



DIVISIONS

Sealing Solutions

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SEALING SOLUTIONS

The Datwyler Sealing Solutions division is a leading supplier of customer specific sealing, closure and packaging solutions to global market segments, such as the Automotive, Health Care, Civil Engineering and Consumer Goods industries. This is thanks to its leading material, engineering and process expertise and worldwide presence with its own production locations. As an acknowledged development partner, Datwyler maintains close working relationships with global customers, and has in-depth knowledge of the business models and technologies used in the markets in which it operates.



Target groups

- Automotive system suppliers
- Construction industry
- Packaging industry
- Manufacturers and contract fillers of injectable drugs
- Manufacturers of diagnostic products
- Manufacturers of parenteral drug delivery systems

Geographical markets

- Europe
- North and South America
- Asia
- Australia

Products and services

Automotive

- Brake systems
- Fuel and engine management
- Comfort and safety equipment

Health Care

- Rubber, aluminium and plastic components and closures for injectable drugs
- Rubber components for blood collection systems, IV administration sets, disposable syringes, etc.
- Rubber components for prefilled syringes, pen systems, etc.

Civil Engineering

- Tunnel construction (gaskets for single shell tunnelling)
- Civil engineering (hydrophilic seals, injection hoses, joint seals)
- Track superstructure (sub-ballast mats, sleeper boots)
- Industrial profiles (absorber profiles, solar profiles)
- Building construction (curtain wall, window, and door seals)

Consumer Goods

- Innovative sealing solutions for portioned food and drinks

Investments and acquisitions to accelerate future organic growth

The Sealing Solutions division performed well again in 2016. Thanks to its leading positions in attractive global market segments, Datwyler managed to increase net revenue, compared with the previous year, by 6.7% to CHF 753.3 million (previous year: CHF 705.9 million). Adjusted for currency and acquisition effects, this equates to organic growth of 2.9%. Capacity bottlenecks in the Health Care market segment and delays to projects in the Civil Engineering market segment restricted organic growth to this level. In geographical terms, Datwyler recorded strong growth in Asia in particular, followed by the NAFTA area and Europe.

Further strengthened profitability

The operating result (EBIT) increased to CHF 136.7 million (previous year: CHF 125.8 million). With an EBIT margin of 18.1% (previous year: 17.8%), the division achieved another slight increase in profitability. Before corporate one-off costs (particularly relating to the attempted acquisition of Premier Farnell), adjusted EBIT stood at CHF 138.7 million and the adjusted EBIT margin at 18.4%. In addition to targeted measures for strategic and operational improvements during previous years, this was also the result of high capacity utilisation.

Health Care experiencing strong demand for high-quality components

In terms of the Health Care market segment, the high-quality elastomer components for pre-filled syringes and drug delivery systems recorded the biggest growth. Within this segment, the purity requirements expected of sealing components continue to increase. With a view to satisfying these customer needs and eliminating existing capacity bottlenecks, Datwyler is investing in expansion of FirstLine capacities. This involves a manufacturing concept based on ultra-modern clean room technology, automated production cells, fully automated camera inspection and a unique washing process. As of mid 2017, the Indian plant will also be ready to produce these high-quality components. And at the Belgian plant, Datwyler will be commissioning a highly automated elastomer mixing facility, featuring FirstLine clean room technology, for the first time in 2017.

New FirstLine facility for fast-growing health care segments

An investment in excess of CHF 100 million to build a new highly automated health care plant in the USA will also boost future organic growth. Datwyler will use the new plant to produce high-quality elastomer components for the fast-growing pre-filled syringe and drug delivery system segments. The new plant is to be designed, built and run in accordance with Datwyler's ultra-modern "FirstLine" standards. Once the new US plant is up and running in 2018, Datwyler will be able in future to provide customers in the three key business regions (NAFTA area, Europe and Asia) with locally produced FirstLine components.

Automotive doing well across all regions

The Automotive market segment recorded improvements across all geographical regions. And China also recovered from the previous year's slowdown in growth. In the USA, Datwyler was able to achieve much better market penetration through the distribution network of Columbia Engineered Rubber, which the company acquired in 2014. In Europe, stricter enforcement of emissions regulations for SCR technology (selective catalytic reduction) helped the company make a breakthrough. The German Association of the Automotive Industry estimates the number of vehicles with SCR catalytic converters (for treating exhaust gases) will increase fivefold in Western Europe to around 20 million by 2020. Datwyler has been working with leading manufacturers of catalytic converters for several years and supplies five or so system-critical elastomer components for each SCR system.

Key figures of Sealing Solutions

in CHF millions	2016	2015
Net revenue	753.3	705.9
EBIT	136.7	125.8
EBIT margin	18.1%	17.8%
Total assets	688.8	629.4
Gross capital expenditure	65.8	48.5
Number of full-time equivalents (at year-end)	5'917	5'521

Potential for development and growth thanks to acquisitions

In addition to its investments, Datwyler is also boosting organic growth and the potential for development through targeted acquisitions. And thanks to the acquisitions of the Italian firm Origom in 2015 (annual revenue of CHF 23 million) and the German firm Ott in early October 2016 (annual revenue of CHF 33 million), Datwyler has acquired new technologies and secured access to new niche markets associated with both existing and new customers. Origom is enabling Datwyler to meet the requirements of existing automotive customers in terms of precision O-rings, while also tapping into interesting new industries like hydraulics and pneumatics. Integration is on schedule, with the firm renamed Datwyler at the beginning of 2017. With Ott, Datwyler has acquired a specialist in injection moulding technology, both single- and multi-component, based on thermoplastics and liquid silicone. This complements existing technologies perfectly and offers Datwyler an opportunity to increase added value and devise novel solutions to accommodate, for example, the megatrends of environmental sustainability and electrification within the automotive industry.

Decline in revenue for Civil Engineering

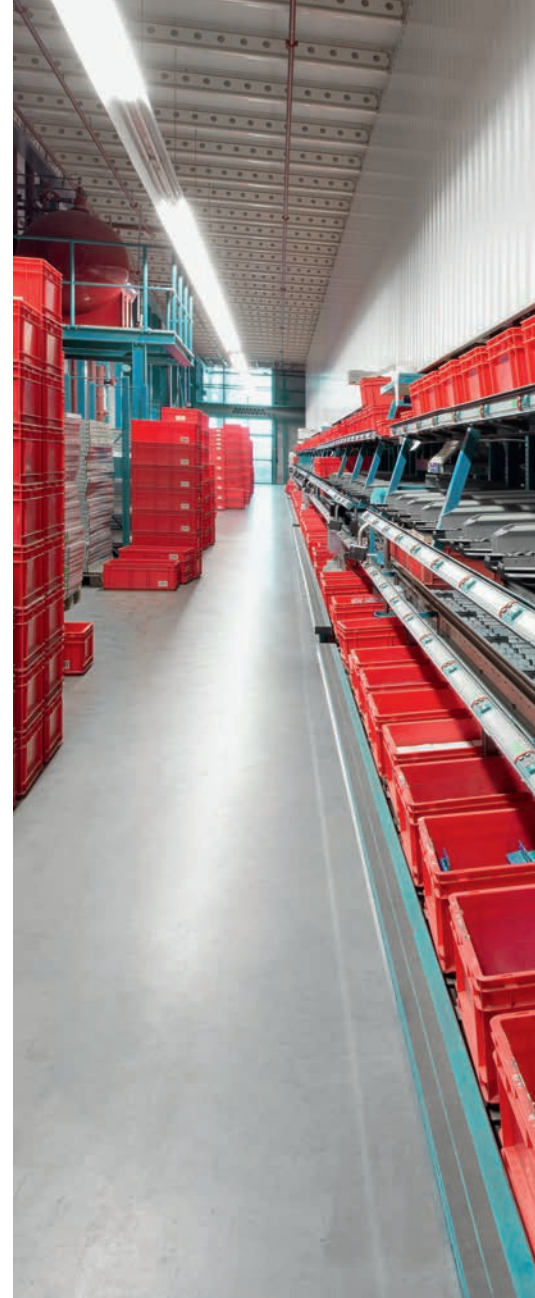
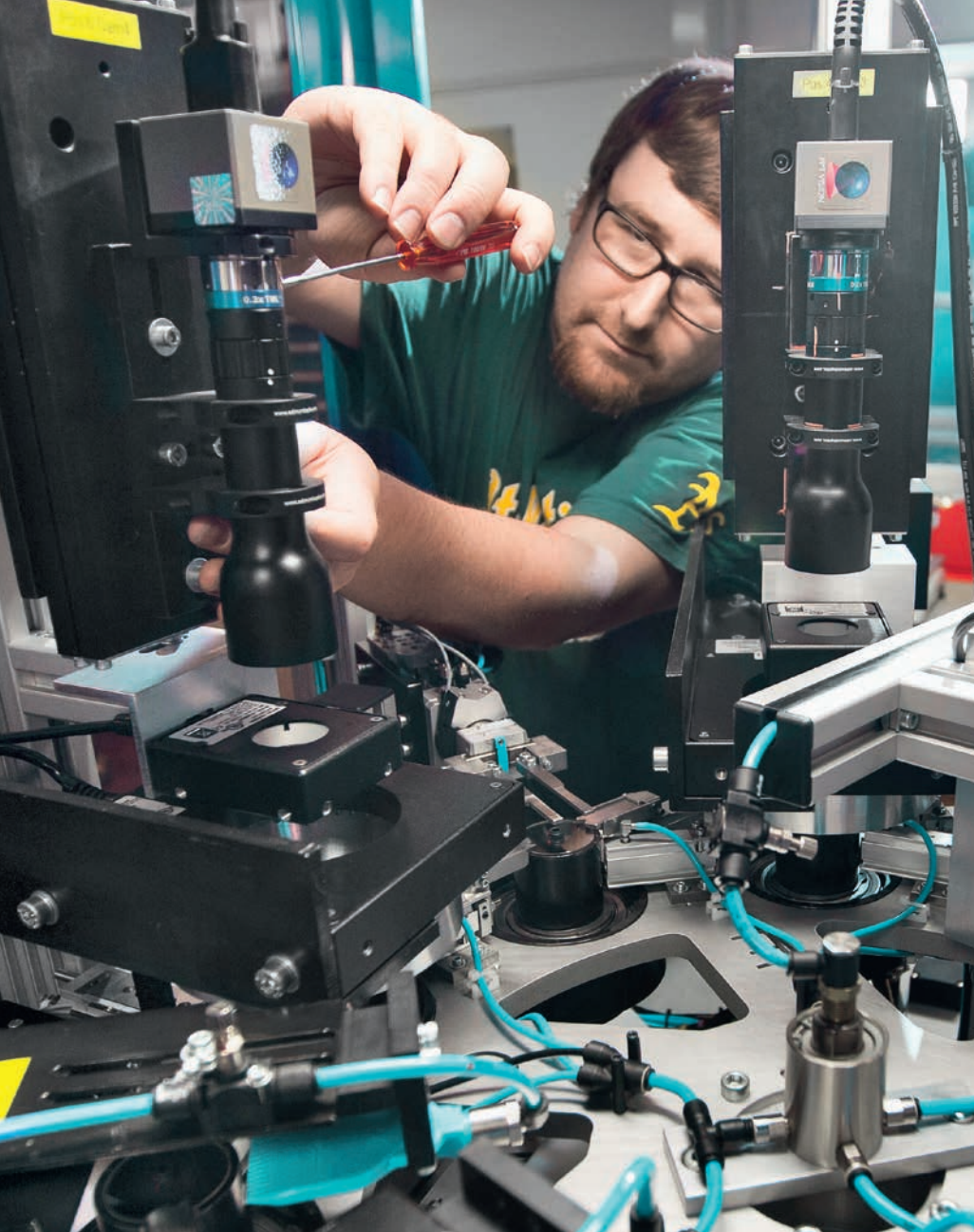
The Civil Engineering market segment is involved in tunnelling and railway superstructure projects. Unexpected postponements of projects during 2016 resulted in significant declines in both revenue and margins. Special praise is merited for winning the IQ Innovation Prize (Central Germany), which was awarded for a new elastomer material with antimicrobial properties. Commercialisation of this new application has already begun.

Gratifying performance for Consumer Goods

The partnership with Nespresso in the Consumer Goods market segment continues to develop nicely. Negotiations on a new contract are at a very advanced stage, with the key parameters already defined. Datwyler and Nespresso have continually intensified their cooperation since 2006. Today, the world leader in high-quality portioned coffee is the Datwyler Group's largest single customer. The new contract envisages further growth potential.

A very promising outlook

The outlook for the Sealing Solutions Division remains very promising for 2017 and beyond. For one thing, Datwyler is benefiting from its strong positions in growing global market segments and the recently acquired new technologies are creating opportunities for potential additional development and growth. At any given time, the company is reviewing further possible acquisitions with a view to tapping into specific geographical markets and new technologies.



TECHNICAL COMPONENTS

The Datwyler Technical Components division is one of Europe's leading high-service distributors with local representation, a modern multi-channel offering and an attractive product range. It comprises three specialised brands – Distrelec / Elfa Distrelec, Reichelt and Nedis. Altogether, the Technical Components division offers an extended range of up to 500'000 products for maintenance, electronics, automation and ICT, with excellent availability and fast delivery times.



Target groups

- Industrial companies
- High-tech design and manufacturing
- Small to medium-sized businesses
- Retailers
- Wholesalers
- Technical schools and universities
- Government agencies and administrations
- Private customers

Geographical markets

- Europe

Products and services

- Maintenance, repair and operations
- Electronic components and accessories
- Automation
- Connectors
- Electrical engineering
- I&C equipment
- ICT components and accessories
- Building technology and building automation
- Alarm and security technology

Negative revenue and margin trend has been reversed

With its focus on Europe, the Technical Components Divisions continued to operate in a challenging market environment in 2016. In the business-to-consumer segment in particular, demand in the second half of the year declined sharply in all markets to some extent. The sector as a whole lacked the innovative trends that have otherwise wowed customers in recent years. However, Datwyler's distribution companies Distrelec, Reichelt and Nedis gratifyingly managed to increase revenue in core business with business-to-business customers. Significant operational improvements due to the increased stability of structures and processes resulted in better product availability and shorter delivery times. Further optimisation of search functions and product information in our online shops also helped to enhance the customer shopping experience.

Slight increase in revenue despite reduction of low margin products

After several years of negative revenue development, the division reversed the trend in 2016 and upped its net revenue slightly to CHF 462.6 million (previous year: CHF 459.3 million). Adjusted for currency effects, this means that revenue remained virtually the same in organic terms. The reduction of low-margin product sales and the standardisation of discounts as expected had a negative impact on revenue. The expansion of the product range in relation to maintenance, repair and operations (MRO) on the one hand and automation on the other made a positive contribution to revenue performance, as did the launch of a new house brand for standard products. Under the "RND" brand, Datwyler outsources the manufacturing of clearly specified electronic components and accessories to China. Thanks to quality assurance by its own purchasing organisation in Shenzhen, Datwyler can offer its customers high-quality products at attractive prices and improve its margin at the same time. The "RND" range already comprises more than 3,000 products and will be expanded significantly due to strong increase in customer penetration.

Margin improvement thanks to cost savings and optimised product range

Strategic integration projects to create a shared infrastructure platform reached completion in the first half of 2016. The new platform is operational, enabling the implementation of substantial recurring cost savings in the year under review. For example, the central distribution centre in the Netherlands managed to continually reduce its cost by optimising its processes. Furthermore, the division centralised its accounting and financial functions in the Netherlands and, in particular, at the shared service centre in Latvia. The realignment of sales structures from country to regional management level resulted in further cost savings. Additional margin support came from the optimised product range and the standardised discounts. Although these measures did not take effect over the entire year, the operating result (EBIT) significantly improved, ending on CHF 9.4 million (previous year: CHF 0.3 million). Taking into account one-time costs related to cost-cutting measures and the Corporate one-time costs (particularly from the attempted acquisition of Premier Farnell), adjusted EBIT amounted to CHF 18.9 million. Consequently, the adjusted EBIT margin improved from 2.5% in the previous year to 4.1% in the year under review.

Key figures of Technical Components

in CHF millions	2016	2015
Net revenue	462.6	459.3
EBIT	9.4	0.3
EBIT margin	2.0%	0.1%
Total assets	327.9	361.2
Gross capital expenditure	12.0	11.0
Number of full-time equivalents (at year-end)	1'116	1'231

Strategic focus on organic growth

Thanks to the turnaround in revenue and EBIT performance, the Technical Components Division turned the corner in the year under review and is heading in the right direction under the new management team that took up its duties in 2015. Revenue growth is not yet satisfactory. The fact that the management team were absorbed for several months in preparations to acquire Premier Farnell had a bearing on this. Following the decision not to acquire Premier Farnell, the acceleration of organic growth represents the most important strategic goal. In achieving this objective, one of the things the division needs is an efficient category and product management approach in order to quickly expand its product range with the correct products and to strengthen its market presence. Measures are currently being drawn up to improve expertise and efficiency in this key area of operations. The central distribution centre also offers further potential for process optimisation and cost savings.

Package of measures to increase revenue and efficiency

Besides the new house brand and the accelerated expansion of the product range, we are confident that a series of additional measures will help to stimulate demand and revenue in the 2017 fiscal year and beyond. Central importance is being accorded to a change project that involves all employees refocusing clearly on customers and their needs. By putting increased emphasis at the same time on the higher-margin maintenance and automation markets, Datwyler can best leverage its legacy, its existing product range and its technical expertise. A step-up in Internet marketing activity and the launch of new catalogues should provide extra impetus, making it easier for target groups to search online and offline for the components they require. Furthermore, we expect the Reichelt brand to continue its successful expansion into markets outside Germany. Based on measures initiated and implemented to increase revenue and efficiency, we believe that Datwyler's distribution companies will be able to improve their EBIT margins considerably.