Switzerland) in the medium term
- And an additional production area of 9,400 m² and a storage area of 2,800 m²
- The new building is consistently geared towards sustainability, efficiency and the conservation of resources
- Commissioning planned for the third quarter of 2022

Succession planning at Truelove & Maclean establishes continuity

With the acquisition of Truelove & Maclean (T&M) in the spring of 2020, SFS continued the implementation of its "local for local" strategy and added the manufacturing process of deep drawing to its existing development and production platform in North America. Despite the difficult market environment that has arisen in connection with the COVID-19 pandemic, T&M has developed positively and met up to expectations. By handing management of the company over to his son Wayne Bouffard, founder Rich Bouffard has established a sustainable and prudent succession solution that is also fully in line with SFS's DNA, after which more than 70% of management positions are filled internally.

Outlook 2022

Over the course of the next few years, the Automotive division expects to see good demand for new vehicles and models. Lost sales due to supply chain problems in the second half of the financial year just ended are likely to be compensated in the years to come. The division is well positioned in 2022 to significantly outperform market growth once more.

Electronics division

Record-high results in first half-year – second half troubled by supply chain bottlenecks

Persistently high demand in many areas of application, important product launches by key customers and the well-established ability to fill customer orders have helped the Electronics division achieve record results in the first half of the year. Semiconductor supply shortages put a damper on results in the second half of the year. Overall, this resulted in a slightly positive sales trend for the period under review, which is a good result given the high baseline effect and limitations in semiconductor availability.

Broad-based development

The Electronics division experienced good, broad-based development. In addition to stable development in the Mobile devices business, Lifestyle Electronics grew considerably with product launches in AR and VR applications, as well as accessories. Strong demand for high capacity hard disk drives was a pleasant surprise. Applications for cloud and enterprise computing served as growth drivers.

Major expansion initiated in Nantong

As already mentioned in the half-year report, SFS will expand its production platform in Nantong (China) by around 70% to a total of around 130,000 m². The expansion is necessary since current production and warehouse capacities in Nantong have reached a high level of utilization due to good business performance and the relocation of the Riveting production site from Nansha to Nantong. The expansion will strengthen the existing platform and lay a foundation for creating future growth in the locally active divisions (Electronics, Automotive, Industrial, Riveting, Distribution & Logistics and Medical). The investment volume for properties and buildings amounts to around CHF 32 million. Commissioning is scheduled for the fall 2023.

Outlook 2022

According to its current assessment, the Electronics division expects development to be moderate overall but at a high level. The Chinese government's zero-COVID policy could result in restrictions and adverse effects in the event of further outbreaks.



Business areas Mobile Devices, Lifestyle Electronics and Hard Disk Drives.

Industrial division

Significant recovery in demand

Demand in the Industrial division began to recover in the second half of 2020, with this recovery continuing during the period under review and encompassing nearly every niche market served by the division. The trend towards home improvements and energy-efficient renovations, for instance replacements of windows, is stimulating demand from the furniture industry for fittings.

Unlike in other divisions, the global semiconductor supply shortages did not have a material impact on business performance in the second half of the year. In many areas, in fact, sales exceeded pre-pandemic levels. Extremely encouraging development was seen with respect to new project intake, which is both an expression of a strong competitive position and a starting point for attractive future development prospects.

The situation in the Aircraft business, which was hit particularly hard by the repercussions of the pandemic, remains challenging. After stabilizing at a low level, demand started showing some initial positive momentum in the fourth quarter. Recovery is still likely to extend over a longer period of time and come in waves due to stockpiling.

Outlook 2022

The Industrial division expects overall market demand to remain good. Realized new projects will further underpin a positive development. The Aircraft business is only likely to experience a noticeable impulse toward the end of the year.

Medical division

Slightly positive development achieved

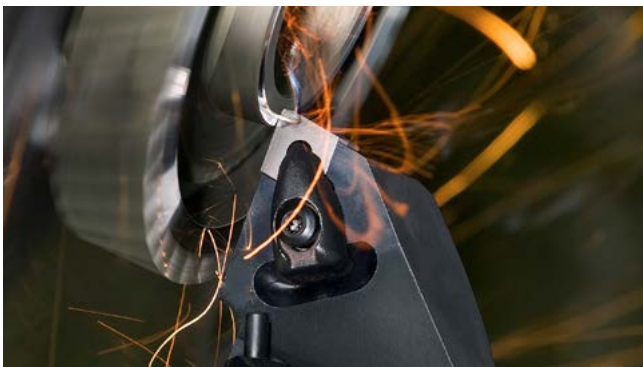
The organic sales trend in the Medical division was in line with expectations and slightly positive for full-year 2021. The trends in the individual product categories, however, varied. It was mainly in the area of instruments and implants for orthopedic surgery that demand continued to be curbed by the postponement of non-essential medical procedures as a direct result of the COVID-19 pandemic. The area of sports medicine, on the other hand, showed positive growth. Important new projects with several customers helped boost sales in this product category at the Massachusetts and Costa Rica locations.

Close attention was given to efficiency gains and operational excellence at the locations in the US and Costa Rica. Additions to the management team and numerous initiatives that were launched and implemented are already beginning to show initial results and attest to the feasibility of the defined medium-term earnings targets. The availability and recruitment of skilled staff needed in the US to implement the customer projects acquired remains challenging.

Systematic efforts are being made to expedite development of the global platform. Good progress was made on filling an attractive project pipeline, particularly in Asia. The conclusion of the expansion project at the Hallau (Switzerland) site created the capacities needed to implement growth projects in the area of micro injection molding. The relocation of Tegra Medical's headquarters at Franklin, Massachusetts (USA), to the larger, adjacent property is proceeding according to plan and will be completed by the end of 2022.

Outlook 2022

The Medical division expects a positive development with growth in organic terms. The implementation of the medical device strategy and the build-up of the global manufacturing platform will remain a key priority and lay the basis for a sustainable development. Uncertainties remain regarding the possible negative impact of the COVID-19 pandemic and the shortage of skilled workers in the US.



Cutting tool fastener, also part of the product range machining from Hoffmann.