

# 2013 Half Year Results

Erwin Stoller, Executive Chairman  
Joris Gröflin, Chief Financial Officer

1. Introduction and summary of first half year 2013
2. Financial results first half year 2013
3. Outlook

## HY1 2013: Key messages

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“Rieter was able to benefit from its strong market position in a recovering environment and continues to focus on the target of successfully concluding the investment program.”

Erwin Stoller

Executive Chairman

## Rieter exploits market recovery thanks to strong positioning

### Market development

- Continued market recovery across all regions but to different degrees
- Turkey dynamic, other Asian countries with good demand, China and India with slight improvement
- China and India still with difficult financing environment for spinning mills

### Strategic / operational

- Largest order intake from Turkey
- Increase of order intake and sales in China against market trend
- India with good demand for components
- Product program matches market needs

### Investment program

- Expansion in Asia with good progress: Plants in China (Changzhou) nearing completion, in India ramp-up leads to productivity gains
- Airjet introduction ongoing
- Operational excellence program on track; go-live of IT supported processes project with a delay of six months

### Financial

- Order intake at strong 711.4 million CHF
- Sales of 478.1 million CHF with 19% growth against second semester 2012
- Operating profitability (EBIT) at 3.6% of sales and EPS at 1.51 CHF




## Market recovery continues in first semester 2013 with strong Turkey

- The market recovery continued in the first semester of 2013, impacting all major markets, but to different degrees.
- In Turkey, government incentive program and strong spinning mill margins led to a strong market dynamic.
- The Chinese market still sees locked-in raw material prices – but continues to look for automation and upgrade in equipment. India has seen a slight recovery especially in the components area. Financing for spinning mills remains challenging in both markets.
- In other Asian countries demand also picked up.
- Northern America showed increasing demand due to improved cost competitiveness.

# Rieter – progress investment program 2012 / 2013



## Investment program with good progress – delay in process improvements

	2012	2013	2014
<b>Expansion in Asia</b> 	<ul style="list-style-type: none"> <li>Inauguration of first stage of second plant in Changzhou (China)</li> <li>Construction of second plant in India</li> </ul>	<ul style="list-style-type: none"> <li>Completion of plant II in Changzhou</li> <li>Ramp-up of second plant in India</li> </ul>	<ul style="list-style-type: none"> <li>Full additional production capacity available</li> <li>Reduction of temporary personnel for investment program 2012 / 2013</li> <li>Shift of market-specific functions to expanded sites</li> <li>Realization of efficiency gains from process improvements</li> </ul>
<b>Innovation</b> 	<ul style="list-style-type: none"> <li>Airspinning machine (J 20) well received at ITMA Asia</li> <li>First J 20 full system operational at client</li> </ul>	<ul style="list-style-type: none"> <li>Continued controlled market introduction</li> </ul>	
<b>Process improvements</b> 	<ul style="list-style-type: none"> <li>Improvements in new plants, centralization in Switzerland realized</li> <li>Global processes defined</li> </ul>	<ul style="list-style-type: none"> <li>Operational Excellence in main plants completed</li> <li>Go-live of new IT-supported processes with delay of half a year</li> </ul>	
<b>140 million CHF</b>	Cost: 25.3 Capex: 51.6	HY1: 10.4 HY1: 21.2	

# Rieter – progress investment program 2012/2013



## Expansion in Asia – program nearing completion

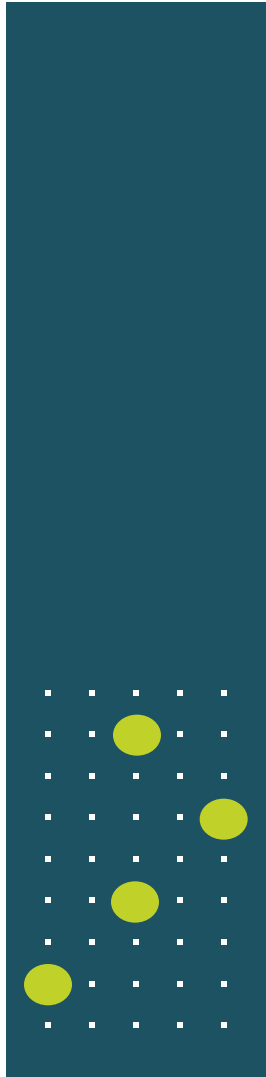
Changzhou Plant II – June 2013



Changzhou Plant II – Plan



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## Increase in order intake and sales versus second semester 2012

### Order intake

- Order intake at 711.4 million CHF – upswing largely driven by demand from Turkey
- Order backlog around 780 million CHF, parts of it reaching already into 2014

### Sales

- Sales increase by 19% to 478.1 million CHF vs. second semester 2012 driven by both Business Groups (Spun Yarn Systems: + 20%, Premium Textile Components: + 15%)

### Profitability

- EBIT margin at 3.6% of sales, before strategic projects at 5.8% of sales
- Spun Yarn Systems with 3.4% of sales, Premium Textile Components with 7.6% of sales

### Net profit

- Net profit margin at 1.0% of sales
- Earnings per share of 1.51 CHF

### Investments / Innovation

- Capital expenditure of 26.5 million CHF with focus on investment program 2012/2013
- R&D expenditure increased again to 22.1 million CHF (equivalent to 4.6% of sales)

### Free cash flow

- Free cash flow of –12.1 million CHF impacted by continued high investments
- Net liquidity at solid 63.2 million CHF

### Dividend policy

- Dividend of 2.50 CHF per share paid in April 2013
- Equity ratio at 34%

# Rieter – Financial key figures



## Order intake upswing in first half year 2013 thanks to strong market position

CHF million	HY1 2013	HY2 2012	HY1 2012	FY 2012
Orders received <sup>(1)</sup>	<b>711.4</b>	435.6	404.1	839.7
Sales	<b>478.1</b>	401.2	487.3	888.5
EBITDA	<b>34.3</b>	18.3	47.6	65.9
EBIT <sup>(2)</sup>	<b>17.1</b>	1.2	31.5	32.7
EBIT margin (of sales)	<b>3.6%</b>	0.3%	6.5%	3.7%
Net profit <sup>(3)</sup>	<b>5.0</b>	4.2	21.5	25.7
R&D expenditures	<b>22.1</b>	21.8	20.9	42.7
Capex <sup>(4)</sup>	<b>26.5</b>	57.3	24.3	81.6
Free cash flow	<b>-12.1</b>	-16.8	-15.5	-32.3

(1) Including cancellations of 60 million CHF in 2012

(2) Including strategic project costs of 10.4 million CHF (2012: 25.3 million CHF)

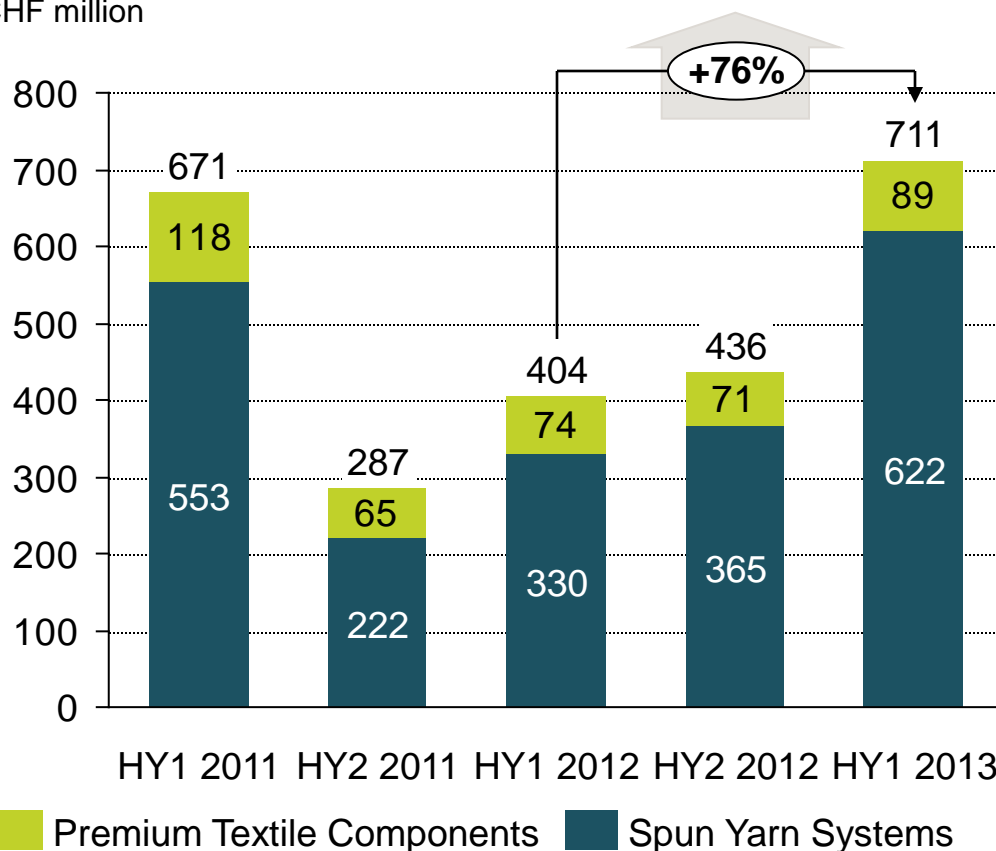
(3) Including gain on sale of investments of 0.3 million CHF (2012: 17.6 million CHF)

(4) Including capex for strategic projects of 21.2 million CHF (2012: 51.6 million CHF)

# Orders by business group

## Significant increase in order intake with largest share from Turkey

CHF million

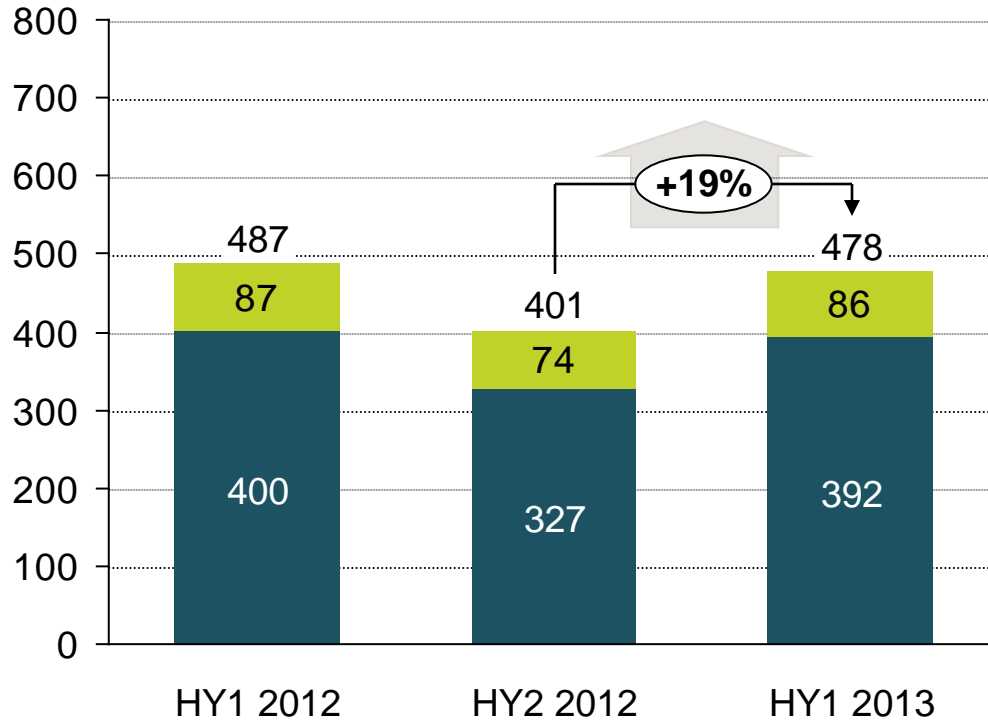


- Continued market recovery allows both Business Groups to profit from strong market position
- Turkey with largest share of order intake
- Growth in China thanks to localized product portfolio
- India with main focus on components
- Order backlog at around 780 million CHF at June 30, 2013

# Sales by Business Group

Sales with increase of 19% versus second semester 2012

CHF million

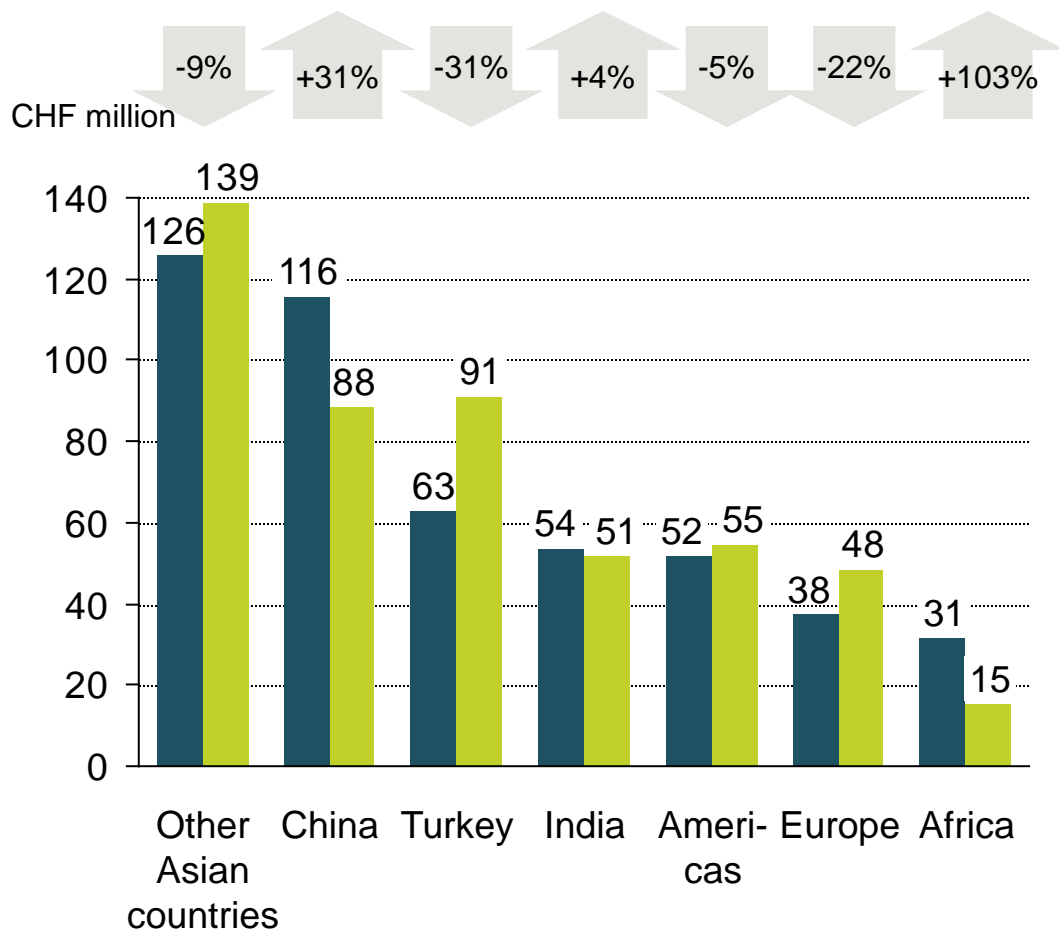


Premium Textile Components Spun Yarn Systems

- Sales increase by both Business Groups compared to second semester:
  - SYS: +20%
  - PTC: +15% / +9% segment sales
- PTC with sales level of HY1 2012 thanks to slight recovery in demand from Chinese textile machinery producers and Indian spinning mills

# Sales development by region

## Continued growth in China in first semester 2013



- Sales to China grows in absolute and relative terms (to 24% vs. 18% HY1 2012)
- Lower sales to main market regions Turkey and other Asian countries reflect weaker demand in 2012
- Share of sales to India remains around 11% (HY1 2012: 11%)
- Share of sales to Asia at 75% (HY1 2012: 76%)
- Overall, Rieter reinforced its market position in HY1 2013

# Operating result (EBIT)

## EBIT improvement against second semester 2012

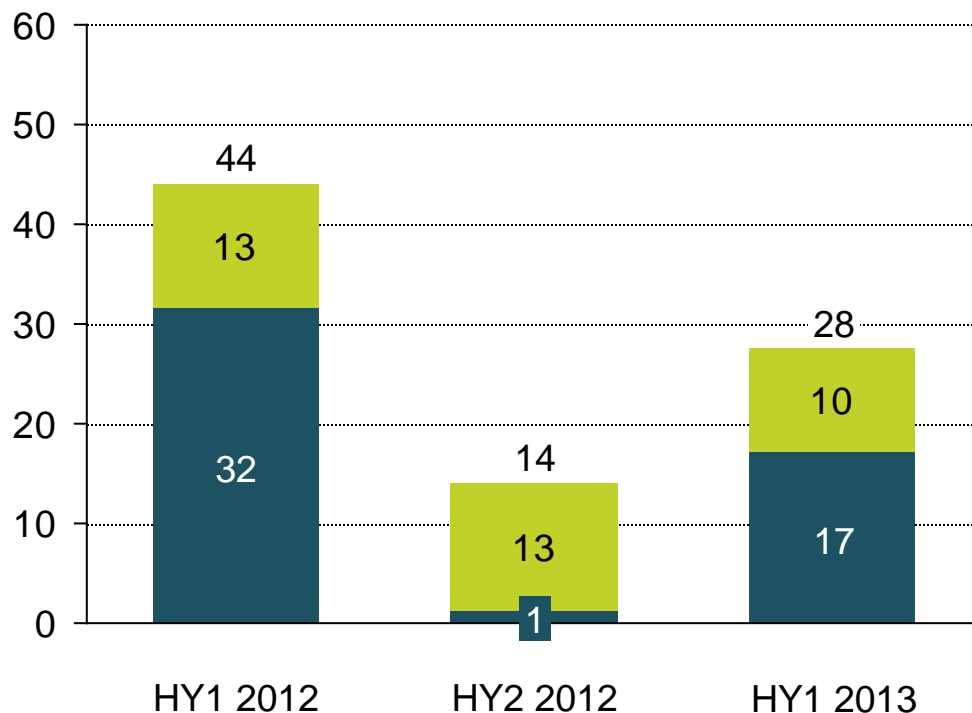
In % of sales

6.5%

0.3%

3.6%

CHF million



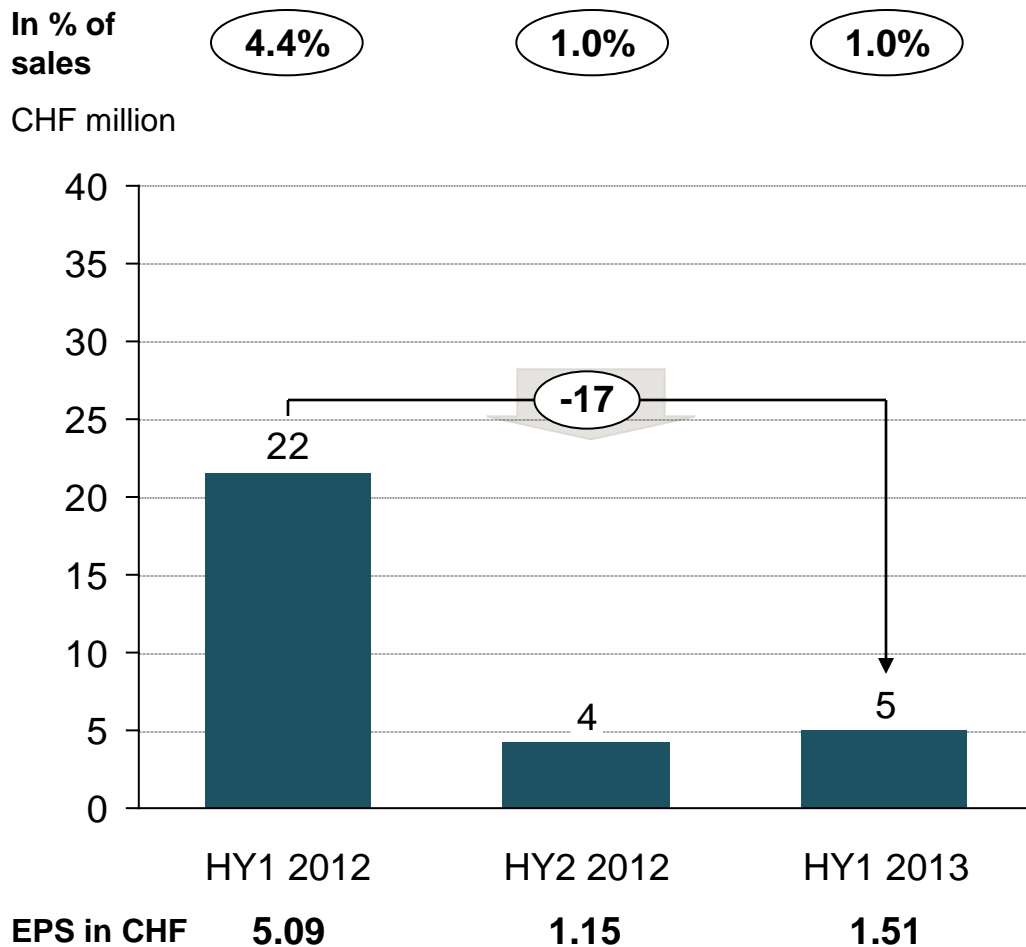
Strategic project costs EBIT

- Increasing sales volume against second semester 2012 leads to profitability improvement
- Delivery of in 2012 concluded orders with lower margins in the machine business (SYS) with negative impact in HY1 2013
- Strategic project costs of 10.4 million CHF for investment program 2012/2013 included in HY1 2013
- R&D expenses increased to 22.1 million CHF (4.6% of sales)
- HY1 2012 included extraordinary disposal gain of 6.0 million CHF from sale of two Czech production sites

# Net profit



## Net profit margin at 1.0% of sales – EPS of 1.51 CHF in HY1 2013



- Net profit including 0.3 million CHF extraordinary gain on sale of investments (HY1 2012: 4.4 million CHF, HY2 2012: 13.2 million CHF)
- Financial result of –7.4 million CHF mainly due to interest costs
- Tax rate at 50% due to country mix
- Earnings per share at 1.51 CHF

# Changes in workforce

## Continued reduction of fix workforce



- In March, 2013, announced global workforce reduction of 5% over the next 24 months is ongoing (mainly in Switzerland)
- Higher sales volume versus second semester 2012 mainly handled through increased productivity

1) Excluding apprentices, including temporary employees



# Balance sheet



## Net liquidity at 63.2 million CHF and equity ratio at 34%

CHF million	<b>30.06. 2013</b>	31.12. 2012	30.06. 2012
Total assets	<b>1092.7</b>	1070.1	1061.7
Non-current assets	<b>363.5</b>	356.3	325.5
Net working capital	<b>74.9</b>	62.0	85.2
Liquid funds	<b>323.0</b>	351.9	362.3
Net liquidity	<b>63.2</b>	95.6	107.4
Short-term financial debt	<b>21.8</b>	6.7	6.7
Long-term financial debt	<b>238.0</b>	249.6	248.2
Shareholders' equity	<b>367.2</b>	376.4	371.4
in % of total assets	<b>34%</b>	35%	35%

- Net liquidity of 63.2 million CHF mainly impacted by negative free cash flow of -12.1 million CHF and dividend of -11.6 million CHF paid out in April 2013
- IAS 19 («Employee Benefits») leads to reduction of equity by 0.4 million CHF at year-end 2012
- Shareholders' equity ratio at 34%
- Bond of 250.0 million CHF (2010 – 2015, 4.5%) secures financing of business development
- Authorized capital of 500,000 shares approved in AGM 2012 allowing timely execution of corporate development

# Net working capital



## Demand drives increase of net working capital to 74.9 million CHF

CHF million	<b>30.06. 2013</b>	31.12. 2012	30.06. 2012
Inventories	<b>248.4</b>	229.3	208.7
Trade receivables	<b>111.5</b>	91.1	121.9
Other receivables	<b>46.3</b>	41.5	43.3
Trade payables	<b>-85.7</b>	-97.3	-72.4
Advance payments	<b>-115.4</b>	-79.8	-74.8
Other current liabilities	<b>-130.2</b>	-122.8	-141.5
<b>Net working capital</b>	<b>74.9</b>	62.0	85.2

- Increase in order intake leads to higher inventories
- Seasonal increase of trade receivables compared to year-end 2012
- Advance payments from customers driven by higher order intake

# Free cash flow



## Free cash flow of –12.1 million CHF impacted by high investments

CHF million	<b>HY1 2013</b>	HY1 2012
Net profit	<b>5.0</b>	21.5
Interest and tax expense (net)	<b>11.8</b>	13.1
Depreciation and amortization	<b>17.2</b>	16.1
Other non-cash items	<b>-3.6</b>	-13.3
+/- Change in net working capital	<b>-5.9</b>	-33.8
+/- Interest paid / received (net)	<b>-10.0</b>	-10.1
+/- Taxes paid	<b>-7.9</b>	-10.4
+/- Capital expenditure, net	<b>-21.9</b>	-20.3
+/- Change in other financial assets	<b>1.9</b>	-0.1
+/- Divestments	<b>1.3</b>	21.8
<b>Free cash flow</b>	<b>-12.1</b>	-15.5

- Free Cash Flow is driven by low earnings, continued high investments and increase in net working capital
- High capital expenditures are mainly driven by investment program 2012/2013

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## Rieter benefits from strong market position in first semester 2013

- Market recovery continued, specifically in Turkey
- Strong market position and attractive product program allow significant increase of order intake
- Sales with significant increase versus second semester 2012
- Profitability as expected
- Investment program 2012/2013 with good progress – delay in IT-supported process improvements

# Outlook 2013

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- Rieter's business activities are broadly based globally. At the present time it is still difficult to forecast the development of demand for textile machinery and components in 2013. Demand depends among other factors on yarn and raw material price developments, currency exchange rates, financing costs, and consumer sentiment worldwide.
- Based on the current order backlog – already reaching into 2014 – full year sales for 2013 are expected to show high single digit growth compared to 2012. Against 2012 levels before disposal gains, operating result (EBIT) is expected to profit from volume growth. This includes strategic project costs of about 20 to 25 million CHF for the 2012/2013 investment program.
- Rieter continues to focus on lowering the break-even threshold, and in this connection is continuing with the workforce adjustments announced in spring 2013. At the same time, Rieter also seeks to improve profit margins by reducing production costs, through optimal allocation of capacities and price discipline.

# Agenda 2013

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## **HY1 2013 results publication:**

July 25, 2013

Conference call: 2 p.m. CET

## **Analyst / Investor conference:**

October 30, 2013

## **Contact:**

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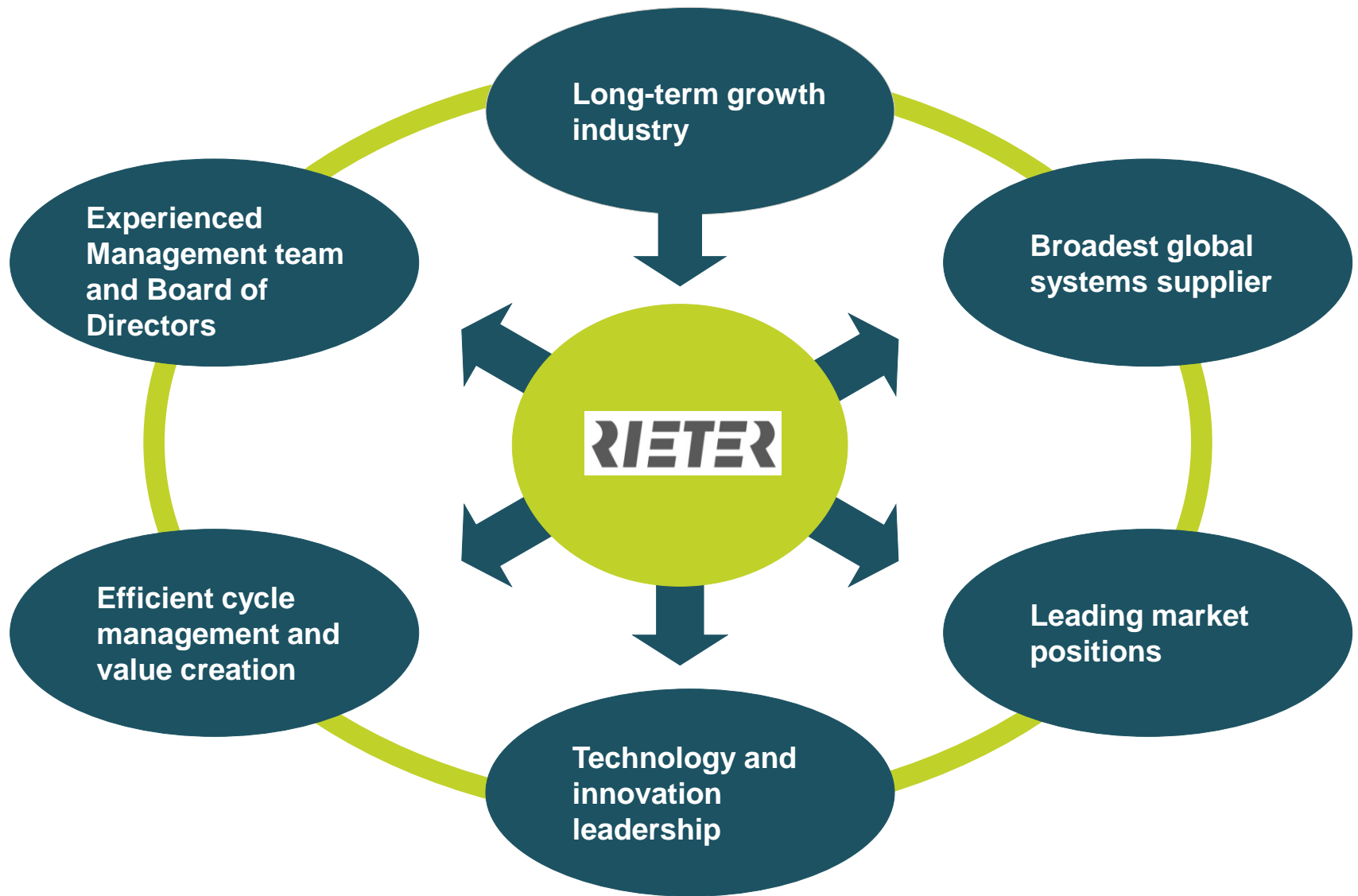
[media@rieter.com](mailto:media@rieter.com)

# Appendix





# Key investment highlights of Rieter



# Guidance over the cycle

	Over the cycle
Sales	Sales growth of > 5%
EBIT margin	> 9% over the cycle, peak years > 12%
Net result	> 6 % over the cycle, peak years > 8%
RONA	peak years > 14%
Capex	4 – 5 % of sales
Dividend policy	Target pay-out ratio of approx. 30% of net result

# Operating result (EBIT) by Business Group



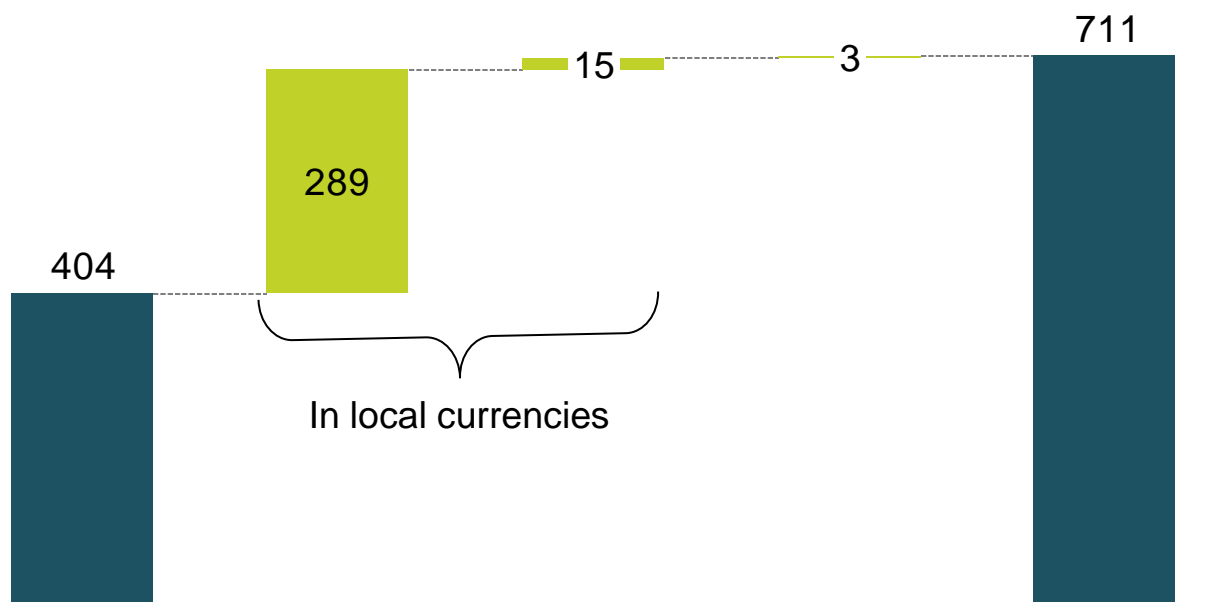
All units contributed to improving results

CHF million	<b>HY1 2013</b>	HY2 2012	HY1 2012	FY 2012
EBIT BG Spun Yarn Systems	<b>13.3</b>	2.6	27.9	30.5
EBIT BG Premium Textile Components	<b>9.6</b>	6.7	9.3	16.0
Elimination of unrealized profits / IAS 19	<b>-1.0</b>	-1.5	-0.2	-1.7
Other units	<b>-4.8</b>	-6.6	-5.5	-12.1
<b>EBIT</b>	<b>17.1</b>	1.2	31.5	32.7

# Order intake development

## Order intake increase in both Business Groups

CHF million



Orders received  
HY1 2012

Spun Yarn  
Systems

Premium  
Textile  
Components

Currency  
translation  
effect

Orders received  
HY1 2013

Main exchange rates in CHF:

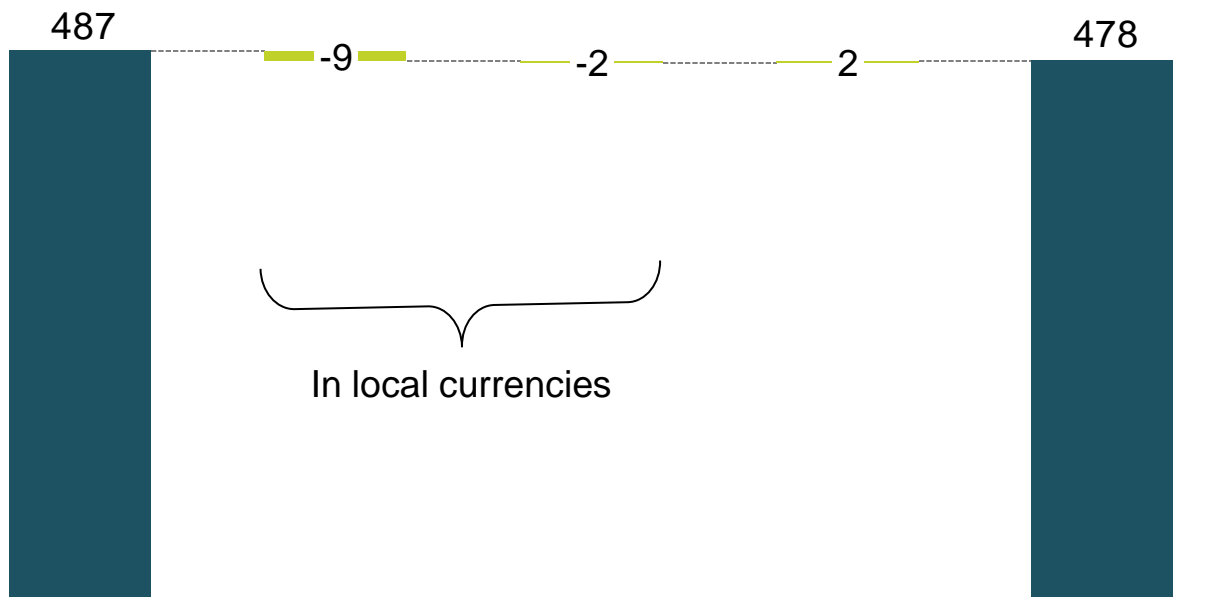
HY1 2013:	EUR = 1.23	USD = 0.94	CNY = 15.13	INR = 1.70
HY1 2012:	EUR = 1.20	USD = 0.93	CNY = 14.70	INR = 1.78

# Sales development



## Sales decrease at similar level in both Business Groups

CHF million



Sales  
HY1 2012

Spun Yarn  
Systems

Premium  
Textile  
Components

Currency  
translation  
effect

Sales  
HY1 2013

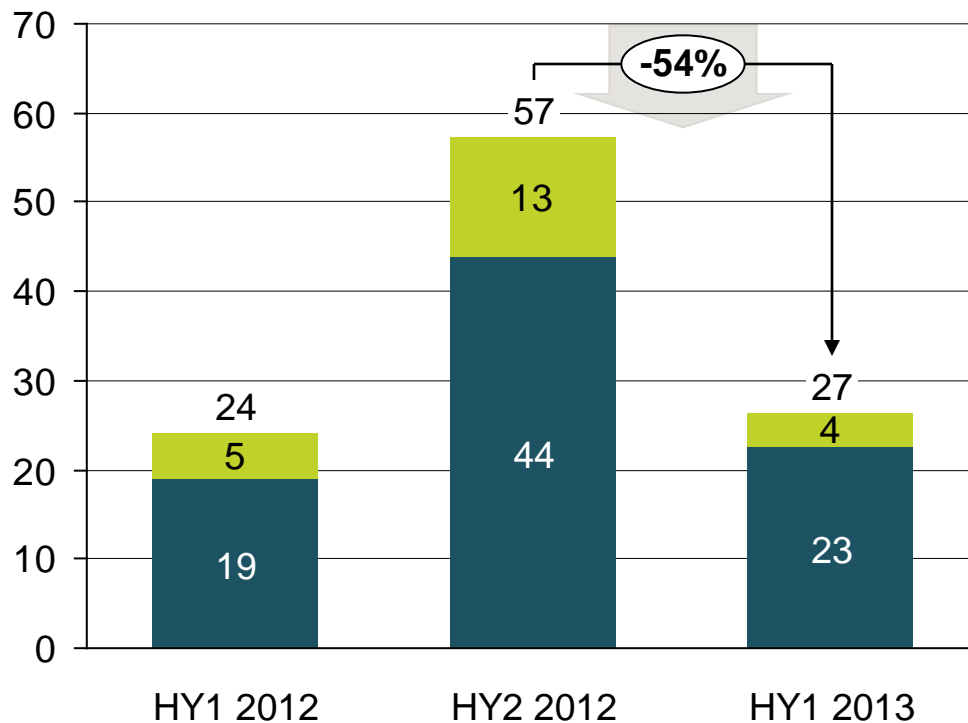
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# Capital expenditures

## Capital expenditures mainly driven by investment program

CHF million



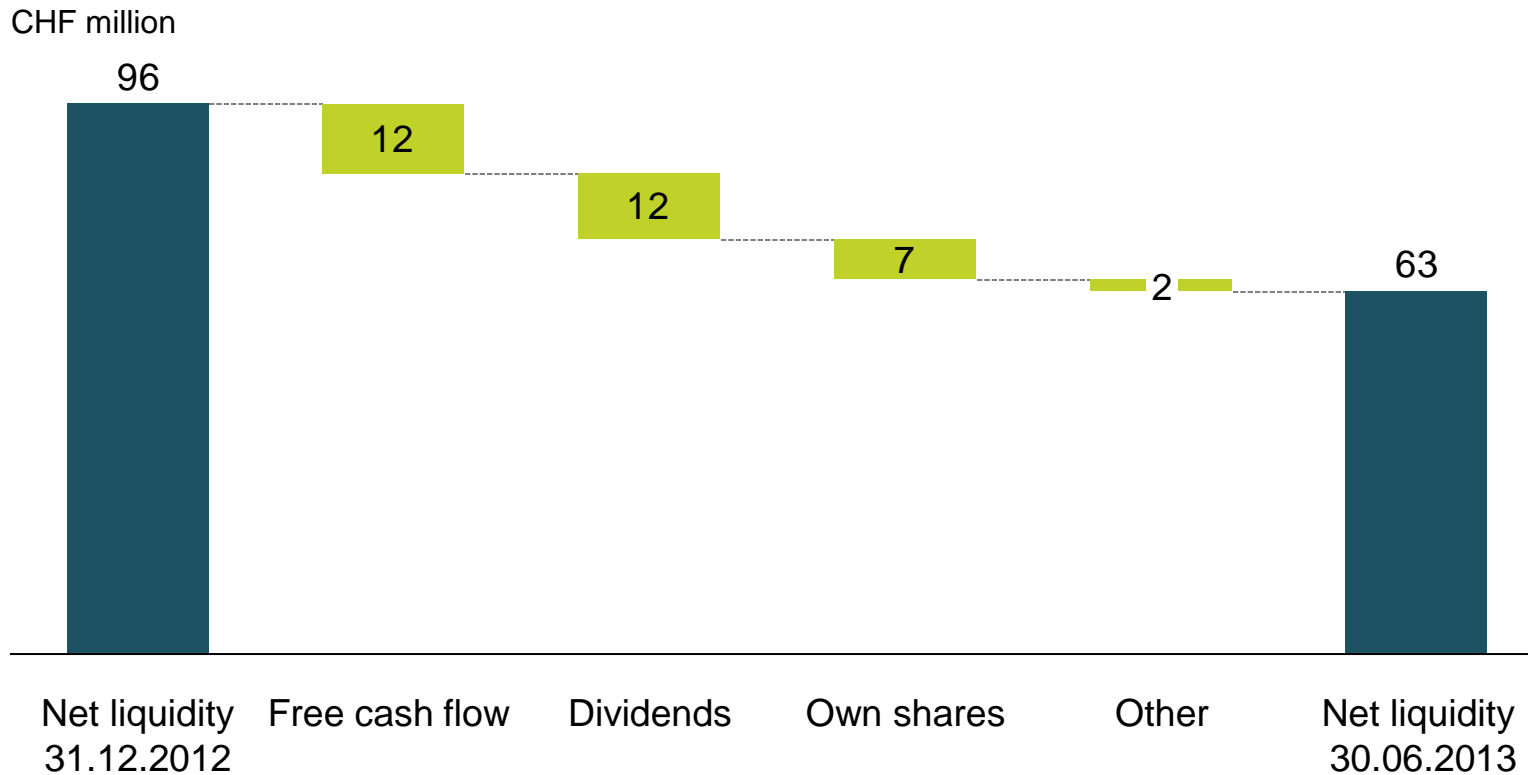
Premium Textile Components Spun Yarn Systems

- Investment projects in HY1/13 account for most of total capital expenditures mainly into expansion China and India as well as into process improvements
- Maintenance capital expenditure (5.3 Mio CHF) at 1.1% of sales

# Net liquidity

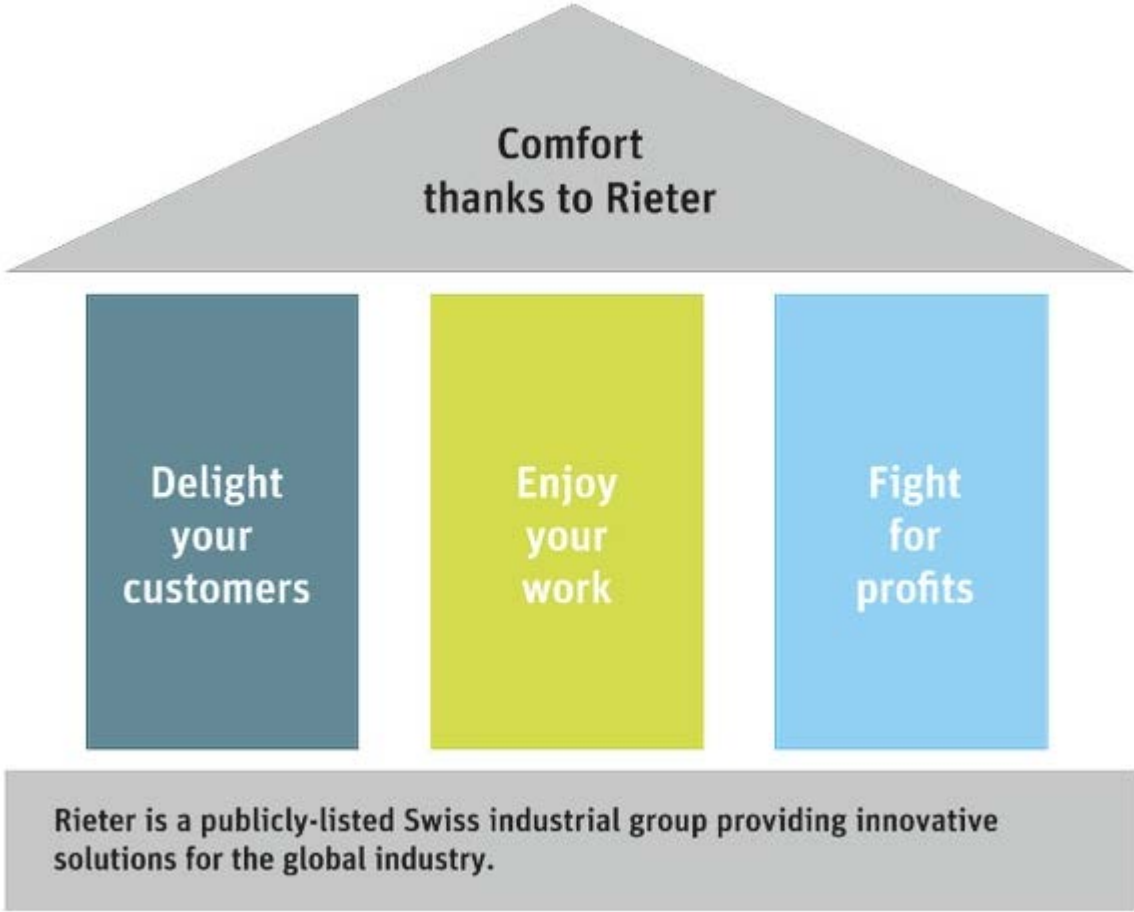


## Net liquidity impacted by free cash flow and dividends



# Values and principles

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# Disclaimer

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## Key data per share



		<b>30.06.2013</b>	31.12.2012	30.06.2012
Rieter registered shares of 5 CHF nominal value Bloomberg: RIEN; Reuters: RITZn				
Shares outstanding excl. own shares (end of period)		<b>4'575'004</b>	4'621'425	4'583'544
Average shares (of period)		<b>4'617'076</b>	4'609'778	4'616'917
Share price (end of period)	CHF	<b>148.80</b>	159.40	140.50
Market capitalization (end of period)	million CHF	<b>681</b>	737	644