

3.4 Coating Segment



Development partnership for tailored coating solutions

Bosch Automotive Technology is the largest company division in the Bosch Group. Among other things, the division develops and produces fuel injection systems for combustion engines that reduce the consumption and emissions of modern engines by up to 15%. The components of these systems are exposed to high temperatures and pressures, and are thus subject to extreme stresses during their service life. For more than 20 years, Bosch Automotive Technology and Oerlikon Balzers have been working together to produce shared solutions to effectively protect components that are under huge stresses using hard and friction coatings. Every year, Oerlikon Balzers coats over 100 million components, including piston pins and injection systems, for the automotive industry from various sites around the world. A total of 93 coating centers in 34 countries guarantee accessibility and a throughput time of just a few days.

1. Continued growth led to record total sales of CHF 511 million, fueled, among other factors, by further regional expansion.
2. Highest profitability in the Group, continuing to operate at a Best-in-Class level with an EBIT margin of 20.5%.
3. Breakthrough innovation with new coating generation BALIQ™ and successful rollout of reconditioning services.

Key figures			
in CHF million	2013	2012	Δ %
Order intake	510	501	1.8 %
Order backlog	–	–	–
Sales ¹	511	502	1.8 %
EBIT	105	103	1.9 %
EBIT margin	20.5 %	20.5 %	–

¹ Sales include CHF 1 million intercompany sales in 2012 and 2013.

Best-in-Class

Oerlikon's Coating Segment: 20.5% EBIT margin (2013);
followed by Sandvik Machining Solutions: 18.2% operating margin (2013)



Business performance

In 2013, the Segment continued to operate at a Best-in-Class level with an EBIT margin of 20.5%, maintaining its high level of profitability for the third time in a row above 20% (2012: 20.5%). Total sales rose by 1.8% to CHF 511 million (2012: CHF 502 million), marking a new record result for the Segment. Coating services represented 93% of Segment sales and project-driven equipment sales 7%. Coating services showed even higher growth of 3.5%, excluding impacts from the development of foreign exchange rates. The Segment was confronted with a challenging environment in the European automotive industry, which had a negative impact on the Segment's tools and components business. This was overcompensated in the course of the year by a recovery of the automotive industry in the US and China, structural growth in automotive applications in general and new development of markets for precision components in the general engineering industries. From a regional perspective, Europe accounted for 50% of total Segment sales, Asia for 30%, North America for 13% and the rest of the world for 7%.

Expansion of the global coating center network remained the Segment's priority to further penetrate the market. In the period under review, the Segment opened three new coating centers in the US, China and the Philippines. With the first site in the Philippines, the Segment expanded its global presence to 34 countries and currently operates 93 coating centers worldwide. The well-balanced global footprint consists of 22 coating

centers in the Americas, 33 centers in Asia and 38 facilities in Europe. In addition to building new production facilities, the Segment has expanded its capacities in existing centers by 3% in the period under review.

Parallel to regional growth, the Segment expanded its industrial reach with the opening of a new aerospace competence center near Paris. With this competence center, the Segment intends to augment aerospace customers' efforts to increase the reliability and efficiency of key aircraft parts. Advanced PVD coating technology will be crucial for lightweight flight critical components to meet demands of safety, reliability and long service life.

The industrialization of ePD™ (embedded PVD), a clean alternative process for the metallization of plastic parts, is proceeding as planned. Testing by major car manufacturers progressed and qualification processes advanced. In contrast to traditional procedures, the low-emissions, eco-friendly ePD™ technology does not use any environmentally damaging materials such as hexavalent chromium and therefore provides a clean alternative for electro plating. ePD™ offers innovative functional features such as radar-transparent metallization for distance sensor systems, lightweight construction and a greater variety of design possibilities.

Key topics

Innovation

Oerlikon Balzers achieved a major innovation milestone, maintaining the Segment's technological leadership with the launch of BALIQ™, a revolutionary coating family. This new coating generation is based on the groundbreaking S3p™ process technology (S3p™ stands for Scalable Pulsed Power Plasma). With an extraordinary smooth surface as well as extreme hardness, thinness, wear resistance and adhesive strength, BALIQ™ is setting another industry standard. The new coating generation enables customers to significantly boost productivity, process reliability and lower costs. The lifetime of tools for microdrilling, for example, can be extended by a factor of more than 30.

Value chain expansion

Oerlikon Balzers expanded its integrated service offering by launching tool regrinding services "rox". Following the acquisition of the "rox" concept at the beginning of 2013, and after

comprehensive training of the teams in the Regrinding Academy, the rollout to the coating centers started in facilities in Mexico, China, South Korea and Thailand. The introduction of a service for tool reconditioning meets customer needs, predominantly in Asia. Customers benefit from both higher productivity and the synergy of having regrinding and recoating services in a one-stop-shop solution. After being reconditioned, the tools perform like brand-new tools, but at lower costs.

Acquisition of Sulzer Metco

As a subsequent event, on January 31, 2014, Oerlikon announced the acquisition of Sulzer Metco to complement the Coating Segment. Oerlikon Balzers and Sulzer Metco are complementary in terms of technologies, markets, regions and business models and together will form the global technology leader of Surface Solutions. The transaction is expected to be closed in the course of the third quarter of 2014.

Outlook

In 2014, the Coating Segment expects ongoing high demand while maintaining its high level of profitability.