

## Strategy

# Seizing strategic opportunities

**Creating added value for our customers and inventing success together in close partnership is our number one goal. That claim is underpinned by our highly qualified employees' extraordinary degree of application and technology-driven expertise. They drive the SFS value engineering process and enable it to create new solutions for our customers day after day. We systematically pursue this path and seize any strategic opportunities that arise. This strategy has also proven sound during the COVID-19 pandemic and in a dynamic, occasionally volatile market environment.**

### **At your side 24/7**

SFS is a reliable companion throughout your day, from early in the morning to late at night, seven days a week. Not many people realize this, since our precision components and mechanical fastening systems are embedded in the successful products of our customers, where they perform often critical functions.

Your first contact with SFS products happens early in the morning when using your coffee machine or your smartphone. Driving to work, you are also surrounded by numerous SFS products: integrated in your car's safety systems such as seat belts, airbags and braking systems, they help to protect your life in the event of an accident. At work, hard disk drives function with high-precision miniature SFS components. SFS products can be found in many electronic lifestyle products, such as adventure cameras, smart watches and smart home devices as well as a growing number of AR/VR solutions. In the field of healthcare, our precision components in bone screws, dental implant fixtures and surgical instruments help improve your quality of life.

### **Our value proposition:**

#### **creating sustainable added value for the customer**

SFS components embedded into a customer's product often account for less than 1% of the total product cost. But the costs at the customer end arising from procurement, logistics and handling operations can be several times the actual cost of these components. That is why we are not primarily focusing on reducing our direct product costs and differentiating ourselves on price – there would be limited potential. Instead, our main goal is to optimize our customers' overall

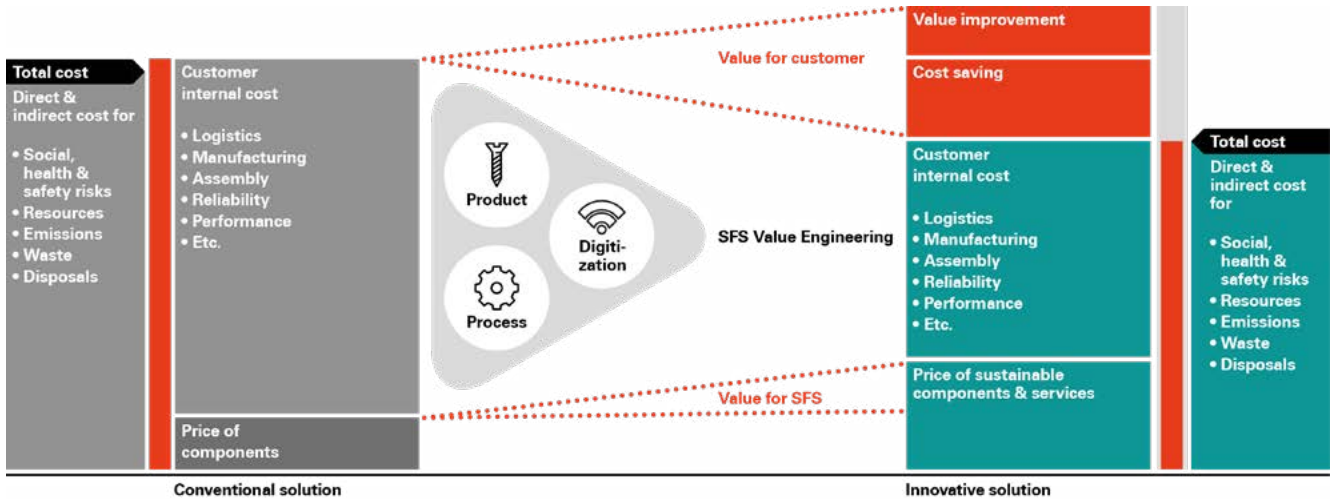
product-related costs. This approach generates significantly more cost-savings potential and allows us to create sustainable value for our customers. Our value engineering model focuses on product design, definition of manufacturing processes and on exploiting the power of digitalization. The result: custom-tailored products and intelligent solutions that increase the competitiveness of our customers. Hence, the SFS solutions lead to greater differentiation and stronger collaborative partnerships.

### **Sustainability is an integral component of our value proposition**

Sustainability is important to us – it's in our DNA! Embracing a sustainable mindset and practices drives innovation and gives us a chance to re-examine our products and processes on a daily basis and improve them continuously for the good of all stakeholders. As a value engineering specialist, working with our customers to develop sustainable products and solutions gives us a multitude of opportunities to utilize our expertise and offer our customers added value – in keeping with our corporate principle of "Inventing success together". In close collaboration with customers and suppliers, we strive to improve cost transparency on an ongoing basis and also incorporate other aspects of sustainability into the calculations.

Detailed information on the topic of sustainability at SFS can be found at [sustainability.sfs.com](https://sustainability.sfs.com) →. As a signatory of the UN Global Compact, SFS is committed to the Sustainable Development Goals (SDG) and currently prioritizing following four goals: SDG 4 – Quality education, SDG 8 – Decent work and economic growth, SDG 12 – Responsible consumption

### Value proposition from a holistic and sustainable view



and production and SDG 13 – Climate action. This prioritization is reflected in the material topics identified in the materiality assessment conducted in 2019 (economic performance, occupational health and safety, training and education, emissions reduction and socioeconomic compliance), which are reviewed every two years. SFS has set itself ambitious goals on these material topics:

- Economic performance: Steady creation of value for all stakeholder groups
- Occupational health and safety: Reduce the number of work-related accidents to half the 2019 level by 2025
- Training and education: SFS's long-term goal is to have 5–7% of its permanent employees around the world participate in a dual education program
- Emissions reduction:
  - Reduce CO<sub>2</sub> emissions (Scope 1 and 2) by ≥90% until 2030 (measured as tons of CO<sub>2</sub> per Swiss franc of value added) compared to 2020
  - Reduce CO<sub>2</sub> emissions (Scope 3) by ≥90% until 2040 (measured as tons of CO<sub>2</sub> per Swiss franc of value added)
- Socioeconomic compliance: Fair, correct conduct is an expression of a healthy partnership. SFS should not be subject to any penalties in the area of socioeconomic compliance

The next sustainability report will be published at the end of May 2022 and, in addition to an updated materiality analysis, also provide information about progress made during 2021 and the Group's priorities for 2022.

#### Further progress made with respect to digitalization

The digital revolution is one of the most important megatrends for SFS. As it already did before the COVID-19 pandemic, the company systematically takes advantage of the opportunities and applications opened up by ongoing product and process digitalization to make continuous improvements

and increase efficiency in all aspects of the business. Some examples from the past financial year include:

- Further optimization of production processes with respect to quality assurance by means of networking, collecting and evaluating machine and process parameters
- Ongoing developments in the area of electronic procurement and logistics solutions that enable customers to automate their inventory management by integrating it into their ERP system, for example
- Modern e-commerce offers like the eShop of the Distribution & Logistics segment enable quick information gathering and simple order processes
- Major investments in the optimization and interconnectedness of SFS-internal business processes through the transition to S/4HANA, a new generation ERP system, in order to better and more efficiently meet market and customer requirements while also raising the level of process standardization
- Strong commitment to cybersecurity with a focus on technical solutions and preventive measures to mitigate risk
- Widespread use of virtual channels of communication such as a digital event platform, an in-house video studio for content production and the rollout of the mySFS employee app. More under the Success Story mySFS →

### Establishing an international presence in the area of quality tools with Hoffmann

With the planned inclusion of Hoffmann, SFS is seizing an extraordinary strategic opportunity to secure an internationally strong position in the attractive area of quality tools. The two companies have been collaborating successfully for many years and have a great deal of common ground with respect to their value proposition and values.

The joining of forces marks a milestone and opens up attractive development opportunities for both companies. Like SFS, Hoffmann applies its distinct expertise in value engineering to position and distinguish itself as a leading system partner for quality tools, by focusing on sustainably reducing customers' total costs by means of simple and efficient procurement and production processes. The company's twelve technology centers enable the organization to be involved in the development of new solutions and trends at an early stage. The aspiration to provide the very highest-quality tools and solutions has been in the Hoffmann DNA since it was first founded.

The combination of Hoffmann and SFS will open up extensive cross-selling potential that will give rise to additional growth prospects. In the medium term, Hoffmann's existing customers will gain access to SFS's expertise in the areas of mechanical fastening systems and electronic procurement solutions. In exchange, SFS will be able to offer its Swiss customers access to the same range of products and the same high level of service and logistics expertise that they have grown accustomed to, but at the international level, as well. Additional significant potential for added value lies in the utilization of Hoffmann's distinct digital expertise when it comes to the digitalization of e-business solutions, digital product and service solutions and process optimization; not to mention joint procurement and access to LogisticCity, one of the most high-performance logistics centers for quality tools in all of Europe.



LogisticCity in Nuremberg (DE), Europe's largest logistic center for quality tools



GARANT Xpent 5-axis clamping system and HOLEX digital caliper from the product ranges clamping technology and measurement technology.

Hoffmann sets itself from its current main competitors as follows:

- In its capacity as a manufacturer: Hoffmann offers its customers the best possible service by having the flexibility to have products manufactured by different producers while still holding on to both the necessary manufacturing expertise and its own globally established development and product management capacities. Combined with the proven high level of expert advice provided by Hoffmann's 1,400 technical consultants allowing for a broad and efficient market coverage.
- In its capacity as a distributor: Through the manufacturing expertise it embodies, its position as Europe's leading distributor of quality tools, its top-quality brands GARANT and HOLEX as well as the high availability of a portfolio comprising another 500 leading brands.

The planned inclusion of Hoffmann is the systematic continuation of SFS's well known and successful growth strategy, which is largely based on the use of platforms. After prioritizing platform-building measures and acquisitions within the Engineered Components segment for the past 20 or so years, it can now be stated that the company's capital-intensive platform-building phase in North America, Europe and Asia is well advanced for this segment as well as for the Fastening Systems segment, albeit to a lesser degree. Smaller acquisitions in Medical, for example, could still prove useful by granting access to a specific group of new customers, a geographic region or key product or technical expertise. Expansion steps will still be taken to secure capacities needed for implementing customers' projects.

The inclusion of Hoffmann will now enable an internationalization of the proven SFS solutions provided by the Distribution & Logistics segment. Until now, this segment was a single-division business mainly focused on the needs of Swiss customers.

The signing of this transaction represents a key milestone for both companies. As soon as antitrust reviews have been concluded in several countries, we expect the transaction to be completed in the first half of 2022.

### **Strategy tested by COVID-19 pandemic**

The COVID-19 pandemic put the effectiveness of our business strategy to the test. The strategic alignment has proven to be robust and correct:

- For SFS, close customer relationships are essential for the successful realization of its value proposition. In keeping with our “local for local” strategy, we are steadily building up our global development and production platform. SFS and its customers benefit from superior supply reliability thanks to short and robust supply chains.
- Thanks to its balanced focus on different end markets, regions and sales channels, SFS successfully cushioned the consequences of the decline in demand.
- The focus on a core set of tooling based technologies and relevant secondary operations allows technology leadership in the core processes. A standardized machine park reduces risk and maximizes flexibility.
- Thanks to its good profitability and solid balance sheet, the company has the means and the ability to pursue its long-term strategy and to make investments even in such a crisis.
- For SFS relevant megatrends remain intact: Digital revolution, Economic globalization, Evolving consumption in “health & wellness”, Resource constraints and Demographic asymmetries.

Based on these findings, SFS is encouraged to pursue the path it has chosen consistently.

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## **SFS in brief**

### **A strong DNA since 1928**

SFS’s roots go back more than 90 years, to the opening of a hardware store called Stadler in Altstätten, Switzerland. In 1960, the company branched out into cold forming technology and the production of fasteners in Heerbrugg (Switzerland). Today SFS Group is one of the world’s leading suppliers of mechanical fastening solutions, precision components, quality tools and logistics systems for management of C-parts. The company operates in the three segments Engineered Components, Fastening Systems and Distribution & Logistics, which represent the company’s different business models. The original objectives – creating added value for the customer, all employees are co-entrepreneurs and achieving sustainable success together – have been pursued consistently. The focus on entrepreneurship and longevity is upheld to this very day. It is anchored in our core values and is actively lived internally and externally on a daily basis through our value proposition: “Inventing success together”.

### **Engineered Components**

In the Engineered Components segment (EC), SFS partners with customers to develop and manufacture customer-specific precision components, mechanical fastening solutions and assemblies. This segment comprises the Automotive, Electronics, Industrial and Medical divisions, and it sells its products and services under the brands SFS (Automotive, Industrial), Unisteel (Electronics) and Tegra Medical (Medical).

### **Fastening Systems**

In the Fastening Systems segment (FS), which consists of the Construction and Riveting divisions, SFS develops, manufactures and markets application-specific mechanical fastening systems, including under the brands SFS, HECO, TFC (Construction division) , and GESIPA® (Riveting division).

### **Distribution & Logistics**

In the Distribution & Logistics segment (D&L), SFS positions itself as the leading sales and logistics partner for C-parts, tools and fasteners for customers in industrial and construction sectors in Switzerland. The segment also offers customized logistics solutions that significantly improve the competitiveness of its customers.

### **SFS Group**

SFS Group is a global player with manufacturing sites and distribution companies at more than 100 locations in 26 countries around the world. It generated sales of CHF 1,893 million in the 2021 financial year with a workforce of approximately 10,500 (FTE).

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**Progress made in the build up of the global production platform for medical device applications**

Demographic change is leading to changes in consumer behavior in terms of health and wellness. SFS offers OEMs in the medical device and dental industries innovative and forward-looking solutions for a wide range of applications. As a value engineering specialist with many years of experience in the industrialization of products and processes, SFS has proven time and again that it creates substantial value added for its customers.

Due to persistently good underlying market demand, continued growth momentum and customers looking for manufacturing partners with a global reach, SFS decided in 2020 to establish a global manufacturing platform for medical device applications that integrates mostly existing SFS sites in North America, Europe and Asia. Systematic effort was made again in the past year to expedite work on the platform. The conclusion of the expansion project at the Hallau (Switzerland) site created the capacities needed to implement further growth projects in the area of micro injection molding. The relocation of Tegra Medical’s headquarters from Franklin, Massachusetts (USA), to the larger adjacent property is proceeding according to plan and will be completed by the end of 2022. Good progress was made with customers to fill an attractive project pipeline, particularly in Asia.



The relocation of the headquarter of Tegra Medical in Franklin (USA) continues on schedule.



The expansion of the location of Stamm AG in Hallau (CH) was completed.

**Focus on specific priorities**

<p><b>Mega-trends</b></p> <hr/> <p>→ Strengthen innovation, especially in the megatrends of demography, digitization and autonomous driving</p>	<p><b>Growth</b></p> <hr/> <p>→ Investments in future growth projects namely in Engineered Components and establish international presence with Hoffmann</p>	<p><b>Customers</b></p> <hr/> <p>→ Ensure reliable supply capabilities and continue improvements in customer centricity of organization</p>	<p><b>Profitability</b></p> <hr/> <p>→ Balance production capacity with demand while ensuring supply capabilities and keep costs under control</p>	<p><b>Sustainability</b></p> <hr/> <p>→ Integrate sustainable acting and thinking holistically in business model and corporate strategy; protect health and safety of employees</p>
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