

Schaffner Holding AG

Switzerland | Industrial Goods & Services

FY14/15 earnings update

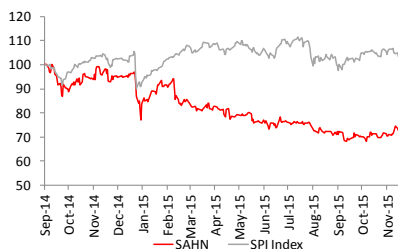
10 December 2015

Company Data

Price:	CHF 215.50
Market Cap:	CHF137mn
Free Float (% of total shares):	87.85%
No. of shares:	635'940
Avg. traded volume (1 year):	705
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: Bloomberg (As of 9 December 2015)

Share Price Movement (Rebased to 100)



Source: Bloomberg

Key Financial Data

	2014	2015	2016E	2017E
Sales	214.6	201.8	215.2	239.2
EBITDA %	10.8%	8.7%	9.9%	11.5%
EBIT %	7.0%	4.4%	6.6%	7.5%
Net Margin %	5.9%	3.1%	5.0%	5.6%
Basic EPS	20.0	10.0	17.0	21.2
Diluted EPS	19.9	9.9	16.9	21.1
DPS	6.5	6.5	4.3	6.4
Equity Ratio %	43	40	38	37
Capex	6.8	5.5	8.1	10.8
P/E	14.8x	21.9x	16.1x	12.6x
EV/EBITDA	8.8x	8.9x	6.9x	5.5x
EV/EBIT	13.6x	17.8x	13.6x	10.5x

Next Events

AGM	12 Jan 2016
1H16 results	12 May 2016

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FY2014/15: Headwinds affected performance, strategy 2020 enters execution phase

Schaffner ("the group") is an international leader in electromagnetic compatibility EMC and power quality PQ, focusing on high-growth sectors such as the automotive industry, building automation, industrial electronics, consumer goods, aerospace, medical technology, power supplies, telecommunications, transportation and renewable energy. The company has expertise in the early identification of potential sources of interference, both in the development of new products and subsequent system optimization offering a broad range of standard components, an efficient measurement service, expert technical advisors and the skills to develop and produce customer-specific solutions quickly and The group had employee strength of 3,143 as of FY2014/15, which ended September 30.

Strategy 2020 enters execution phase

Schaffner is confident of achieving revenues of CHF400mn by FY2019/20 through twin-pronged strategy of organic growth of more than >5% combined with acquisitions. The company targets an operating EBITA margin of >8% in the medium term and continues with the scenario where the return on capital employed is greater than the weighted cost of capital employed. Schaffner targets to enhance organic growth along with select acquisitions, which will help to further localize products and services, consolidate market shares and accelerate expansion in North America, especially in Power Magnetics. The company's financial health is sound and will be supportive of inorganic growth in the years to come.

Schaffner will continue with its intensified innovation efforts which may result in pressure on margins to a certain degree. The company believes this is necessary to consolidate its leadership positions in competitive markets. Going forward, the strategic plans also include margin expansion via automation in high-growth markets, defect-free manufacturing and having a quick turnaround time to meet its customers' needs.

Power Magnetics and Automotive divisions to drive growth

As per Strategy 2020, Schaffner continues to expect major growth to come from the Power Magnetics segment, where organic growth of >7% (CAGR) is to be achieved. EMC remains the company's most profitable business, but given the maturity of the market only a modest growth (>3% CAGR) is forecast for the group's largest division. Within EMC, Power Quality business is expected to have accelerated growth by increasing its partner network and focusing on after-sales service. Automotive is expected to see ~5% organic growth mainly driven by the growing adoption of keyless systems as well as hybrid cars.

North American growth story continues

Schaffner continued to gain market share in the North American market with the region top-line contribution to Schaffner's overall revenues increasing to 23% compared to 18% in FY2013/14. Schaffner was successful in fully integrating Trencos which has made the management confident to go ahead with further acquisitions to march towards its 2020 targets. The group plans to accelerate expansion in North America, leveraging healthy economic growth, the re-shoring of production and the need for modernizing infrastructure. Sales in Asia dropped by 3% due to weak demand in photovoltaic market, however the regional contribution inched to 36% (from 35% in FY2013/14). Europe's contribution dwindled significantly to 41% (down from 47% in FY2013/14) primarily due to euro depreciation and suspended rail technology from Russian market.

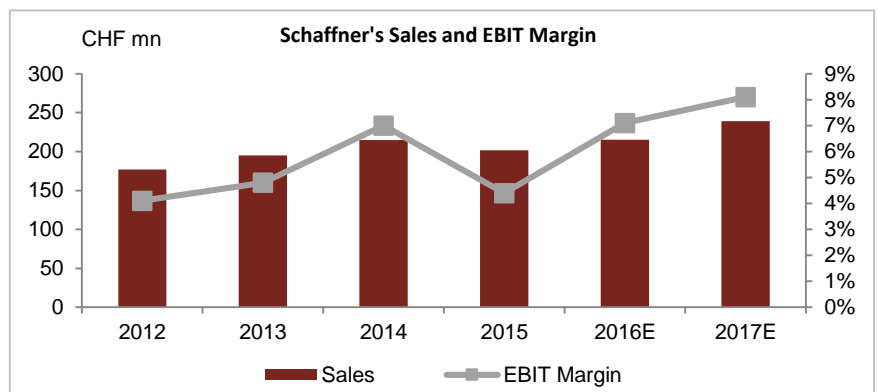
Valuation

At current price levels, Schaffner shares trade at a discount of 29% and 7% to product peers on EV/EBITDA and P/E basis for CY2016E. Similarly, they trade at a 41% and 16% discount to industry peers' multiples. Also, the shares trade at 24% and 28% discount to the median of three year average historic one-year forward multiples to peers on EV/EBITDA and P/E metrics. Given management's confidence and drive to accelerate the growth pace to almost double revenues over the next five years as per Strategy 2020, there is an attractive potential in the mid-term – though the stock might witness volatility in the near term owing to global macroeconomic scenario. Despite weak FY2014/15 results, a few promising areas are emerging such as revenue growth in North America and focus on Power Quality, which will keep the investors interested in the company.

FY2014/15 – strong headwinds impacted performance, Automotive and US sales the key positives

Schaffner reported weak FY2014/15 performance on account of headwinds from global economic slowdown. FX rates as well as adverse policy decisions in key markets such as China. Having said that, the performance was marginally below our expectations. The company continued to post strong growth in Automotive division as well as US sales were robust despite weakness in Europe.

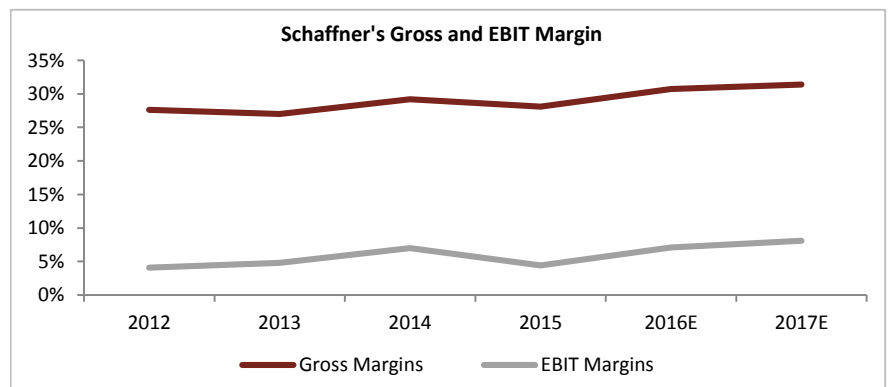
Schaffner's Group sales declined to CHF202mn (down 6%, -2.8% in local currencies) on the back of weak global economic environment, driven primarily by the slump in domestic demand in China from the solar converter industry coupled with the order suspension from a major Western European customer for the Russian market along with a depreciating euro. Further the removal of the Swiss-Euro peg by the Swiss National Bank caused additional strain on the company. The company had new orders in the fiscal year 2014/15 amounting to CHF196.2mn (CHF215.9mn in 2013/14). The book to bill ratio for the company eased to 0.97 in the current fiscal year from 1.01 in the previous fiscal, indicating that the weakness may continue in H1 2016 before the recovery.



The group's gross margin eased marginally by 110bps to 28.1% (29.2% in the previous year) despite weak top line. Management suggested price pressures in Germany to be the primary cause of this dip, as well as the unfavourable EUR/THB exchange rate. The company was able to maintain its competitiveness due to savings on the variable costs, which was a positive sign.

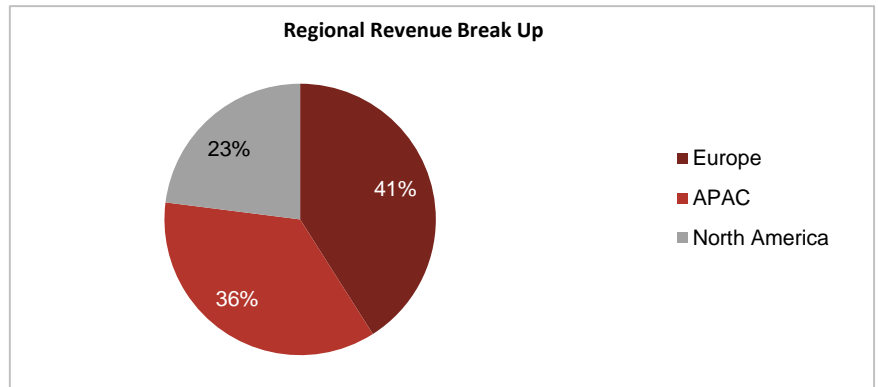
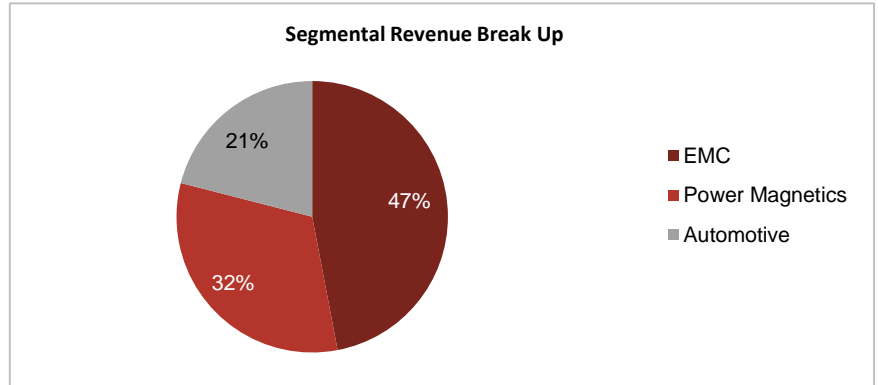
EBITA dipped to CHF10.7mn translating to an EBITA margin of 5.3% (7.7% in FY 2013/14) whereas EBIT fell 41.3% to CHF8.8mn from CHF15mn in the previous year giving a margin of 4.4% (7% in FY2013/14). The company has started reporting EBITA margin as it is a better indicator of profitability as it excludes the amortization of the intangibles in which company has invested heavily in the last few years.

Net margins also dropped significantly by 50% to CHF6.3mn from CHF12.6mn in the previous year. The results for this year also included one-time expenses of CHF2mn for the strategy review and the initiating measures to implement the Strategy 2020. The net margin declined 280 basis points to 3.1%.



All the three divisions of the company saw diverging trends over the fiscal year 2014/15. While the Automotive division bucked expectations by gaining significant ground as the major

revenue contributor generating 21% of the Group sales up from 18% in 2013/14, rising from CHF37.3mn to CHF42.8mn. However, the Power Magnetics and the largest contributor, EMC division failed to match up to their previous year's results. The contribution of EMC division was 47%, failing to contribute at least 50% to the overall revenue for the first time, its revenue in absolute numbers declining by CHF14.6mn (~13%) to CHF95.3mn from CHF110mn. On the other hand, the Power Magnetics division, projected to be driver of Group's fortunes inched by a percent to 32% of Group sales from 31% in FY2013/14, however in absolute terms clocking revenues of CHF63.6mn down from CHF67.3mn (~5%).



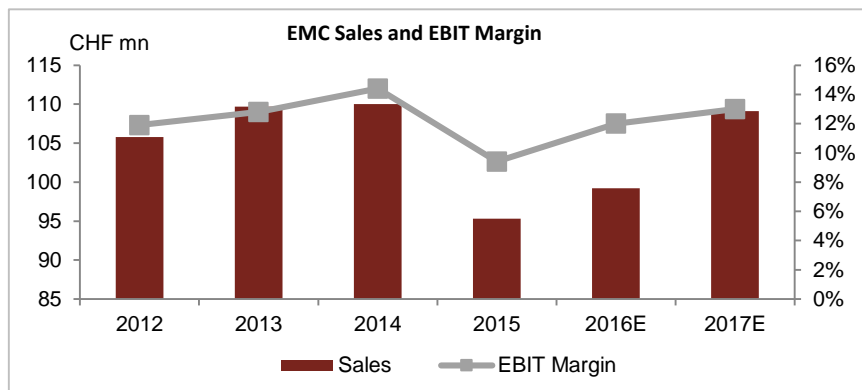
On regional levels, Schaffner reported strong growth in sales in North America with sales accounting for 23% of the overall revenue (7% excluding Trencos acquisition). The company has been growing its North America revenue contribution in the last few years and targets 25% sales from this region in the next few years. Revenues from Europe declined significantly as the company suffered from weakness in demand from key markets as well as negative currency trends. Revenues from China declined primarily due to slump in domestic demand in China from the solar converter industry.

SEGMENTAL ANALYSIS

EMC (Electro Magnetic Compatibility):

Schaffner continues to command number one position in the niche field of EMC filters. Sales in the traditional EMC filter business has faced headwinds driven by the demand decline in photovoltaics as well as currency translation effects of the weak euro. The company was able to protect its margins by saving on the variable costs. However, EMC division succeeded in expanding its position as the global leader through launch of new products and intensive marketing activities. The EMC division continued its new product march with the launching of the New ECosine harmonic filters and new high-current EMC filters along with the development of a new generation of output filters that greatly extend the life of electric motors which was successfully completed.

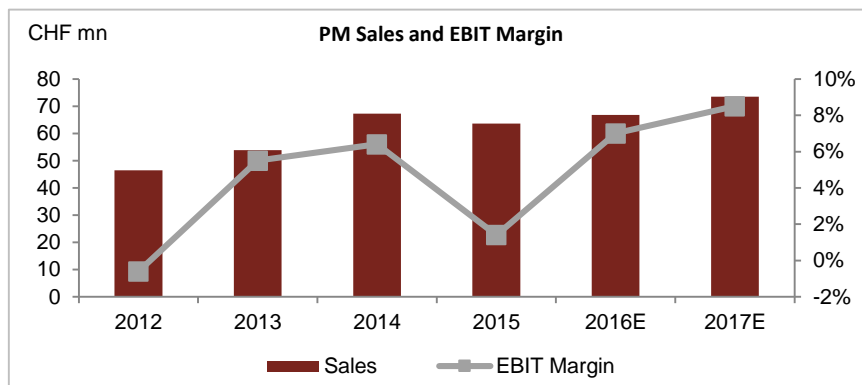
Sales of the Power Quality business unit witnessed encouraging progress in business development. However the unit's small size was unable to make up for the lower sales of the other product groups. Schaffner also suffered from an extremely challenging photovoltaic market in China. Schaffner plans increased spending to accelerate growth in the Power Quality business unit.



Schaffner had an EBIT margin of 9.4% for the EMC segment for the FY2014/15 down by 190 basis points. However, new product launches should help the company recover lost ground and put it on its path to achieve Strategy 2020 targets. Overall, Schaffner foresees EMC's organic sales growth at over 3% CAGR (FY2014/20), enhanced by revenues that would be generated from acquisitions. To aid these organic growth efforts, the Group is also open to inorganic growth opportunities, with the focus on Power Quality. Further, the division is targeting an EBITA (EBIT before acquisition-related amortization) margin of over 12%. On the whole (i.e. including external growth), we expect the EMC division's revenues to be around CHF157mn by FY2020 (from CHF95.3mn in FY2014/15) implying a CAGR of 10.5%.

PM (Power Magnetics):

In the fiscal year 2014/15, the Power Magnetics recorded sales of CHF63.6mn, a decrease of 5.5%. Segment EBIT for the Power Magnetics division dipped to CHF0.9mn with EBIT margin of 1.4% due to the adverse effect of volume reduction. Accordingly the segment profit margin narrowed down due to twin effects of suspension of a Western European customer's order for the Russian market coupled with lower margins in Japan due to weakening of Japanese currency. However, China was the positive for the Power Magnetics division where opposed to Europe, Schaffner expanded its position in the wind turbine industry with the successful launch of a new integrated filter solution. Schaffner was able to accomplish its North American entry into the growth market of energy-efficient drives owing to the March 2014 acquisition of US company Trenchco.

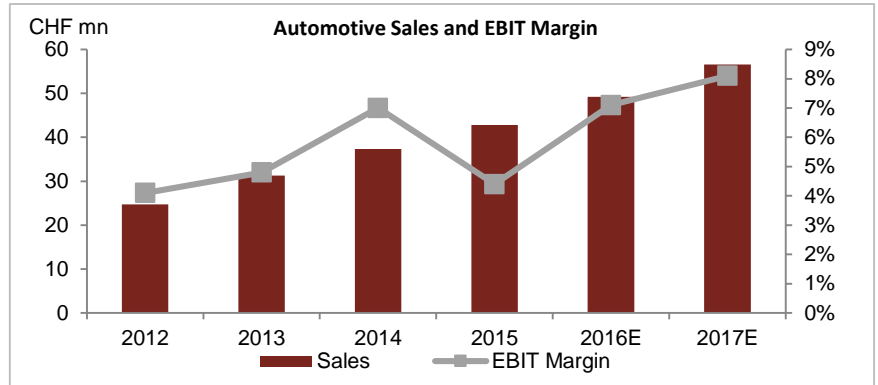


In the challenging Power Magnetics (PM) market, Schaffner continued its focus on 1) products in motor drives, renewable energy and traction markets, 2) consolidating its production sites in the US, 3) setting up a competence centre in Germany, 4) moving more production to Hungary, and 5) leveraging synergies with the EMC segment. Schaffner continues with its focus to strengthen its technology platform for existing and new applications. It also intends to avoid commoditized mass markets and make its presence strongly felt in profitable products such as dry-type transformers, inductors, etc.

Schaffner envisages the segment's organic revenue growth to exceed 7% (CAGR). In addition to this, the group expects to generate significant revenues through inorganic growth, by targeting globally small to mid-sized, mainly family owned companies to strengthen its core markets. PM targets to reach an EBITA margin exceeding 8% across the cycle. We anticipate the division's overall revenues to reach CHF121mn by 2020 compared to CHF63.6mn in FY2014/15, thereby implying a CAGR of ~13.7%.

AM (Automotive):

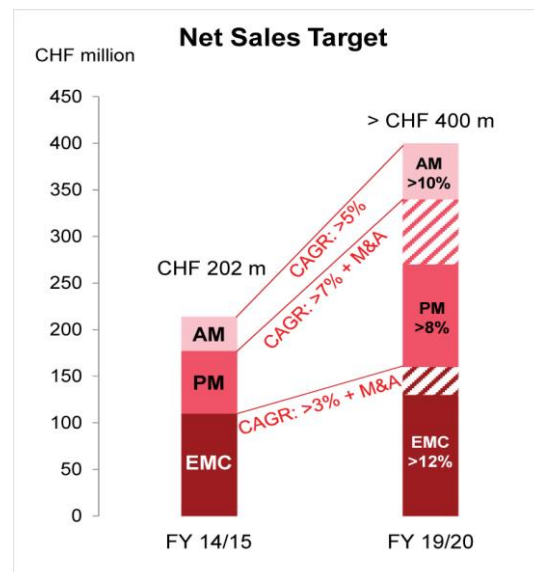
Schaffner is the number two player in the keyless entry systems market where it continues to hold a market share of 25%. The group was successful in completing a turnaround in the Automotive business division where it continued its attractive growth clocking an increase of 14.8% in revenues to CHF42.8mn up from CHF37.3mn. Schaffner expects the robust demand for keyless entry systems especially in China and the Americas to drive volume increase in active programs. Thailand operations proved to be a major growth driver as volume growth combined with reduction in manufacturing costs helped the division profit more than double to CHF6.2mn from CHF2.5mn in the previous year resulting in the profit margin growing remarkably by 14.5% in FY2014/15 for the division.



Schaffner believes that its AM segment will continue to grow at a healthy rate of over ~5% until FY2020 and does not factor in acquisitions at this stage. With its cost efficient designs, strong operational abilities and automation, Schaffner continues to target an EBITA margin of over 10% by FY2020. We estimate that the segment's revenues will grow at just under 17.6% CAGR to approximately CHF96.2mn by FY2020.

Strategy 2020: Well on track, enters execution phase

Schaffner remains upbeat with the strategy 2020 which was released last year where the company detailed out its plans on company growth over the next few years. Despite weak performance in FY2014/15, the management is confident of achieving its target of CHF400mn in revenues by 2019/20. The company intends to achieve the revenue targets through an organic growth of more than 5% per year supported by acquisitions. The company aims to regularly exceed the EBITA margin of 8% in the medium term and the return on capital employed (ROCE) is supposed to exceed the weighted average cost of capital (WACC) significantly.



Sustainable dividend policy: Schaffner board aims to pursue a sustainable dividend policy. The company targets a dividend payout ratio of 25% to 35% of the net profit. However, this ratio will be flexible based on the premise of not only taking the group profit into consideration but also cash position and expected future cash flows for the company.

The company announced dividend of CHF 6.50 a share for FY2014/15 (FY2013/14: CHF6.50) which is way above the target range as the potential of Strategy 2020. The Board plans to make distributions to the shareholders in the form of tax-free repayments of capital.

Accelerated growth through acquisitions: Schaffner aims to achieve revenue growth through accelerated organic growth especially of the Power Quality product segment within the EMC division. Besides it, Schaffner intends to achieve worldwide market leadership in the Power Magnetics division through a two-pronged strategy of internal and acquisitive growth. The company intends to keep its spending on the research and development (~8% of the revenues) to create new products that would be ready to be launched in the market in the next two years. This would enable to help Schaffner improve top-line as well as help margin growth. Automotive division for Schaffner was the surprise package in the results this year. The company intends to continue to exploit the growth opportunities in the markets for keyless entry systems and electric vehicles. Schaffner’s competitive strength would help this business to remain attractive in the wake of sustained market growth.

Apart from growth targets, the group intends to capitalise on the global footprint and technology advancements to maintain the leadership position.



Focus on North America: North America continued to be the major revenue thrust for Schaffner by contributing 23% to its overall revenues (previous year 21%) thereby rising by 20% y-o-y. In fact robust performance of the US market in the Automotive division and the synergy derived from Trencos acquisition has compensated for the weaknesses of Europe fuelled primarily by Euro devaluation and rail technology order cancellation from the Russian market. The company intends to keep this trend going. The same can be gauged by the fact that the company has appointed a new Group Vice President, Sales And Marketing North America to improve the distribution system in the US. The opening of the EMC prototyping centre in Edison, New Jersey at the beginning of 2015 is a testimony to the fact that the importance that the company attaches to collaborating closely with its North American customers.

EBITA margin target of 8%: As already mentioned above, the group aims to strengthen and sustain its earnings quality substantially by ensuring an EBITA margin of 8% and above over the medium term business cycle. The Group strives to attain market leadership in the Power Magnetics division where it is currently at 3rd position globally. This is to be achieved by the optimization of the international manufacturing network. The assimilation of the two US based plants of Schaffner Trencos and Schaffner MTC into a single entity at Wytheville, Virginia facility has been undertaken with an intention of increasing the competitiveness of the company operations in North America. The company intends to have a recurring savings of more than CHF 1mn per year after the completion of the project in the first half of FY 2015/16. With Schaffner’s having already made a transition to lean manufacturing principles, the Group as a whole is ready to go for operational excellence 2.0 which would include multiple measures comprising of making sweeping changes to increase responsiveness and speed along the entire value chain, and the implementation of Six Sigma approach that would ensure zero-defect across its product lines. Also, Schaffner ensures constant review of

its processes and structures to ensure consistent optimization. Simultaneously, Schaffner’s German facility is being converted into a Centre of Excellence by investing in building up research and development capabilities and expanding the manufacturing linkages with its Hungarian plant. This indicates the already mentioned premise of Schaffner Group’s uncompromising stance when it comes to going ahead with R&D activities. The Group also expects to sustain the momentum in demand growth globally, with new orders coming especially from China.

Solid financials to cover inorganic growth; decent shareholder returns

Despite envisioning robust revenue growth and acquisitions in the next few years, Schaffner plans to keep its leverage level well within control. The group continues to target Net Debt to EBITDA ratio below 3.0x (1.0x in FY2014/15). Schaffner also targets in keeping its Equity Ratio (equity to Total Assets) above 40% over the long term (40% in FY 2015).

Our analysis suggests that the company will be spending CHF80-100mn on acquisitions till 2020. Assuming all these acquisitions are funded by debt, we expect the company to retain its equity ratio target of 40%. In addition, the Board will propose to shareholders at the next AGM on 12 January 2016 to create new authorized share capital of a maximum amount of CHF 2,066,805, which will provide more flexibility in its acquisition activities.

Valuation

Since the FY2013/14 results, Schaffner shares have declined by ~26% mainly due to abolishment of the CHF-EUR peg and global economic slowdown. Also, the devaluation of the Euro combined with weakened Japanese Yen has also impacted the revenues for Schaffner Group as a whole. However, we believe Schaffner is well placed to exploit opportunities in its respective markets, especially in Automotives and the North American region.

Given management’s confidence and drive to accelerate the growth pace to almost double the revenues over the next five years as per Strategy 2020, there is an attractive potential in the mid-term. Despite weak FY2014/15 results, a few promising areas are emerging such as, revenue growth in North America and focus on Power Quality, which will keep the investors interested in the company.

At current price levels, the stock trades at a discount of 29% and 7% to product peers’ median on EV/EBITDA and P/E basis for CY2016E. Similarly, they trade at a 41% and 16% discount to industry peers’ multiples. Also, the shares trade at 24% and 28% discount to the median of three year average historic one-year forward multiples to its peers on EV/EBITDA and P/E metrics. Given the management’s confidence on execution capabilities, we believe a discount to its peers is unwarranted and that valuations are compelling, though the stock might witness volatility in the near term owing to global macroeconomic scenario.

Our DCF valuation also indicates a substantial upside potential for the stock, which is highlighted in the table below.

Sensitivity Table						
		WACC				
		5.5%	6.0%	6.5%	7.0%	7.5%
Terminal growth rate	0.25%	315	279	246	223	201
	0.50%	333	294	258	233	209
	0.75%	353	309	271	244	219
	1.00%	374	327	284	256	228
	1.50%	426	367	316	282	251
	2.00%	492	418	355	314	277
	2.50%	580	482	403	353	308

Exhibit 1: Schaffner – Comparison with Product peers

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E
Schaffner Holding AG	7.7x	6.9x	5.5x	10.9x	13.6x	10.5x	13.5x	15.9x	12.5x
Omron Corp	8.6x	8.2x	7.5x	12.0x	11.4x	11.0x	17.1x	17.1x	15.8x
Laird Plc	9.7x	40.0x	37.5x	15.7x	50.7x	45.6x	18.2x	14.2x	14.7x
Yokogawa Electric Corp	9.7x	7.2x	7.2x	15.4x	7.2x	9.6x	21.5x	14.7x	14.3x
Lem Holding SA	13.3x	16.4x	15.4x	15.4x	19.2x	18.1x	18.7x	23.6x	22.4x
Komax Holding AG	8.8x	11.8x	10.4x	12.4x	14.3x	12.6x	15.3x	21.8x	15.9x
Gavazzi Carlo Holding AG	5.7x	6.7x	6.5x	7.0x	NA	8.0x	11.5x	NA	14.4x
Eaton Corp Plc	15.0x	9.8x	9.1x	21.9x	13.1x	11.8x	17.1x	12.6x	11.0x
Aparator SA	11.3x	9.6x	8.6x	14.1x	13.1x	11.0x	13.3x	NA	12.9x
Median	9.7x	9.7x	8.8x	14.7x	13.7x	12.2x	17.1x	17.1x	15.8x
High	15.0x	40.0x	37.5x	21.9x	50.7x	45.6x	21.5x	23.6x	22.4x
Low	5.7x	6.7x	6.5x	7.0x	7.2x	8.0x	11.5x	12.6x	11.0x
Premium (disc) to product peers	(21%)	(29%)	(37%)	(26%)	(1%)	(14%)	(21%)	(7%)	(21%)

Source: Bloomberg (as on 09 December 2015)

Exhibit 2: Schaffner – Comparison with Industry peers

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E
Schaffner Holding AG	7.7x	6.9x	5.5x	10.9x	13.6x	10.5x	13.5x	15.9x	12.5x
Lem Holding SA	13.3x	16.4x	15.4x	15.4x	19.2x	18.1x	18.7x	23.6x	22.4x
Kudelski SA	7.5x	7.8x	7.6x	15.8x	12.4x	12.0x	13.9x	14.3x	12.2x
Inficon Holding AG	11.3x	11.7x	10.3x	12.9x	13.4x	11.9x	18.7x	19.1x	16.5x
Also Holding AG	5.5x	NA	NA	7.2x	NA	NA	9.1x	13.8x	NA
Comet Holding AG	10.1x	13.3x	9.7x	15.6x	17.7x	13.2x	19.0x	27.8x	18.8x
Cicor Technologies	6.7x	NA	NA	13.9x	9.0x	7.0x	16.9x	NA	NA
Datacolor AG	11.3x	10.8x	9.3x	16.3x	15.4x	12.3x	30.4x	24.4x	18.6x
Median	10.1x	11.7x	9.7x	15.5x	14.4x	12.0x	18.7x	19.1x	18.6x
High	13.3x	16.4x	15.4x	16.3x	19.2x	18.1x	30.4x	27.8x	22.4x
Low	5.5x	7.8x	7.6x	7.2x	9.0x	7.0x	9.1x	13.8x	12.2x
Premium (disc) to Industry peers	(24%)	(41%)	(43%)	(30%)	(6%)	(13%)	(28%)	(17%)	(33%)

Source: Bloomberg (as on 09 December 2015)

DETAILED FINANCIAL STATEMENTS

Income Statement

<i>CHF mn (except per share)</i>	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
EMC sales	129	106	110	110	95	98	106
PM sales	36	46	54	67	64	68	76
AM sales	18	25	31	37	43	49	57
Sales	183	177	195	215	202	216	239
Cost of goods sold	(126)	(128)	(142)	(152)	(145)	(151)	(166)
Gross profit	56	49	53	63	57	64	73
Marketing and sales	(15)	(17)	(17)	(18)	(18)	(20)	(22)
R& D expenses	(14)	(14)	(15)	(15)	(17)	(20)	(22)
General and administration	(14)	(11)	(10)	(13)	(13)	(10)	(11)
Other income	0	1	0	0	1	1	1
Total operating costs	(43)	(41)	(42)	(47)	(47)	(51)	(57)
Profit before amortization of customer relations	13	8	10	16	10	14	17
Amortiz. of customer relations	(1)	(1)	(1)	(1)	(1)	(2)	(2)
Operating profit (EBIT)	13	7	9	15	9	12	15
Depreciation	3	4	4	4	5	5	6
Amortisation of intangible assets	2	3	3	3	3	4	5
EBITDA	19	15	17	23	18	23	28
Finance costs	(13)	(4)	(7)	(7)	(5)	(1)	(2)
Finance income	11	2	5	6	4	0	0
Total financial income (expenses)	(2)	(2)	(2)	(1)	(1)	(1)	(2)
Profit before taxes	11	5	7	14	8	10	13
Taxation	(1)	(1)	(1)	(1)	(2)	(2)	(2)
Profit attributable to the parent	10	4	6	13	6	9	11
Basic EPS	16.0	6.2	9.9	20.0	10.0	13.6	17.4
Diluted EPS	15.4	6.0	9.9	19.9	9.9	13.5	17.3
DPS	4.5	3.5	4.5	6.5	6.5	4.8	6.1

Source: Research Dynamics, Company data

Note: The group reorganized the divisional reporting structure in FY2011.

Key Ratios

	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Growth Ratios							
Sales Growth	(3%)	(3%)	10%	10%	(6%)	7%	11%
EMC division	16%	(18%)	4%	0%	(13%)	3%	8%
PM division	(41%)	29%	16%	25%	(5%)	7%	12%
AM division	6%	40%	27%	19%	15%	15%	15%
Operating profit Growth	(15%)	(43%)	30%	60%	(41%)	31%	30%
Net Income Growth	(15%)	(61%)	61%	101%	(50%)	36%	28%
Profitability Ratios							
Operating margin (%)	7%	4%	5%	7%	4%	5%	6%
EMC division (OPM)	16%	12%	13%	14%	9%	11%	12%
PM division (OPM)	(1%)	(1%)	5%	6%	1%	6%	7%
AM division (OPM)	(2%)	2%	(6%)	7%	15%	10%	12%
EBITDA Margin %	10%	8%	9%	11%	9%	11%	12%
Net Margin (%)	6%	2%	3.2%	5.9%	3.1%	4.0%	4.6%
Return Ratios							
Profit Margin	6%	2%	3%	6%	3%	4%	5%
Asset Turnover	1.4x	1.3x	1.4x	1.4x	1.3x	1.4x	1.3x
Financial Leverage	2.3x	2.4x	2.3x	2.3x	2.4x	2.6x	2.7x
Dupont ROE (%)	18%	7%	10%	20%	10%	14%	16%
ROCE (%)	23%	8%	11%	16%	10%	12%	12%
ROA (%)	8%	3%	4%	8%	4%	5%	6%
Leverage Ratios							
Debt - Equity Ratio	0.6x	0.6x	0.5x	0.5x	0.6x	0.9x	1.0x
Net Debt - Equity Ratio	0.4x	0.4x	0.2x	0.2x	0.3x	0.4x	0.5x
Interest Coverage	14.1x	4.9x	6.5x	15.3x	8.9x	7.4x	6.7x
Liquidity Ratios							
Current Ratio	1.1x	2.2x	2.0x	2.1x	2.5x	2.4x	2.5x
Quick Ratio	0.7x	1.4x	1.4x	1.4x	1.6x	1.6x	1.8x
Valuation Ratios							
EV/EBITDA	9.1x	11.8x	9.1x	8.8x	8.9x	6.9x	5.5x
P/E	14.6x	37.9x	22.8x	14.8x	21.9x	16.1x	12.6x

Source: Research Dynamics, Bloomberg, Company data

Balance Sheet

In CHF mn	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Assets							
Non-current assets							
PPE	18.2	21.1	20.9	24.8	22.7	30.0	38.8
Intangible assets	24.1	22.3	19.6	24.1	22.1	25.7	30.0
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	11.8	13.3	12.5	4.8	2.2	2.2	2.2
Deferred tax	2.7	2.9	3.0	3.7	4.6	4.6	4.6
Total Non Current Assets	56.8	59.6	56.1	57.4	51.7	62.6	75.7
Current assets							
Inventories	29.1	29.9	28.1	31.3	32.0	33.2	36.4
Trade receivables	32.4	34.8	34.0	38.5	34.7	39.6	43.2
Income tax receivables	0.4	0.6	0.5	0.5	0.3	0.3	0.3
Other receivables	3.7	3.7	3.8	3.2	3.0	3.0	3.0
Other financial assets	0.2	2.1	4.1	4.9	5.6	5.6	5.6
Cash and cash equivalents	14.2	10.3	17.0	18.6	19.6	26.5	37.8
Total assets	136.8	140.8	143.7	154.5	146.9	170.7	202.0
Shareholders' Equity and Liabilities							
Share capital							
Share capital	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Reserves & Surplus	40.1	40.3	36.5	35.3	28.4	24.2	21.2
Retained earnings	(3.9)	(0.6)	5.4	10.7	10.4	19.0	30.0
Total equity	56.9	60.3	62.5	66.6	59.4	63.9	71.9
Non-current liabilities							
Long term borrowings	0.4	36.0	29.8	35.1	37.5	49.7	67.7
Deferred tax liabilities	1.9	2.2	2.3	1.2	0.4	0.4	0.4
Provisions	6.6	6.1	5.6	6.1	10.9	10.9	10.9
Total Non-Current Liab.	8.9	44.2	37.6	42.4	48.8	61.0	79.0
Current liabilities							
Trade and other payables	31.0	32.2	40.3	41.9	36.7	38.6	41.9
Income tax liabilities	1.9	1.0	0.7	1.0	1.0	1.0	1.0
Short term borrowings	34.6	0.2	0.5	0.2	0.3	5.5	7.5
Provisions	3.5	2.9	2.0	2.3	0.7	0.7	0.7
Total Current Liabilities	71.0	36.3	43.5	45.4	38.6	45.7	51.1
Total liabilities	79.9	80.5	81.1	87.8	87.4	106.8	130.1
Total equity and liab.	136.8	140.8	143.7	154.5	146.9	170.7	202.0

Source: Research Dynamics, Company data

Cash Flow Statement

In CHF mn	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Net profit for the period	10.2	3.9	6.3	12.6	6.3	8.6	11.0
Non-cash adjustments:	11.7	9.0	8.8	9.1	14.6	23.7	30.4
Change in current assets and liabilities:							
(Increase)/decrease in inventories	0.3	0.0	1.3	(1.2)	(2.5)	(1.1)	(3.2)
(Increase)/decrease in receivables	6.4	(3.5)	(0.0)	(0.8)	2.5	(4.8)	(3.6)
(Decrease)/increase in current liabilities	(3.5)	(0.4)	9.0	(0.2)	(3.5)	1.8	3.3
Change in operating working capital	3.2	(3.9)	10.3	(2.2)	(3.6)	(4.1)	(3.6)
Cash flows from operating activities	17.8	4.6	20.8	15.3	8.2	13.6	18.4
Purchase of PPE	(6.9)	(3.7)	(4.8)	(6.4)	(4.7)	(12.2)	(14.6)
Disposal of PPE	0.2	1.4	0.3	0.3	0.3	-	-
Purchase of intangible assets	(1.4)	(0.7)	(0.4)	(0.4)	(0.8)	(7.8)	(9.4)
(Acquisition)/divestment	(10.6)	(0.4)	(0.4)	(8.6)	-	-	-
Change in other assets	(0.0)	(0.0)	(0.9)	(0.7)	(0.7)	-	-
Cash flow generated (used) in investment activities	(18.7)	(3.4)	(6.2)	(15.8)	(5.9)	20.0)	24.0)
Change in treasury shares	(7.3)	(1.0)	(1.1)	(3.1)	(0.9)	-	-
Proceeds from Share issues	4.4	0.5	1.2	2.6	1.3	-	-
Repayment of excess share premium	(2.8)	(2.8)	(2.2)	(2.9)	(4.1)	(4.1)	(3.0)
Net proceeds/(repayment) from debt	13.4	(1.8)	(5.5)	5.2	2.9	17.5	20.0
Amortization related to finance lease	-	(0.1)	(0.2)	(0.2)	(0.2)	-	-
Cash flow generated (used) in financing activities	7.6	(5.3)	(7.7)	1.7	(1.0)	13.4	17.0
Exchange (losses)/gains	(0.5)	0.2	(0.2)	0.3	(0.4)	-	-
Net change in cash	6.2	(4.0)	6.8	1.6	1.0	6.9	11.3
Opening cash balance	8.1	14.2	10.3	17.0	18.6	19.6	26.5
Closing cash balance	14.2	10.3	17.0	18.6	19.6	26.5	37.8

Source: Research Dynamics, Company data

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