

# Moving forward in demanding market environment

Dr. Roland Fischer, CEO

Jürg Fedier, CFO

Q1 2016 Business Update

May 10, 2016



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# Moving forward in demanding market environment

## Q1 2016 at a glance

### **Strategic development well underway and further milestones achieved**

- Investing in organic growth in Surface Solutions Segment by opening up two new coating/service centers in Asia and initial sales from new strategic partnerships for metal-based powders in additive manufacturing business
- Recent acquisition of Trützschler's staple fibers technology portfolio in Manmade Fibers Segment to strengthen position outside Chinese filament market
- Restructuring in Manmade Fibers and Drive Systems Segments on track

### **Operational performance – Surface Solutions Segment with pick up in momentum toward end of the quarter; challenging markets in Manmade Fibers and Drive Systems Segments**

- Mixed macroeconomic and geopolitical developments with continued uncertainty
- Surface Solutions Segment with higher profitability despite lower top-line
- Manmade Fibers Segment impacted as expected by overcapacities in Chinese filament market
- No recovery in end markets and oil price in Drive Systems Segment – Incremental new business quarter-on-quarter

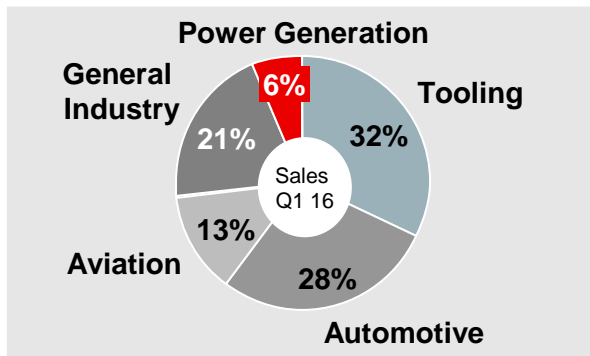
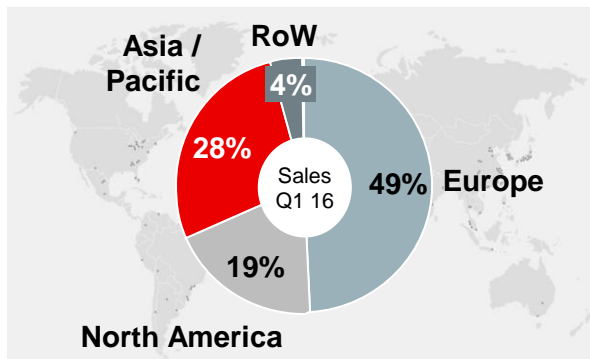
### **Guidance confirmed**

- Unchanged 2016 full-year guidance
- Focus to protect operating profitability in challenging markets

# Surface Solutions Segment – Further milestones achieved in execution of strategy



in CHF million	Q1 2016	Q1 2015	y-o-y	y-o-y ex FX
Order intake	306	317	-3.5%	-4.7%
Sales (3 <sup>rd</sup> parties)	294	300	-2.0%	-3.5%
EBITDA	62	61	+1.6%	–
In % of sales	20.9%	20.4%	+0.5 pp	–
EBIT	33	34	-2.9%	–
In % of sales	11.3%	11.4%	-0.1 pp	–



## Operational performance:

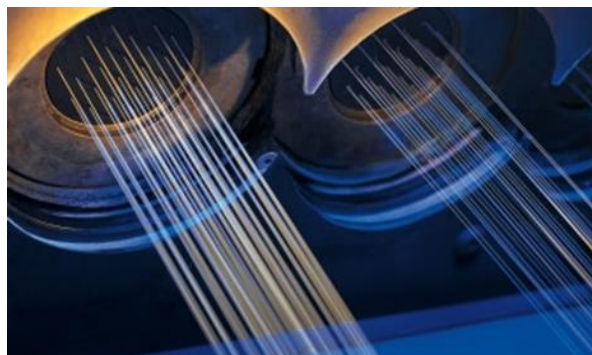
- Good development in service business
- Impact on top-line
  - Timing of TF<sup>1</sup> equipment project business
  - Lower commodity prices in materials business
- Inroads in the AM<sup>2</sup> market
  - Initial sales from new strategic partnerships
  - Launch of further materials to expand product portfolio
- Opening of 2 new service centers in Asia

## Market development:

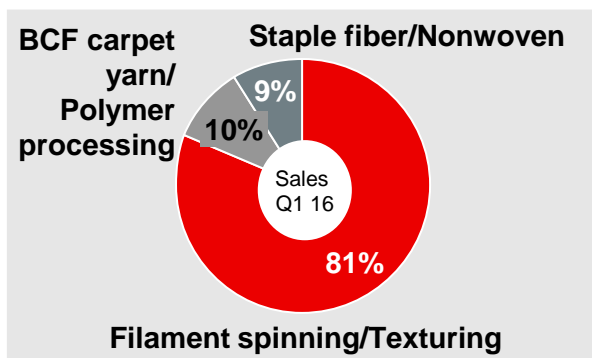
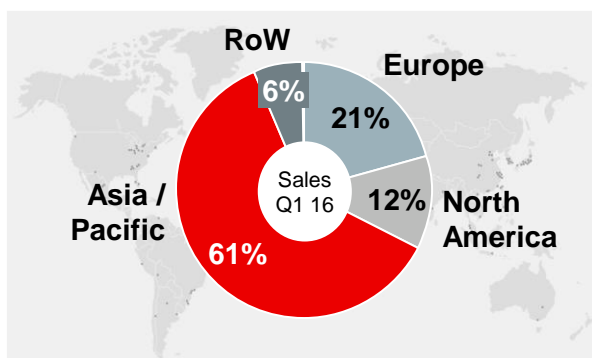
- Automotive market overall generally stable with positive outlook
- Aviation market picking up, supported by the new engine generations which boost OEM volumes. MRO<sup>3</sup> business remaining on low level
- Power Generation markets stable but lacking dynamics
- General Industries slowed down
- Oil & Gas stabilized on very low Q4 2015 levels

<sup>1</sup> TF = Thin-film; <sup>2</sup> AM = Additive manufacturing (3D printing); <sup>3</sup> MRO = Maintenance, Repair & Overhaul

# Manmade Fibers Segment – Strengthening position outside Chinese filament business



in CHF million	Q1 2016	Q1 2015	y-o-y	y-o-y ex FX
Order intake	124	205	-39.5%	-40.7%
Sales (3 <sup>rd</sup> parties)	139	208	-33.2%	-34.6%
EBITDA	9	37	-75.7%	–
In % of sales	6.2%	17.6%	-11.4 pp	–
EBIT	4	32	-87.5%	–
In % of sales	3.0%	15.5%	-12.5 pp	–



## Operational performance:

- Taking advantage of the ongoing market consolidation by acquiring Trützschler's staple fibers technology portfolio to expand core business
- Top-line development within guided range – Reflecting expected market weakening in Chinese filament business
- Results from restructuring and contingency measures initially started to support profitability

## Market development:

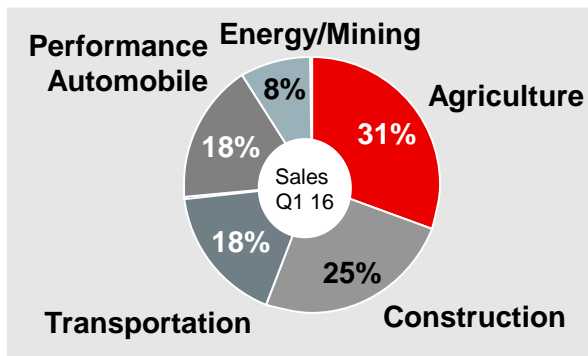
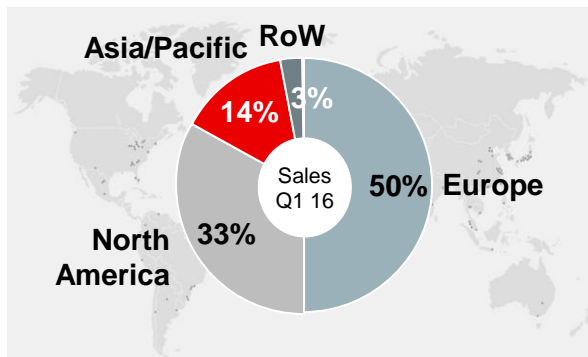
- US BCF<sup>1</sup> producers are active again; orders to be expected
- Staple fibers business shows further potential from current discussions on further projects
- DTY<sup>2</sup> business in China and other regions exceeds expectations
- India growth perspective by single big project and various small / midsize projects under negotiation

<sup>1</sup> BCF = Bulked continuous filament (carpet yarn); <sup>2</sup> DTY = Draw-textured yarn (during texturing, pre-oriented yarn is permanently crimped using friction)

# Drive Systems Segment – Incremental new business QOQ while end markets still weak



in CHF million	Q1 2016	Q1 2015	y-o-y	y-o-y ex FX
Order intake	158	172	-8.1%	-9.9%
Sales (3 <sup>rd</sup> parties)	159	183	-13.1%	-15.4%
EBITDA	9	18	-50.0%	–
In % of sales	5.8%	10.0%	-4.2 pp	–
EBIT	-2	8	>-100%	–
In % of sales	n/a	4.4%	n/a	–



## Operational performance:

- Top-line impacted by general market downturn in the Segment's key end markets
- Incremental new business leads to quarter-on-quarter improvement
- Unfavorable product mix impacting profitability; Q1 2015 with big orders from high-margin oil and gas sector
- Continued roll-out of restructuring measures such as voluntary retrenchments and early retirement programs

## Market development:

- Agricultural cash receipts remain low in most regions, continue to depress demand for larger tractors & combines
- Transportation with significant declines in freight rail in NA<sup>1</sup> & China, and HD trucks<sup>2</sup> in NA
- India construction equipment industry with upswing for backhoes, wheel loaders and excavators
- Automotive cycle at peak
- Oil and mining equipment markets remain depressed

<sup>1</sup> NA = North America; <sup>2</sup> Heavy-duty trucks

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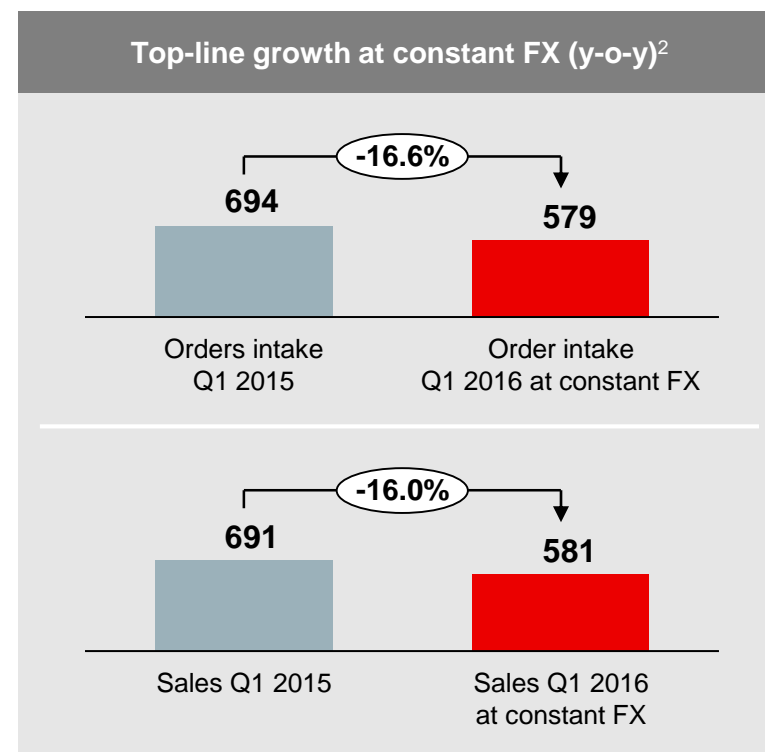
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# First quarter impacted by challenging key end markets<sup>1</sup>

in CHF million	Q1 16	Q1 15	y-o-y
Order intake	588	694	-15.3%
Sales	592	691	-14.3%
EBITDA	77	119	-35.3%
In % of sales	13.0%	17.2%	-4.2 pp
EBIT	32	77	-58.4%
In % of sales	5.5%	11.1%	-5.6 pp



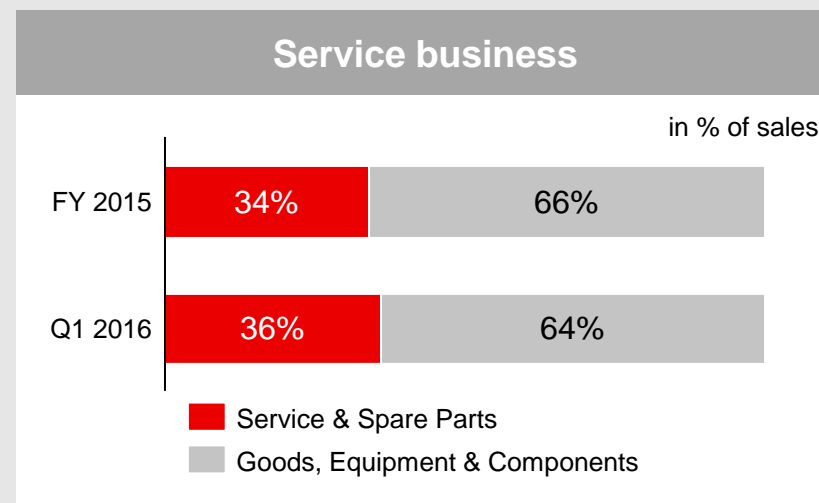
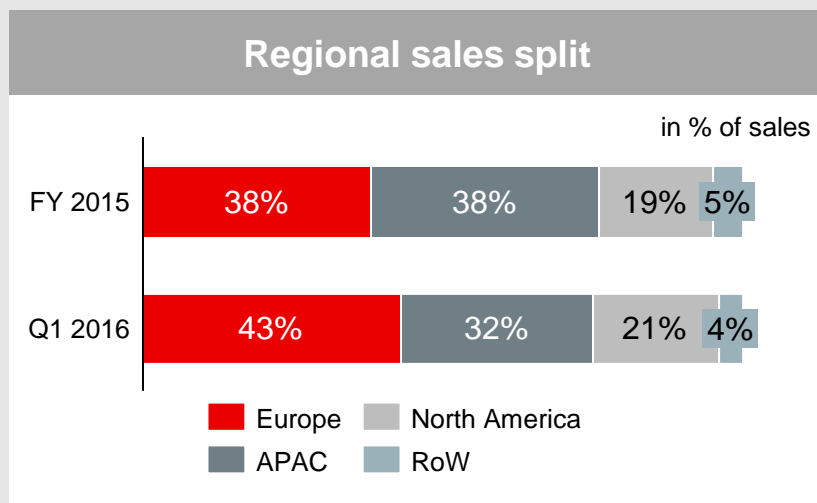
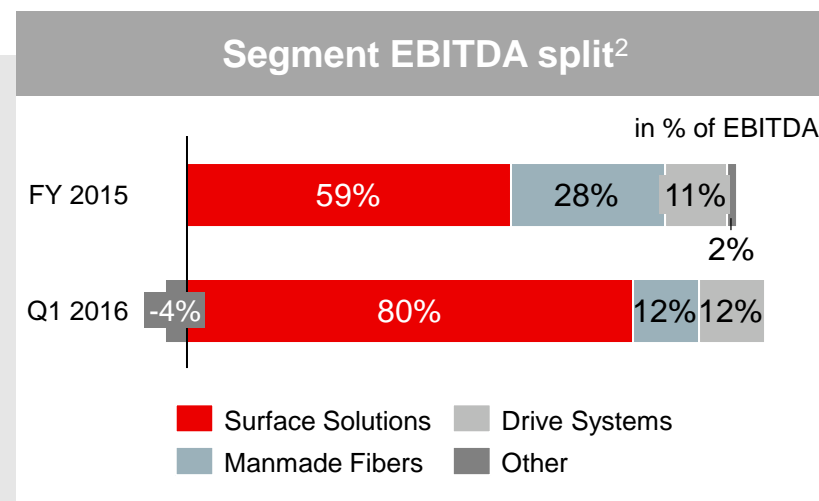
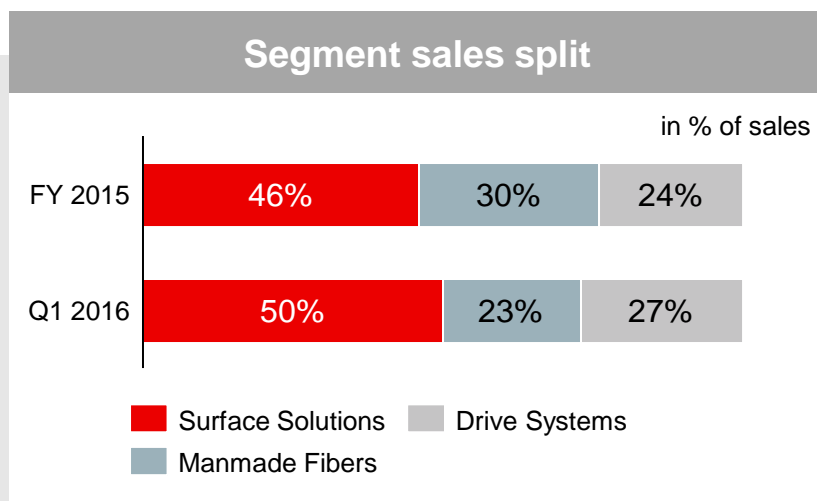
- Top-line mainly impacted by expected decline in Manmade Fibers Segment in relation with market consolidation in China and challenging end markets in Drive Systems Segment
- Surface Solutions Segment saw pick up in momentum toward end of the quarter

Sales growth	Q1 16 vs. Q1 15 (y-o-y)	Q1 16 vs. Q4 15 (q-o-q)
<b>Reported</b>	<b>-14.3%</b>	<b>-9.9%</b>
Performance	-15.3%	-11.4%
FX translation	+1.0%	+1.5%

<sup>1</sup> Continuing operations; Q1 2015 restated for the announced sale of the Vacuum Segment; <sup>2</sup> Percentage change calculated on unrounded figures

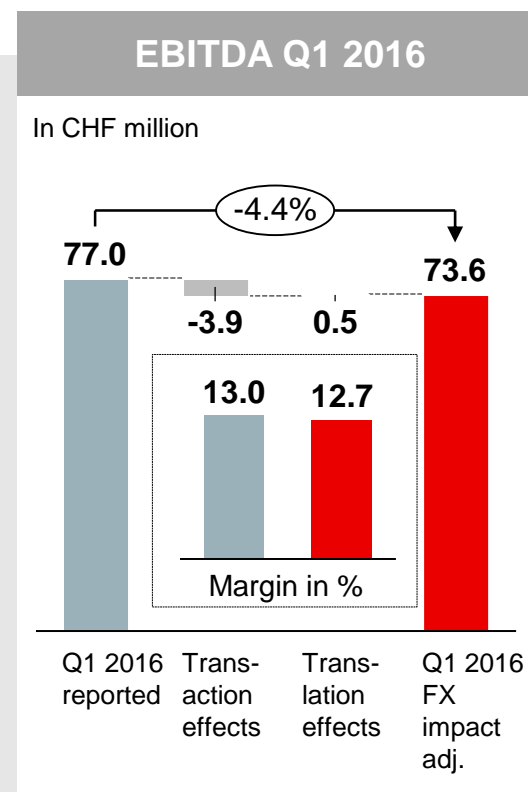
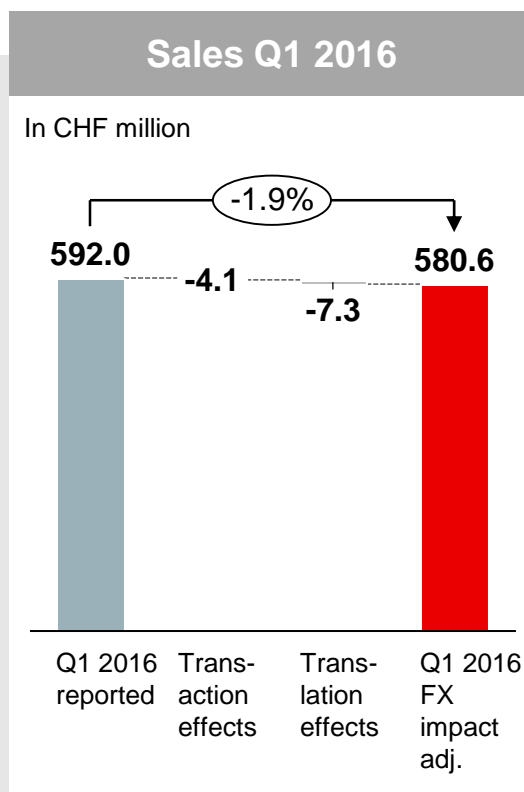
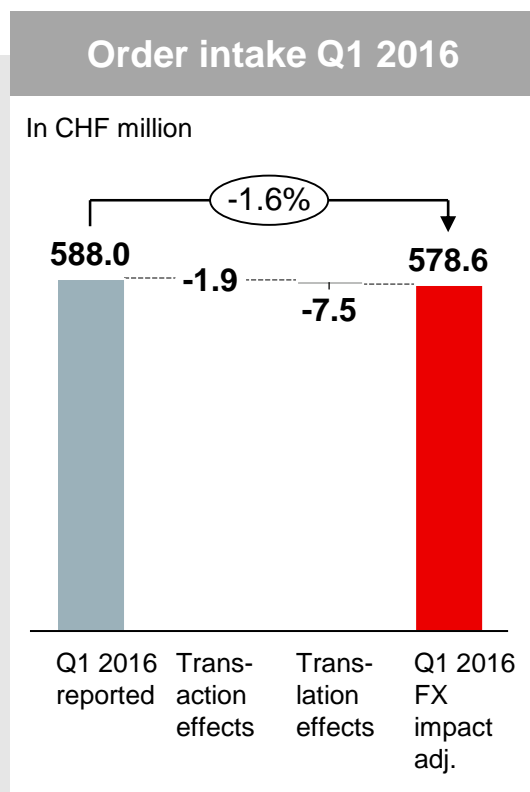


# Business split<sup>1</sup> – Surface Solutions Segment becoming value driver for the Group



<sup>1</sup> Continuing operations; <sup>2</sup> FY 2015 EBITDA excl. one-time restructuring costs of CHF 112 million

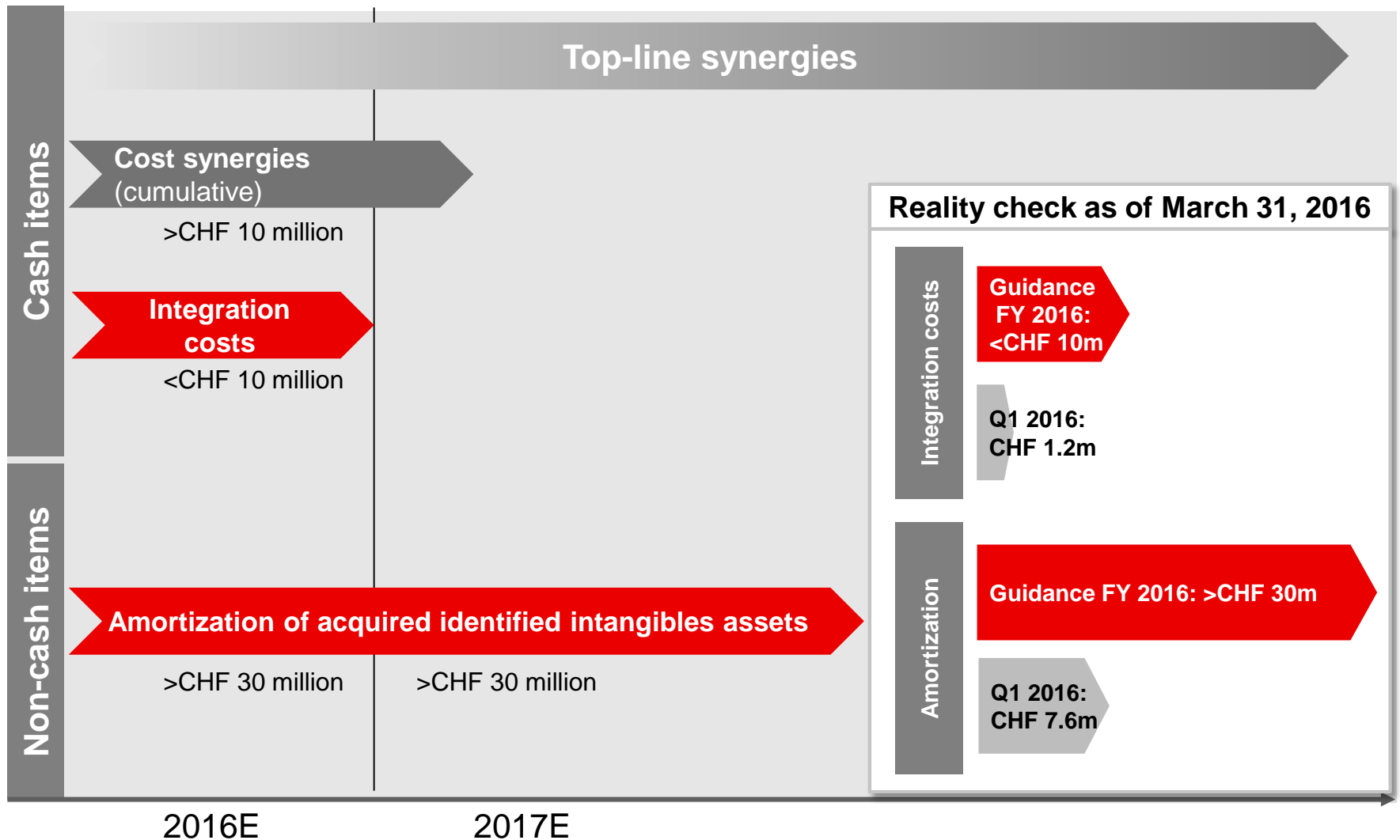
# FX impact on Orders, Sales and EBITDA in Q1 2016<sup>1</sup>



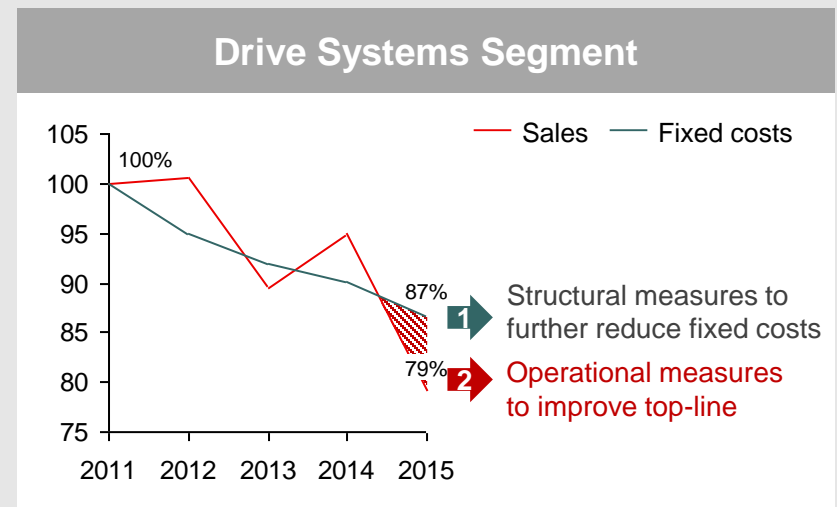
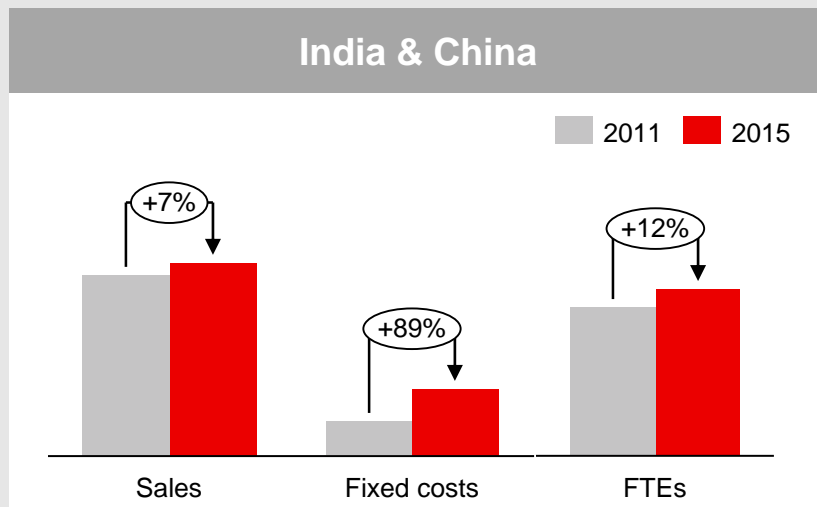
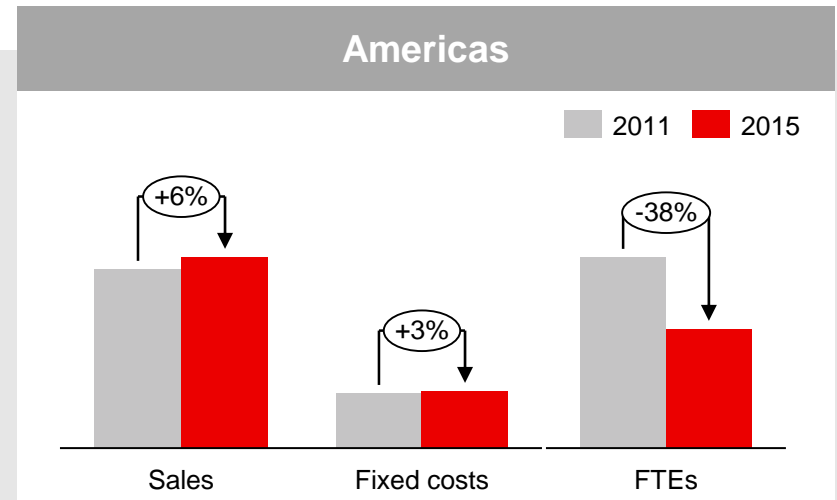
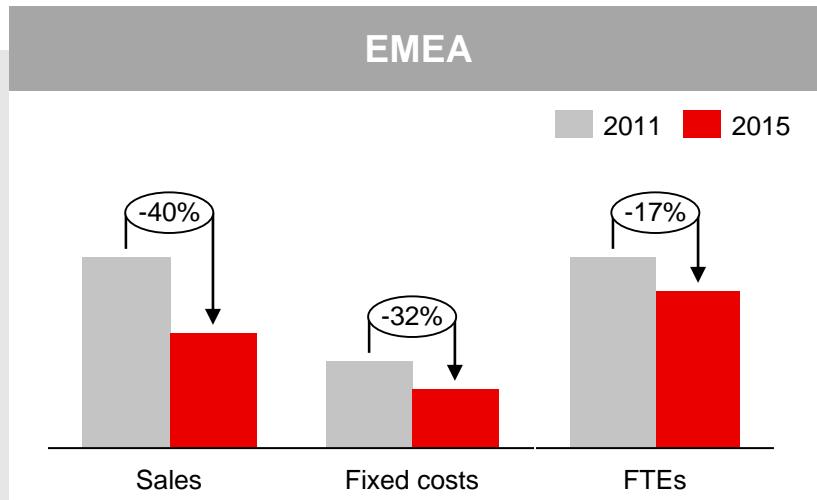
- Impact mainly related to currency translation as a result of reporting currency CHF
- Devaluation of INR and CNY overcompensated appreciation of USD and EUR against CHF
- Limited impact on EBITDA margin

<sup>1</sup> Q1 2016 continuing operations

# Financial impact of Metco transaction – Reality check confirms initial assumptions



# Drive Systems Segment – A lot has happened to adjust the cost base but end markets require more



Sales, Fixed costs (indexed: 2011 = 100%)

# Drive Systems Segment – A multi-year project is established and under execution

1

## Structural measures

- Dedicated restructuring team established
  - Voluntary retrenchment programs launched
  - Modernization and optimization program
  - Focus factory concept
  - Cost base adjustments
- Restructuring charges of CHF 68 million booked in Q4 2015 with majority cash out in 2018

2

## Operational measures

- Core product expansion in adjacent applications and markets
  - Service and aftermarket expansion
  - Cross selling activities of Oerlikon Graziano and Oerlikon Fairfield
  - Customer and product focus
- Activate additional sales potential

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# 2016 outlook confirmed – Focus to protect profitability in challenging environment

## Group Guidance

Oerlikon expectations for financial year 2016:

- Order intake and sales within the range of CHF 2.3 billion to CHF 2.5 billion
- EBITDA margin around mid-teens

## Underlying assumptions and market conditions:

- Short term: Continued competitive market environment / no improvement in world economic growth anticipated
- Mid/long-term: Attractive growth markets with confirmed underlying drivers
- Continued organic growth in Surface Solutions Segment supported by market growth, increasing number of applications and market penetration
- New market reality in manmade fibers industry impacting Segment and Group top-line
- Demand slowly recovering from trough levels in Drive Systems Segment

1. Strategic development well underway and further milestones achieved
2. Pick up in momentum toward the end of Q1 in Surface Solutions Segment is projected to continue into the next quarter, returning the Segment to its organic growth path
3. Full-year guidance for 2016 confirmed



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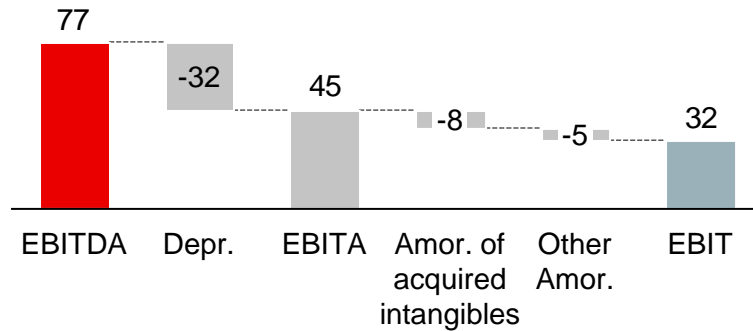
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# EBITDA to EBIT bridge per Segment

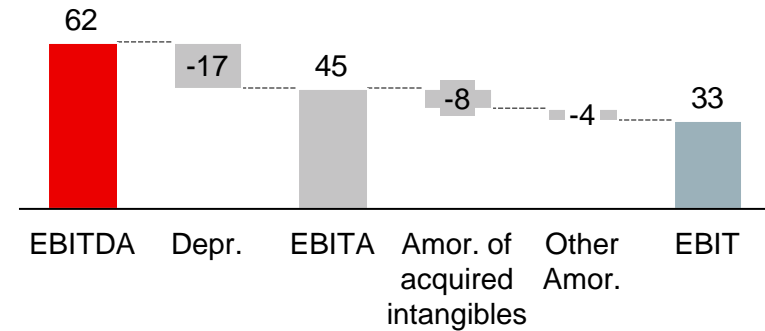
## Oerlikon Group – Q1 2016

In CHF million



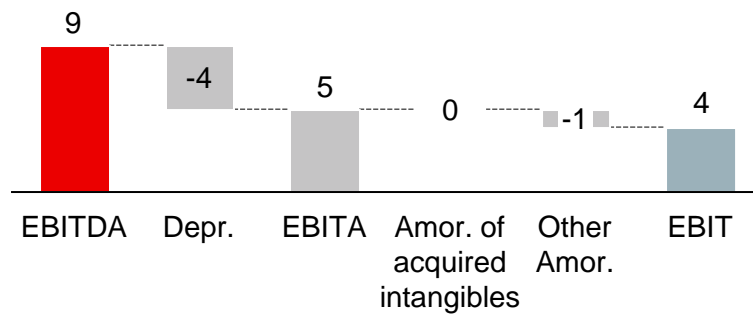
## Surface Solutions Segment – Q1 2016

In CHF million



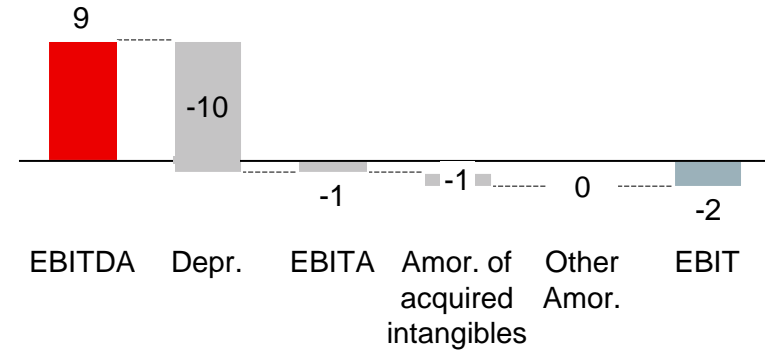
## Manmade Fibers Segment – Q1 2016

In CHF million



## Drive Systems Segment – Q1 2016

In CHF million



# 2015 key figures Oerlikon Group

in CHF million	FY 2015	FY 2014	Δ	Q4 2015	Q4 2014	Δ
Order intake <sup>1</sup>	2 537	2 647	-4.2%	597	711	-16.0%
Order backlog <sup>1</sup>	431	643	-33.0%	431	643	-33.0%
Sales <sup>1</sup>	2 671	2 825	-5.5%	657	774	-15.1%
EBITDA <sup>1</sup> % of sales	338 12.7%	475 16.8%	-28.8%	-15 -2.2%	124 16.1%	n/a
EBIT <sup>1</sup> % of sales	-306 n/a	323 11.4%	>-100%	-534 -81.2%	80 10.3%	n/a
Result from cont. operations <sup>1</sup> % of sales	-402 n/a	222 7.9%	>-100%			
Net result	-418	202	>-100%			
EPS (in CHF)	-1.24	0.59	n/a			
Cash flow from operating activities <sup>2</sup>	393	427	-8.0%			
Net operating assets <sup>1</sup> (incl. goodwill and brands)	1 875	2 486	-24.6%			

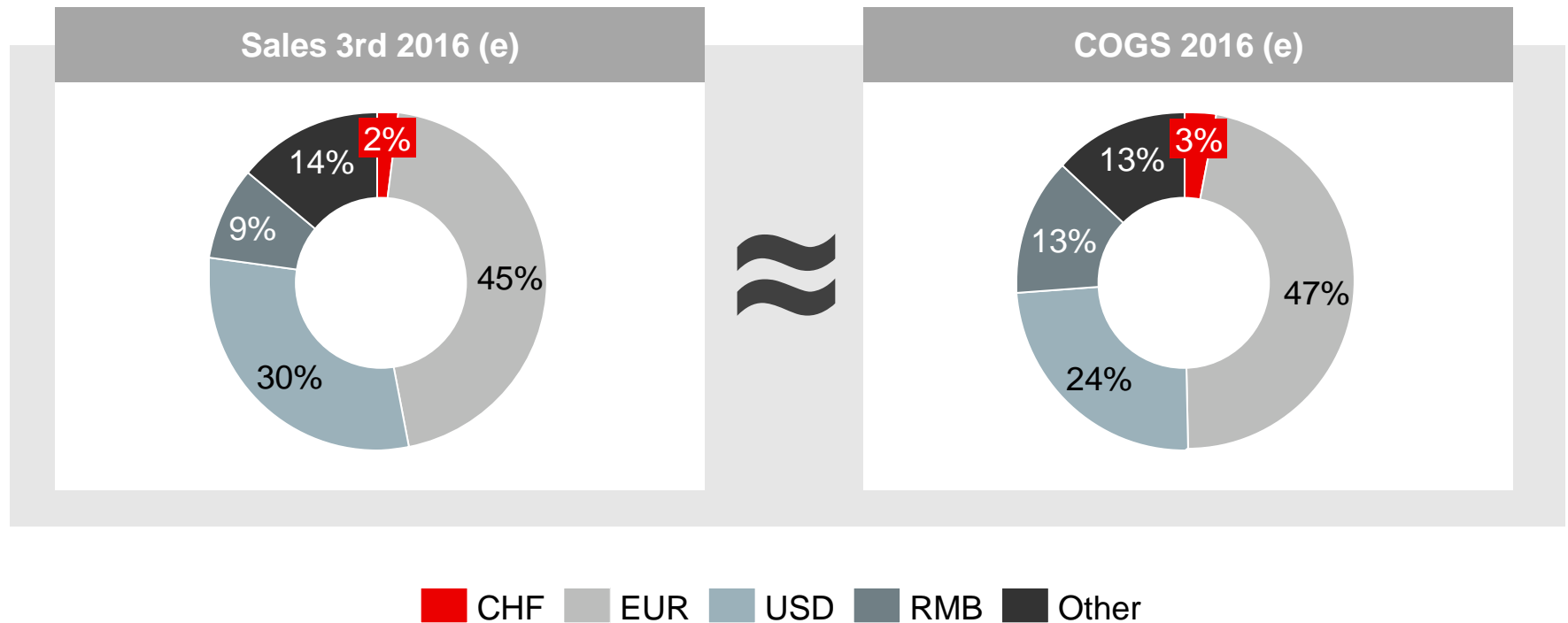
<sup>1</sup> FY/Q4 2015 continuing operations, FY/Q4 2014 restated; <sup>2</sup> before changes in net current assets

# 2015 key figures by Segment

in CHF million	Surface Solutions	Manmade Fibers	Drive Systems
Order intake Δ to 2014	1 233 +27.8%	733 -18.6%	571 -26.9%
Order backlog Δ to 2014	81 +2.5%	237 -35.1%	113 -43.2%
Sales (to 3 <sup>rd</sup> parties) Δ to 2014	1 229 +26.3%	794 -26.0%	648 -16.8%
EBITDA Δ to 2014	264 +44.3%	85 -60.8%	-19 >-100%
EBITDA margin <sup>1</sup> Δ to 2014	21.4% +2.6 pp	10.6% -9.7 pp	n/a n/a
EBIT Δ to 2014	157 +60.2%	67 -66.0%	-534 >-100%
EBIT margin <sup>1</sup> Δ to 2014	12.7% +2.7 pp	8.4% -10.0 pp	n/a n/a
Net operating assets Δ to 2014	1 325 -6.8%	225 +75.8%	349 -63.1%
No. of employees Δ to 2014	6 140 +1.3%	2 528 -0.9%	4 832 -7.0%

<sup>1</sup> as % of sales

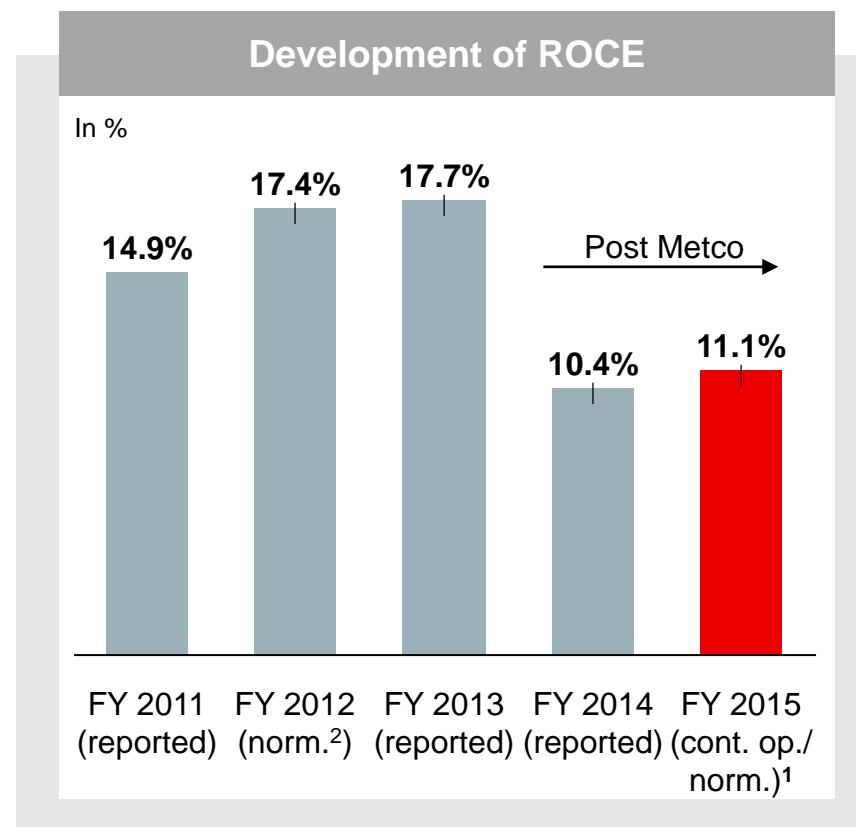
# Balanced FX profile across the Group – Limited Swiss franc exposure



- No major currency mismatch – natural hedge in place
- Limited transaction risk
- Translation effects from reporting currency CHF

# Normalized Return On Capital Employed (ROCE) excl. one-time effects at 11.1 %

Oerlikon Definition of ROCE	FY 2015	FY 2014 (as reported)
EBIT (normalized) <sup>1</sup>	282	360
- Total current income tax (norm.) <sup>1</sup>	-88	-92
- Total deferred tax income	12	9
<b>NOPAT (normalized)</b>	<b>206</b>	<b>277</b>
Net Operating Assets	1 875	2 685
+ Current income tax receivables	44	37
+ Deferred tax assets	142	190
- Current income tax payables	-44	-53
- Deferred tax liabilities	-157	-185
<b>Capital Employed</b>	<b>1 860</b>	<b>2 674</b>

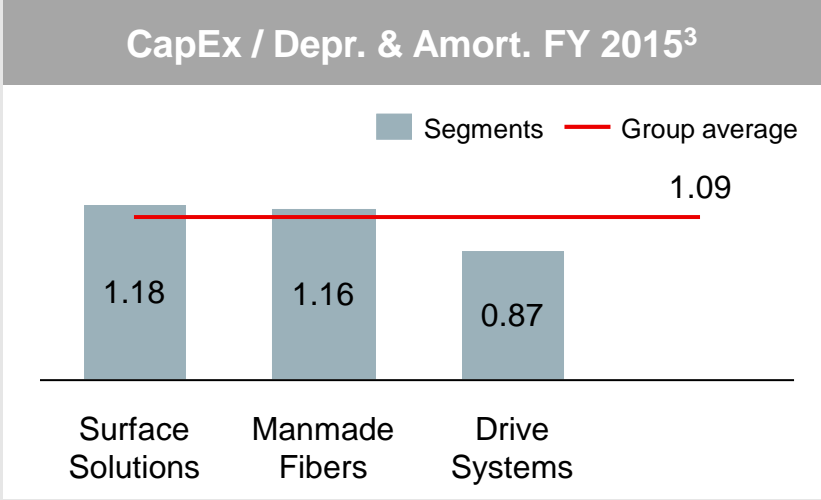
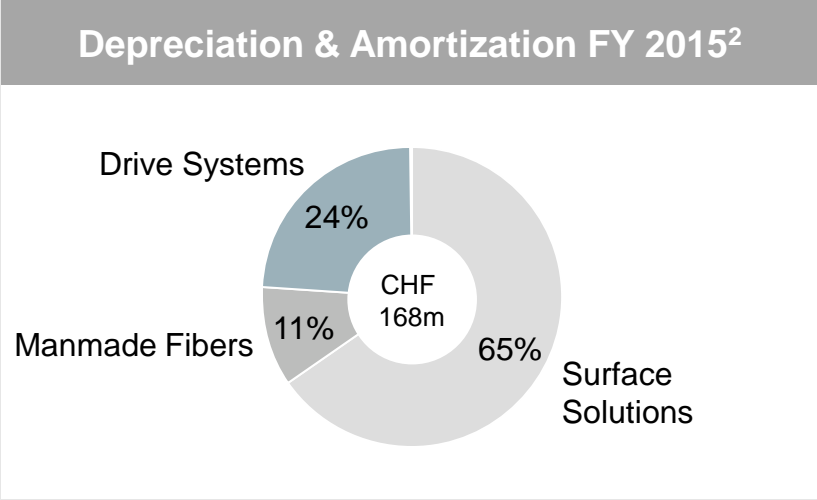
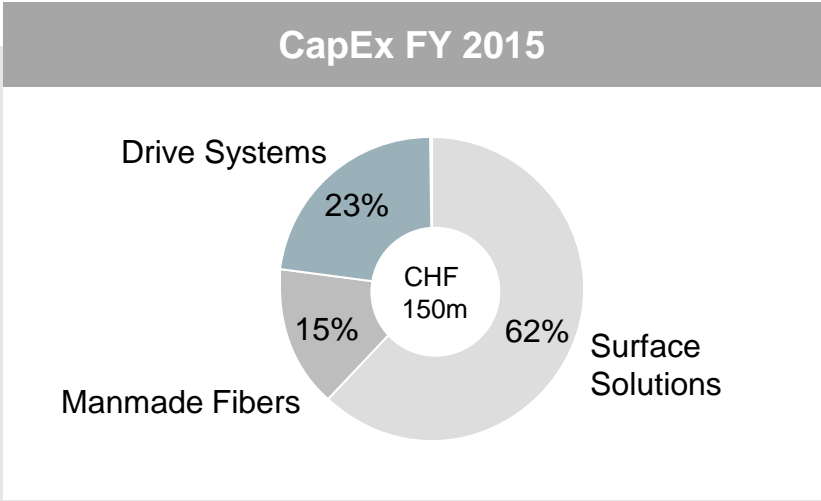
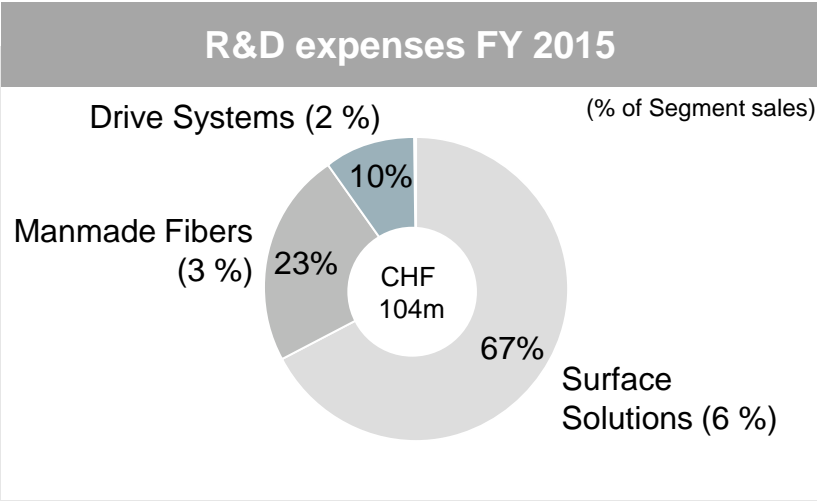


- Lower operating asset base due to announced divestment of Vacuum Segment and impairments
- Reported ROCE for FY 2015 of -19.8 % due to one-time restructuring costs and impairments

<sup>1</sup> Normalized EBIT excl. one-time restructuring costs of CHF 112 million and impairments of CHF 476 million; Current income taxes adjusted accordingly

<sup>2</sup> Normalized EBIT excl. one-time effect of sale of Arbon property of CHF 39 million

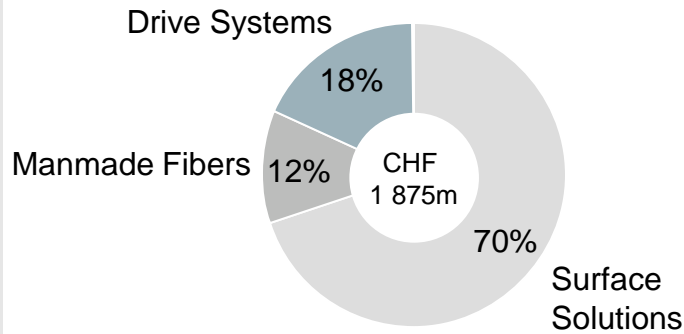
# R&D and CapEx on Segment level<sup>1</sup>



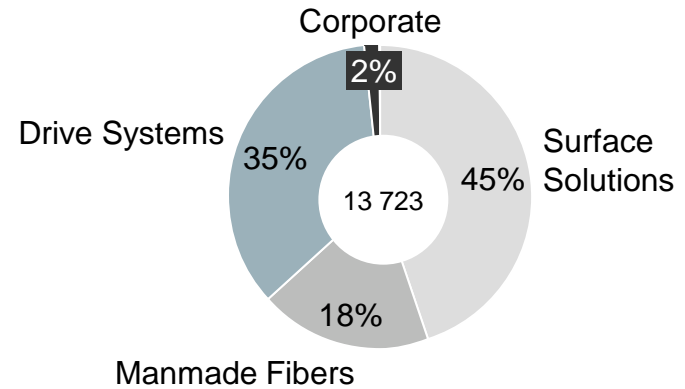
<sup>1</sup> FY 2015 continuing operations; <sup>2</sup> Reported; <sup>3</sup> Excluding CHF 29.5 million amortization of acquired intangible assets in Surface Solutions Segment

# Asset allocation and employees on Segment level<sup>1</sup>

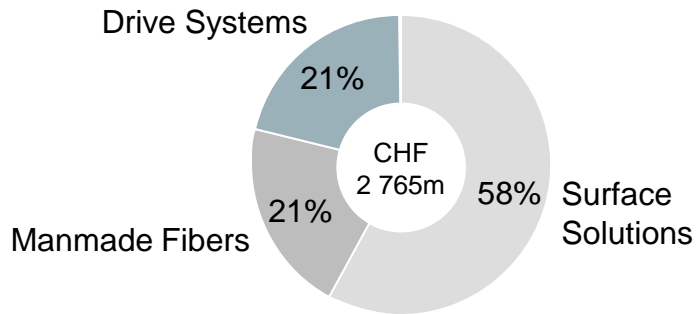
Net operating assets FY 2015



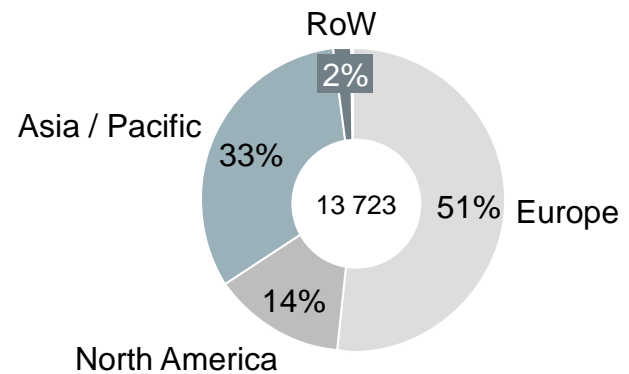
Employees (FTE) by Segment FY 2015



Operating Assets FY 2015



Employees (FTE) by Region FY 2015



<sup>1</sup> FY 2015 continuing operations

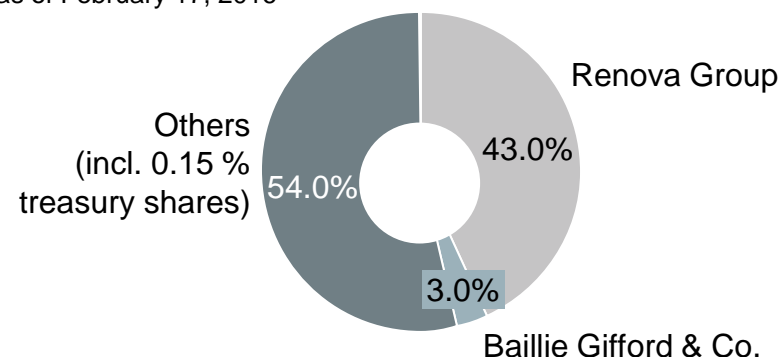


## Oerlikon shares

- Listed on Swiss Exchange (SIX) since 1973
- Securities symbol: OERL
- Securities number 81 682
- ISIN: CH0000816824
- No. of shares outstanding: 339 758 576 shares
- Re-entry to Swiss SMIM on April 17, 2012
- Addition to STOXX Europe 600 as of June 18, 2012

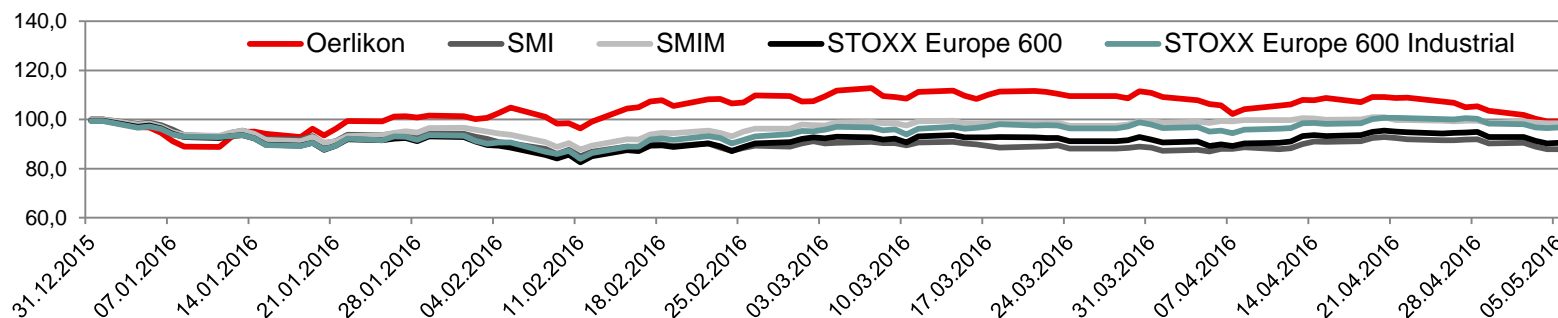
## Oerlikon shareholder structure<sup>1</sup>

as of February 17, 2016



## Oerlikon share price development

as of May 6, 2016, indexed; 100 percent = closing price per December 30, 2015



<sup>1</sup> Based on latest notification by Renova (as of December 17, 2015 of 146 222 889 shares) and Baillie Gifford (as of February 17, 2016, of 10 326 470 shares)

# Coverage – 8 Buy/Accumulate & 6 Hold/Neutral

Broker	Analyst	Recommendation	Date of last update	Target price
AlphaValue	Pierre-Yves Gauthier	Buy	28.04.2016	12.50
Baader Helvea	Reto Amstalden	Buy	18.04.2016	12.50
Bank am Bellevue	Alessandro Foletti	Hold	18.04.2016	9.30
Berenberg Bank	Sebastian Künne	Hold	01.02.2016	9.20
Credit Suisse	Patrick Laager	Outperform	28.04.2016	11.00
Jefferies	Graham Phillips	Buy	14.04.2016	11.00
Kepler Cheuvreux	Hans-Joachim Heimbürger	Hold	24.03.2016	8.50
Mainfirst	Michael Inauen	Outperform	18.04.2016	11.50
Mirabaud Securities LLP	Thomas Baumann	Buy	21.03.2016	11.50
RBC Capital Markets	Wasi Rizvi	Outperform	27.04.2016	10.50
Société Générale	Christophe Quarante	Hold	02.03.2016	10.00
UBS	André Rudolf von Rohr	Buy	02.03.2016	10.50
Vontobel	Michael Foeth	Hold	18.04.2016	11.00
Zürcher Kantonalbank	Armin Rechberger	Marketweight	19.04.2016	-
<b>Consensus</b>		<b>8 positive 6 neutral</b>		<b>10.69</b>

<b>March 01, 2016</b>	Q4 / FY 2015 results and publication of Annual Report 2015 - Annual Press Conference
<b>April 5, 2016</b>	Annual General Meeting of Shareholders - KKL Lucerne
<b>May 10, 2016</b>	Q1 2016 Results - Media & Analyst Conference Call
<b>August 2, 2016</b>	Q2 / HY 2016 results and publication of Interim Report 2016 - Media & Analyst Conference Call
<b>November 02, 2016</b>	Q3 / 9M 2016 results - Media & Analyst Conference Call

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