Overview

The company's business performance and results for the financial year 2019/20 reflect a year of two very different halves. Whereas the first half-year was largely in line with expectations, the outbreak and spread of Covid-19 led to an unprecedented slump in business activity both on the supply and demand side from February 2020 until the end of the financial year. The pandemic and related restrictions – particularly the government-mandated blanket lockdowns – had a substantial negative effect on supply and business, leading to a significant reduction in sales. Owing to its global presence in procurement, production, and sales, dormakaba was affected by these measures right from the start of the pandemic. As a result, the company recorded negative organic sales growth of 14.3% for the second half of the financial year 2019/20, consequently, organic sales for the financial year 2019/20 as a whole were with –6.9% below previous year. Beyond that, the strengthening of the Swiss franc over the course of the financial year had an additional negative currency translation effect on net sales.

To cope with the emerging Covid-19 pandemic, dormakaba was early to implement a comprehensive crisis management. The aim has been to ensure the health and safety of all employees and at the same time to minimize the impact on business operations and supply chains, and thus on customers. In parallel, dormakaba has adjusted its financial management in order to retain its entrepreneurial flexibility and financial stability at all times during the pandemic. dormakaba introduced measures aimed at improving cash flow, following the "cash is king" principle. To further address the ongoing Covid-19 pandemic-related substantial volume contraction and to maintain operational and financial efficiency, dormakaba has initiated a Group-wide cost savings and restructuring program in the fourth quarter of financial year 2019/20. Measures include a sizeable headcount reduction, mainly in manufacturing in Asia and the Americas, due to lower demand. Overall, up to 1,300 full-time equivalents are affected, of which around 900 were already reduced by the end of June 2020. Costs of the program are expected to amount to CHF 26 million, of which CHF 12 million have already been expensed in financial year 2019/20.

–6.9%
organic sales growth

12.8%
EBITDA margin

CHF 10.50
dividend per share

Sales
Following organic sales growth in the first half of financial year 2019/20 of 0.8%, the business in the second half was impacted by the Covid-19 pandemic which resulted in a slump in organic sales growth of –6.9% for the full financial year 2019/20. Consolidated net sales for the financial year 2019/20 were also impacted by a negative effect from currency translation of 3.7% (CHF 104.3 million), due to the strengthening of the Swiss franc in the reporting period versus previous financial year. Portfolio adjustments increased sales growth by 0.7% (CHF 19.0 million) as acquisitions made in the reporting period were slightly larger than divestments. Overall, consolidated net sales amounted to CHF 2,539.8 million (previous year CHF 2,818.3 million), a decline by 9.9% (CHF 278.5 million).

Profitability
The decline in sales and lower volumes due to the Covid-19 pandemic impacted profitability in the period under review as reflected in both a lower gross margin and a lower EBITDA margin. The gross margin for the reporting period was at 41.1% (previous year 42.1%). EBITDA decreased by 27.5% to CHF 325.0 million compared to CHF 448.0 million in the previous year. EBITDA was also negatively impacted by currency translation effects by an amount of CHF 16.0 million which was partly compensated by a positive effect from portfolio adjustments of CHF 9.3 million on EBITDA.

The EBITDA margin declined to 12.8%, compared to 15.9% in the previous year and compared to a 15.5% EBITDA margin in the first half of the financial year 2019/20. In addition to the lower volumes, extraordinary non-recurring costs for restructuring and some other projects impacted the reporting period. These effects overcompensated improvements in operational efficiencies, final merger-related cost synergies, positive acquisition and divestment effects, and lower raw material costs.
EBIT decreased by CHF 121.8 million to CHF 253.2 million (previous year CHF 375.0 million), and the EBIT margin was at 10.0% compared to 13.3% in the previous year.

While all segments added to the decline in operating results, their performance varied. Segment performance in the second half of financial year 2019/20 was overshadowed by the severity of the Covid-19 pandemic in individual countries. The sales decline was most pronounced in the Key & Wall Solutions segment. AS APAC was hit first by Covid-19, already in February 2020, and countries within this segment like India experienced a 90% sales decline between April and June 2020 versus previous year period. There was a strong negative impact on AS AMER as well. AS DACH was least impacted by Covid-19 and regional lockdowns, with Switzerland and Germany even experiencing organic sales growth for the full year 2019/20, while the impact on AS EMEA was somewhere in-between.

Financial result, profit before taxes, and income taxes
The net financial result for the reporting period was slightly better at CHF –42.0 million (previous year CHF –42.3 million) as interest expenses declined due to ongoing amortization, lower interest rates and reduced USD/EUR and USD/CHF interest rate spreads. These effects overcompensated higher debt due to acquisitions and due to a base effect, as previous year's result from associates was slightly inflated by a positive contribution from the divestment of the ISEO minority participation (closed on 15 October 2018).

Profit before taxes decreased to CHF 211.2 million (previous year CHF 332.7 million). Income taxes for the reporting period amounted to CHF 47.1 million (previous year CHF 80.2 million). The weighted applicable income tax rate of 23.4% is lower than in the previous year (24.2%) mainly as a result of countries with lower-than-average tax rates contributing more to the tax profit of the Group. The effective income tax rate amounts to 22.3% (previous year 24.1%) due to a positive one-off effect in the USA.

Net profit
dormakaba closed the 2019/20 financial year with a net profit of CHF 164.1 million (previous year CHF 252.5 million), a decline of 35.0%. This is mainly attributable to the reduced operating performance due to Covid-19 which more than overcompensated the positive effects of a lower income tax rate and a slightly improved financial result.

Net profit after minority interests declined to CHF 84.6 million (previous year CHF 131.8 million). The corresponding basic earnings per share amounted to CHF 20.4 (previous year CHF 31.6).

Based on an unchanged dividend policy to envisage a payout ratio of minimum 50% of consolidated net profit after minority interests, the Board of Directors proposes that CHF 10.50 per share be paid out for the financial year 2019/20, down from the CHF 16.00 per share paid for the previous year. This corresponds with a payout ratio of 52.1%. The reduction in dividend is thus in line with the reduction in net profit.

Cash flow and balance sheet

Cash flow from operations amounted to CHF 407.9 million (previous year CHF 372.8 million) as net working capital was substantially reduced by 121.3 million. This is a successful result of the "cash is king" principle, that was swiftly implemented after the start of the Covid-19 pandemic.

Free cash flow of CHF 95.7 million was below previous year (CHF 212.9 million) due to acquisitions; in addition, previous year's free cash flow benefited from the sale of the minority participation in ISEO.

Cash flow from investing activities of CHF –232.4 million includes mainly capital expenditures of CHF 94.9 million (previous year CHF 111.4 million) on property, plant, and equipment, as well as intangible assets, which in total represents 3.7% of sales (previous year 4.0%).

Moreover, it includes acquisitions of CHF 147.2 million, whereas last year's result benefited from the proceeds from the sale of investments in associates and joint ventures in the amount of CHF 40.9 million. Cash flow from financing activities came to CHF –65.8 million, which includes dividend payments to company shareholders of CHF 66.5 million, as well as to minority shareholders of CHF 59.0 million (in total CHF 125.5 million; previous year CHF 117.1 million). There was no purchase of treasury shares in the financial year 2019/20 (previous year CHF 38.7 million).

The asset structure did not change significantly and largely reflects our portfolio management transactions as well as improvements in net working capital. As of 30 June 2020, total assets are at CHF 1,808.6 million. Within current assets, cash and cash equivalents amount to CHF 156.8 million, while inventories stand at CHF 445.0 million (24.6% of total assets; previous year 23.8%); due to measures which have been initiated because of the Covid-19 pandemic, trade receivables declined to CHF 388.1 million (21.4% of total assets; previous year 26.2%). Non-current assets consist mainly of property, plant, and equipment worth CHF 441.8 million (24.5% of total assets; previous year 24.4%).

Total liabilities are at CHF 1,667.3 million (92.2% of total assets; previous year 86.5%), of which CHF 680.4 million reflect the two corporate bonds due in October 2021 and October 2025.

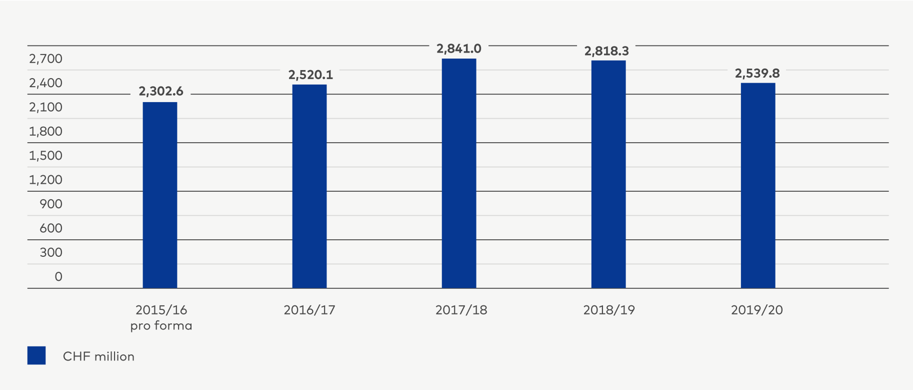
Net financial debt increased by CHF 16.3 million to CHF 667.7 million as of 30 June 2020 (previous year CHF 651.4 million). Financial leverage, which is net debt relative to EBITDA is at 2.1 times and basically stable compared to 31 December 2019, but at a higher level than at 30 June 2019, which was 1.5 times. The change is mainly due to the lower EBITDA contribution and acquisitions in the reporting period.

The company's equity stands at CHF 141.3 million as of 30 June 2020, which represents an equity ratio of 7.8% (previous year CHF 258.5 million or 13.5%). The change in equity is mainly due to acquisition-related goodwill, which has been entirely offset against equity.

Currency translation effects

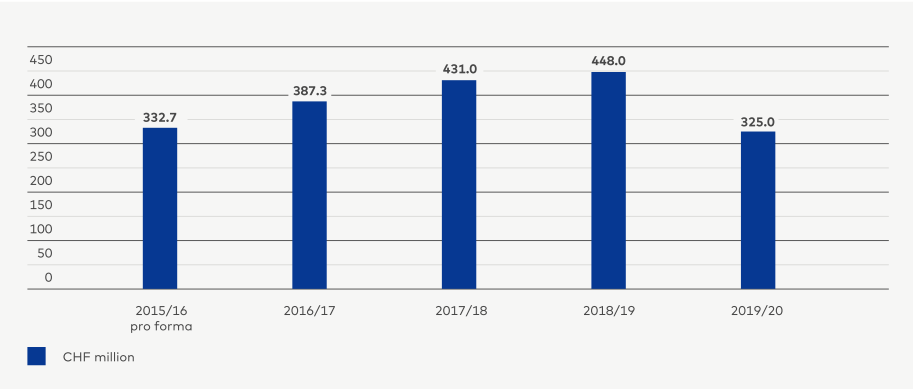
The average euro exchange rate against the Swiss franc fell by 4.8% year-on-year from CHF 1.135 to CHF 1.080. The average exchange rate of the US dollar decreased by 1.8% from CHF 0.995 to CHF 0.977. Most other major currencies also depreciated against the Swiss franc, such as the Australian dollar by 7.9%, the British pound by 4.4%, and the Chinese renminbi by 4.7%. Therefore, the currency translation had an overall negative impact of CHF 104.3 million on net sales and of CHF 16.0 million on EBITDA.

Sales



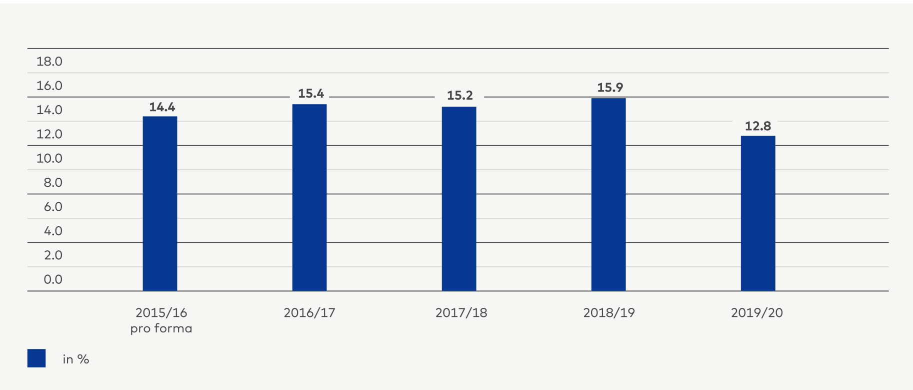
pro forma = former Dorma Group and former Kaba Group both 12 months

EBITDA



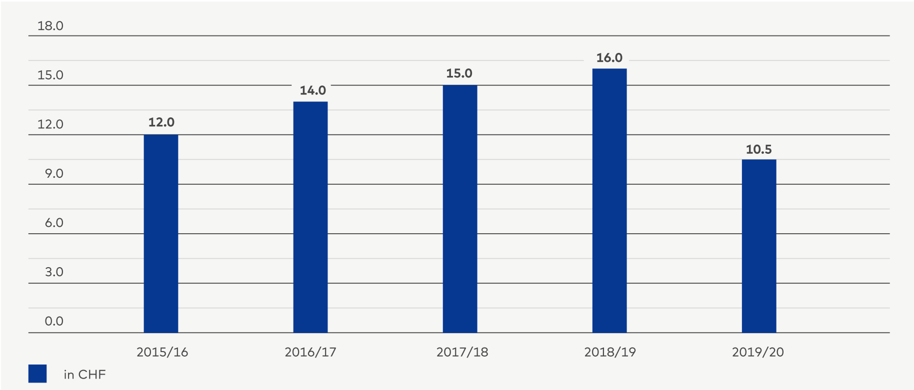
pro forma = former Dorma Group and former Kaba Group both 12 months

EBITDA margin



pro forma = former Dorma Group and former Kaba Group both 12 months

Dividend per share

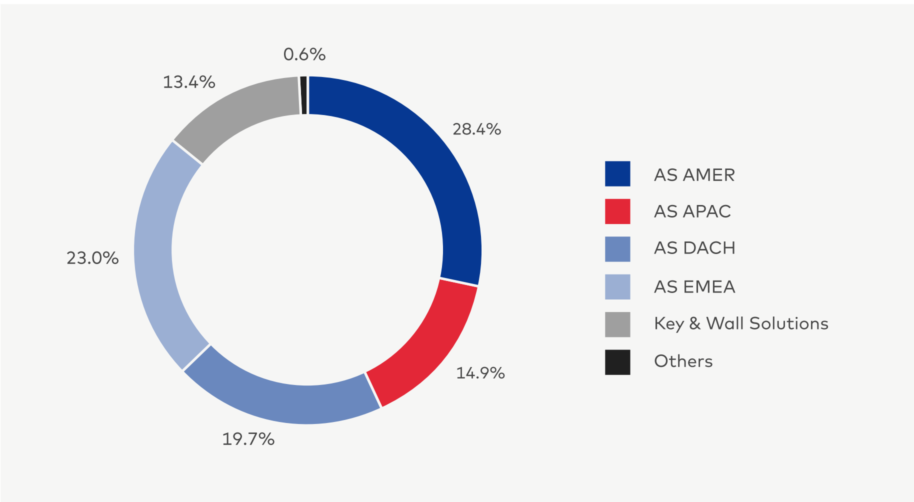


Key figures

CHF million, except where indicated	Financial year ended 30.06.2020	%	Financial year ended 30.06.2019	%
Net sales	2,539.8		2,818.3	
Change in sales	–278.5	–9.9	–22.7	–0.8
Of which translation exchange difference	–104.3	–3.7	–29.6	–1.1
Of which acquisition (disposal) impact	19.0	0.7	–29.0	–1.0
Of which organic sales growth	**–193.2**	**–6.9**	**35.9**	**1.3**
Operating profit before depreciation and amortization (EBITDA)	**325.0**	**12.8**	**448.0**	**15.9**
Operating profit (EBIT)	**253.2**	**10.0**	**375.0**	**13.3**
Profit before taxes	211.2	8.4	332.7	11.8
Net profit	164.1	6.5	252.5	9.0
Dividend per share (in CHF) [1]	10.5		16.0	
Other key figures				
Total assets	1,808.6		1,909.0	
Net debt	667.7		651.4	
Market capitalization	2,147.2		2,932.8	
Average number of full-time equivalent employees	15,676		15,811	

1) Financial year ended 30.06.2020: proposal to the Annual General Meeting; distribution of an equal share from the reserves from capital contributions and from statutory retained earnings.

Third-party sales by segments



EBITDA contribution by segments (in % of total main segment EBITDA)