

# Schaffner Holding AG

Switzerland | Industrial Goods & Services

## Company Report

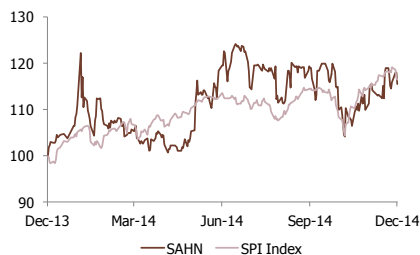
11 December 2014

### Company Data

Price:	CHF 293
Market Cap:	CHF186mn
Free Float:	100%
Nr. of shares:	635'940
Avg. traded volume (1 year):	1'091
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: SIX Swiss Exchange

### Share Price Development



### Key Financial Data

	2013	2014	2015e	2016e
Sales	194.9	214.6	227.8	247.3
EBITDA %	8.8	10.8	12.3	12.6
EBIT %	4.8	7.0	9.0	9.3
Net Margin %	3.2	5.9	7.7	7.1
Basic EPS	9.9	20.0	27.8	31.6
Diluted EPS	9.9	19.8	27.5	31.3
DPS	2.9	4.1	5.3	6.0
Equity Ratio %	49.0	53.0	38.0	27.0
Capex	4.8	7.9	7.5	8.3
P/E	22.8x	15.1x	10.8x	9.5x
EV/EBITDA	9.1x	9.0x	7.4x	6.6x
EV/EBIT	16.6x	13.8x	10.2x	9.0x

### Next Events

Annual General Meeting	15 Jan 2015
1HY15 results	12 May 2015

### Analysts

Doris Rudischhauser  
dru@researchdynamics.ch

Alexandre Müller  
amu@researchdynamics.ch

Tel: +41 43 268 3232

[www.researchdynamics.ch](http://www.researchdynamics.ch)

## Strategy Execution Yields Solid Results

Schaffner ('the Group') is a market leader in the areas of electromagnetic compatibility (EMC) and power quality and manufactures products such as filters, transformers, and chokes that help remove electrical distortions, thereby enhancing the reliability of electronic equipments and stabilizing power grids. Schaffner also manufactures components for keyless entry antennas used in automobiles. The Group reported sales of CHF215mn and had 3,140 employees as of FY2014, which ended September 30.

- ### Cost optimization and enhanced utilization to bolster margins

Schaffner's initiative of establishing lean manufacturing methodology has helped it improve productivity across its operations. The Group's endeavor of a continual improvement in the processes has enabled it to eliminate inefficiencies and reduce storage time. The various initiatives towards lean manufacturing across all plants, coupled with increased flexibility to utilize EMC's capacity (operating at about 80% capacity utilization) increasingly also for the AM division has enabled Schaffner to accommodate higher demand. These factors have helped Schaffner to further improve its operating margin by 217bps y/y to 7% in FY2014. Based on Schaffner's ongoing efforts on achieving operational excellence, we expect the Group to continue to expand operating margins by about 200 bps to 9% in FY2015.

- ### Robust demand for automotive products to boost top-line growth

Thanks to the rising demand for feature-rich, suave and technology-enabled cars globally, the Group has been able to generate strong organic revenue growth in its Automotive division over the past few years (28.4% CAGR over FY2011-FY2014). The Group is a global leader in a rapidly expanding keyless entry antenna market. Further, the rise of the electric vehicle (EV) market offers Schaffner an exciting growth opportunity. The Group has developed advanced EMC filters, which are used for interference-free operations of the new-generation electric cars. Schaffner expects the keyless entry systems and electric vehicles market growth to surpass the growth of the overall automotive industry offering it excellent revenue growth prospects. According to the company, the addressable market opportunity per Plugged-In-Hybrid-Vehicle (PHEV) for Schaffner's products is as much as EUR100 (about CHF120), thus putting the addressable market opportunity at CHF330mn by 2018 even with conservative estimates.

- ### Healthy FY2014 results; outlook positive

Sales grew by 10.1% y/y (12.1% in local currencies and 7.3% organically) for the second consecutive year to reach CHF215mn, with the top-line trending upward across all divisions. At the same time, gross margin improved by over 220bps y/y to 29.2%, suggesting the cost rationalization efforts are yielding results. FY2014 results point towards improved operating performance despite varied economic climates across its target markets. We expect management's two-pronged approach of focus on growth verticals and emphasis on cost optimization to continue to yield positive results in the form of improved margins in FY2015.

- ### Multiples at discount; attractive entry point

Currently Schaffner is trading at a discount of around 18% and 15% on EV/EBITDA and EV/EBIT multiples based on 2015E respectively, and 27% on P/E basis to its product peers. Similarly, the Group is trading at a discount of 31%, 24% and 42% on EV/EBITDA, EV/EBIT and P/E basis to its industry peers. We believe the significant discount is unwarranted given the anticipated robust growth in sales driven by the high-growth Power Magnetics and Automotive divisions, and - thanks to significant operating leverage - expanding margins.

## Table of contents

Investment Highlights & Valuation .....	3
Review of FY2014 Results & Outlook .....	7
Company Overview .....	8
Electromagnetic Compatibility (51% of FY2014 revenue).....	9
Power Magnetics (31% of FY2014 revenue) .....	10
Automotive (17% of FY2014 revenue) .....	11
Business Model and Strategy.....	12
Focus on growth markets and bolt-on acquisitions to lead top-line growth .....	13
Margin expansion remains a priority .....	14
Growth Opportunities & Key Drivers .....	15
A secular shift toward 'smart grid' bodes well for the Group.....	15
Automotive applications offer revenue opportunities .....	16
Asia-Pacific offers a huge untapped opportunity .....	18
SWOT and Porter Five Forces Analyses .....	20
Additional Details .....	21
Detailed Financial Statements .....	22

Stable EMC business ensures healthy margin while the PM and AM division drive sales growth

FY2014 results reconfirm the growth story

## Investment Highlights & Valuation

### An optimum mix of steady and sunrise businesses

Schaffner's strategy of value creation is through establishing balanced businesses across select target industry and geographic markets. The Group has a strong presence in the high-margin Electromagnetic Compatibility (EMC) segment as well as high-growth Power Magnetics (PM) and Automotive Markets (AM) businesses. In the EMC segment, which is largely a mature business for the Group, Schaffner enjoys a solid positioning in its focus market. The division, which develops and manufactures standard and customized EMC filters, contributes to over half of the Group's sales with a significant portion of the division's revenues coming from standardized products. At the same time, Schaffner's other two business divisions – PM and AM cater to the niche markets of rail technology, photovoltaic, and the keyless entry systems and electric vehicles in the automobiles.

Schaffner's ability to expand into new markets and further penetrate in the existing ones helps to strengthen its positioning. The Group added well-known new customers in the EMC and the AM divisions and also expanded its supplies to existing ones during FY2014. With EMC being a more mature business, we expect the other two divisions – PM and AM – to drive the bulk of the growth over the medium to long term. In the PM segment, opportunities to deliver high-quality products into the rail transportation market in China remains strong as the world's most populous country looks to make huge investments in high-speed bullet trains as well as local commuter trains and trams. Also, ongoing investments in rail infrastructure in North and South America and the Middle East make these geographies key markets for the Group. Similarly, Schaffner has been witnessing a robust traction in its AM division in the past few years. Besides the existing market opportunity in antennas for keyless entry, the Group expects the EV market to offer enhanced opportunities.

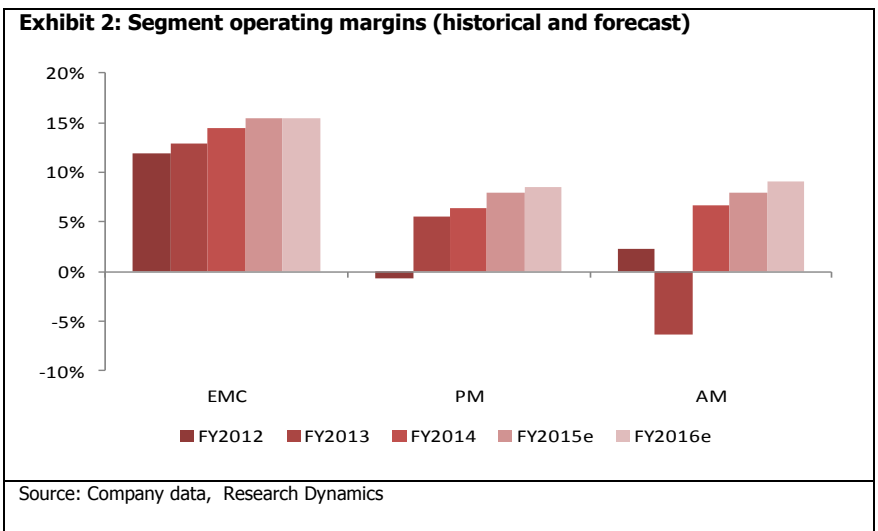
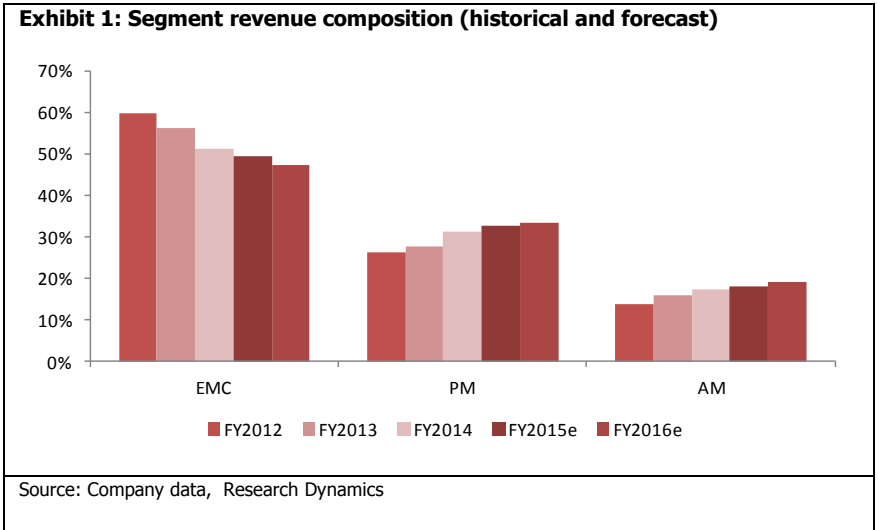
### Extensive sales network and strong expertise in EMC

Schaffner has made its presence felt by building a network of production sites, sales/application and logistics centers worldwide, stretching from China in the East to the USA in the West. The Group also boasts long-standing relationships with major names such as ABB, GE, Siemens, Hitachi, Vacon, Otis, Alcatel, General Motors, Audi and Ford among others. Further, the Group's expertise in electromagnetic compatibility (over 50 years of experience), and its offering of integrated EMC, power-quality & energy-supply solutions up the prospects of synergic sales opportunities.

### Solid strategy execution drives robust FY2014 performance

On the back of its solid positioning in the business divisions, Schaffner has generated a 10% y/y rise in sales in FY2014 (5.5% CAGR over FY2011-FY2014). Despite a challenging economic climate in Europe and Asia, the Group is confident of achieving mid-single digit top-line growth in FY2015E by enhancing its market share. Overall, it expects to achieve growth of around 7.4% (CAGR) by FY2016E by increasing sales in the high-growth segments at 11.5% (CAGR) and a modest 3.2% (CAGR) in the EMC business over the same period. The Group is confident to achieve revenue levels of CHF300mn without undertaking any major capacity expansion, which offers a huge leverage potential across the organization. In addition, the Group continues to identify select acquisition targets which would be a solid fit for the Group's portfolio of assets. On the margin front, the EMC division remains the front-runner generating an average operating margin of approximately 14% over the last four years. In FY2014, all the three divisions have generated positive operating margin for the first time in the last three years, underpinning apt implementation of the growth strategies. The Group expects steady margin growth on the back of its endeavor to achieving operational excellence.

Schaffner is well positioned to benefit from the two largest end markets



**Expanding energy market offers incremental opportunities**

Schaffner, with its products and services, plays a key role in promoting technologies that support renewable energies, as well as ensures the reliable functioning of electronic equipment and offers systems that meet the requirements for greater energy efficiency. It is worth noting that 'Energy-efficient drive systems' and 'Renewable energy' are the Group's two of the largest industry verticals, contributing 23% and 14% respectively to its top line in FY2014.

Industries across the world are battling an energy challenge today. Governments, consumers and shareholders are all pressurizing them to reduce energy consumption, lower carbon dioxide emissions and provide secure power supplies. This pressure comes against a background of ever-rising energy prices and the effects climate change is having on the environment. As a result, industry and their consumers are demanding ever more energy-efficient products. In addition, the world's demand for energy is rising steadily. According to the International Energy Agency (IEA), energy demand is set to rise 47% between 2008 and 2035 under current policies, reflecting global economic growth and rising living standards. Electricity demand is expected to grow almost twice as fast, with most of the increases occurring in emerging markets. To add to this, IEA found that industry consumes about 42% of all electricity generated.

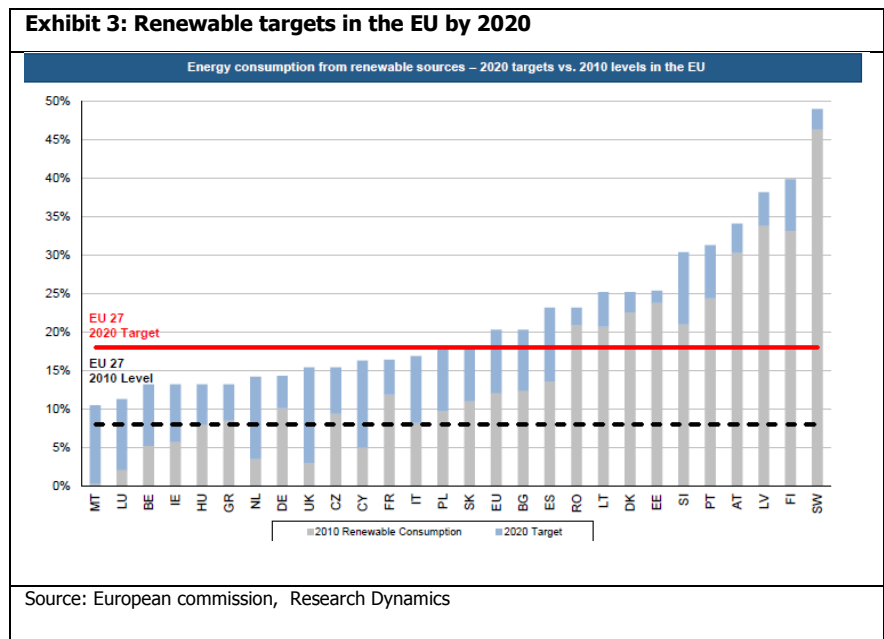
The energy saving potential in industries and utilities is enormous just in motor-driven applications alone. Hundreds of millions of electric motors drive machines, compressors, fans, pumps or conveyors in virtually every sector, which account for about 70% of all the electricity that industry uses. The most immediate, cost-effective and practical way to address the energy challenge is to grasp the opportunities for energy reduction through available and proven technology.

For instance, many industrial systems are still controlled by mechanical variable speed drives today. The motor operates continuously at full power, with up to four-fifths of the electrical

power used being lost. An electronic speed control system can ensure that the machinery receives just the amount of energy it actually needs for the process. As a result, the system’s energy consumption can often be reduced by more than half. Schaffner components support the interference-free integration of electronic speed control systems and other power electronic components in complete systems and thereby protect the power network and neighboring devices from harmful distortion effects. Schaffner’s offering includes the requirements analysis, development, manufacture and delivery of components, and the testing of their steady functioning at the customer’s premises or in its own development laboratories.

In the renewable energy industry, enormous technological progress has been made in terms of renewable energy equipment based on photovoltaic technology, wind power in recent years. Thanks to improving efficiency and attractive grant programs, renewable energy has become an important alternative to traditional sources of energy. However, electrical energy from renewable sources cannot be fed directly into the power supply network, as these sources primarily generate direct current (DC) or, in the case of wind power farms, alternating current (AC) which fluctuates heavily depending on the wind speed. Power supply networks and energy users generally require AC with a network frequency used by the corresponding national power network.

With an extensive experience of over 40 years, Schaffner is specialized in providing solutions to interference problems (EMC) encountered in power electronics and frequency converters or inverters that are used in uninterruptible power supply systems or in the generation of renewable energy. With the increasing government push for developing the renewable energy industry along with the improving competitiveness of renewable vis-a-vis the traditional energy sources, we believe, the Group is in a sweet spot, given its focus on this industry.



**Valuation**

Given Schaffner’s niche business profile, there are not many exact comparables available. In order to show the relative valuation of the Group, we have prepared a customized set of peers (referred to as product peers), which have high exposure to short-cycle businesses and their end-markets are similar to that of Schaffner. Among the companies considered, London-based Laird PLC (Laird) and Japanese-based Omron Corporation (Omron), Taiwan-based Ablerex Electronics (Ablerex) and China-based Rongxin Power Electronic (Rongxin) are the closest in terms of business. Moreover, we have also compared Schaffner to companies that are Swiss-based and belong to the ‘Electronic Equipments, Instruments’ industry as per the GICS classification. In this report, they are referred to as industry peers.

We have considered the three most widely used parameters, EV/EBITDA, EV/EBIT and P/E to show the relative valuation of the Group. Our observation as depicted in the table below highlights that on all the three parameters, historically (last 3 years) the Group has traded at a premium to both product and industry peers. Unlike in the past, on 1-year forward multiples, Schaffner is currently trading at a discount of 18% on EV/EBITDA and 15% on EV/EBIT, and 27% on P/E basis to its product peers. Similarly, the Group is trading at a discount of 31%, 24% and 42% on EV/EBITDA, EV/EBIT and P/E bases to its industry peers.

Healthy earnings growth; discount on multiples unwarranted

We believe this is mainly due to the results' underperformance over the past few years that have dampened investor sentiment towards the stock. However, while sentiment has improved given strategy execution and delivery thereof with the 2014 results, we believe the discount is unjustified as Schaffner. This especially in light that the Group is on the verge of embarking on its growth story. The Group's near to mid-term prospects appear bright as its recent initiatives to improve margins in the EMC division and target growth markets (such as smart grids, photovoltaic, keyless entry systems) portend a business model with ideal mix of growth and profitability.

**Exhibit 4: Schaffner – Comparison with Product peers**

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E
Schaffner Holding AG	7.8x	8.5x	7.2x	10.8x	12.7x	9.9x	13.3x	13.8x	10.5x
Omron Corp	7.0x	10.3x	9.3x	10.0x	NA	NA	15.3x	19.7x	18.2x
Laird Plc	8.0x	0.1x	0.1x	10.9x	0.1x	0.1x	11.8x	16.7x	14.5x
Ablerex Electronics Co Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Rongxin Power Electronic	17.2x	NA	NA	23.7x	NA	NA	17.2x	NA	NA
Yokogawa Electric Corp	8.0x	9.9x	8.3x	11.8x	15.0x	11.8x	17.1x	23.8x	18.9x
Lem Holding SA	11.2x	13.6x	13.3x	13.1x	15.5x	15.3x	17.8x	19.9x	19.9x
Komax Holding AG	7.2x	9.1x	8.0x	9.0x	11.3x	9.6x	12.4x	16.5x	12.7x
Gavazzi Carlo Holding AG	4.8x	5.9x	5.8x	5.7x	7.2x	7.1x	10.3x	15.3x	12.7x
Eaton Corp Plc	9.8x	12.1x	10.6x	12.1x	16.8x	13.8x	12.7x	15.0x	13.6x
Cosmo Ferrites Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Apator SA	9.4x	10.1x	9.5x	11.5x	12.5x	11.6x	13.3x	14.3x	NA
Median	8.0x	10.0x	8.8x	11.5x	12.5x	11.6x	13.3x	16.6x	14.5x
High	17.2x	13.6x	13.3x	23.7x	16.8x	15.3x	17.8x	23.8x	19.9x
Low	4.8x	0.1x	0.1x	5.7x	0.1x	0.1x	10.3x	14.3x	12.7x
Premium (disc) to product peers	(3%)	(15%)	(18%)	(7%)	1%	(15%)	(0%)	(17%)	(27%)

Source: Bloomberg (as on 10 December 2014)

**Exhibit 5: Schaffner – Comparison with Industry peers**

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E
Schaffner Holding AG	7.8x	8.5x	7.2x	10.8x	12.7x	9.9x	13.3x	13.8x	10.5x
Lem Holding SA	11.2x	ge	13.3x	13.1x	15.5x	15.3x	17.8x	19.9x	19.9x
Kudelski SA	6.4x	7.7x	7.1x	12.5x	13.5x	12.4x	12.9x	16.1x	12.4x
Inficon Holding AG	10.6x	11.9x	11.0x	12.5x	14.0x	13.0x	16.2x	19.8x	18.2x
Also Holding AG	5.7x	5.2x	5.0x	7.4x	6.7x	6.2x	10.2x	10.0x	9.1x
Comet Holding AG	7.9x	12.9x	10.5x	12.1x	18.0x	14.2x	15.4x	23.4x	20.2x
Cicor Technologies	4.6x	NA	NA	7.4x	NA	NA	9.1x	NA	NA
Elma Electronic AG	NA	NA	NA	NA	NA	NA	NA	NA	NA
Datacolor AG	7.3x	11.0x	NA	9.3x	16.1x	NA	15.5x	23.3x	NA
Infranor Inter AG	NA	NA	NA	NA	NA	NA	NA	NA	NA
Median	7.3x	11.0x	10.5x	12.1x	14.7x	13.0x	15.4x	19.9x	18.2x
High	11.2x	12.9x	13.3x	13.1x	18.0x	15.3x	17.8x	23.4x	20.2x
Low	4.6x	5.2x	5.0x	7.4x	6.7x	6.2x	9.1x	10.0x	9.1x
Premium (disc) to industry peers	7%	(23%)	(31%)	(11%)	(14%)	(24%)	(14%)	(31%)	(42%)

Source: Bloomberg (as on 10 December 2014)

Using discounted cash flow (DCF) methodology, the intrinsic price of the Group comes to CHF414. Our weighted average cost of capital (WACC) of 6.4% is based on a cost of equity of 6.9% and a cost of debt of 4.0%. Our inputs for cost of equity include beta of 0.82 (time span: last five years), current 10-year government bond yield of 0.27% and a market risk premium of 8.1%. We have explicitly forecasted cash flows till FY2020E and thereafter assumed a terminal growth rate of 1%.

**Exhibit 6: Sensitivity of WACC and terminal growth rate**

Sensitivity Table						
WACC						
Terminal growth rate		4.5%	5.5%	6.4%	7.5%	8.5%
	0.25%	557	440	369	303	260
	0.50%	589	460	383	312	267
	0.75%	625	481	398	322	274
	1.00%	666	505	414	333	282
	1.50%	768	562	452	357	299
	2.00%	912	636	498	386	318
2.50%	1127	734	556	420	341	

Source: Research Dynamics

## Review of FY2014 Results & Outlook

### Solid set of numbers; results in-line with guidance

Schaffner reported FY2013/14 results in line with guidance. Revenues came in at CHF214.6mn up 10.1% y/y, at the lower end of management's guidance of 10%-15%. However, in local currencies, growth amounted to 12.1% (adjusted for the Trencos acquisition, which contributed CHF 5.4mn, the group recorded organic growth of around 7.3%). The Group achieved an operating margin of 7.0%, a 217 bps y/y expansion, in-line with guidance. All segments witnessed an expansion in operating margins: EMC's margin expanded 158 bps to 14.4%; PM's margin grew 90 bps to 6.4%, while Automotive division margins came back into positive territory at 6.7%.

The Group's profitability benefitted from its long-term operational excellence initiatives, as part of the Group's overall strategy. Profitability at the Automotive division improved thanks to the successful implementation of an antenna project for a prestigious new customer in the USA as well as a major filter systems project for a German premium car manufacturer. The positive operating performance trickled down to the next level as the Group reported a net profit of CHF12.6mn, as against CHF6.1mn in FY2012/13. This supports our conviction that management's efforts are bearing fruit. We expect that the Group can successfully achieve further expansion in spite of challenging market environments in Europe and America.

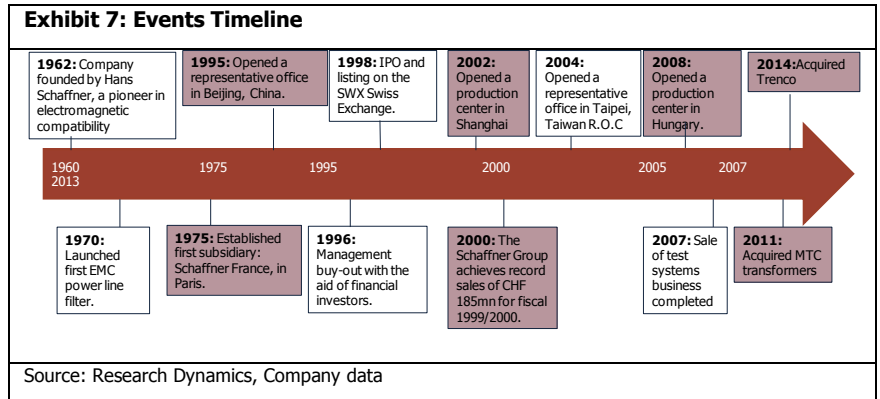
**EMC division:** Full year revenues were driven by a strong growth in Europe (mid-single digits) offsetting a decline in Asia, so that overall revenues came in at last year's level of CHF 110mn. **PM division:** The PM division continued to drive Schaffner's performance with a 24.8% growth reported in 2013/14. The results include Trencos numbers for the 2<sup>nd</sup> half-year, contributing CHF 5.4mn in revenues, which has catapulted the PM division to the third position in global ranking. Trencos' revenue contribution was CHF5.4mn in FY2013/14. **AM division:** Revenues grew 19.1% to CHF 37.3mn with strong demand from keyless entry and electric vehicles markets.

For FY2014/15, management has guided revenue growth to be in mid-single-digits with continued improvement in EBIT margins, despite expectations of difficult market conditions in Europe and Asia. The Group plans to focus on growing its share in its respective target markets. Over the mid-term, Schaffner's targets remain unchanged at 8% revenue growth and target EBIT margin of 9-12% (FY2013/14: 7.0%).

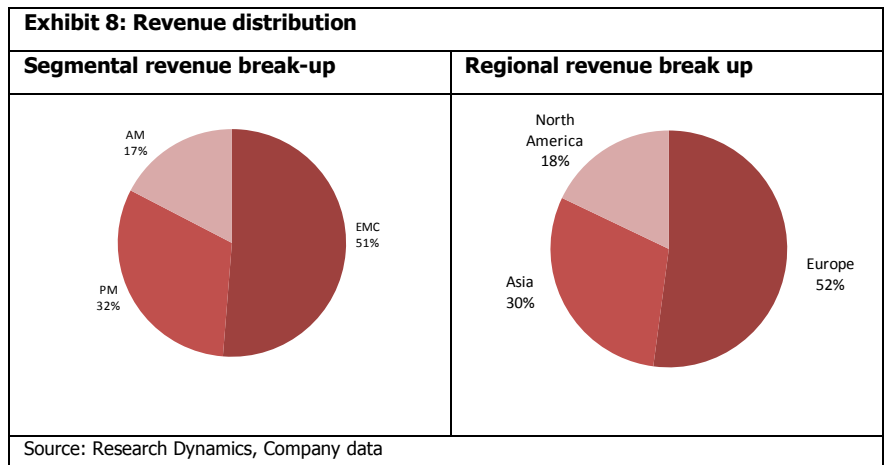
We expect the Group to report revenues of CHF 228mn, 6.2% growth y/y driven primarily by PM and AM divisions, which we expect to achieve a revenue growth of 10% each. However, we expect the EMC division to register a subdued growth of 2.5% (lower than the guidance of 4%) on account of sluggish expected economic growth in China and Europe. We further expect an expansion of 200bps in operating margins to 9% in FY2015. We believe the revenue mix in favor of the lower margin PM and AM businesses will impact margins negatively in the near term. Nonetheless, a solid expansion in these two divisions will add the economies of scale and drive the margins further up to stabilize around 9.5% by FY2018.

### Company Overview

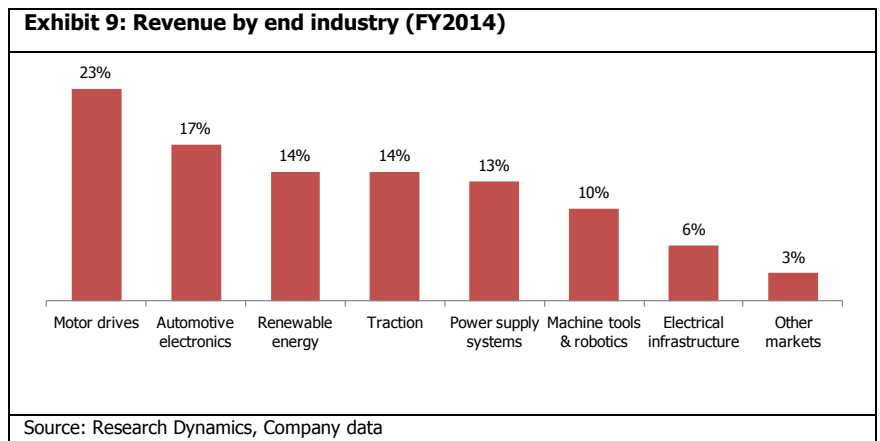
Schaffner Holding AG provides electromagnetic compatibility (EMC) and power quality products such as magnetic components, harmonic filters and line reactors. In addition to ensuring the reliable functioning of electronic equipment and systems, these products also promise compliance with all major quality and performance standards. In addition, the Group develops and manufactures components for convenience and safety electronics in cars, and for drive trains of vehicles with hybrid or electric drive. Schaffner’s components are deployed in energy-efficient drive systems and electronic motor controls, wind power and photovoltaic systems, rail technology, machine tools, and robotics, as well as in power supplies for various electronic devices in medical technology or telecommunications sectors. The Group serves original equipment manufacturers (OEMs), equipment manufacturers, and systems integrators. Founded in 1962, Schaffner is headquartered in Luterbach, Switzerland.



The Group operates through three divisions: Electromagnetic compatibility (EMC), Power Magnetics (PM), and Automotive division (AM) and its products are sold globally.



The Group’s businesses are highly correlated with economic activities around the globe. Its key markets include energy efficient drive systems, power supplies for electronic devices, renewable energy, automotive electronics, machine tools and robotics, rail technology, and electrical infrastructure.



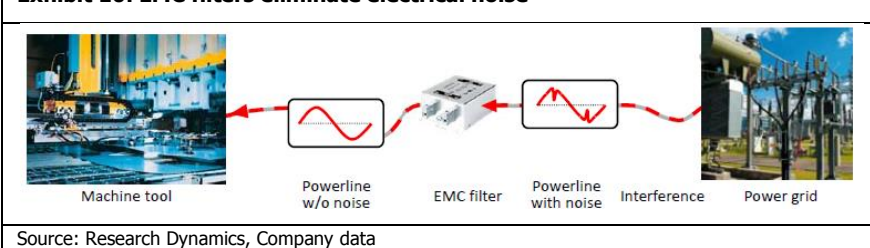
Schaffner has categorized its business into three divisions: Electromagnetic Compatibility (EMC), Power Magnetics (PM) and Automotive (AM).

Business Unit	FY14 sales (CHF mn)	% of group sales	EBIT margin (%)	FY15 Guidance	
				Sales (CHF mn)	EBIT margin
EMC	110	51%	14%	119	16% - 20%
PM	67	31%	6%	71	8% - 10%
AM	37	17%	7%	38	8% - 10%

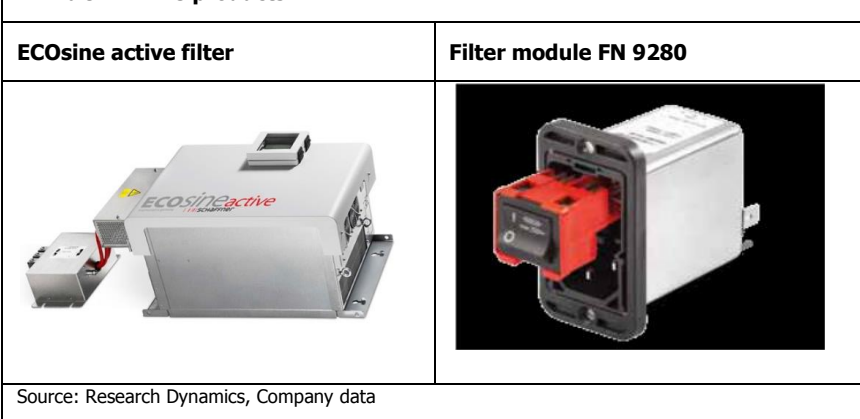
### Electromagnetic Compatibility (51% of FY2014 revenue)

Electromagnetic Compatibility (EMC) is the largest division of the Group, which contributes 51% to the top-line. The division develops EMC filters that prevent interference from neighboring electrical devices, eliminate electrical noise to ensure proper operation of electronic equipment and help in increasing the life of power electronic systems. It also develops power quality filters that improve the reliability of electricity grids through continuous monitoring of changes in the grid and addressing issues such as grid overload, equipment downtime, and electricity waste. Additionally, it also offers pre and post-sales services such as efficient measurement, expert technical consulting, and provide customized solutions. The division's key sales markets include energy-efficient drive systems, renewable energy, power supplies for electronic devices, and machine tools and robotics.

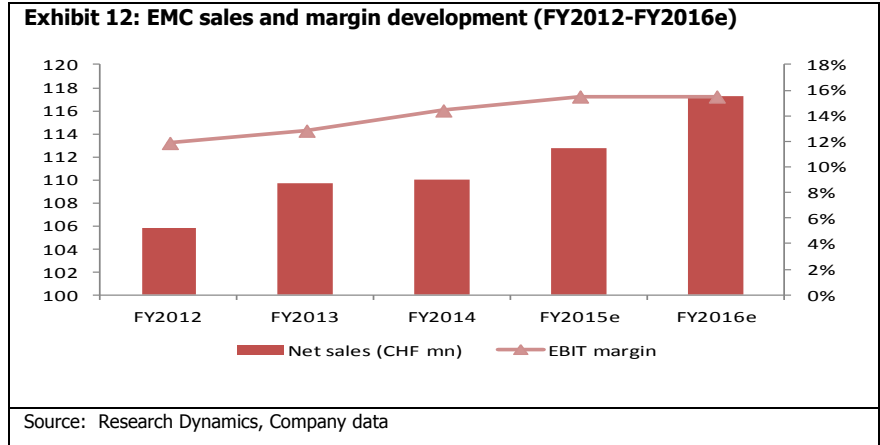
**Exhibit 10: EMC filters eliminate electrical noise**



**Exhibit 11: EMC products**



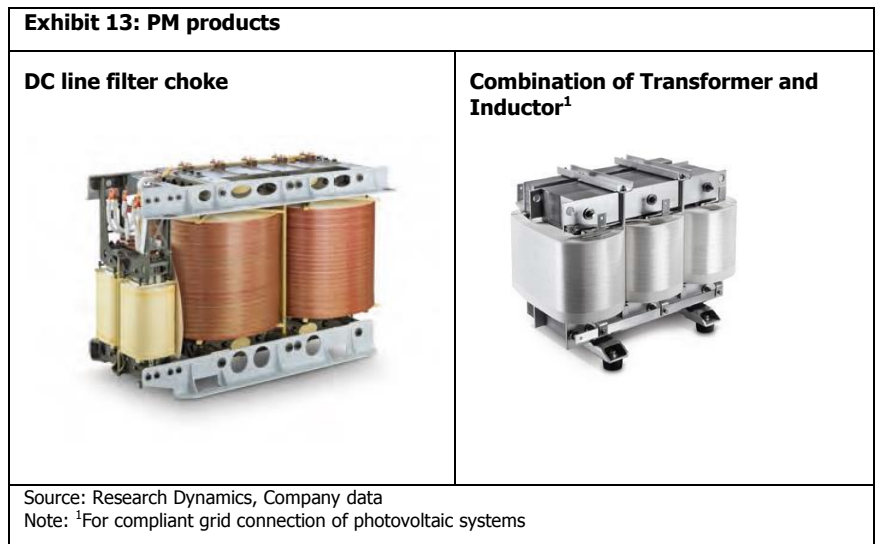
EMC is largely a stable business (with 40% standardized products) where the Group commands a dominant position in its focus markets. Schaffner expects the EMC division to grow at a rate of 4% per annum in the next two years (lower than its other divisions). However, on the margin front, EMC scores ahead of the other two divisions and is expected to drive the profitability growth over the near term. The Group has taken a number of margin improvement initiatives such as local sourcing of raw materials, automation of manufacturing processes, and adopting cost-optimized product designs (design-to-cost) approach. Schaffner targets the division to earn an EBIT margin of 16-20% in the medium term (by FY2015e) from 14.4% in FY2014.



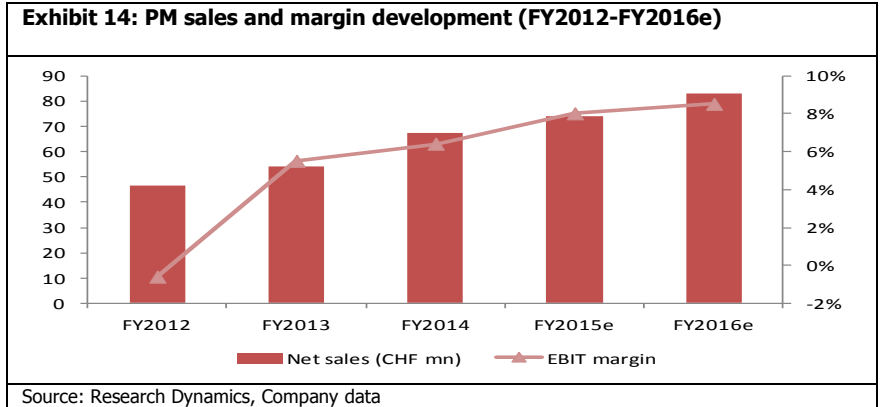
**Power Magnetics (31% of FY2014 revenue)**

Power Magnetics (PM) is the Group’s fastest growing (24.8% y/y growth in FY2014) as well as the second largest division. It manufactures inductors that help in reliable operation of power electronic systems by safeguarding power supply. The division also develops customized transformers that are used in demanding applications such as photovoltaic inverters, wind turbine converters, etc. They help in protecting electrical equipment from high-frequency currents, interference and malfunctions.

The PM division is set apart as a niche-market focused division. Its key end-markets include rail technology, wind turbine and photovoltaic markets. Recently, the Group has identified new niche markets such as energy storage (mainly in connection with rail technology & alternative energy generation), data centers and mobile power generation systems. In addition, Schaffner is also eyeing the growing photovoltaic market in China and huge rail technology market in Japan. The Group is also targeting other important rail markets such as Russia and South Africa. Consequently, the Group expects its PM division’s sales to grow at 15% per annum over the next two years and contribute significantly to the overall revenue. On the margin, the Group has initiated several operating excellence measures and targets EBIT margin in the range of 8%-10% (by FY2015e).

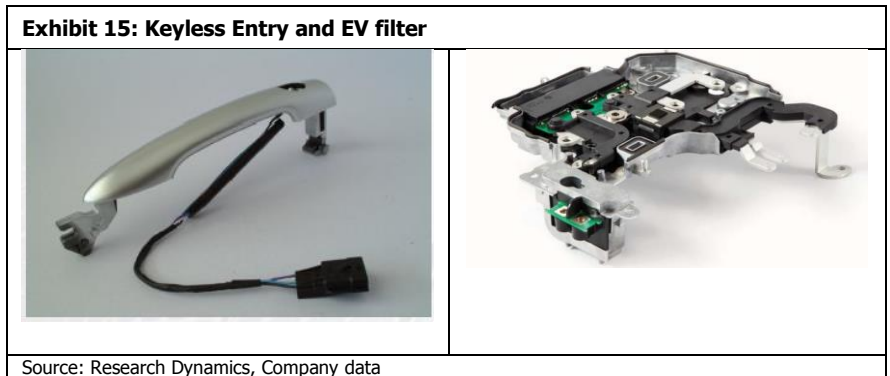


Recently, the Schaffner Group acquired Transformer Engineering LLC (Trenco), a North America based manufacturer of specialty transformers, and integrated into the PM division. The acquisition is expected to strengthen Schaffner’s position in the rail technology, energy efficient drive systems and renewable energy markets and propel it to the second spot in the global power magnetics industry.

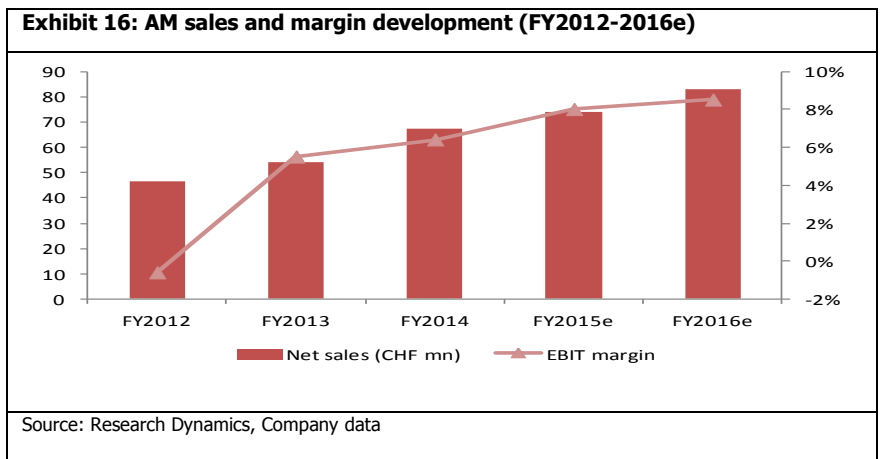


**Automotive (17% of FY2014 revenue)**

Automotive (AM) is currently the Group’s second fastest growing division (+19% y/y in FY2014). It develops components that are used in convenience and safety electronics in cars such as ‘keyless entry antennas’. Its offerings also include EMC filters for electric vehicles (EV) and hybrid/electric vehicles (HEV). Schaffner’s move in the recent past to focus on the automotive division and expand its operations globally has benefitted the Group, which is also evident in the latest figures. Its end-customers include the major international automotive players such as BMW, Audi, General Motors, Ford, Mercedes, Hyundai and others.



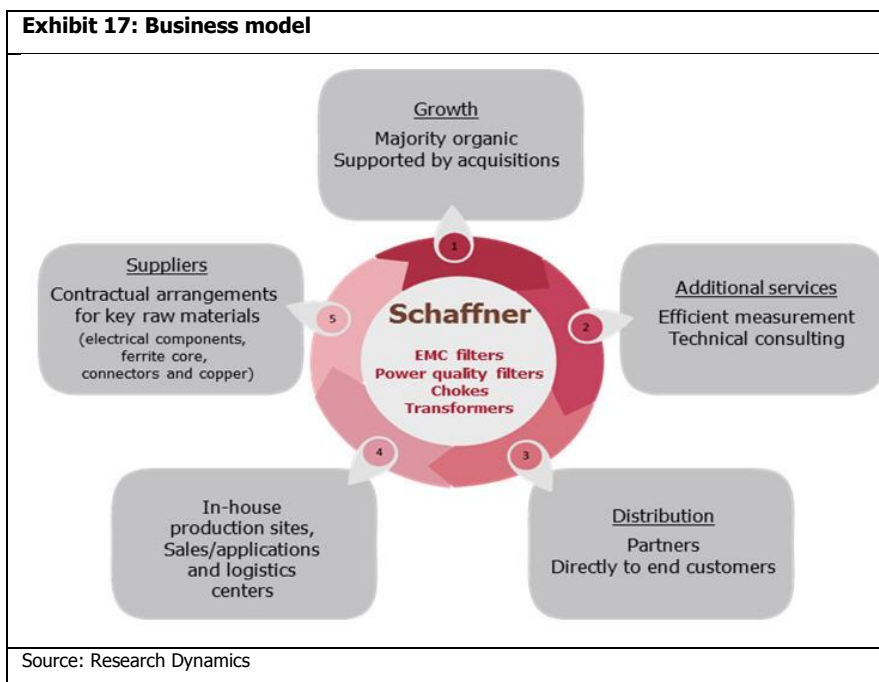
Currently, keyless entry antennas contribute the majority of revenues and are expected to do so over the next 3 to 4 years. In keyless entry systems, Schaffner is among the top two global players with a market share of around 25%. According to the Group, the keyless entry system is a booming market and is projected to grow strongly at 15% per annum over the next five years. At the same time, the Group has increased its R&D investments in EMC filters used in EV and HEV, as it plans to capture the huge long-term growth prospects that EV/HEV products offer. Schaffner is very optimistic about the automotive division and expects its sales to grow at 15% per annum over the next two years and targets an EBIT margin in the range of 8%-10% by FY2015e.



### Business Model and Strategy

Schaffner manufactures products and solutions that improve efficiency and prevent disruption in the operation of electronic systems. The Group’s products include EMC filters, power quality filters, power magnetic products (chokes, transformers), and components for keyless entry systems and antennas that are used in automobiles. Schaffner has its own centers for production, sales/application and logistics spread across the globe. The Group’s products and services are delivered through a worldwide network of distribution partners or directly sold to end-customers, which include OEMs, equipment manufacturers and system integrators.

Schaffner has contractual arrangements with its long-term suppliers for sourcing key raw materials (electrical components, ferrite core, connectors and copper). In addition to standard product development, the Group also provides services such as efficient measurement, technical consulting and customized solutions directly or through a network of distribution partners. The Group’s business model is depicted in Exhibit 17.



The Schaffner Group is a global player with a local presence in all key markets. Production facilities in Asia, Europe and North America as well as 18 customer service and application centers ensure rapid turnaround times, relevant consulting and responsive customer oriented engineering

**Exhibit 18: Global Footprint**

Headquarters	Development and production centers	Customer service and application centers	
Switzerland	China	China	Switzerland
	Germany	Germany	Singapore
	Thailand	Finland	Spain
	Hungary	France	Taiwan
	USA	Italy	Thailand
		Japan	UK
		Sweden	USA

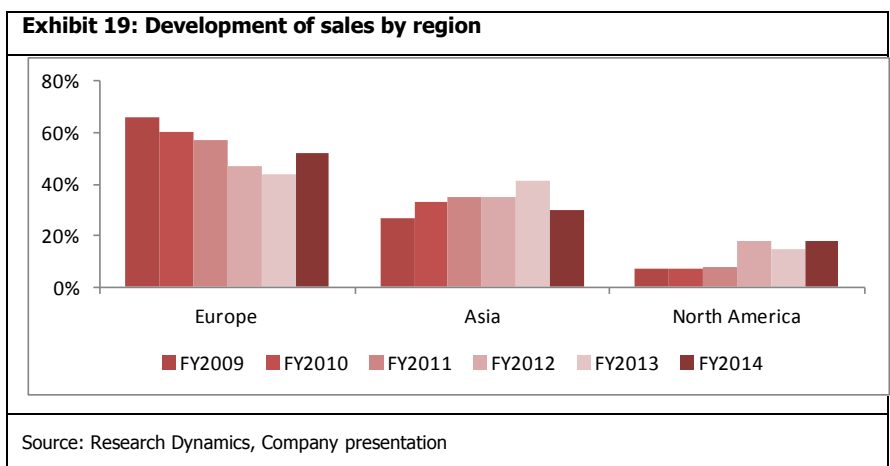
Source: Research Dynamics, Company data

Schaffner’s strategic objectives are closely tied to its business model which enables it to utilize its key strengths to the utmost and maximize shareholder returns.

Small, tuck-in acquisitions to support revenue growth

### Focus on growth markets and bolt-on acquisitions to lead top-line growth

To continue its ongoing top-line growth, Schaffner follows a strategy wherein it focuses on boosting its presence in growth markets, while maintaining its leadership in mature markets. This is evident from the rising sales contribution from China, where the company benefitted from initiatives such as expansion of production facilities, developing products suitable for the Chinese market both in terms of costs and technology. Going forward, Schaffner plans to focus on developing products that are sophisticated, since Chinese consumers are gradually becoming technologically confident. In addition to China, Schaffner is also targeting Japan, given the huge potential offered by the market in light of its ongoing energy transformation.



To aid these organic growth efforts, the Group is also open to inorganic growth opportunities. Schaffner is targeting small to mid-sized companies primarily for the EMC and AM divisions' markets, as it wants to maintain its leadership in EMC and capture the huge growth potential in the automobile division, especially in the keyless entry systems. Schaffner expects around 4% per annum growth to come from acquisitions in FY2015e.

Schaffner has a successful track record of growth through acquisitions. Over the years, the Group has executed about 11 transactions, acquiring seven companies and disposing off a few of its assets. For instance, in a bid to strengthen its technological base and combine its EMC, power quality and energy supply solutions, the Group acquired Jacke Transformatoren GMBH in 2006. In the same year, the Group divested its EMC test systems business in order to refocus the Group on the dynamic market for components and modules for ensuring the proper functioning of electrical and electronic devices. The latest acquisition, Trencos, closed in May 2014 and strengthened the Group's position in rail technology, energy efficient drive systems and renewable energy and helped expand their customer base for power magnetics in North America. The table below summarizes the transactions.

**Exhibit 20: Mergers and Acquisitions**

Deal Type	Announced Date	Target Name	Acquirer Name	Seller Name	Announced Value (mn)
ACQ	1-Feb-99	MEB Messeelektronik Berlin	Schaffner		0.63
DIV	27-Sep-00	Schaffner Altrac AG	FORTEC Elektronik	Schaffner	NA
ACQ	28-Jun-01	ElectroFERRUM Oy	Schaffner		NA
ACQ	8-Jan-02	WEE Electrotest	Schaffner		NA
DIV	28-Jan-06	EMC test system business line	Management Group	Schaffner	NA
DIV	5-Apr-06	Schaffner Ltd	Intepro America	Schaffner	NA
ACQ	19-Oct-06	Jacke Transformatoren GmbH	Schaffner		NA
DIV	27-Mar-07	Multiple targets <sup>1</sup>	Management Group	Schaffner	NA
ACQ	5-Jan-09	Betec-Engineering GmbH	Schaffner		NA
ACQ	1-Sep-11	MTC Transformers, Wytheville	Schaffner	MTC Transformers	NA
ACQ	1-Apr-14	TRENCO	Schaffner Holding AG	Transformer Holding LLC	10.19

Source: Research Dynamics, Bloomberg  
Note: <sup>1</sup>Schaffner Electrotest GmbH, Schaffner Electrotest BV, Schaffner Electrotest Srl, Luterbach

The acquisition of Trencos added CHF5.4mn to the Group's revenues in FY2014. We expect Trencos to contribute approximately CHF12.6mn in FY2015. Schaffner intends to further develop through M&A and is in talks to acquire other targets in the coming financial year. However, management has clearly defined the acquisition criteria. The target has to provide a good fit and must be close to the core business, i.e. there is no intention to add a 4th

Ongoing operational excellence initiatives to boost margins

business line. Valuation has to be reasonable, with payback expected in the 2nd year (non-dilutive to EPS and accretive in year 3), and the integration has to be manageable. The Group targets an acquisition every 1-2 years and expects to take an opportunistic approach especially in the AM and PM divisions. In terms of regions, there is no intention to acquire in Russia, India or Brazil, but rather in the regions currently served by the divisions.

### Margin expansion remains a priority

Apart from top-line growth, Schaffner is also focused on improving its operating margins. This is evident from the Group's mid-term targets which place a strong emphasis on margin expansion.

<b>Exhibit 21: Schaffner Group mid-term targets</b>	
<ul style="list-style-type: none"> <li>• Organic growth rate exceeding 8% annually</li> <li>• Focused acquisitions in Divisions EMC and Automotive</li> </ul>	
<b>Targeted operating margins (EBIT):</b>	
– EMC division	16% - 20%
– Power Magnetics division	8% - 10%
– Automotive division	8% - 10%
– Schaffner Group	9% - 12% (incl. -3% Group service cost)
<b>Dividend pay-out ratio</b>	25% - 35% of net profits
<b>Equity ratio</b>	40% - 50%
<b>Target for FY 2014/2015:</b>	
– Net sales	CHF 250 – 280 million
– Operating margin (EBIT)	9% - 12%
Source: Research Dynamics, Company presentation	

In addition to lean manufacturing (lean cell, material flow, automated testing), Schaffner has initiated measures such as shifting production centers to low-cost countries (such as China, Thailand, Hungary), improving supply chain management, local sourcing of raw materials, controlling overhead costs and inventory management, to boost operational excellence. The Group is focusing on the EMC division to drive its margins, while it faces a rising competition in Asia. In order to achieve the EMC division's target margin of 16-20%, measures such as tying up with local suppliers to reduce material costs, further automation of the manufacturing process, introduction of cost optimized product design, etc are being undertaken.

After the Group implemented the lean manufacturing principles in the PM division for the first time in 2012, it clearly reflected in the improved margins for the division since 2H2012. In addition, now that the dry-type transformers operations of US-based MTC Transformers MTC are completely integrated with Schaffner, the Group expects to extract synergies in process technology and material sourcing between US and Rest of World. The acquisition strengthened the Group's market position in North America Group to meet its goal of achieving a market leading position in the Power Magnetics by 2015. For the PM division, the Group has categorically mentioned that it is not looking for external growth in the short term and the immediate goal is the profit growth for this particular division.

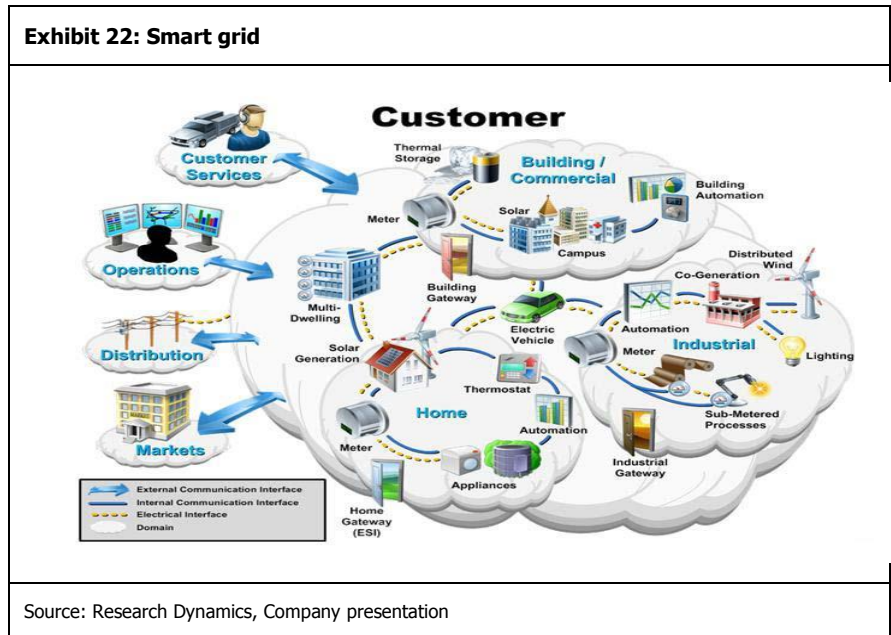
The latest acquisition of US-based Trencos is a major step to strengthen Group's position in rail technology, efficient drive systems and renewable energy. The Group now offers a new value proposition to its customers driven by Trencos's broad engineering capabilities, largest portfolio of power quality solutions and cost effectiveness. In addition, the acquisition also offered Schaffner an opportunity to leverage its global sales and distribution network to market Trencos's products. The acquisition further facilitates Schaffner's entry into the US market and its large and valuable customer base which would have been difficult for the Group to attain on its own. The Group's revenue share from America increased to 18% in FY2014 following the acquisition, from 15% in FY2013.

## Growth Opportunities & Key Drivers

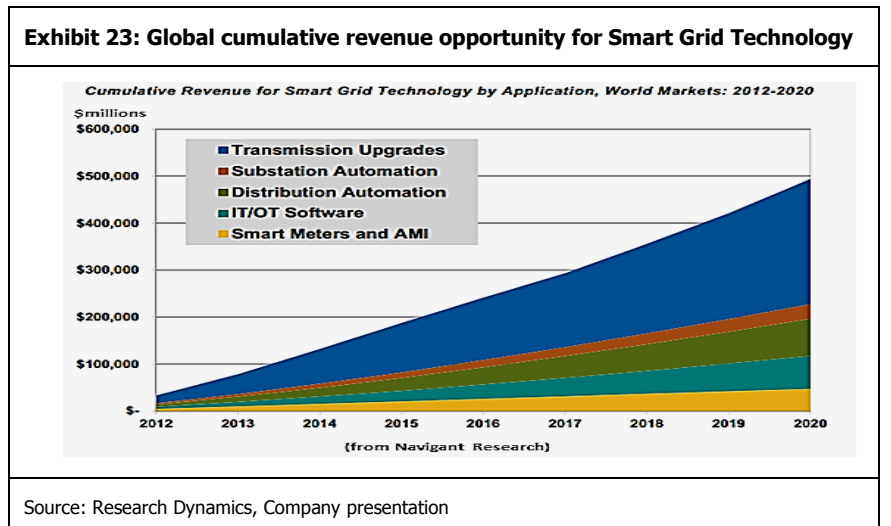
### A secular shift toward 'smart grid' bodes well for the Group

*Smart grid refers to a more efficient, modernized electrical grid. It allows users to manage their electrical demand or output in a way that is most cost-effective for them and beneficial for the power system as well.*

Fossil fuels currently meet the majority of the world's energy needs, but are a limited resource. With the rising cost of fossil fuels, instability in the major exporting countries, and concerns that "peak oil" is approaching, governments are attempting to diversify their energy sources and bolster their energy independence by increasing renewable energy in their energy supply mix. Electricity generated by photovoltaic and wind sources is intermittent in nature, and existing power grids are not well-equipped to handle intermittent power the way smarter grids can. Further, smart grids also enable an efficient use of electricity, shaving losses incurred during delivery and encouraging more efficient energy behavior by customers. Furthermore, utilities are under severe pressure to deliver more power, reliably, efficiently and sustainably, while simultaneously reducing and managing demand.

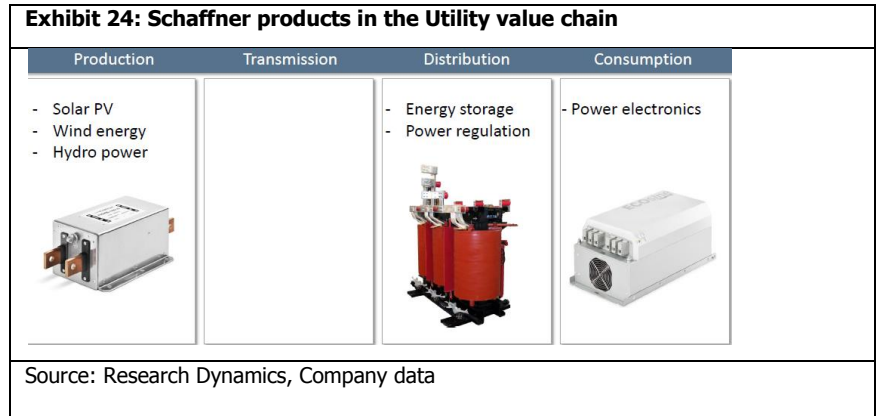


A smart grid with decentralized supply and fluctuating demand creates fundamentally new requirements across the entire value chain: power generation, transfer, distribution, storage & consumption. It specifically presents increased opportunities in distribution automation, advanced metering infrastructure, demand response business transformation, data & telecom management. However, each smart grid needs different types of power electronic hardware, thus increasing demand for the customized products.

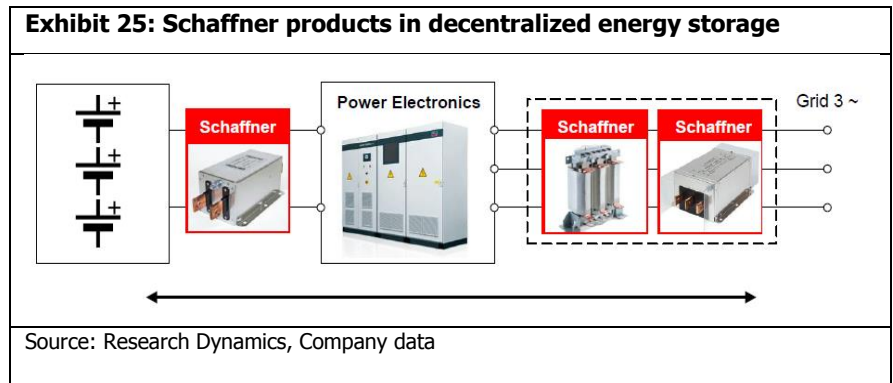


Schaffner is already involved in various smart grid technologies, offering components to mitigate distortions during power production, distribution and consumption. The Group's

products support the integration of renewable energy sources by bridging the gap between unpredictable supply and demand, where Schaffner’s harmonic filters protect the grid from excess load.



Furthermore, the Group is also eyeing a huge opportunity in the decentralized energy storage market, where the Group’s products support the integration of renewable energy sources by bridging the gap between unpredictable supply and demand.



Specific Schaffner products are being used in the smart grid: In the production part of the value chain, DC EMC filters and Magnetics products (transformers, inductors) are used for removing interference and improving the performance respectively. In the distribution part, ECOsine active filter continuously monitors the changes in the grid, compensates up to three different typical power quality problems that cause grid overload, equipment downtime, and waste of electricity.

The Group currently derives 14% of its revenues from renewable energies.

**Automotive applications offer revenue opportunities**

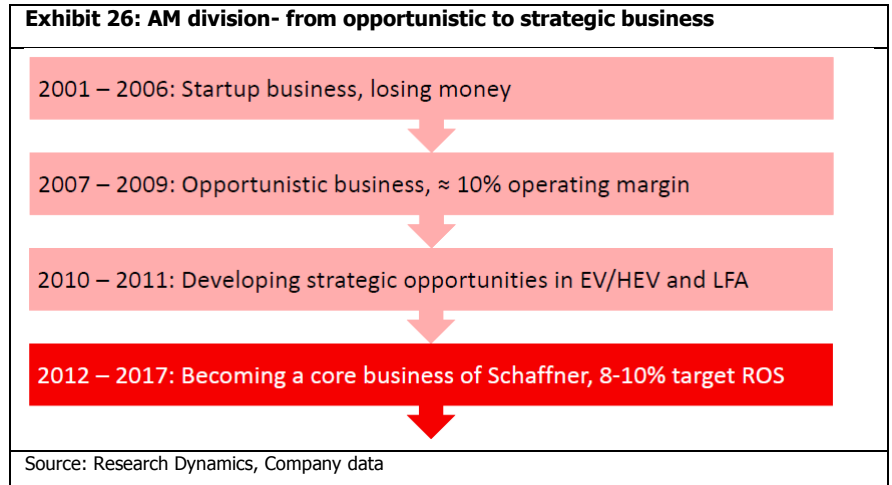
Schaffner’s AM division has grown at a CAGR of 28.4% between FY2011 and FY2014, driven by a robust demand for its keyless entry antennas, which currently contribute the majority of the AM division’s revenues. With the rising demand for advanced technologies and feature-rich cars globally, the Group is experiencing a strong traction in the demand for its keyless antennas in automobiles. Schaffner is a global vendor and a market leader in the keyless entry antenna market, which is expected to grow at more than 15% for the next five years.

In addition to the existing market for the AM division, Schaffner is also eyeing a huge opportunity in electric cars. Shifting consumer preferences along with increasing government regulations and incentives are expected to result in a significant growth for the electric vehicles market. Many governments across the world are regulating vehicle emissions and fuel economy standards, offering incentives to consumers to purchase more energy efficient vehicles. For example, in 2009, the United States government enacted a USD2.4bn (about CHF2.1bn, at current exchange rate) electric vehicle stimulus package with the goal of putting one million electric drive vehicles on the road by 2015. Recently, the US government has offered tax credit in the range of USD2,500-7,500 based on the power drawn from the battery for electric vehicles. In Europe, there are a diverse set of rules that encourage adoption of electric vehicles. While electric vehicles in Germany and Italy are exempt from annual circulation tax (for different periods), France exempts electric vehicles from company car tax. In Denmark and Greece, these vehicles are exempt from registration tax.

Increased demand for feature rich cars to drive AM division’s growth in the near term

Further, China is waiving vehicle purchase tax for "new energy vehicles" beginning September 2014, the rule that will last until the end of 2017. India is subsidizing the electric car by refunding 15% of the selling price.

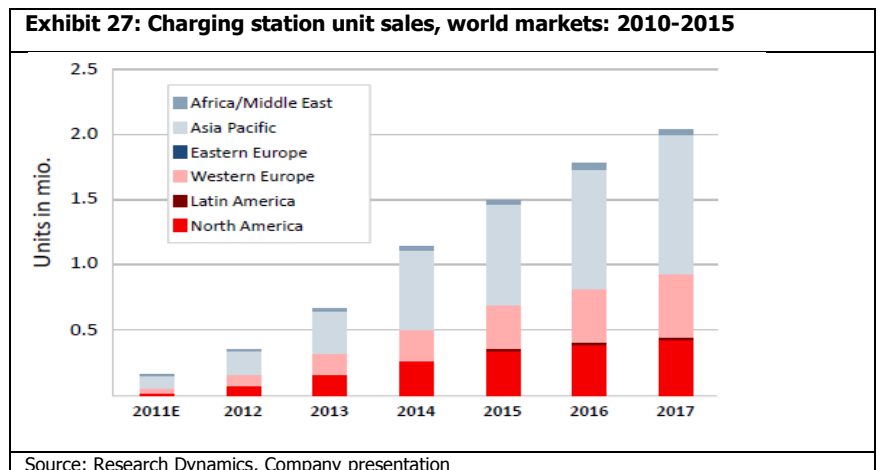
According to Frost & Sullivan, a business research & consulting firm, electric vehicle sales stood at 120,000 units in 2012 and are expected to reach 2.7mn units in 2018 (CAGR of 68%), driven by competitive pricing and the introduction of new models. The global electric vehicle market is witnessing an increased adoption and the market is expected to clock 170,000-190,000 unit sales in 2013, more than 50% increase from the previous year sales (per Frost & Sullivan).



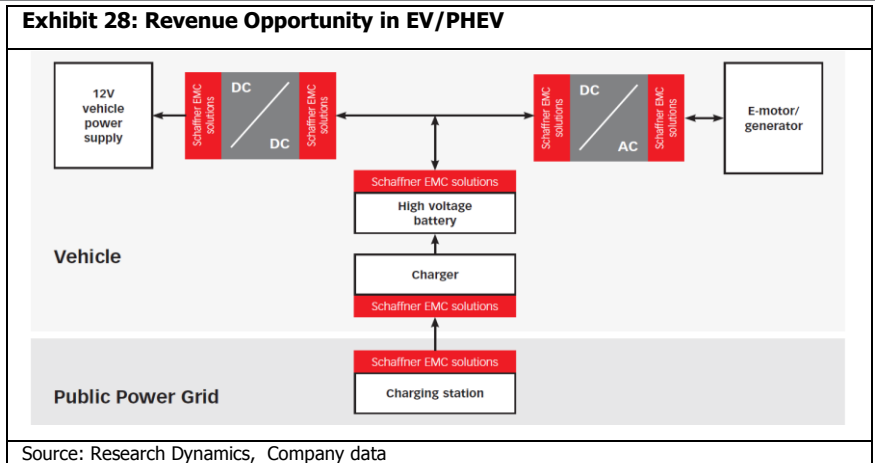
Rising acceptance of EV/PHEVs to drive long term AM growth

With this rise in EVs, there are a variety of EMI sources and receptors in automobiles and in the environment in which they operate. The control of electromagnetic interference is essential, not only because there are mandatory requirements, but also for the proper functionality of the entire system. Over the years, Schaffner has developed a fundamental understanding of the EMC-related problems through simulation and has developed advanced EMC filters and specialized power magnetic components for electric vehicles. The Group has also invested in the division in terms of increased engineer strength, introduction of new process capabilities at Schaffner Thailand, etc.

Furthermore, the Group has specifically identified an opportunity in the EV chargers. Due to higher adoption of EV/PHEV cars, it is expected that the number of charging stations will increase multi-fold, driving the growth in EV charger market by a CAGR of 30-50% (number of charging stations in Germany to rise to 1mn by 2020 from 14,500 in 2011). For the EV charger station (especially for fast charging), Schaffner provides harmonic filters that protect the grid from excess loading and EMI filters that prevent interferences from the neighboring electronic devices and car electronics. Furthermore, these filters help the charging station to comply with EMC and power quality standards. Schaffner has already won various projects in the US, Japan, Germany, and France.



According to the Group, the electric vehicle offers multiple opportunities for Schaffner, with the addressable value per car exceeding EUR100 (about CHF120).



World's energy guzzlers, Asia Pacific economies are the perfect hunting ground for Schaffner

### Asia-Pacific offers a huge untapped opportunity

Asia-Pacific economies have become the driving force for the global growth. With Asian economies performing better than their US and European counterparts for the last few years, the action has shifted to those countries. Even for the electrical & electronic equipment industry, the region offers big opportunities. Schaffner has started focusing on Asia in general and China and Japan in particular to drive future growth. Since 2011, the Group has already taken various initiatives to tap burgeoning demand from Asia: 1) Expanded production facilities in China, 2) A regional (3rd party) warehouse established in Singapore, for infrastructure projects, 3) Expanded sales and application services throughout Asia and new distributor and partnerships were added mainly for harmonic filter series, 4) Established presence in India with own sales and application engineers and built-up regional distributors

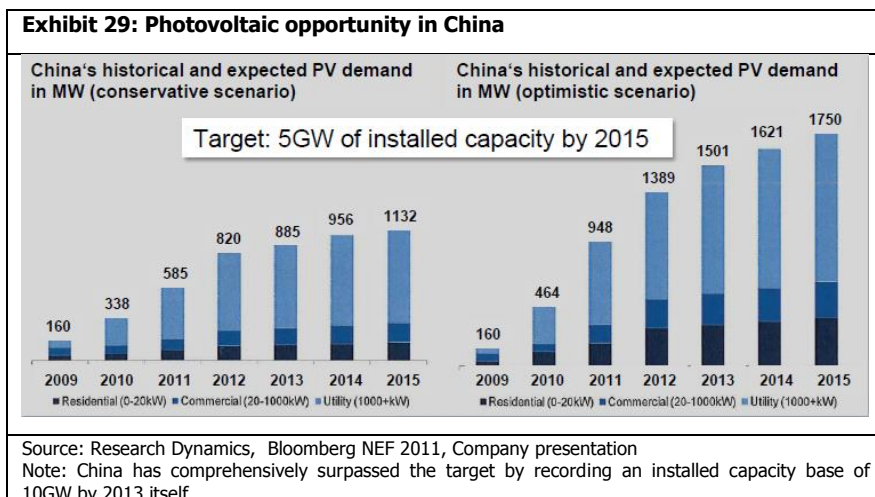
Looking at China, the Group saw traction in rail projects initially and generated significant amount of revenues from it. However, new high-speed track projects hit a roadblock in 2011 when not a single project was approved as against 55 projects in 2010 amidst corruption scandal by Chinese rail officials. The Chinese investment in high-speed rail projects was also curtailed after a deadly crash between two Chinese high-speed trains early 2011 that sparked public rage. With these two incidents, China dismantled its rail ministry, splitting it into two: Some functions were put into a State Railway Administration under the Ministry of Transportation and a new company, China Railway Corp., was formed to take over commercial operations.

With reduced bureaucracy, improved transparency, and tariff hikes for newly formed China Railway Corp, we believe this spells good news for the stakeholders in the Chinese rail story and investments will rise. As expected, starting in the middle of 2012, the Chinese government further accelerated investment in railways (given the importance of the rail network to the entire economy). In early August 2013, China Railway Corporation announced that it invested 261.7 billion Yuan (about CHF40bn) in the first seven months, up 1.6% from the year-earlier period. It further announced that the planned investment in fixed assets for 2013 has been increased by 10 billion Yuan (CHF1.5bn) to 660 billion Yuan (CHF99bn). The rebound can also be seen from improved activity with nine new approvals for new high speed track projects in 2012. In addition, unlike high-speed projects, metro projects in major urban regions were not stopped.

Looking at the other geographies for rail Technology, Schaffner has identified opportunities in India (the Group started the India activities in 2010) where it sees full pipeline of projects and big potential. The Group plans to utilize its manufacturing plants in China to meet Indian demand. It has a 50% export target from China which will also enable it to lower dependence on the China market. The Asia/Pacific region will continue to be the fastest-growing rail technology market in the next five years. This region's as yet underdeveloped railway system does not meet the demands of its economic and population growth and thus has a correspondingly high requirement for investment.

Even in the photovoltaic market, there is a clear shift in action from Europe to Asia (especially China, Japan). Although recently, the Group is witnessing an intensified competition in the Chinese photovoltaic market from the 'me too' Chinese products, we believe the market still offers a large potential. The Group sees a positive shift away from lowest cost products to more advanced technical requirements including new technologies (e.g. middle frequency inverters) due to the maturing consumer society. In the photovoltaic market, Schaffner offers standard and customized product range.

The following exhibit shows the Photovoltaic market opportunity in China.



In China, the Group is also eyeing an opportunity in the EVs. Schaffner's first projects started in 2011, with foreign and local automotive companies for EMI filtering solutions in electro-cars. Hitherto, the project has not made any progress, but is expected to take off in late 2013. With the increased use of EV, there will be challenges in the electric grid too, thereby requiring the use of EMC and harmonic filters in the stationary charging stations.

In addition to China, Japan has also been contributing significantly to the robust performance in recent times. In Japan, the manufacturers of solar inverters for photovoltaics are driving the demand. In the aftermath of the Fukushima disaster, the country has intensified its focus on renewable energy. With industrialization of several new projects, and push for alternative energy, Japan offers a compelling opportunity for Schaffner. Having entered the Japanese power magnetics market (components used in photovoltaic converters) in FY2012, the Group has already made big progress there. As one of the few non-Japanese companies, Schaffner managed to penetrate the Japanese traction market for magnetic components.

Elsewhere in Asia, the Group is also looking at other countries such as Taiwan (targeting chip makers), Australia/Korea/South East Asia, where the Group is seeing demand for active/passive harmonic filters and out-put filters which are used mainly for factory automation, infrastructure (data centers, hospitals, metro stations, etc.) and mining projects. In India, where the EMC market is still in its infant stage, PQ filters for the sub-standard electrical infrastructure are in high demand (e.g. 20 units active harmonic filters for a cement company). The aging railway system (>50 year old technology) will be up-graded gradually in the next years and there is already a substantial demand for magnetic components used in metro trains. Schaffner is also seeing demand from fast emerging PV and wind turbine market in India.

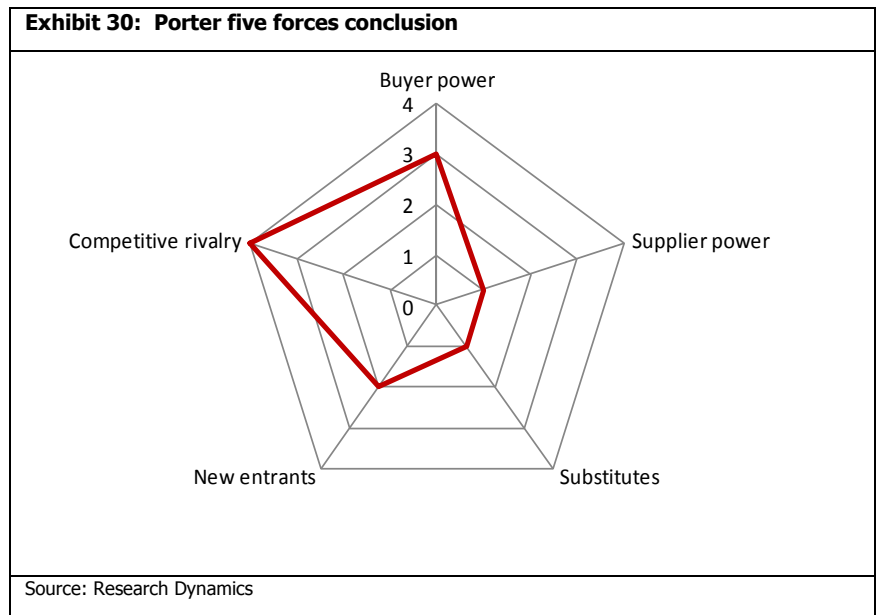
The contribution to the top-line from Asia-Pacific went up to 35% in FY2014 from 27% in FY2009.

### SWOT and Porter Five Forces Analyses

The following chart summarizes our analysis of key strengths, weaknesses, opportunities and threats concerning the Schaffner Group. For more details, we refer to our in-depth Initiation of Coverage report dated December 12, 2013.

<p><b>Strengths</b></p> <ol style="list-style-type: none"> <li>1. Good mixture of growth and matured business</li> <li>2. Robust sales network coupled with vast experience in electromagnetic compatibility (EMC)</li> <li>3. Production base in low-cost and growing countries</li> </ol>	<p><b>Weakness:</b></p> <ol style="list-style-type: none"> <li>1. Substantial exposure to European markets</li> <li>2. Dependency on cyclical end-markets</li> <li>3. Highly exposed to currency fluctuation</li> </ol>
<p><b>Opportunities</b></p> <ol style="list-style-type: none"> <li>1. Niche markets: Smart Grid, Power Quality, Antennas, Photovoltaic, Motor drives</li> <li>2. Rising presence in growing Asian economies</li> <li>3. Eye on after-market sales could offer a stable revenue stream</li> </ol>	<p><b>Threats</b></p> <ol style="list-style-type: none"> <li>1. Competition from Chinese players</li> <li>2. Uncertain regulations in Europe</li> <li>3. Backward integration from OEM's</li> </ol>

Exhibit 30 shows our research analysis of the company's position regarding Porter's five forces criteria.



## Additional Details

### Board of directors

Name	Member since
Daniel Hirschi (Chairman)	2010
Herbert Bächler	2009
Gerhard Pegam	2013
Suzanne Thoma	2012
Georg Wechsler	2012

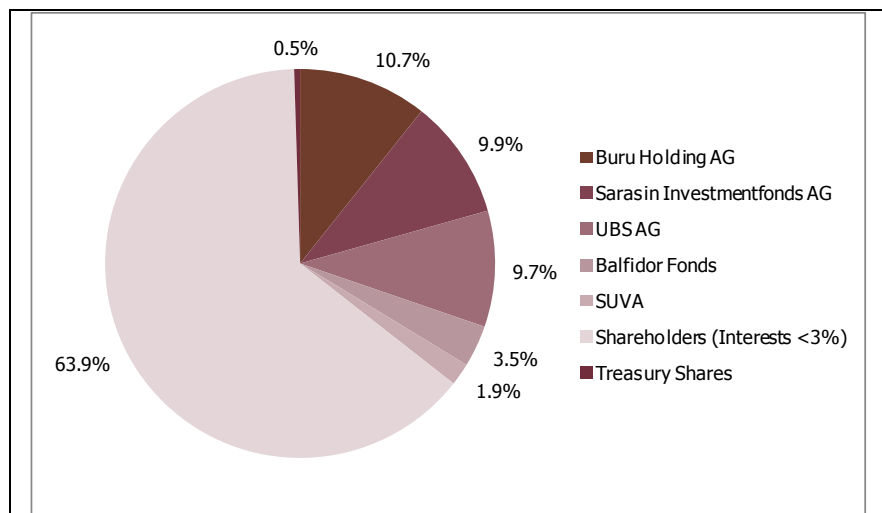
Source: Company data

### Management team

Name	Title	With Schaffner since
Alexander Hagemann	CEO	1st March 2007
Kurt Ledermann	CFO	1st June 2008
Ah Bee Goh	COO	1st July 2007
Guido Schlegelmilch	EVP, EMC division	1st February 2009
Eduard Hadorn	EVP, PM division	2003
Günther Werkmeister	EVP, AM division	January 2014

Source: Company data

### Major Shareholders (as on 30 September 2014)



Source: Research Dynamics, Company data

Over the last fiscal year, one of the largest four shareholders, Alpine Select, has reduced its holding from 10% to nil. This should come as a positive for investors as it increases the float in the market and hopefully along this lifts liquidity of the stock.

## Detailed Financial Statements

### Income statement

CHF mn (except per share)	FY10	FY11	FY12	FY13	FY14	FY15e	FY16e
EMC sales	111	129	106	110	110	113	117
PM sales	61	36	46	54	67	74	83
AM sales	17	18	25	31	37	41	47
<b>Sales</b>	<b>189</b>	<b>183</b>	<b>177</b>	<b>195</b>	<b>215</b>	<b>228</b>	<b>247</b>
Cost of goods sold	(130)	(126)	(128)	(142)	(152)	(155)	(167)
<b>Gross profit</b>	<b>59</b>	<b>56</b>	<b>49</b>	<b>53</b>	<b>63</b>	<b>73</b>	<b>80</b>
Marketing and sales	(16)	(15)	(17)	(17)	(18)	(21)	(22)
R&D expenses	(13)	(14)	(14)	(15)	(15)	(20)	(22)
General and administration	(15)	(14)	(11)	(10)	(13)	(11)	(11)
Other income	0	0	1	0	0	0	0
Total operating costs	(44)	(43)	(41)	(42)	(47)	(52)	(56)
Profit before amortization of customer relations	16	13	8	10	16	21	24
Amortiz. of customer relations	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Operating profit (EBIT)</b>	<b>15</b>	<b>13</b>	<b>7</b>	<b>9</b>	<b>15</b>	<b>20</b>	<b>23</b>
Depreciation	3	3	4	4	4	5	6
Amortisation of intangible assets	2	2	3	3	3	2	2
<b>EBITDA</b>	<b>21</b>	<b>19</b>	<b>15</b>	<b>17</b>	<b>23</b>	<b>28</b>	<b>31</b>
Finance costs	(4)	(13)	(4)	(7)	(7)	(1)	(1)
Finance income	1	11	2	5	6	0	0
Total financial income (expenses)	(3)	(2)	(2)	(2)	(1)	(1)	(1)
Profit before taxes	12	11	5	7	14	19	22
Taxation	(0)	(1)	(1)	(1)	(1)	(3)	(4)
Profit attributable to the parent	12	10	4	6	13	16	18
Basic EPS	18.9	16.0	6.2	9.9	20.0	25.9	28.7
<b>Diluted EPS</b>	<b>18.7</b>	<b>15.4</b>	<b>6.0</b>	<b>9.9</b>	<b>19.8</b>	<b>25.7</b>	<b>28.5</b>
DPS	4.5	4.5	3.5	4.5	6.5	7.8	8.6

Source: Research Dynamics, Company data

Note: The Group reorganized the divisional reporting structure in FY2011; numbers for FY2009 and FY2010 are not restated.

### Balance sheet

In CHF mn	FY10	FY11	FY12	FY13	FY14	FY15e	FY16e
<b>Assets</b>							
<b>Non-current assets</b>							
PPE	14.9	18.2	21.1	20.9	24.8	27.3	30.1
Intangible assets	14.8	24.1	22.3	19.6	24.1	24.4	24.0
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	12.2	11.8	13.3	12.5	4.8	4.8	4.8
Deferred tax	2.2	2.7	2.9	3.0	3.7	3.7	3.7
Total Non Current Assets	44.1	56.8	59.6	56.1	57.4	60.2	62.5
<b>Current assets</b>							
Inventories	31.1	29.1	29.9	28.1	31.3	36.0	39.0
Trade receivables	36.9	32.4	34.8	34.0	38.5	43.7	47.4
Income tax receivables	0.8	0.4	0.6	0.5	0.5	0.5	0.5
Other receivables	5.7	3.7	3.7	3.8	3.2	3.2	3.2
Other financial assets	0.0	0.2	2.1	4.1	4.9	4.9	4.9
Cash and cash equivalents	8.1	14.2	10.3	17.0	18.6	10.9	13.2
<b>Total assets</b>	<b>126.6</b>	<b>136.8</b>	<b>140.8</b>	<b>143.7</b>	<b>154.5</b>	<b>159.4</b>	<b>170.8</b>
<b>Shareholders' Equity and Liabilities</b>							
Share capital	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Reserves & Surplus	47.1	40.1	40.3	36.5	35.3	31.2	26.3
Retained earnings	(11.8)	(3.9)	(0.6)	5.4	10.7	27.1	45.3
Total equity	56.0	56.9	60.3	62.5	66.6	78.9	92.2
<b>Non-current liabilities</b>							
Long term borrowings	18.1	0.4	36.0	29.8	35.1	27.2	22.7
Deferred tax liabilities	2.7	1.9	2.2	2.3	1.2	1.2	1.2
Provisions	7.1	6.6	6.1	5.6	6.1	6.1	6.1
Total Non-Current Liab.	27.9	8.9	44.2	37.6	42.4	34.5	30.0
<b>Current liabilities</b>							
Trade and other payables	34.3	31.0	32.2	40.3	41.9	38.2	41.3
Income tax liabilities	1.9	1.9	1.0	0.7	1.0	1.0	1.0
Short term borrowings	1.7	34.6	0.2	0.5	0.2	3.0	2.5
Provisions	4.9	3.5	2.9	2.0	2.3	2.3	2.3
<b>Total Current Liabilities</b>	<b>42.8</b>	<b>71.0</b>	<b>36.3</b>	<b>43.5</b>	<b>45.4</b>	<b>44.5</b>	<b>47.2</b>
<b>Total liabilities</b>	<b>70.7</b>	<b>79.9</b>	<b>80.5</b>	<b>81.1</b>	<b>87.8</b>	<b>79.1</b>	<b>77.2</b>
<b>Total equity and liab.</b>	<b>126.6</b>	<b>136.8</b>	<b>140.8</b>	<b>143.7</b>	<b>154.5</b>	<b>158.0</b>	<b>169.4</b>

Source: Research Dynamics, Company data

### Cash flow statement

<i>In CHF mn</i>	FY10	FY11	FY12	FY13	FY14	FY15e	FY16e
Net profit for the period	12.0	10.2	3.9	6.3	12.6	16.4	18.2
Non-cash adjustments:	16.4	11.7	9.0	8.8	9.1	15.7	22.9
<b>Change in current assets and liabilities:</b>							
(Increase)/decrease in inventories	(8.0)	0.3	0.0	1.3	(1.2)	(4.7)	(3.0)
(Increase)/decrease in receivables	(19.7)	6.4	(3.5)	(0.0)	(0.8)	(5.2)	(3.7)
(Decrease)/increase in current liabilities	15.9	(3.5)	(0.4)	9.0	(0.2)	(3.7)	3.1
Change in operating working capital	(11.9)	3.2	(3.9)	10.3	(2.2)	(13.6)	(3.6)
<b>Cash flows from operating activities</b>	<b>7.4</b>	<b>17.8</b>	<b>4.6</b>	<b>20.8</b>	<b>15.3</b>	<b>9.4</b>	<b>21.9</b>
Purchase of PPE	(5.3)	(6.9)	(3.7)	(4.8)	(6.4)	(7.5)	(8.3)
Disposal of PPE	0.2	0.2	1.4	0.3	0.3	-	-
Purchase of intangible assets	(1.4)	(1.4)	(0.7)	(0.4)	(0.4)	(1.9)	(1.2)
(Acquisition)/divestment	(0.0)	(10.6)	(0.4)	(0.4)	(8.6)	-	-
Change in other assets	0.6	(0.0)	(0.0)	(0.9)	(0.7)	-	-
<b>Cash flow generated (used) in investment activities</b>	<b>(6.0)</b>	<b>(18.7)</b>	<b>(3.4)</b>	<b>(6.2)</b>	<b>(15.8)</b>	<b>(9.4)</b>	<b>(9.6)</b>
Change in treasury shares	(1.1)	(7.3)	(1.0)	(1.1)	(3.1)	-	-
Proceeds from Share issues	0.2	4.4	0.5	1.2	2.6	-	-
Repayment of excess share premium	-	(2.8)	(2.8)	(2.2)	(2.9)	(4.1)	(4.9)
Net proceeds/(repayment) from debt	(22.9)	13.4	(1.8)	(5.5)	5.2	(5.0)	(5.0)
Amortization related to finance lease	-	-	(0.1)	(0.2)	(0.2)	-	-
<b>Cash flow generated (used) in financing</b>	<b>(23.8)</b>	<b>7.6</b>	<b>(5.3)</b>	<b>(7.7)</b>	<b>1.7</b>	<b>(7.6)</b>	<b>(9.9)</b>
Exchange (losses)/gains	(0.1)	(0.5)	0.2	(0.2)	0.3	-	-
<b>Net change in cash</b>	<b>(22.6)</b>	<b>6.2</b>	<b>(4.0)</b>	<b>6.8</b>	<b>1.5</b>	<b>(7.7)</b>	<b>2.4</b>
Opening cash balance	30.6	8.1	14.2	10.3	17.0	18.5	10.9
<b>Closing cash balance</b>	<b>8.1</b>	<b>14.2</b>	<b>10.3</b>	<b>17.0</b>	<b>18.5</b>	<b>10.9</b>	<b>13.2</b>

Source: Research Dynamics, Company data

### Key ratios

	FY10	FY11	FY12	FY13	FY14	FY15e	FY16e
<b>Growth Ratios</b>							
Sales Growth	42%	(3%)	(3%)	10%	10%	6%	9%
EMC division	35%	16%	(18%)	4%	0%	3%	4%
PM division	43%	(41%)	29%	16%	25%	10%	12%
AM division	99%	6%	40%	27%	19%	10%	15%
Operating profit Growth	NM	(15%)	(43%)	30%	60%	36%	12%
Net Income Growth	NM	(15%)	(61%)	61%	101%	30%	11%
<b>Profitability Ratios (%)</b>							
Operating margin (%)	8%	7%	4%	5%	7%	9%	9%
EMC division (OPM)	16%	16%	12%	13%	14%	16%	16%
PM division (OPM)	5%	(1%)	(1%)	5%	6%	8%	9%
AM division (OPM)	9%	(2%)	2%	(6%)	7%	8%	9%
EBITDA Margin %	11%	10%	8%	9%	11%	12%	13%
Net Margin (%)	6%	6%	2%	3.2%	5.9%	7.2%	7.4%
<b>Return Ratios</b>							
Profit Margin	6%	6%	2%	3%	6%	7%	7%
Asset Turnover	1.5x	1.4x	1.3x	1.4x	1.4x	1.5x	1.5x
Financial Leverage	2.5x	2.3x	2.4x	2.3x	2.3x	2.2x	1.9x
Dupont ROE (%)	23%	18%	7%	10%	20%	23%	21%
ROCE (%)	21%	23%	8%	11%	16%	20%	21%
ROA (%)	9%	8%	3%	4%	8%	10%	11%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.4x	0.6x	0.6x	0.5x	0.5x	0.4x	0.3x
Net Debt - Equity Ratio	0.2x	0.4x	0.4x	0.2x	0.2x	0.2x	0.1x
Interest Coverage	12.1x	14.1x	4.9x	6.5x	15.3x	13.6x	18.8x
<b>Liquidity Ratios</b>							
Current Ratio	1.9x	1.1x	2.2x	2.0x	2.1x	2.2x	2.3x
Quick Ratio	1.2x	0.7x	1.4x	1.4x	1.4x	1.4x	1.5x
<b>Valuation Ratios</b>							
EV/EBITDA	13.8x	9.1x	11.8x	9.1x	8.8x	7.2x	6.5x
P/E	23.2x	14.6x	37.9x	22.8x	14.7x	11.4x	10.2x
P/BV	5.0x	2.6x	2.5x	2.3x	2.8x	2.4x	2.0x

Source: Research Dynamics, Bloomberg, Company data

**DISCLAIMER**

Schaffner Holding AG ("SAHN") is a client of Research Dynamics. The equity research report(s) are prepared for informational purposes only and are paid for by the company portrayed in the report. Research Dynamics is a division of Dynamics Group AG. Dynamics Group is an independent consultancy firm focused on strategic advisory, communication management and research and analysis.

This report (henceforth known as "document") has been drafted by the authors concerned as a non-binding opinion on the market situation and on the instruments of investment in question and compiled by Dynamics Group in order to provide background information about the companies. It is intended exclusively for the purpose of information.

Dynamics Group has not individually verified the information and data on which this document is based. All information and data in this document originate from generally available sources which the author concerned or Dynamics Group viewed as reliable at the time of drafting this document. However, no liability can be assumed for their correctness, accuracy, completeness and appropriateness – neither expressly nor tacitly. The contents of this document do not represent an assurance or guarantee by the authors concerned or Dynamics Group. Forward-looking information or statements in this document contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations

Dynamics Group shall not be liable for any consequential damage to properties – on whatever legal grounds it may be. Liability of Dynamics Group on account of premeditation or gross negligence shall remain unaffected by this.

Dynamics Group has no permission to provide assurances or assume guarantees on behalf of the companies or a third party mentioned in this document. Neither the companies mentioned in this document nor any other individual assumes liability for any loss, damage or detriment that may result from the use of this document, especially when taking decisions on investments, or from other reasons. Dynamics Group cannot be held responsible for detrimental consequences that occur or may occur due to the use or its omission based on the views and inferences contained in this document. Past performance trends of value, price or rates do not provide any indications to the future trends for an investment. Dynamics Group does not provide any guarantees for the suggested yield or the achievement of referred targets.

This document does neither represent an offer of purchase, holding or sale of any securities, money market instruments or of derivatives, nor does it contain the basis for a contract or a commitment of any kind. Every investment, for example, in debentures, shares and options, is associated with enormous risks. A decision on investment with regard to any security may not be based on this document. This document is neither an advice on investment, nor a recommendation or invitation for purchasing, holding or selling any securities, money market instruments or derivatives.

Dynamics Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this document. However, the respective directors, employees and contractors of Dynamics Group may hold positions in the described securities and/or options, futures and other derivatives that are based on these securities.

This document has been provided to you for information only. It may not be reproduced or distributed to others or published in any other form partially or fully.

The distribution of this document and the information contained therein may be restricted in other jurisdictions by law and persons who may come into possession of this document must be aware of possible restrictions and adhere to the same. Failure to comply with such restrictions may constitute an infringement of the laws in USA or Canada governing the securities or of the laws of any other jurisdiction.

This study is protected by the copyright laws. It may be used only for the purpose as defined in this disclaimer. Portions of the study, if quoted, must be acknowledged by indicating the source. Any use other than this shall require prior written permission by Dynamics Group. Reproduction, circulation, publication and provision of online access to the document shall be regarded as its use and the same shall require permission. Circulation of this document, especially in a foreign country, may be permitted only under the provisions of the disclaimer and the applicable regulations. Unauthorized use of the study or omission of details of the source or the acknowledgement of copyright may lead to initiation of a civil suit for damages and be liable for prosecution.

If any part or individual formulations of this disclaimer are found to be unsustainable or become unsustainable at a future date, the rest of the contents and their validity shall not be affected by it.

**Dynamics Group AG**

Utoquai 43  
CH-8008 Zürich  
Tel. +41 43 268 32 32  
Fax +41 43 268 32 39

Zeughausgasse 22  
CH-3011 Bern  
Tel. +41 31 312 28 41  
Fax +41 31 312 28 49

21, rue des Caroubiers  
CH-1227 Carouge/GE  
Tel. +41 22 308 62 20  
Fax +41 22 308 62 36

[contact@dynamicsgroup.ch](mailto:contact@dynamicsgroup.ch)

[www.dynamicsgroup.ch](http://www.dynamicsgroup.ch)