

Segment report – Distribution & Logistics

Leading in Europe

The Distribution & Logistics segment set a decisive course to achieve forward-looking development during the 2022 financial year. Since the transaction with Hoffmann was completed, the teams in both divisions have been focused and highly motivated in their work to jointly start implementation of growth potential. In the year under review, the growth trend continued in all regions and strong results were achieved.

Based on an attractive product range and thanks to good material availability, the Distribution & Logistics (D&L) segment took advantage of the positive market environment again in 2022 to generate stable growth. All three regions North America, Europe, and Asia contributed to these results – the with regard to sales smallest region North America experiencing the strongest percentage growth. Demand from both industrial manufacturing and construction customers was positive. Customers from the construction industry, which are mostly based in Switzerland, accounted for around 10% of sales in the segment following the inclusion of Hoffmann.

The segment generated sales of CHF 1,073.0 million in the period under review. This corresponds to a year-on-year growth surge of 212.8%, which was mainly driven by consolidation effects of 208.1% that arose as a result of the inclusion of Hoffmann as per May 1, 2022. Organic growth, on a like-for-like basis, amounts to 5.3%. Foreign currency effects amounted to –0.6%.

Efficient logistics the key to success

In addition to competent product advice, high-performance logistics is also critical for success in trading with tools, fastening systems and complementary product ranges. Wide product availability, short delivery times and high reliability of supply are important distinguishing features. The aim is to provide a high level of service as efficiently as possible. Major progress was made in this area in the year under review:

- In order to consolidate and optimize logistics activities for business in central Switzerland, the existing warehouse in Emmenbrücke (Switzerland) was sold to an external logistics partner in 2018. As part of the agreement, the partner took on the employees and invested heavily in expanding, renewing and automating the site. The expansion allowed one of the other warehouse sites in Bäretswil (Switzerland) to be integrated into the enlarged warehouse in Emmenbrücke. The move was successfully completed at the end of 2022 and will allow customers to be supplied more efficiently from a state-of-the-art warehouse operation.

Key figures Distribution & Logistics

In CHF million

	2022	+/- PY	2021	2020
Third party sales	1,073.0	212.8	343.0	316.9
Sales growth comparable		5.3		
Net sales	1,067.4	206.8	347.9	321.6
EBITDA	100.5	166.6	37.7	34.1
As a % of net sales	9.4		10.8	10.6
Operating profit (EBIT)	79.3	143.3	32.6	28.7
As a % of net sales	7.4		9.4	8.9
Operating profit (EBIT) adjusted ¹	102.2	213.5	32.6	28.7
As a % of net sales	9.6		9.4	8.9
Average capital employed	627.8	381.4	130.4	126.9
Investments	16.0	290.2	4.1	4.1
Employees (FTE)	3,704	511.2	606	598
ROCE (%) ²	16.3		25.0	22.6

¹ 2022 adjusted for amortization of inventory step-up related to purchase price allocation of the Hoffmann SE acquisition and first-time intra-segment profit elimination in inventory (Segment D&L) CHF 22.9 million.

² EBIT adjusted in % of average capital employed

- After an extensive test phase as a result of its size and high degree of automation, the ramp-up of LogisticCity in Nuremberg (Germany), Europe’s most high-performance logistics center for quality tools, was successfully concluded at the end of the year. The current expansion status comprises:
 - More than 100,000 m² of logistics area
 - Delivery service within 24 hours in DE and 48 hours in central Europe
 - Up to 60,000 positions, with more than 15,000 parcels per day

The state-of-the-art, automated logistics center is replacing several rented warehouses in the vicinity of Nuremberg that no longer meet customer requirements as a result of the steady growth of the Distribution & Logistics International division. As at the end of the year under review, 100% of deliveries had been handled reliably, with 99% delivery quality. LogisticCity will give the segment a strong competitive advantage in the future. Significant growth reserves are being provided for in both the existing expansion stage and any future expansion phases. Other SFS business areas will also be able to benefit from this in the medium to long term.

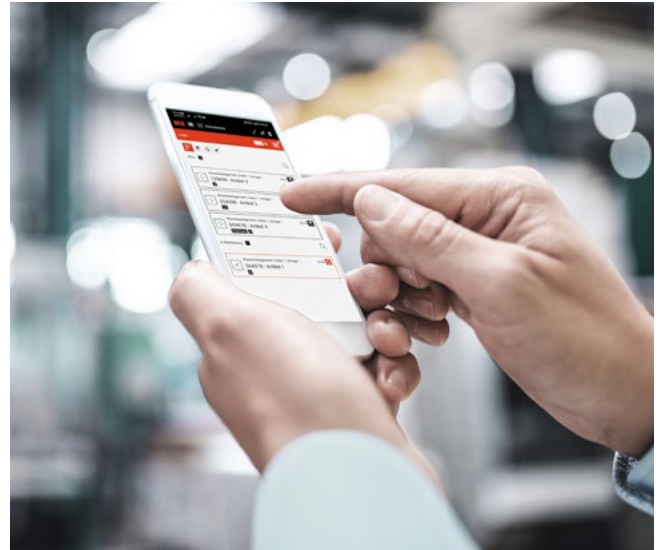
Significant increase in earnings

Thanks to good sales growth, prudent cost and price management and the inclusion of Hoffmann from May 1, 2022, adjusted operating profit (EBIT) of CHF 102.2 million was generated in the year under review, which corresponds to an increase of 213.5%. The adjusted EBIT margin of 9.6% was stable over the course of the year. The reported result is weighed down by increased material expenses of CHF 22.9 million due to acquisition effects.

Exploiting the potential for collaboration

A project team comprised of employees from all affected business areas was assembled to carefully examine all areas of potential synergies connected to the collaboration with Hoffmann and prioritize the realization of that potential. Existing solutions and processes were systematically compared and contrasted to assess where the shared use of existing applications, platforms and processes might offer significant, strategically relevant or economically attractive potential. These assessments focused on the areas of logistics, product management, cross-selling, financial reporting, information technology, human resources, sustainability as well as marketing and communication. This first phase of intense cooperation was accompanied by regular communications aimed at providing employees with timely information not only on the objectives of this collaboration but also to report on new developments and provide progress reports. The following business related long-term growth potential was identified and efforts to realize that potential will be prioritized in the next few years:

- Penetrate current key accounts and high potential customers with a complementary portfolio of mechanical fastening systems and electronic procurement solutions



From logistics systems to digital order management

Logistics systems such as turnLOG®, pushLOG® and weight-LOG® have been continually developed in recent years in order to simplify the operation and extend the range of applications. Digital functions have already been complementing the solutions for a long time. For example, functions such as communication with mobile devices or eLogistics® software to control all procurement parameters have already been offered for years. The next version of this platform, eLogistics® NXT, enables users to automate their processes, regardless of whether the trigger system or the products managed originate from SFS or not. Both internal stock movements and external value creation processes – upstream or downstream – can be illustrated and optimized with the platform. The cloud-based solution is a strong instrument for improving processes and increasing transparency and efficiency both for customers and suppliers.

messageLOG®, an app to allocate and settle recurring orders efficiently, even goes one step further. The app – which came about from digitalization expertise in the area of inventory management solutions – has great potential for countless application areas in a wide range of industries, but no longer has anything to do with inventory management.

- Supply current key accounts outside Switzerland with quality tools
- Optimize the supply chain for Swiss customers by using the procurement and logistics capacities of D&L International
- Evaluate and implement shared, efficient processes and platforms for an optimized customer journey

Outlook

In the Distribution & Logistics segment, SFS expects stable customer demand and – on a like-for-like basis – a solid organic sales growth along the target bandwidth of the Group in 2023.



Exploiting the potential offered by digitalization of products and processes

Around 60 experts from the areas of sales, product management, information technology and finance work in the D&L International division in cross-functional teams on four strategic initiatives to exploit the potential offered by digitalization of products and processes:

- Optimizing the customer experience: Build a new product data and content structure to deliver comprehensive, high-quality content faster and more efficiently to all front-end channels and make it easier for customers to do business with simplified filter and search capabilities and personalized product recommendations
- Harmonization and digitalization of internal processes: Switching to the next-generation ERP system S/4HANA in order to meet market and customer requirements better and improve efficiency through a higher degree of standardization and automation
- Leverage data and analytics capabilities: Define a unified view on customer, product, and supplier data across the company and implementation of a cloud-based analytics platform to realize analysis such as product recommendations, demand forecasts and data-driven portfolio decisions, with greater flexibility and quality
- Implementation of Industry 4.0 solutions: Enabling customer solutions such as the automated supply of indirect materials to the factory-floor by connecting production equipment, logistics systems, material demand forecasts, current inventory levels and tool usage data