

# **Oerlikon continues to deliver strong profitability in Q1 2015**

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Q1 2015 Business Update

April 28, 2015



**1** Q1 2015 Business Update

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# Q1 2015 with solid performance and improved competitiveness

## Oerlikon Highlights Q1 2015

### Operational performance

- Order intake increased by 17.0 % – sales growth of 10.1%
- At constant FX, Group sales increased by 15.4 % y-o-y and all Segments improved orders sequentially
- Book-to-bill ratio >1
- Service business increased to 31.4 % of Group sales
- Strong profitability with EBITDA margin of 16.8 %

### Strengthened competitiveness through technological leadership

- RoTac<sup>3</sup> production system (Manmade Fibers)
- Super alloy powders for additive manufacturing (Surface Solutions)
- New Torque Hub® for Sprayer machines (Drive Systems)
- Solutions for food industry – packaging, baking, freeze-drying (Vacuum)

### Metco integration well on track

- Thin Film businesses successfully merged into Oerlikon Balzers
- New Business Unit Materials and Technology established
- Ramp up Thermal Spray Service Center on track

### Guidance

- Confirmation of guidance

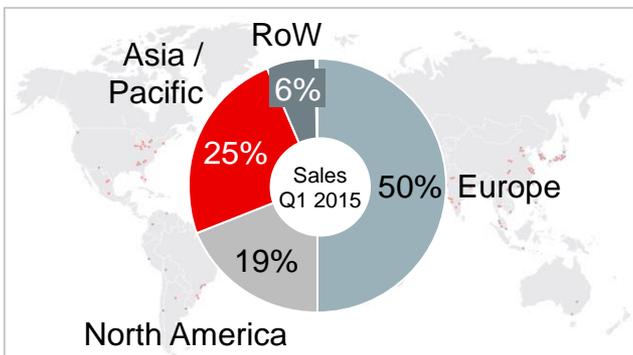


# Surface Solutions Segment – Continued organic and inorganic growth; integration well on track



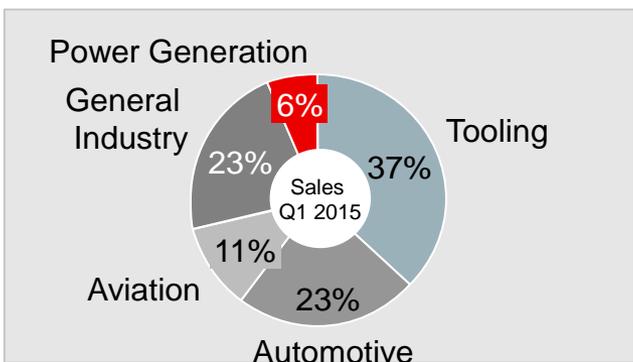
## Key figures

in CHF million	Q1 2015	Q1 2014	Δ
Order intake	317	124	>100 %
Sales (to 3 <sup>rd</sup> parties)	300	124	>100 %
EBITDA	61	36	+69.4 %
EBITDA margin <sup>1</sup>	20.4 %	29.0 %	- 8.6 pp
EBIT	34	24	+41.7 %
EBIT margin <sup>1</sup>	11.4 %	19.6 %	- 8.2 pp



## Market development

- Continued solid growth in coating services
- Global automotive and general industry as well as aviation as drivers
- Maintained strong order backlog in aero
- Expected MRO<sup>2</sup> business recovery delayed
- Oil & Gas with slower demand in materials



## Operational performance

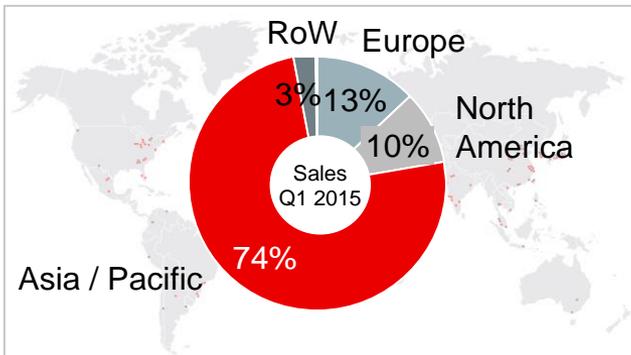
- Underlying organic top-line growth of Oerlikon Balzers/Metco (at constant fx)
- Integration process according to or ahead of expectations
- As guided, integration effects and amortization impacting profitability

<sup>1</sup> as % of sales; <sup>2</sup> MRO = Maintenance, Repair and Overhaul

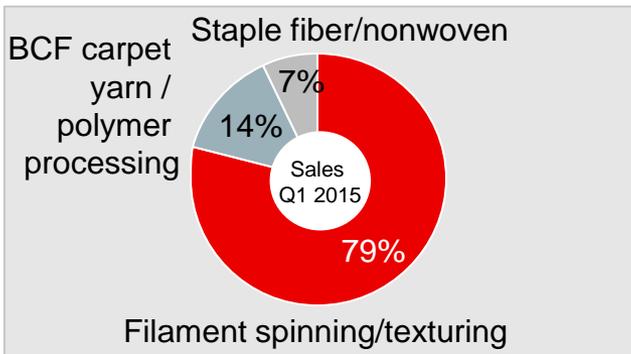
# Manmade Fibers Segment – Orders improved sequentially (at constant fx); good profitability



Key figures	in CHF million	Q1 2015	Q1 2014	Δ
	Order intake		205	240
Sales (to 3 <sup>rd</sup> parties)		208	296	-29.7 %
EBITDA		37	65	-43.1 %
EBITDA margin <sup>1</sup>		17.6 %	21.9 %	-4.3 pp
EBIT		32	60	-46.7 %
EBIT margin <sup>1</sup>		15.5 %	20.4 %	-4.9 pp



- ### Market development
- China normalization affects project landscape as expected
  - India with positive project momentum
  - Focus on high quality and energy saving
  - USA and Turkey BCF-markets slowing after large investments of previous years



- ### Operational performance
- Orders sequentially up (at constant fx)
  - Sales impacted by project business and following normalized order intake pattern against high comparable
  - Service exceeding 10% of sales
  - Profitability results from positive product cost measures and initiation of flexible adaptations of overhead- and fixed cost

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

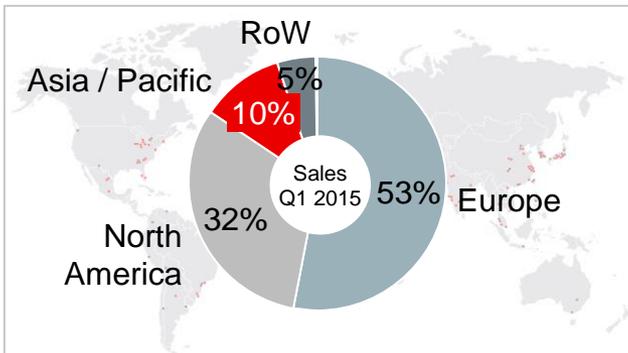
# Drive Systems Segment – Agriculture

## market challenging; profitability improved



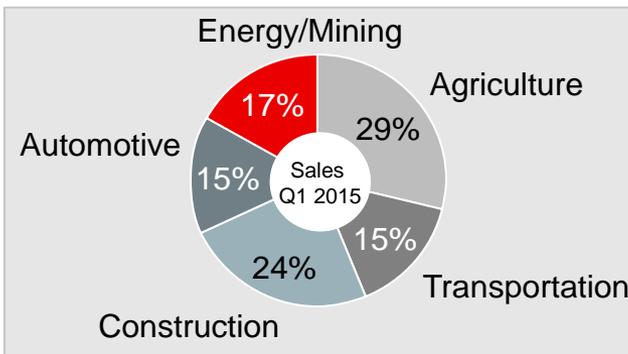
### Key figures

in CHF million	Q1 2015	Q1 2014	Δ
Order intake	172	209	-17.7 %
Sales (to 3 <sup>rd</sup> parties)	183	194	-5.7 %
EBITDA	18	19	-5.3 %
EBITDA margin <sup>1</sup>	10.0 %	9.8 %	+0.2 pp
EBIT	8	8	0.0%
EBIT margin <sup>1</sup>	4.4 %	4.1 %	+0.3 pp



### Market development

- Construction (US) and transportation (Europe/US) markets remain solid
- Slowdown in agriculture (all regions)
- Energy market still sound sales but order intake impacted by market environment



### Operational performance

- Top line reflects end-market development
- Margin strengthening y-o-y despite lower volumes; continued focus on Operational Excellence and higher value-add services
- 3rd plant India: inauguration end of April; ramp-up of operational business

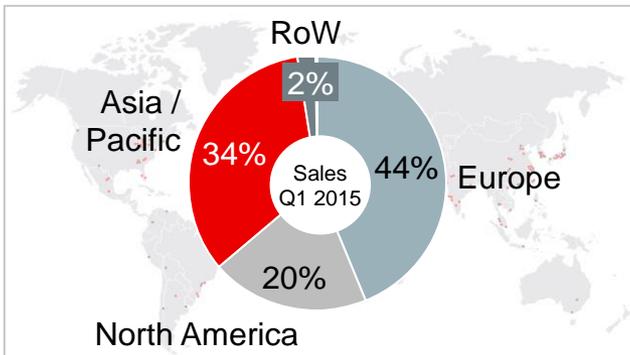
<sup>1</sup> as % of sales

# Vacuum Segment – Sequential order intake improvement; margin expansion y-o-y



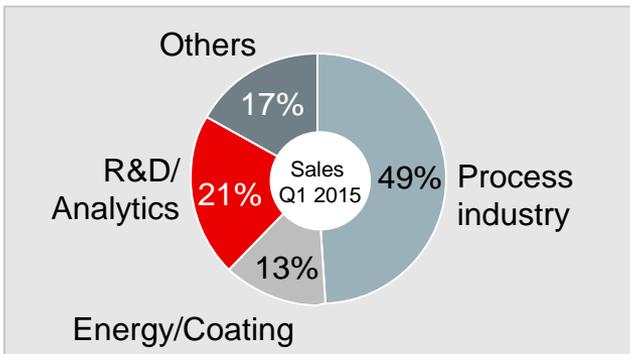
## Key figures

in CHF million	Q1 2015	Q1 2014	Δ
Order intake	99	105	-5.7 %
Sales (to 3 <sup>rd</sup> parties)	91	96	-5.2 %
EBITDA	10	8	+25.0 %
EBITDA margin <sup>1</sup>	10.8 %	8.3 %	+2.5 pp
EBIT	7	5	+40.0 %
EBIT margin <sup>1</sup>	7.3 %	4.8 %	+2.5 pp



## Market development

- Challenging market environment in China
- Slow recovery of global process industry
- Good order momentum in the US (process industry i.e. aerospace, coating, semi)
- Strong investment activity in industrial coating (displays) in Asia
- First projects wins in food & packaging



## Operational performance

- At constant fx: sales and orders at prior year level; strong sequential improvement
- Strong margin expansion y-o-y, sequentially maintained profitability despite lower sales
- Service Competence Center in Dresden implemented

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

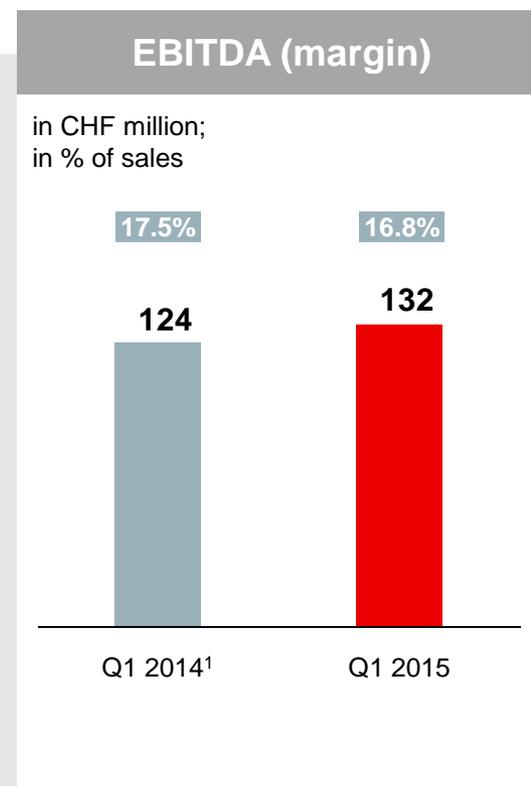
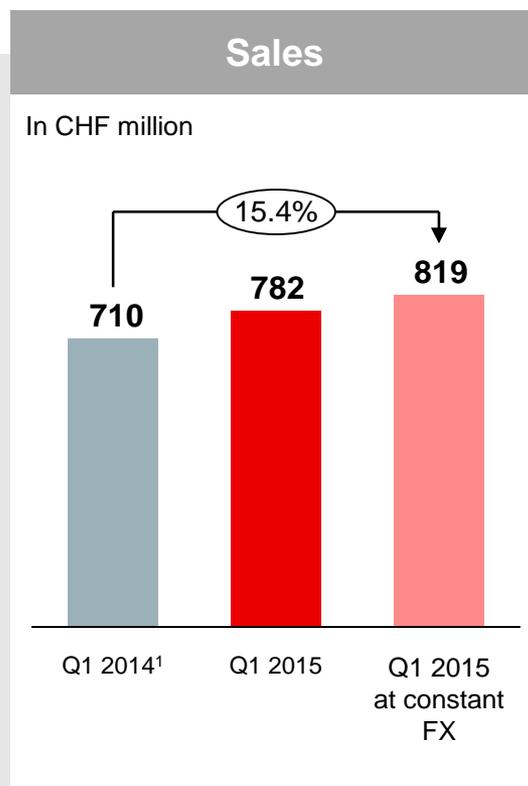
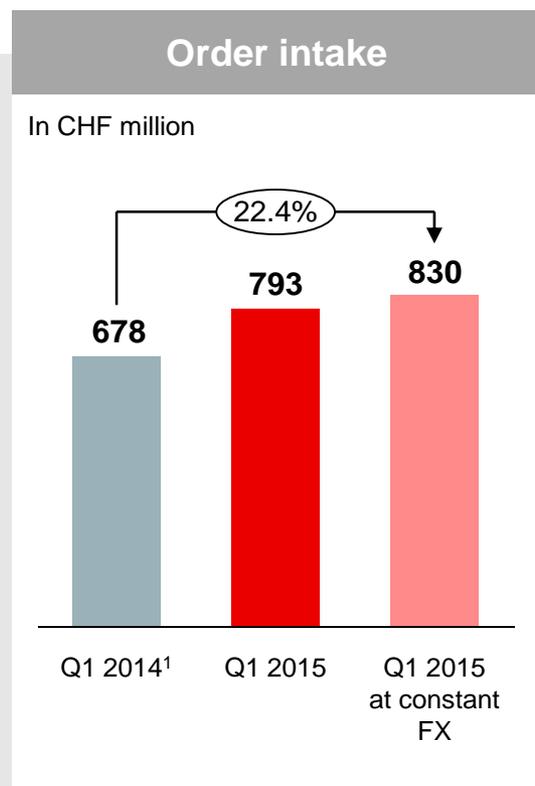
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# 13<sup>th</sup> consecutive quarter with EBITDA margin exceeding 15 % – top-line growth



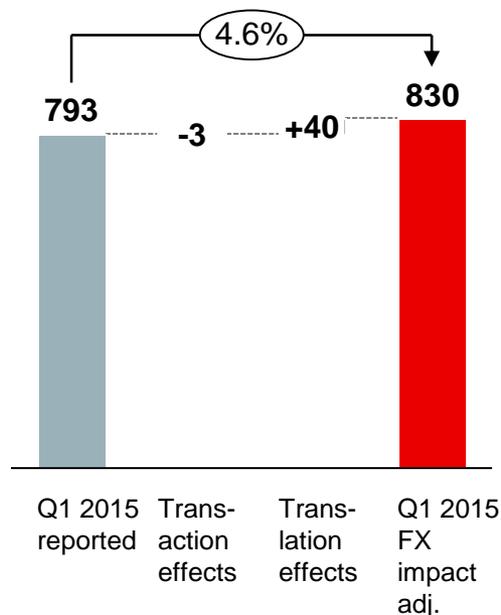
- Top-line growth with continued strong profitability level
- Book-to-bill exceeding 1
- Currency impact from development of foreign exchange rates amount to some 5 % for the Group
- Q1 impact on profitability from Metco transaction: CHF 2m integration costs and CHF 8m amortization

<sup>1</sup> Q1 2014 restated for the divestment of the Advanced Technologies Segment

# FX impact on Orders, Sales and EBITDA

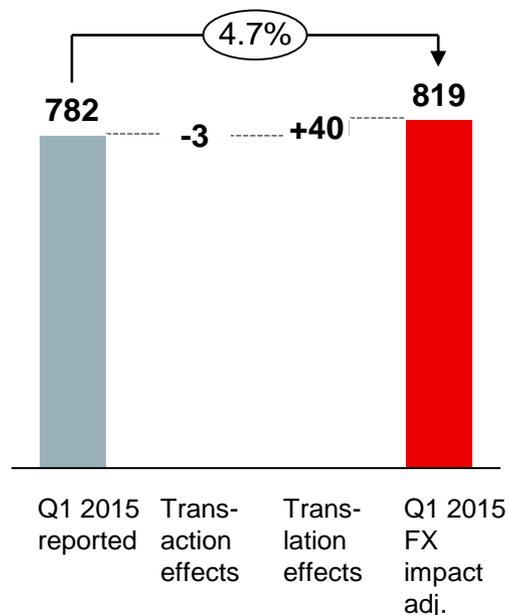
## Order intake Q1 2015

In CHF million



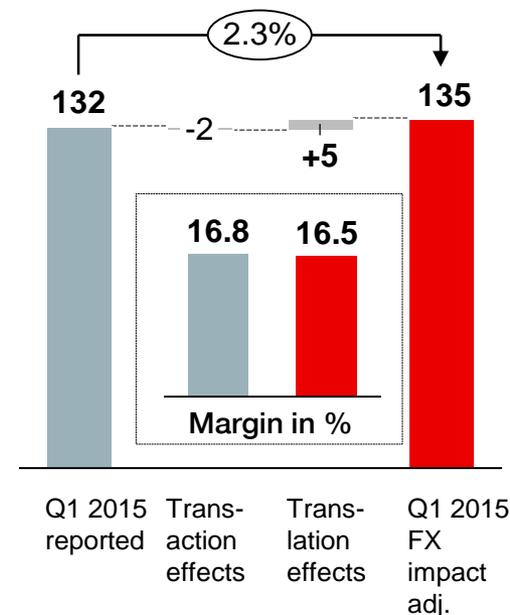
## Sales Q1 2015

In CHF million



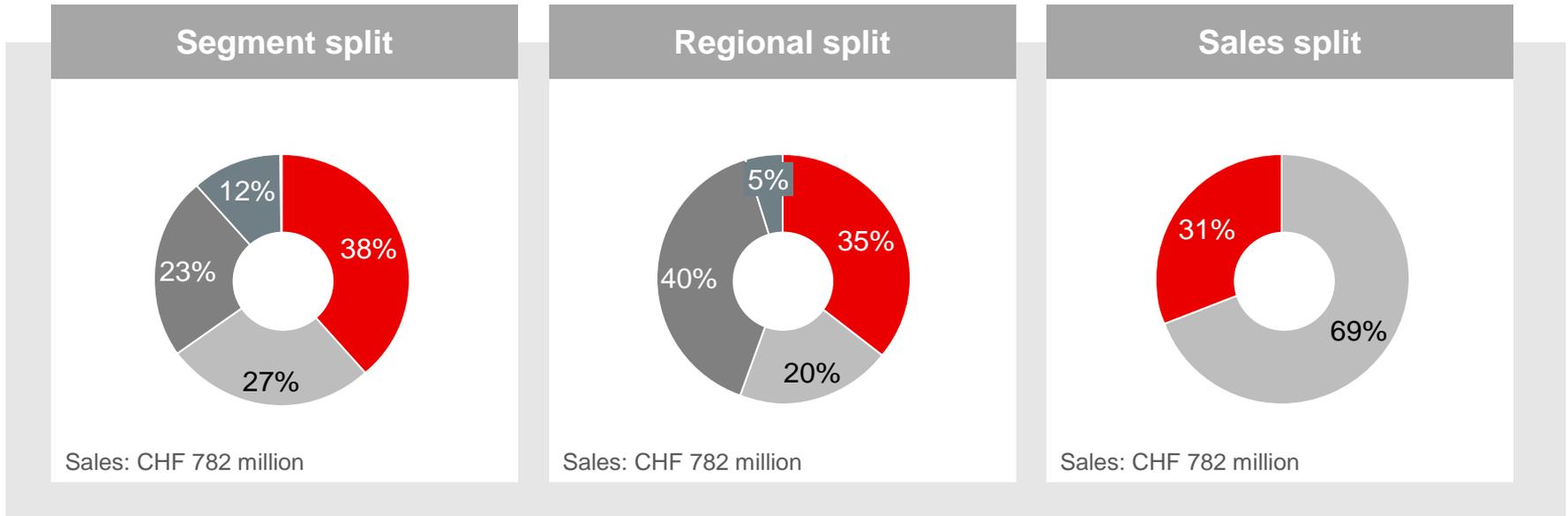
## EBITDA Q1 2015

In CHF million



- Impact mainly related to translation as a result of reporting currency CHF
- Appreciation of currencies (INR, USD, CNY) against CHF - EUR with devaluation against CHF
- Limited impact on EBITDA margin
- Impact on Segments varies in line with their global (currencies) positioning

# Sales split Q1 2015 – Surface Solutions Segment now the biggest Segment

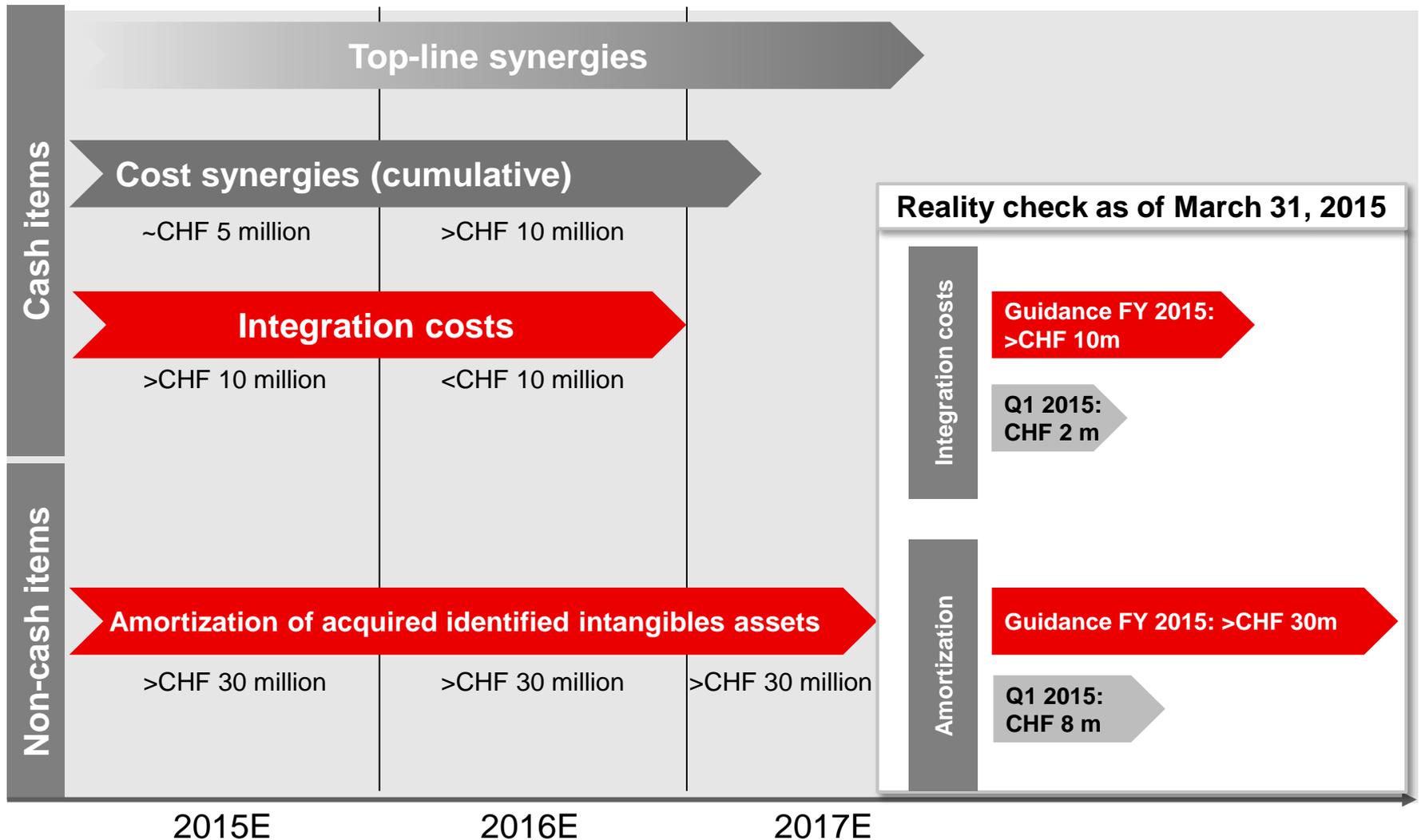


- Surface Solutions
- Manmade Fibers
- Drive Systems
- Vacuum

- Asia / Pacific
- North America
- Europe
- Rest of World

- Goods, Equipment & Components
- Service & Spare Parts

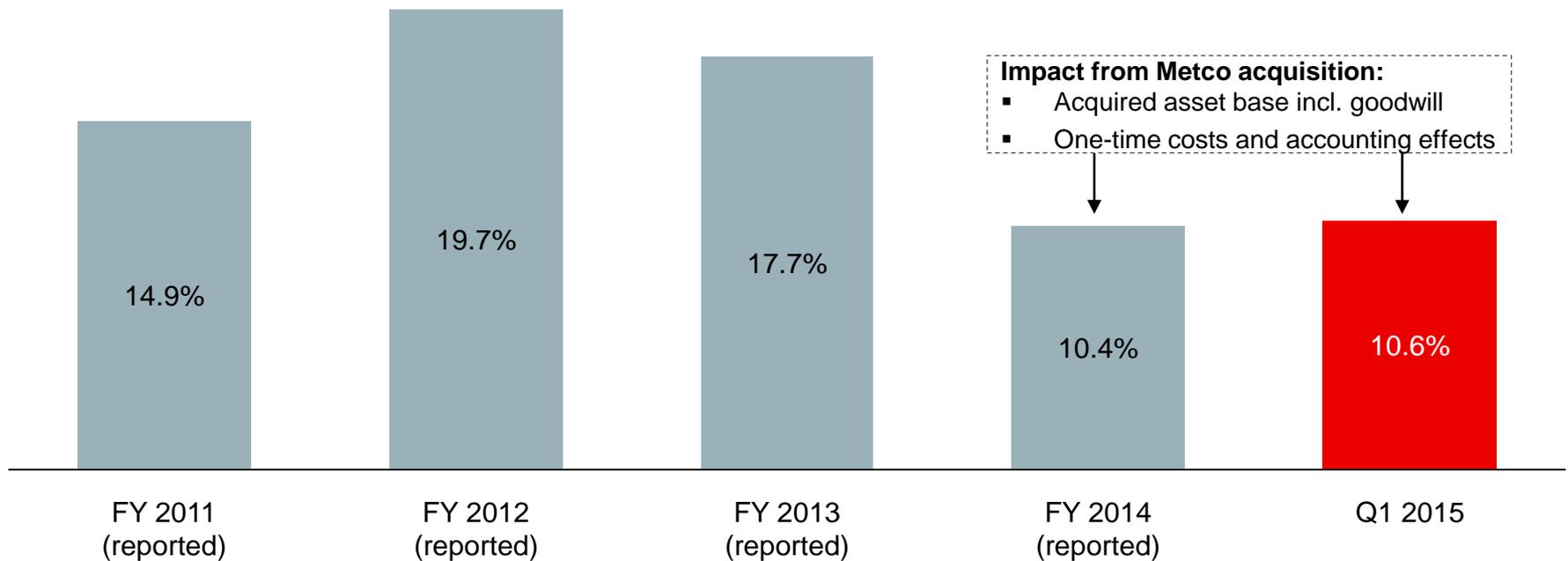
# Financial impact of Metco transaction – Reality check confirms initial assumptions



# Return On Capital Employed (ROCE) – slight improvement from post-Metco base line

## Development of ROCE

in %



- Full consolidation of Metco in Q3 2014 impacted 12-months rolling Group ROCE
- NOPAT impacted by acquisition accounting effects and one-time transaction/integration costs

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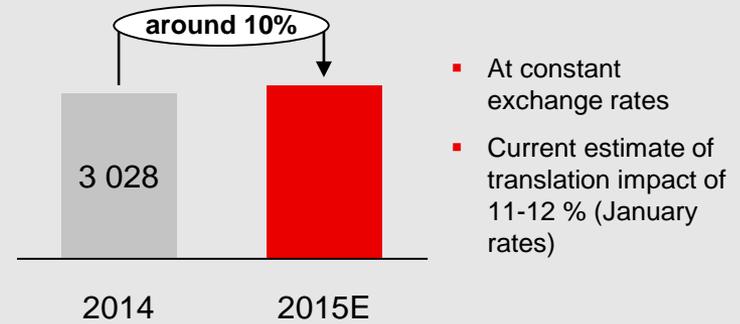
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# 2015 outlook – Growth in Sales and Orders and maintained EBITDA margin



## Order intake

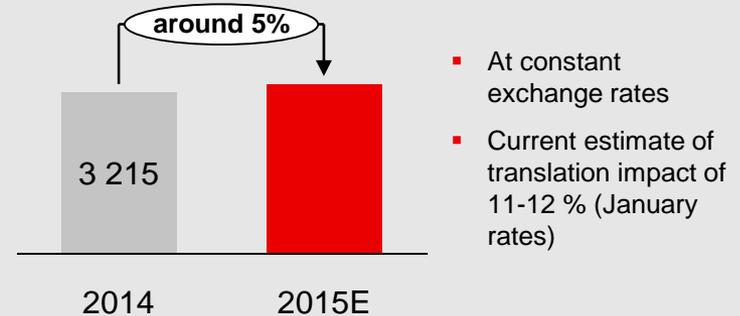


## 2015 Group Guidance

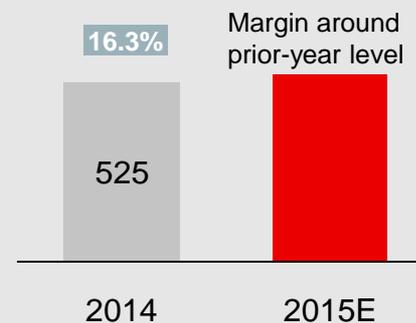
Oerlikon expects, compared to 2014 reported figures (continuing operations) and based on constant exchange rates:

- Order intake growth around 10 %
- Sales to increase around 5 %
- EBITDA<sup>1</sup> margin to be sustained at prior-year level
- Based on January exchange rates, a translation effect of 11-12 % is estimated

## Sales



## EBITDA



<sup>1</sup> Including full absorption of all related one-time integration and accounting effects from Metco transaction

## Continued value creation path:

- Top-line growth and book-to-bill >1
- Resilience strengthened (31% service)
- Solid profitability EBITDA margin at 16.8 % - 13th consecutive quarter >15%
- Competitiveness improved
- Closing of Advanced Technologies divestment
- FY 2015 outlook confirmed



# Thank you.



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2 Q1 2015 Financial Review

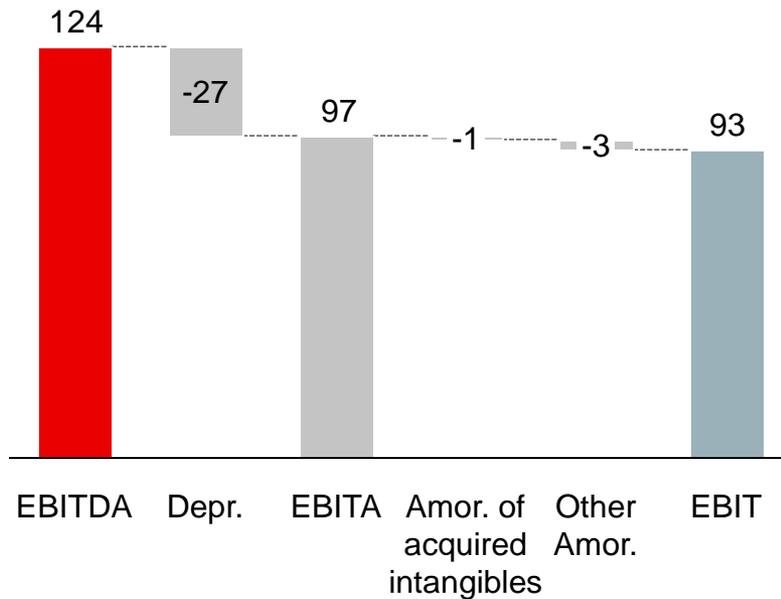
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# EBITDA to EBIT bridge reflects Metco effects on profitability and D&A

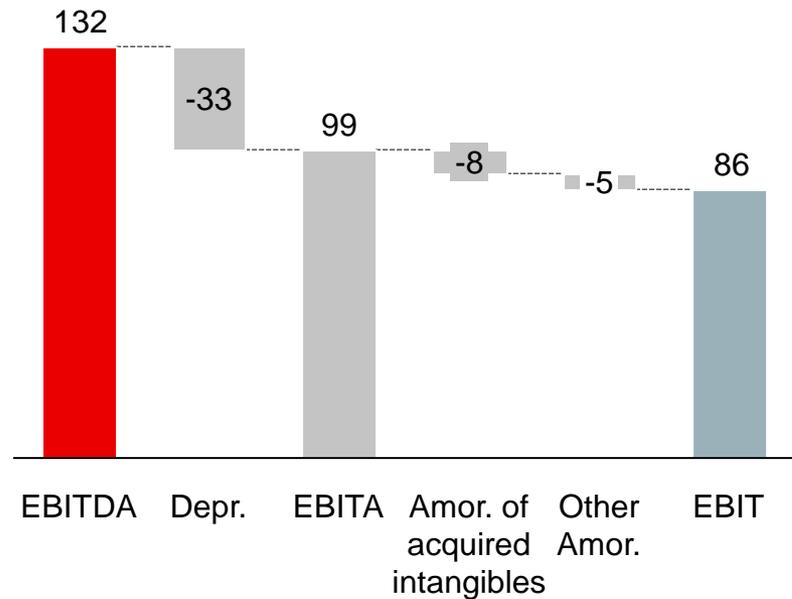
EBITDA to EBIT bridge – Q1 2014<sup>1</sup>

In CHF million



EBITDA to EBIT bridge – Q1 2015

In CHF million

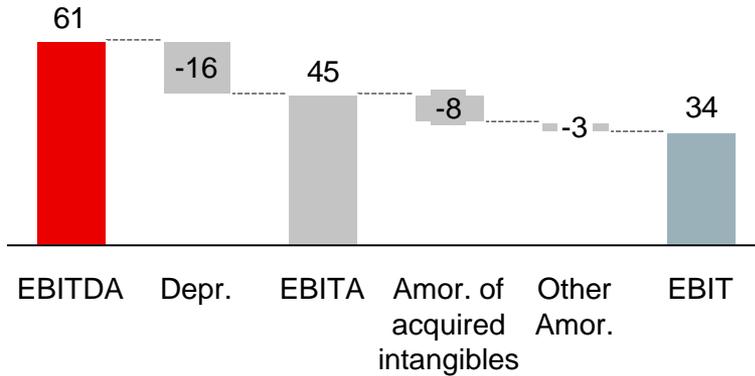


- Increase in depreciation and amortization of identified acquired intangible assets mainly attributable to Metco transaction
- Metco fully consolidated for Q1 2015

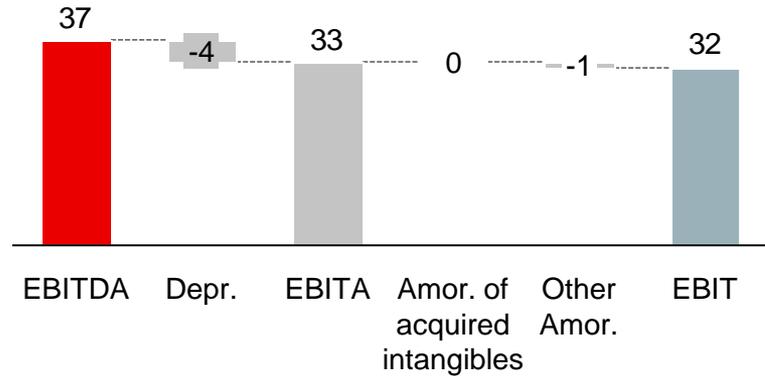
<sup>1</sup> Q1 2014 restated for the divestment of the Advanced Technologies Segment

# EBITDA to EBIT bridge per Segment in Q1 2015

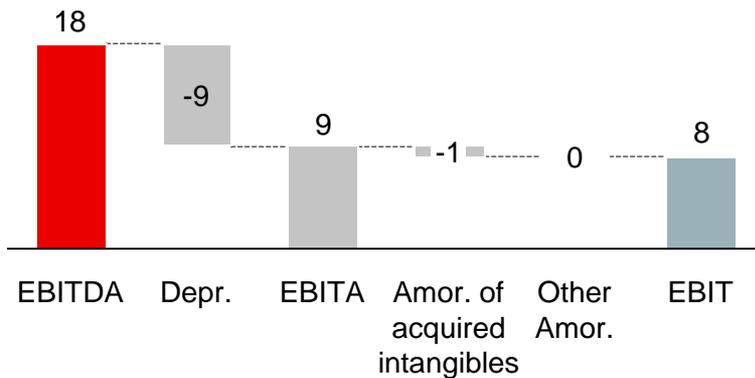
## Surface Solutions Segment



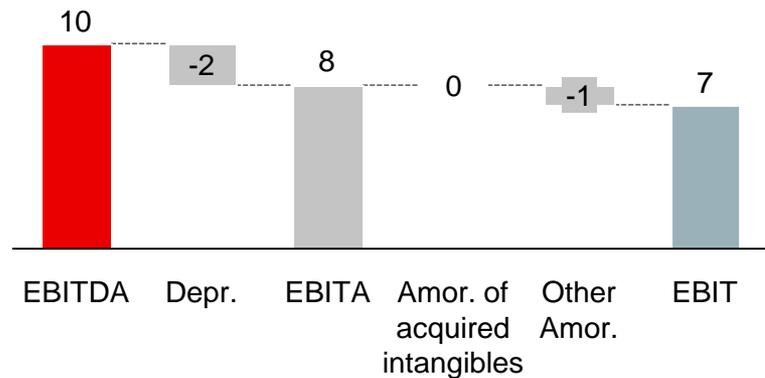
## Manmade Fibers Segment



## Drive Systems Segment



## Vacuum Segment



# Oerlikon's future outlook – Top-line growth and margin expansion by 2017

## Mid-term guidance 2017

### Segment contribution:

- Surface Solutions Segment: Committed to deliver on organic growth, top line synergies, and margin expansion
- Manmade Fibers Segment: Addressing and mitigating the normalization in the Chinese market
- Drive Systems & Vacuum Segment: Committed to sales growth and profitability improvement

### Group perspective:

- Decline in Manmade Fibers Segment's top line and margin will be (over-)compensated through positive development in other Segments
- Continuous assessment of portfolio for further optimization and strengthening – Details will be communicated as they materialize

➔ **Based on the 2014 reported figures, Oerlikon aspires to grow the business at ~2x GDP (CAGR 2015 – 2017) with EBITDA margin expansion**

# 2014 key figures Oerlikon Group



in CHF million	2014	2013	Δ
Order intake <sup>1</sup>	3 028	2 779	+9.0 %
Order backlog <sup>1</sup>	715	800	-10.6 %
Sales <sup>1</sup>	3 215	2 770	+16.1 %
EBITDA <sup>1</sup> % of sales	525 16.3 %	483 17.4 %	+8.7 %
EBIT <sup>1</sup> % of sales	360 11.2 %	359 13.0 %	+0.3 %
Result from continuing operations % of sales	247 7.7 %	253 9.1 %	-2.4 %
Net income	202	201	+0.5 %
EPS (in CHF)	0.59	0.60	-1.7 %
Cash flow from operating activities <sup>2</sup>	427	435	-1.8 %
Net operating assets <sup>1</sup> (incl. goodwill and brands)	2 685	1 487	+80.6 %

<sup>1</sup> FY 2013 restated, FY 2014 continuing operations (incl. goodwill and brands), <sup>2</sup> before changes in net current assets

# 2014 key figures by Segment

in CHF million	Surface Solutions	Manmade Fibers	Drive Systems	Vacuum
Order intake Δ to 2013	965 +89.2 %	901 -16.0 %	781 -1.4 %	381 -5.7 %
Order backlog Δ to 2013	79 n/a	365 -32.5 %	199 +10.6 %	72 -8.9 %
Sales (to 3 <sup>rd</sup> parties) Δ to 2013	973 +90.8 %	1 073 -5.0 %	779 +6.1 %	390 -1.5 %
EBITDA Δ to 2013	183 +22.8 %	217 +4.8 %	82 +22.4 %	41 -24.1 %
EBITDA margin <sup>1</sup> Δ to 2013	18.8 % -10.4 pp	20.3 % +1.9 pp	10.5 % +1.4 pp	10.3 % -3.2 pp
EBIT Δ to 2013	98 -6.7 %	197 +4.8 %	41 +57.7 %	27 -34.1 %
EBIT margin <sup>1</sup> Δ to 2013	10.0 % -10.5 pp	18.4 % +1.8 pp	5.3 % +1.8 pp	6.8 % -3.5 pp
Net Operating assets Δ to 2013	1 421 >100 %	128 >100 %	945 +2.2 %	199 +2.0 %
No. of employees Δ to 2013	6 063 +85.0 %	2 552 +2.9 %	5 194 +0.7 %	1 617 +6.9 %

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

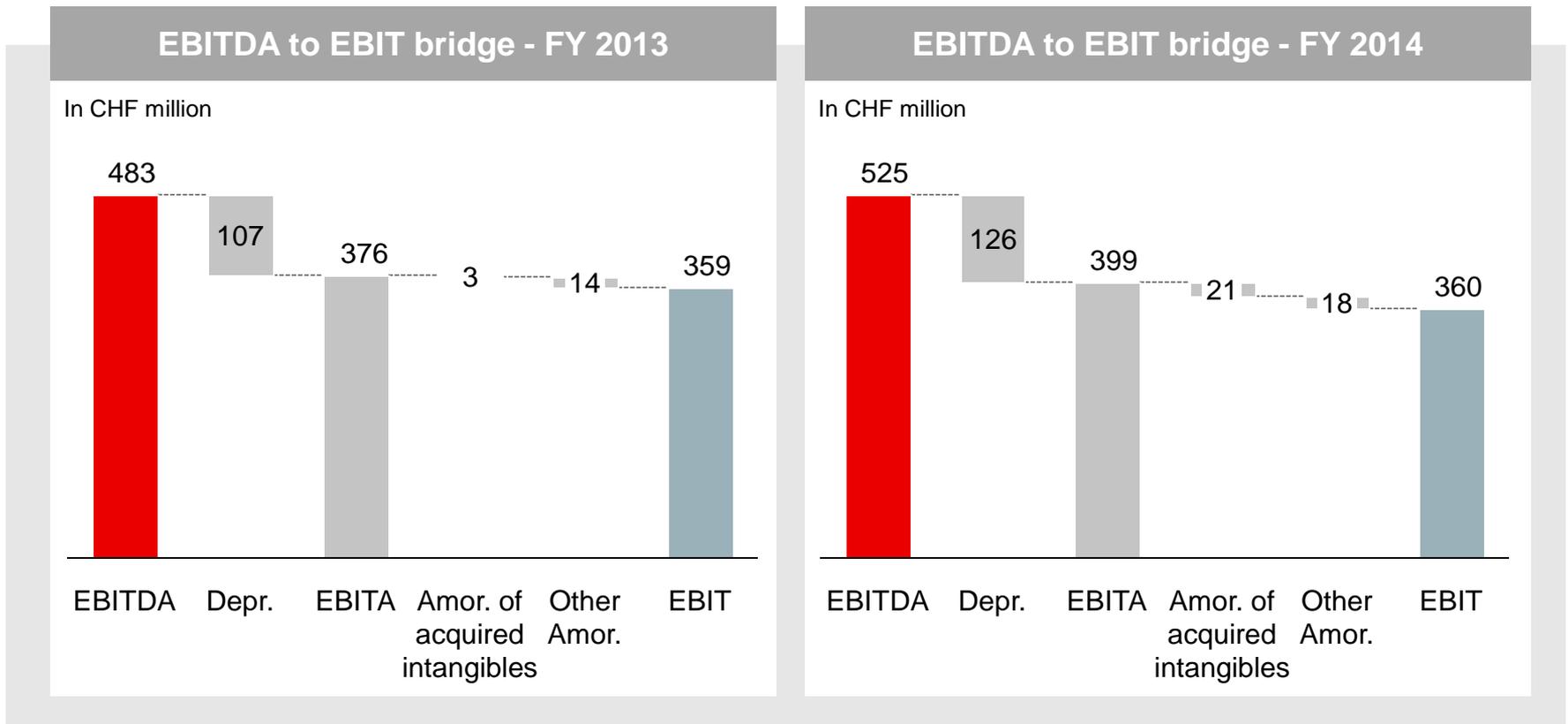
# Balanced FX profile across the Group – Limited Swiss franc exposure



■ CHF ■ EUR ■ USD ■ RMB ■ Other

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

# EBITDA to EBIT bridge reflects Metco effects on profitability and D&A<sup>1</sup>

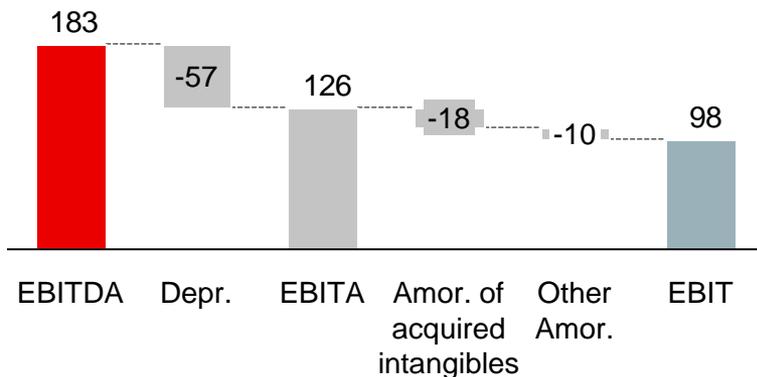


- Increase in depreciation and amortization of identified acquired intangible assets mainly attributable to Metco transaction
- Metco consolidated for seven months in fiscal year 2014

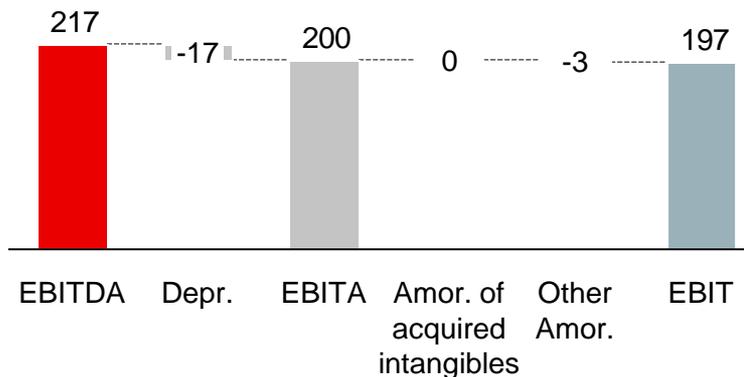
<sup>1</sup> FY 2013 restated, FY 2014 continuing operations

# EBITDA to EBIT bridge per Segment

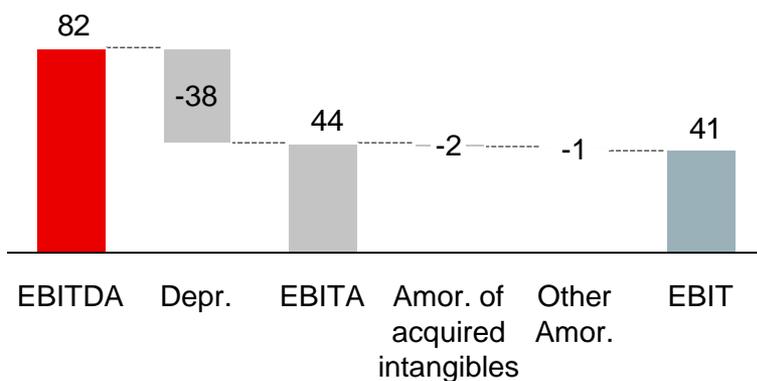
## Surface Solutions Segment



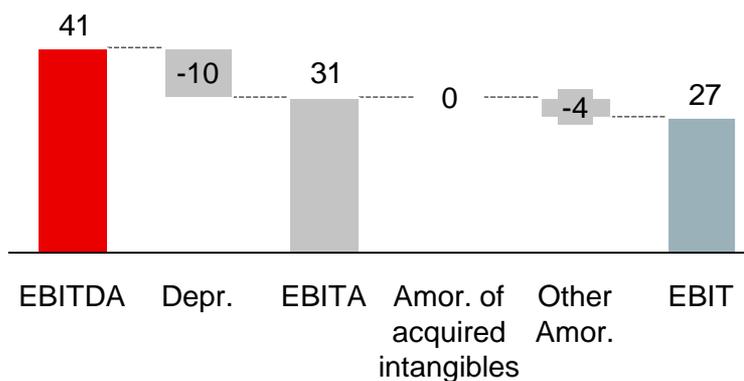
## Manmade Fibers Segment



## Drive Systems Segment



## Vacuum Segment



# Net income slightly up despite full absorption of one-time effects from M&A activities

in CHF million	2014	2013	Δ
Result before interest and taxes (EBIT) <sup>1</sup> in % of sales	360 11.2 %	359 13.0 %	+0.3 %
Financial result <sup>1</sup>	-30	-31	+3.2 %
Result before taxes (EBT) <sup>1</sup> in % of sales	330 10.3 %	328 11.8 %	+0.6 %
Income taxes <sup>1</sup> in % of EBT	-83 25.2 %	-75 22.9 %	-10.7 %
Result from continuing operations in % of sales	247 7.7 %	253 9.1 %	-2.4 %
Result from discontinued operations	-45	-52	+13.5 %
Net income	202	201	+0.5 %

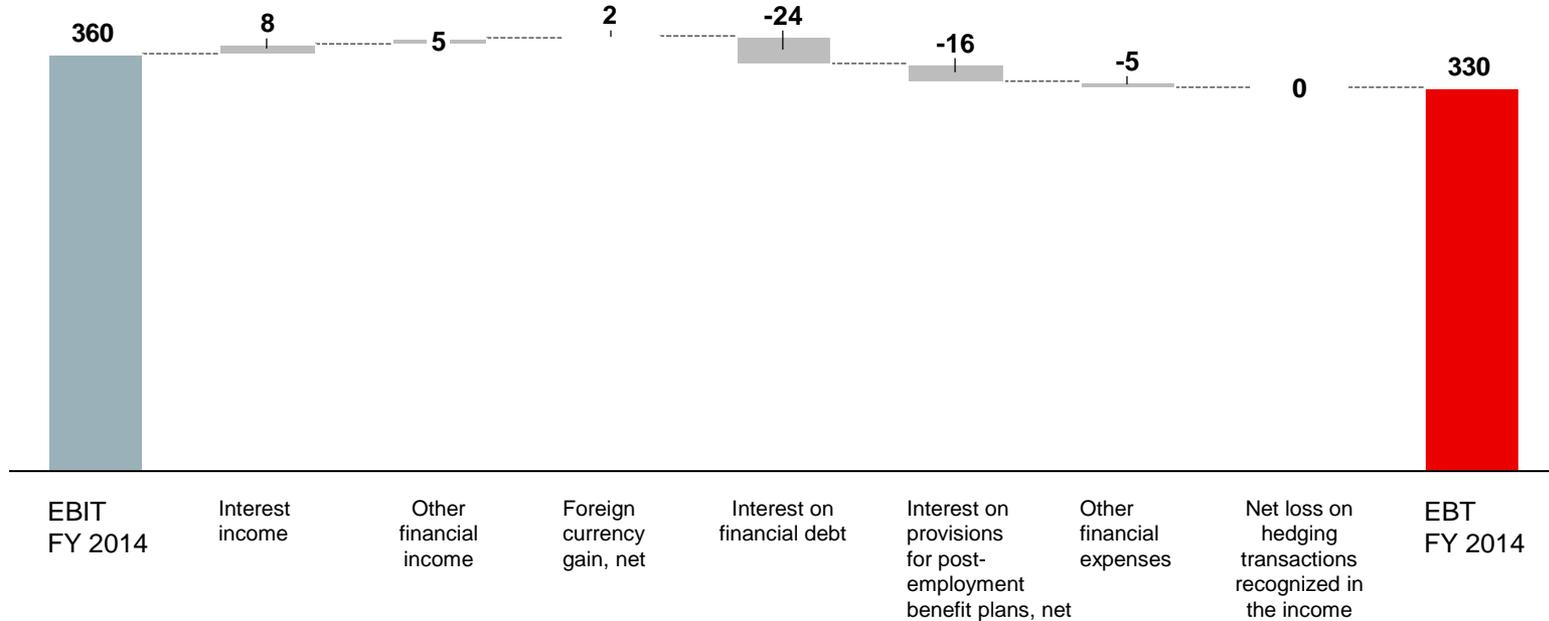
- Result from continuing operations impacted by Metco transaction
- Net income impacted by result from discontinued operations (sale of Advanced Technologies Segment)

<sup>1</sup> FY 2013 restated, FY 2014 continuing operations

# Oerlikon bonds were main driver for net financial result of CHF 30 million in 2014

Financial result bridge 2014<sup>1</sup>

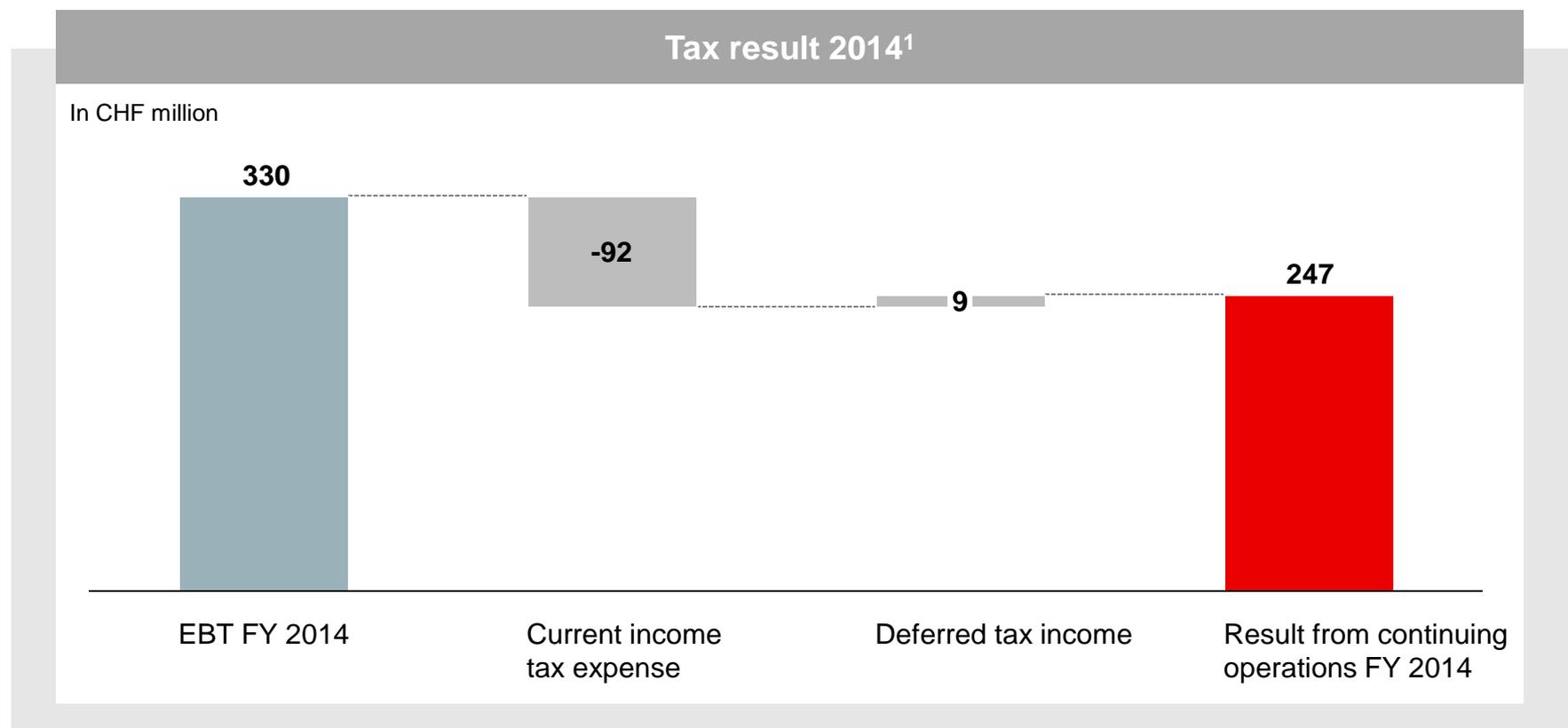
In CHF million



- Financial income mainly driven by cash position
- Financial expenses predominantly related to the bonds outstanding and post-employment benefit plans
- In 2015 Oerlikon expects zero interest environment

<sup>1</sup> FY 2014 continuing operations

# Tax rate of 25.2 % in line with guidance



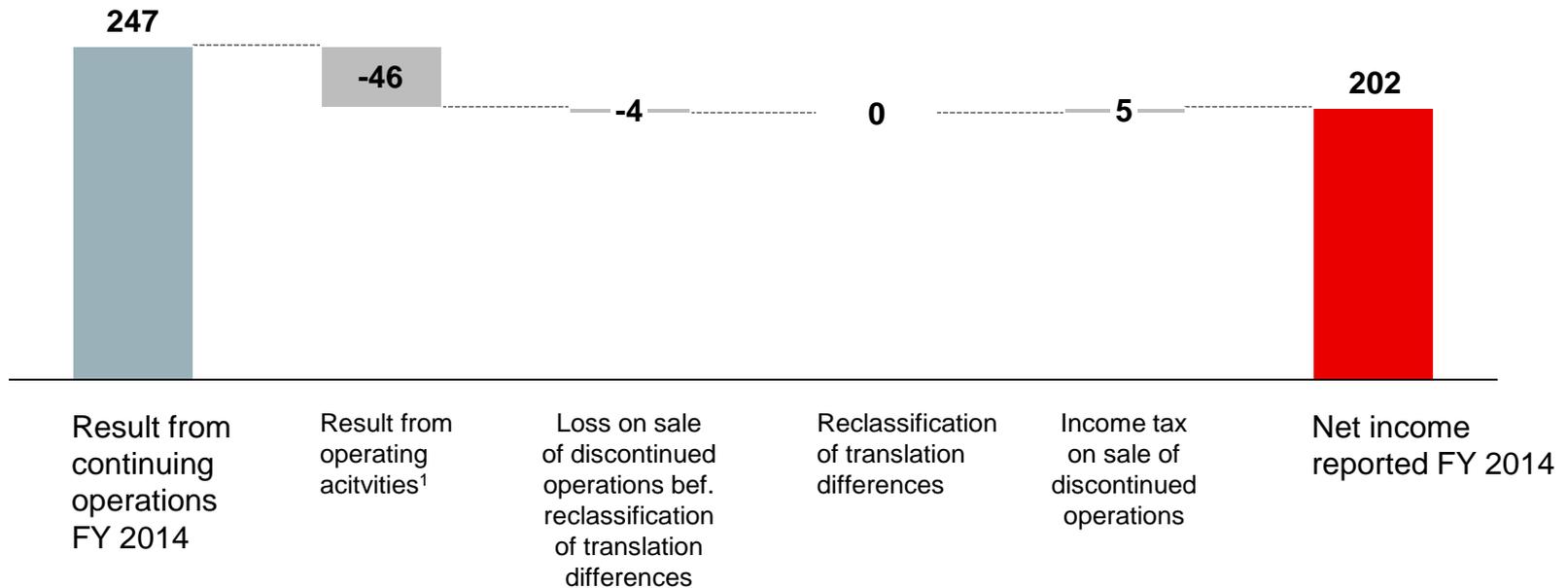
- Main tax-paying entities continue to be in China, Germany and India
- Deferred tax income mainly due to utilization of tax loss carry forwards and Metco impacts
- Tax rate expectation for 2015 of around 30 %

<sup>1</sup> FY 2014 continuing operations

# Divestment of Advanced Technologies Segment impacts result from discontinued operations

Net income bridge 2014

In CHF million



- 2014: Negative result from operating activities in discontinued operations mainly attributable to impairment of goodwill (CHF 32 million)
- 2015: Non-cash cumulative translation differences will impact result from discontinued operations (~ CHF 21 million);
- 2015: Cash proceeds of some CHF 50 million

<sup>1</sup> Divestment of Advanced Technologies Segment closed on Feb. 2, 2015

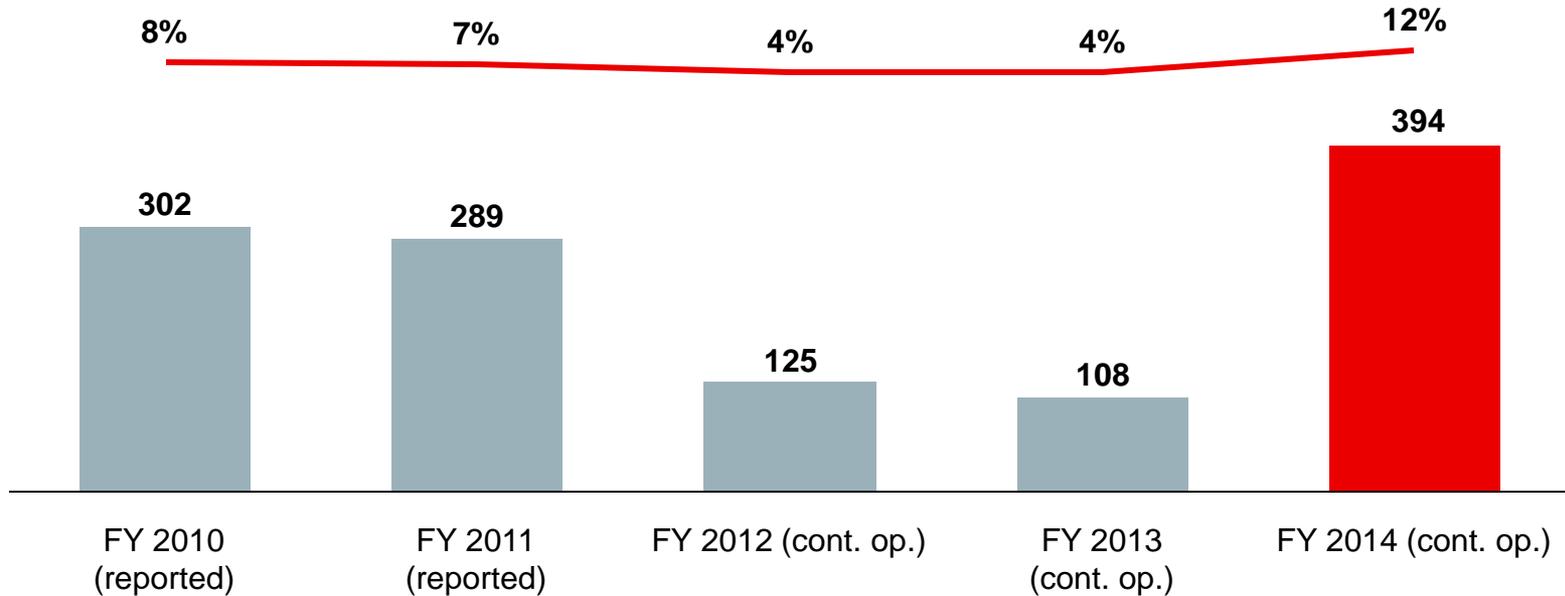
# Strong balance sheet

in CHF million	2014	2013
Cash and cash equivalents	825	1 280
Trade receivables	473	425
Inventories	511	404
Assets classified as held for sale	78	-
Property, plant and equipment	918	742
Goodwill and intangible assets	1 727	943
Total other assets	434	300
<b>Total assets</b>	<b>4 966</b>	<b>4 094</b>
Trade payables	296	314
Current customer advances	294	407
Liabilities classified as held for sale	24	-
Current and non-current loans and borrowings	760	303
Non-current post-employment benefit provisions	661	546
Total other liabilities	730	440
<b>Total liabilities</b>	<b>2 765</b>	<b>2 010</b>
<b>Total equity</b>	<b>2 201</b>	<b>2 084</b>
Total equity ratio	44 %	51 %
Net cash	114	981

# Net working capital impacted by normalization in Manmade Fibers and Metco consolidation

## Net working capital<sup>1</sup> FY 2010 – 2014

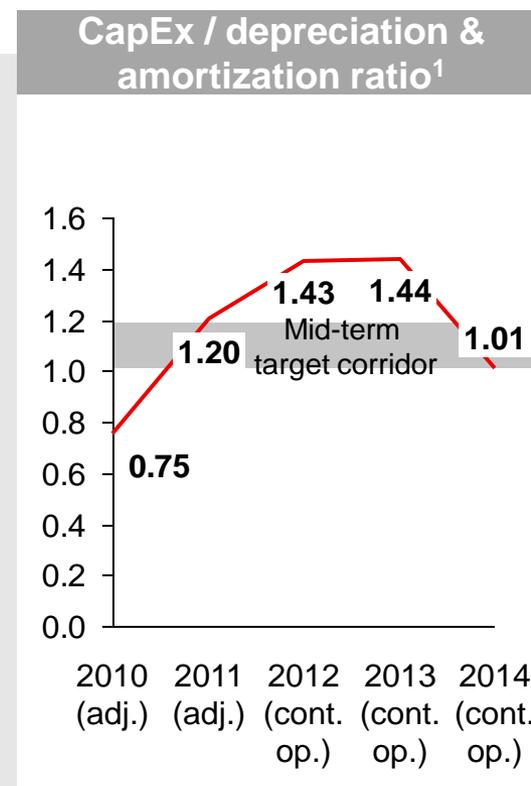
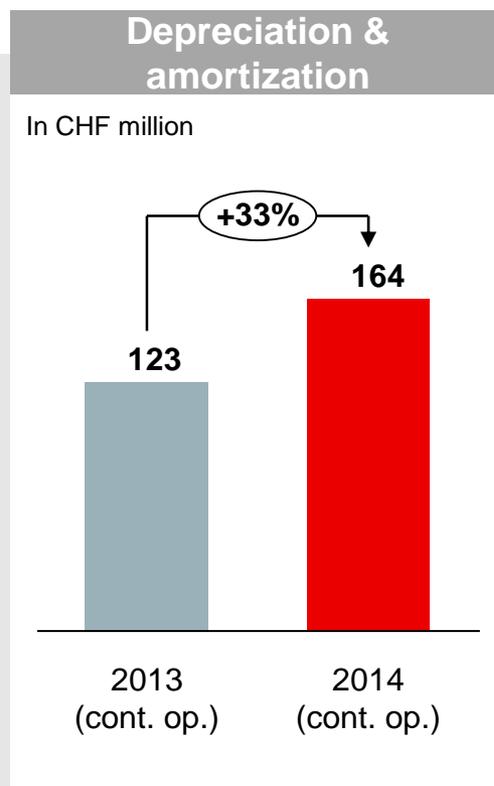
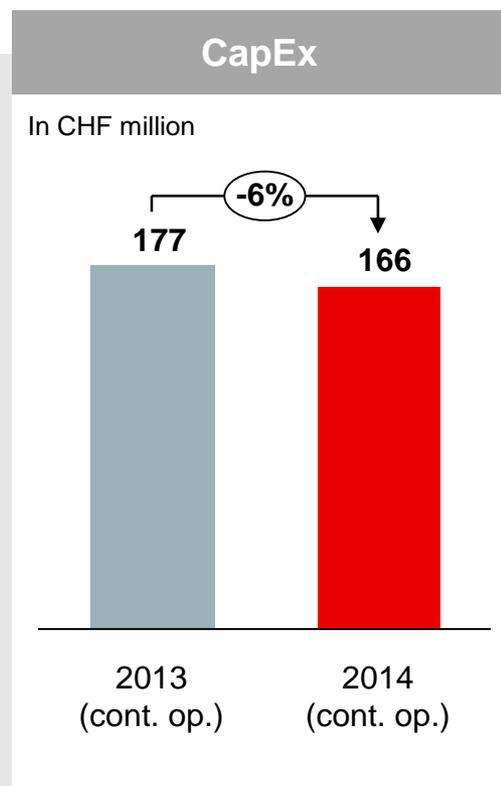
In % of 12 months rolling sales; in CHF million



- Customer advances down by CHF 113 million at CHF 294 million
- Inventories up to CHF 511 million (mainly due to Metco consolidation)
- Active receivables/payables management

<sup>1</sup> Net working capital is defined as trade receivables + inventories – trade payables – current customer advances

# CapEx / depreciation ratio back in mid-term target corridor

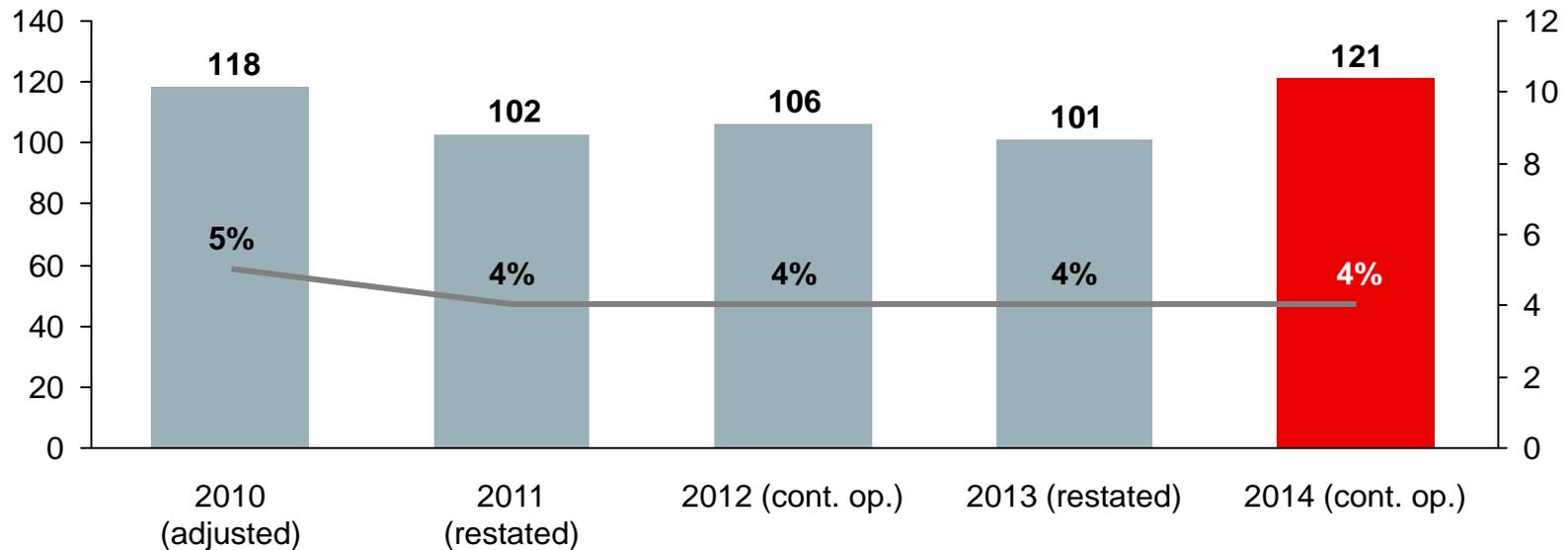


<sup>1</sup> Excluding impairment

# Constant range of investments in R&D at high level of CHF 121 million in 2014

## Investments in R&D (expenditure) in the range of 4-5 % of sales

In CHF million / as % of sales

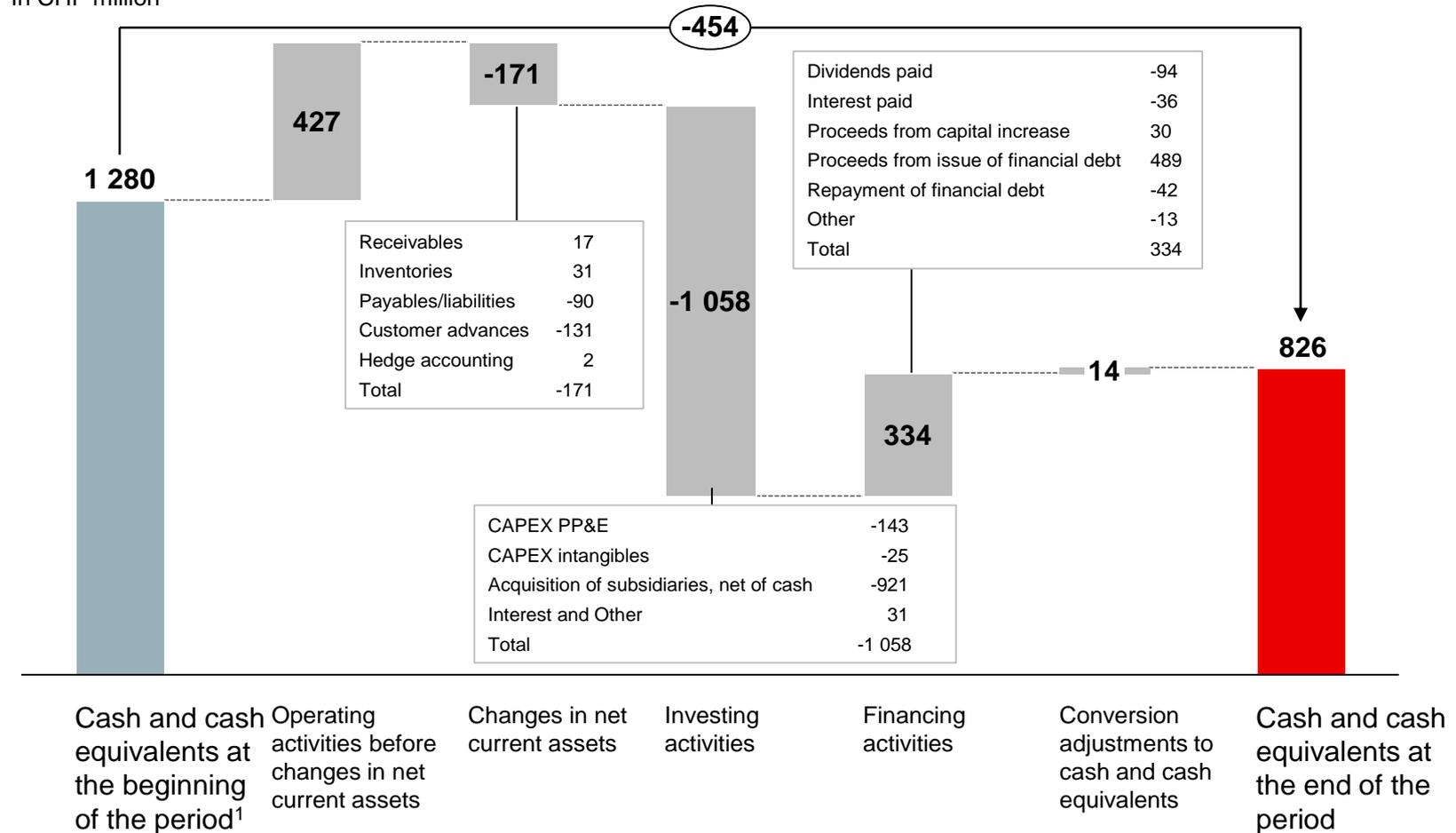


- R&D essential to secure technological leadership
- 20 % increase in R&D expenditure in 2014, i.e. driven by Metco acquisition
- Constant range of 4–5 % of sales
- Focus on Surface Solutions and Manmade Fibers followed by Vacuum and Drive Systems Segments

# Strong operating cash flow statement, Metco investment and placement of bonds

## Consolidated cash flow statement 2014

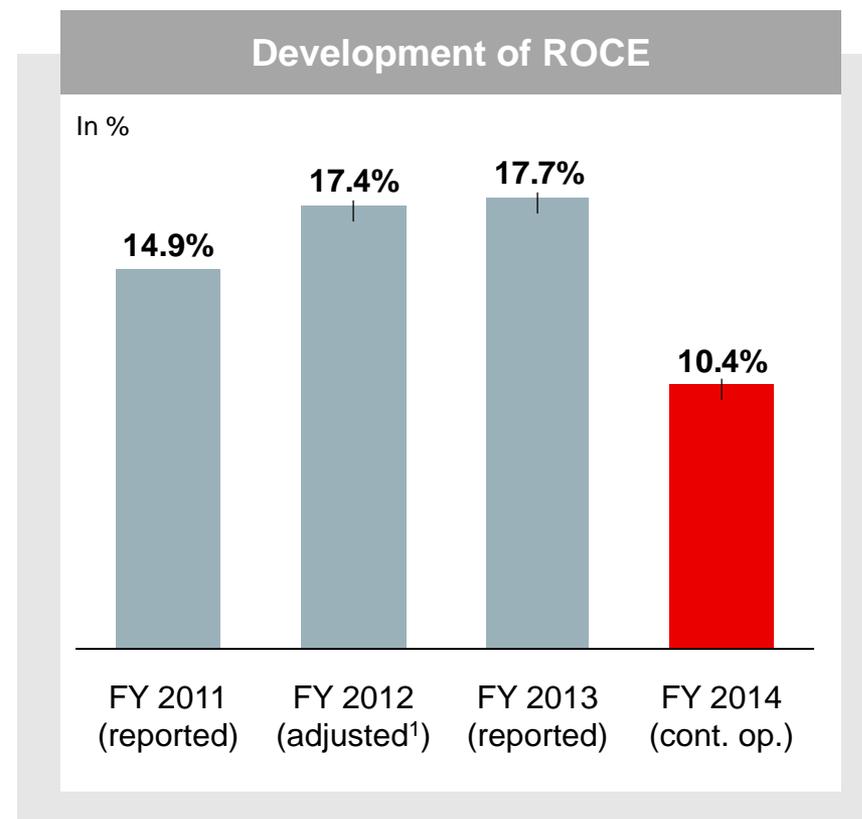
In CHF million



<sup>1</sup> Includes cash and cash equivalents that are included in «Assets classified as held for sale»

# Return On Capital Employed (ROCE) confirms value creation of Oerlikon Group

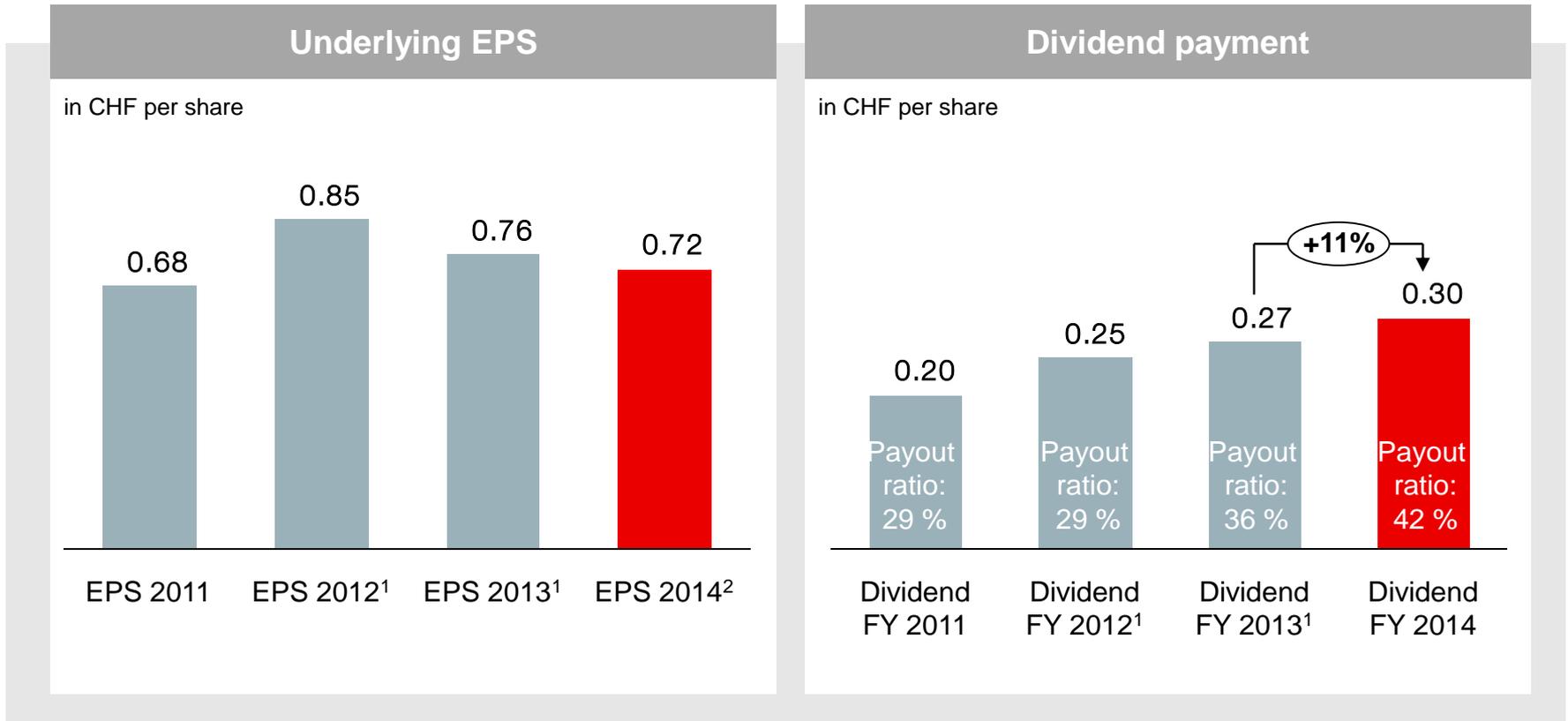
Oerlikon Definition of ROCE	FY 2014	FY 2013 (as reported)
EBIT	360	366
- Total current income tax	-92	-89
- Total deferred tax expense	9	14
<b>NOPAT</b>	<b>277</b>	<b>291</b>
Net Operating Assets	2 685	1 586
+ Current tax receivables	37	26
+ Deferred tax assets	190	124
- Current income tax payables	-53	-47
- Deferred tax liabilities	-185	-48
<b>Capital Employed</b>	<b>2 674</b>	<b>1 641</b>



- FY 2014 ROCE: first time consolidation of Metco leads to an increase in net operating assets but contributing only seven months to NOPAT
- Similar EBIT despite significant one-time integration/accounting effects related to Metco acquisition
- The Oerlikon Group continues to earn in excess of its cost of capital

<sup>1</sup> EBIT excl. one-time effect of sale of Arbon property of CHF 39 million

# Dividend increase to CHF 0.30 per share, 3<sup>rd</sup> increase in a row

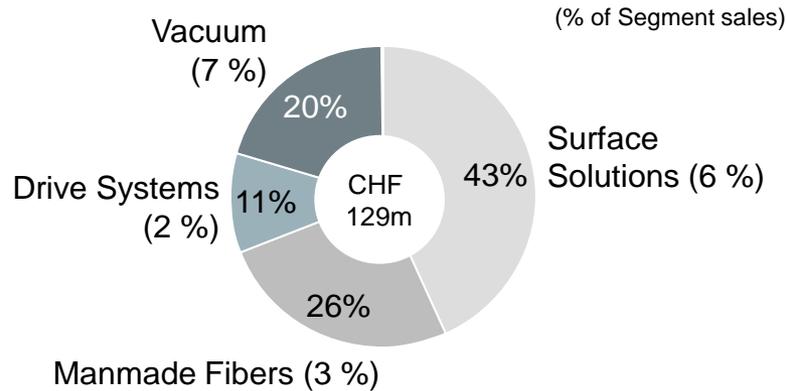


- Increased pay-out ratio of 42 % based on underlying EPS
- Dividend distributed from the capital contribution reserve
- Dividend policy increased to up to 50 % of underlying net income, subject to available funds

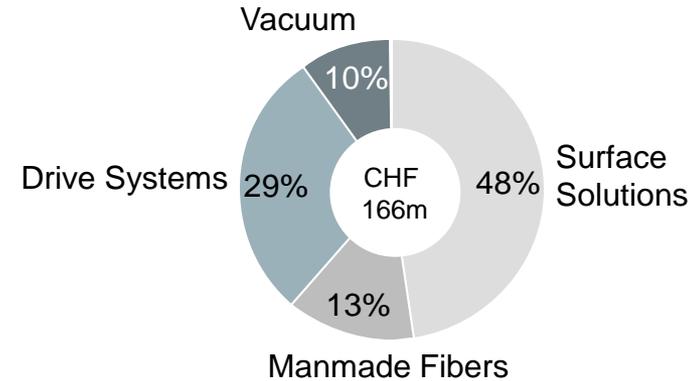
<sup>1</sup> Adjusted for divestment; <sup>2</sup> Underlying EPS from continuing operations (reported EPS CHF 0.59)

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

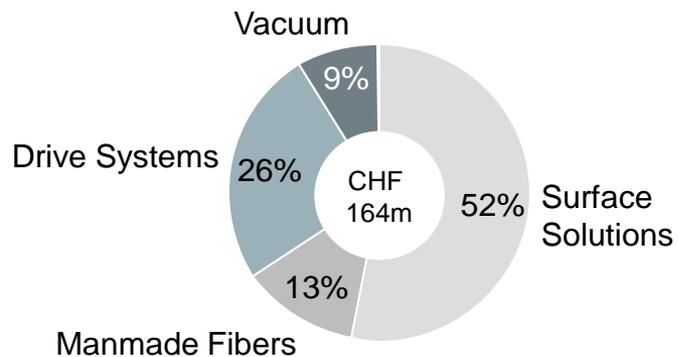
## R&D expenses FY 2014



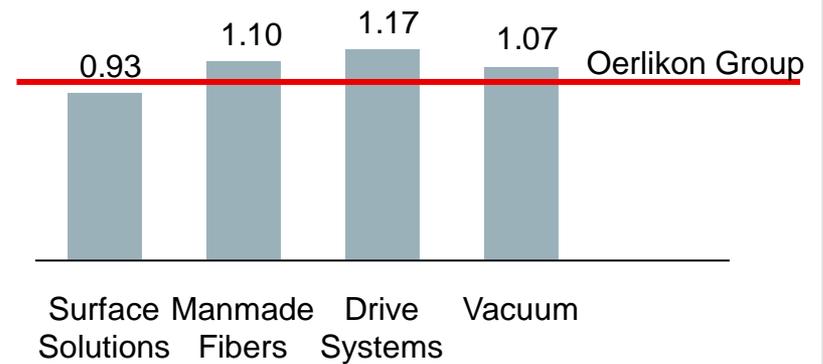
## CapEx FY 2014



## Depreciation & Amortization FY 2014



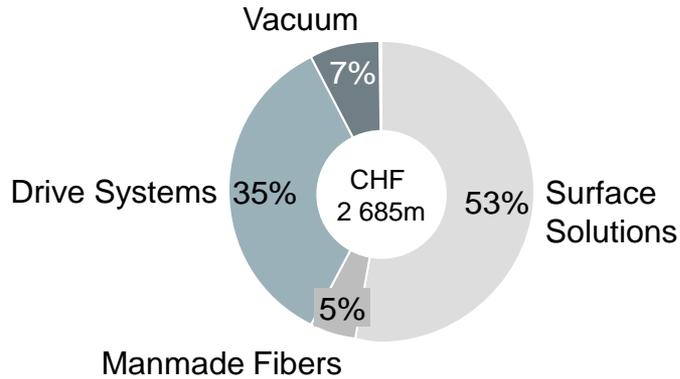
## CapEx / Depr. & Amort. FY 2014



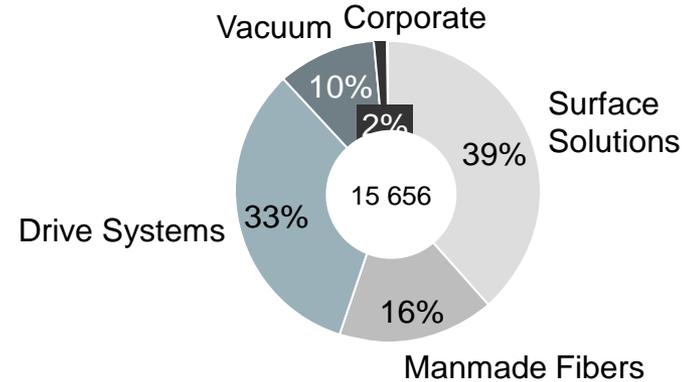
<sup>1</sup> FY 2014 continuing operations

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

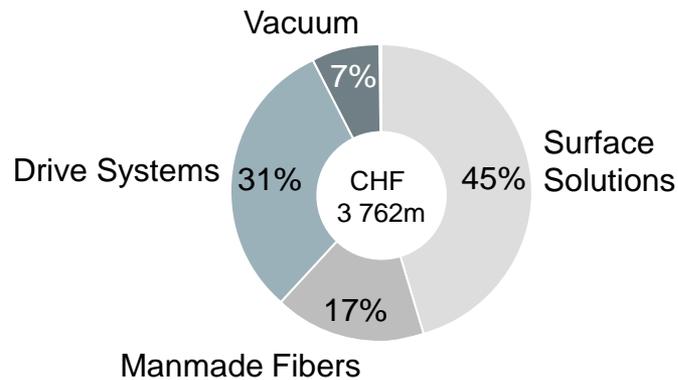
Net operating assets FY 2014



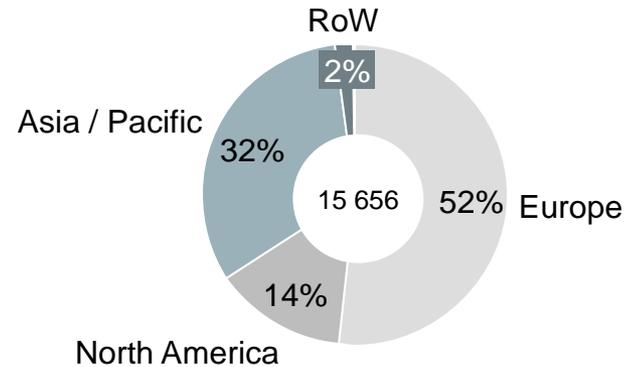
Employees (FTE) by Segment FY 2014



Operating Assets FY 2014



Employees (FTE) by Region FY 2014



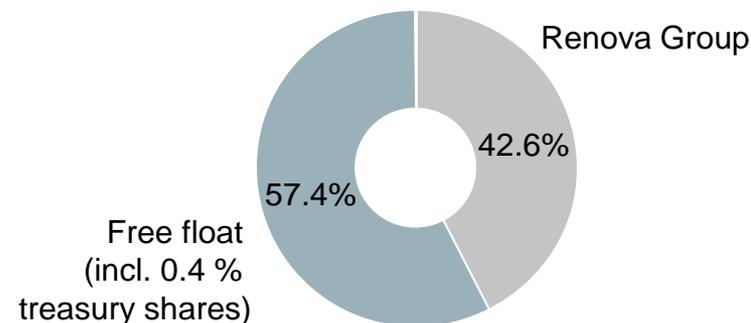
<sup>1</sup> FY 2014 continuing operations

## 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 (as of December 31, 2014)
- Re-entry to Swiss SMIM on April 17, 2012
- Addition to STOXX Europe 600 as of June 18, 2012

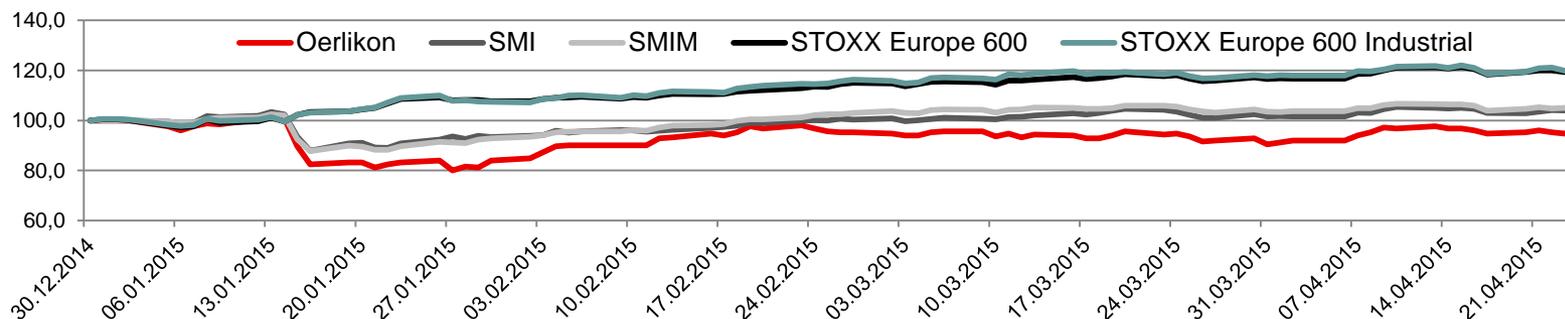
## Oerlikon shareholder structure<sup>1</sup>

as of March 31, 2015



## Oerlikon share price development

as of April 24, 2015, indexed; 100 percent = closing price per December 30, 2014



<sup>1</sup> Based on 339 758 576 shares outstanding and latest notification by Renova (as of January 6, 2015 of 144 764 860 shares)

# Coverage – 9 Buy/Accumulate & 4 Hold/Neutral

Broker	Analyst	Recommendation	Date of last update	Target price
AlphaValue	Pierre-Yves Gauthier	Buy	03.03.2015	15.60
Baader Helvea	Reto Amstalden	Hold	25.02.2015	12.40
Bank am Bellevue	Alessandro Foletti	Hold	24.02.2015	11.40
Berenberg Bank	Sebastian Künne	-	Suspended	-
Credit Suisse	Patrick Laager	Outperform	16.04.2015	13.50
Jefferies	Benjamin Gläser	Buy	25.03.2015	14.00
Kepler Cheuvreux	Hans-Joachim Heimbürger	Buy	30.03.2015	14.00
MainFirst	Michael Inauen	Outperform	02.03.2015	14.20
Mirabaud Securities LLP	Thomas Baumann	Buy	03.03.2015	13.75
RBC Capital Markets	Wasi Rizvi	Outperform	30.03.2015	13.00
Société Générale	Christophe Quarante	Hold	24.02.2015	13.00
UBS	André Rudolf von Rohr	Buy	02.03.2015	14.00
Vontobel	Michael Foeth	Buy	01.04.2015	14.30
Zürcher Kantonalbank	Armin Rechberger	Marketweight	17.04.2015	-
<b>Consensus</b>		<b>9 positive 4 neutral</b>		<b>13.61</b>

# Oerlikon Customer Base (Selection)

- Preferred technology supplier to technology leaders in their respective industries
- Global customer base and world-leading brand names
- Strong long-term customer relationships



<b>February 24, 2015</b>	Q4 / FY 2014 results and publication of Annual Report 2014 - Annual Press Conference
<b>April 8, 2015</b>	Annual General Meeting of Shareholders - KKL Lucerne
<b>April 28, 2015</b>	Q1 2015 Results - Media & Analyst Conference Call
<b>August 4, 2015</b>	Q2 / HY 2015 results and publication of Interim Report 2015 - Media & Analyst Conference Call
<b>October 27, 2015</b>	Q3 / 9M 2015 results - Media & Analyst Conference Call

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