

LETTER TO THE SHAREHOLDERS

Datwyler enjoys profitable growth and sharpens strategic priorities

- **The Datwyler Group accelerated profitable growth during 2017. Net revenue increased by 6.2% to CHF 1'291.4 million. The operating profit (EBIT) and EBIT margin reached record levels at CHF 162.6 million and 12.6% respectively.**
- **The Annual General Meeting will be asked to pay a cash dividend of CHF 3.00 per bearer share, which represents an increase of 36.4%.**
- **From a position of strength, Datwyler has sharpened its strategic priorities: as well as driving profitable growth, we want to accelerate digitalisation and increase our agility.**
- **The revenue target for 2018 is between CHF 1'350 million and CHF 1'400 million. For the second time in a row, Datwyler is increasing the target range for the EBIT margin, which will now rise to 12% to 15%.**

The Datwyler Group managed to accelerate profitable growth during 2017. Thanks to its leading positions in the two main segments of Health Care and Automotive, the Sealing Solutions division exceeded the growth achieved by those two markets. The Technical Components division managed to achieve encouraging revenue growth in the core business-to-business activity of online distribution, with an upward trend during the fourth quarter.

Further increase in operating profit and EBIT margin

In total, the Datwyler Group increased net revenue in 2017, compared with previous year, by 6.2% to CHF 1'291.4 million (previous year: CHF 1'215.8 million). Adjusted for positive currency and acquisition effects, the resulting organic revenue growth was 2.9%. The reported operating result (EBIT) was up by 11.3% to CHF 162.6 million (previous year: CHF 146.1 million). The reported EBIT margin increased to 12.6% (previous year: 12.0%). Before CHF 9.9 million in one-off costs (mainly related to the development of Distrelec's new enterprise hub in Manchester), adjusted EBIT climbed to CHF 172.5 million. This helped the adjusted EBIT margin to improve to 13.4% (previous year: 13.0%). The net result increased to CHF 123.7 million (previous year: reported CHF 57.6 million / adjusted CHF 116.9 million). Adjustments to deferred taxes had a positive impact on net result of CHF 8.5 million. In view of the sustained increase in profitability and given that prospects look promising, the Board of Directors is asking the Annual General Meeting to pay a cash dividend of CHF 3.00 per bearer share (previous year: CHF 2.20) and CHF 0.60 per registered share (previous year: 0.44), which represents an increase of 36.4%. This equates to a payout ratio of 41.2% of the net result.

Strong foundations for turning changes into opportunities

Following successful portfolio management, focusing on growth markets and the international expansion over recent years, Datwyler now enjoys strong foundations. From this position of strength, we want to make ourselves fit for the future and succeed in exploiting the opportunities that ongoing changes will bring our way. And to this end, the Datwyler Group has sharpened its strategic priorities: as well as continuing to drive profitable growth, we also want to accelerate digitalisation and increase our agility.

Driving profitable growth

Datwyler will only be able to satisfy the requirements of customers, employees and wider society if it continues to grow as a business. And some of the main prerequisites for profitable growth are a sharpening of focus on market positions and segmentation of both markets and customers. Our innovation efforts and our offering strategies need to be even more closely aligned with current and future customer needs. In addition to organic growth, Datwyler is continuing to target acquisitions that will allow us to tap into new regions, technologies or market segments.

Accelerating digitalisation

Datwyler wants to be proactive in exploiting new possibilities and opportunities associated with digitalisation and turn these into a competitive advantage. For this purpose, we are investing around CHF 50 million over the next few years. In doing so, we are looking to increase the efficiency of business processes, improve data quality, increase IT security and create a strong and flexible platform for future digital applications. This will also allow future acquisitions to be integrated more quickly and easily. Examples of where the two divisions are focusing their efforts in the digital domain can be found in the relevant sections below.

Increasing agility

With markets and general conditions changing faster than ever, there is a need for speed, flexibility and adaptability. The Datwyler corporate value of “We are entrepreneurs” is exactly the vision required when it comes to developing an agile and innovative organisation. By delegating decision-making powers as close to the market as possible, we make it easy for our customers to do business with us. The idea is to make our organisation even more agile and exploit fast decisions and short response times as additional opportunities to stand out from the crowd. Our systematic talent management set-up and Group-wide leadership programmes are both critical to raising awareness among our managers.

Sealing Solutions focusing on growth segments

Thanks to our focus on fast-growing market segments and leading global positions, we are able to accelerate profitable organic growth in the Sealing Solutions division by investing in expanded capacity for high-quality sealing components. Good examples of this are the new contract with Nespresso or the investments in the construction of a new Health Care plant in the USA and the expansion of the existing Health Care plant in India. With this additional state-of-the-art production capacity, Datwyler is well positioned to benefit from the rapidly growing demand for high-quality components for pre-filled syringes and modern drug delivery systems. In the Automotive market segment, Datwyler is introducing a new production concept at its Swiss site known as “Lean-and-Clean”. For the first time, we will be producing high-quality automotive components in clean rooms and thereby further increasing our competitiveness, particularly in terms of electromobility. In terms of digitalisation, the focus within the Sealing Solutions division is on Industry 4.0 in the form of automated, networked and intelligent production equipment, ongoing optimisation of processes and forward-looking maintenance. And in keeping with this approach, Datwyler is introducing a uniform production system at all its plants across three continents. This will help us, among other things, to respond quickly and with agility to the regional needs of our customers and thereby ensure the global capacity made available is of consistent quality. This gives us a distinct selling point in the market

Repositioning of online distribution

In the Technical Components division, we continue to sharpen our focus in terms of both market and customer segmentation. For example, Distrelec is generating potential for new growth by focusing increasingly on maintenance, automation and robotics. With a view to offering target customers added value, Distrelec is adapting its value proposition, optimising the online shops, employing specialists, promoting its RND house brand and optimising the range. With the new Distrelec enterprise hub in Manchester, we are exploiting the advantages associated with an agile organisation by managing

products, procurement, and digital marketing efficiently at a single site. The pleasing revenue growth in the core business-to-business activity of online distribution, with an upward trend during the fourth quarter, is giving us confidence. Through the accelerated international expansion of Reichelt, with the focus on business-to-business customers right across Europe, we are looking to promote profitable growth. At Nedis, we are implementing a comprehensive optimization program to halt the decline in revenue, increase efficiency and create a stronger presence in sales terms. In future, Datwyler intends to adopt a targeted approach in the context of online distribution when it comes to exploiting the possibilities of big data and artificial intelligence. We want to analyse and use the data of online customers in a way which allows us to offer them specific packages that are tailored to their needs and give them added value.

Reasons to be optimistic – target range for EBIT margin to be increased to 12% to 15%

Datwyler is confident the Group can accelerate the profitable growth path during 2018. In the Sealing Solutions division, we are expecting to enjoy profitable dynamic growth in 2018 too based on the positive market environment, the leading positions occupied, the healthy order book, the new Nespresso contract and the capacity levels available. The Technical Components division (which is mainly focused on Europe) should – with the economic climate looking favourable – manage in the new year to accelerate the revenue growth achieved in the fourth quarter of 2017 and continue to improve the EBIT margin. For 2018, we are aiming at Group level for revenue of between CHF 1'350 and CHF 1'400 million. For the second time in succession, we are increasing the target range for the EBIT margin, which will now rise to 12% to 15%. From the current perspective, there should not be any more one-off costs during 2018.

Changes on the Board of Directors and change of auditor

The Annual General Meeting to be held on 6 March 2018 will see Ernst Odermatt step down from the Board of Directors after 14 years for age-related reasons. To succeed him, Claude R. Cornaz is being recommended for election as a new member of the Board of Directors. Claude R. Cornaz (56 years old) is the CEO of the Vetropack Group, where he has spent 18 years driving sustainable development in a challenging environment. He is also a member of the family which owns the majority of shares. The Board of Directors will also be proposing that KPMG be appointed as the new auditor at the Annual General Meeting.

We are convinced that, by sharpening our strategic priorities, we will remain on track in future too in our drive to create added value for all stakeholders. We thank our employees for their great dedication and for their willingness to keep developing themselves and view changes as opportunities. Special thanks also to our customers and suppliers, some of who have backed our capacity for innovation for years or even decades. We thank our shareholders for the solidarity they show towards our business.

On behalf of the Board of Directors



Dr. Paul J. Hälg, Chairman

On behalf of the Executive Management



Dirk Lambrecht, CEO