Segment Access Solutions AMER

Organic sales growth, slightly lower profitability

Operational performance

AS AMER achieved total sales of CHF 416.3 million in the first half of financial year 2019/20. Organic sales increased 1.4% compared to the previous year. Segment EBITDA reached CHF 87.2 million (previous year CHF 84.7 million), the EBITDA margin was at 20.9% (previous year 21.1%).

The systems and infrastructure challenges at its hollow metal door business (Mesker) continued to affect both the top line and profitability in the first half of the financial year 2019/20. While the technical issues have since been resolved, we continue to have pressure from this business as it takes time to regain customer trust, which should be achieved by end of the financial year 2019/20.

The EBITDA margin was slightly below previous year as price realization, procurement savings, a positive mix effect and cost efficiencies could not offset for higher freight costs, newly imposed tariffs and increased IT costs for the preparation and roll-out of global applications.

The segment's overall financial profile benefited from the acquisition of Alvarado Manufacturing based in Chino (CA/USA). The acquisition was closed on 31 July 2019 and has been accretive to EBITDA margin and earnings per share from day one.

Market development

Growth in AS AMER was driven by Door Hardware, Safe Locks, Interior Glass Systems and the Lodging Systems business in North America. Unlike in the second half of 2018/19, Latin America contributed to growth as well, driven by an improvement in Mexico.

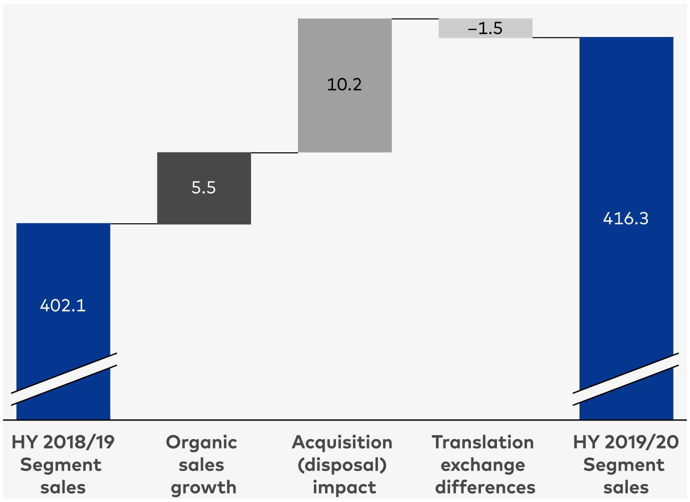
Going forwards, the segment is expected to benefit from the successful introduction of new and innovative products. The most recent example is Switch Tech, a highly durable, digitally enabled replacement for small-format interchangeable cores (cylinders), which allows electronic and mobile access through a cost-effective retrofit of already installed door locks.

The segment expects further organic growth in the second half of 2019/20 as Door Hardware, Safe Locks and Interior Glass Systems continue to benefit from their first-half-year momentum, as hollow metal doors builds back customer trust and as Lodging Systems sees increased new construction and retrofit demand. The business will benefit from the finalization of its production adjustments which will lead to higher efficiency: the segment has closed eight production sites and will continue to optimize its production footprint. This manufacturing footprint transformation has been realized by consolidating various smaller locations into major production hubs, such as Montreal (Canada) for Hospitality and Electronic Solutions, Nogales (Mexico) for high-volume assembly products, Reamstown (USA) for Entrance Systems as well as Interior Glass Systems, and Indianapolis (USA) for Door Hardware. In November 2019, the segment has inaugurated a new production building in Indianapolis that has added 18,000 square meters of floor space. The production of the Steelville plant and the US Services business will move to this new building in the second half of 2019/20.

Key figures – segment AS AMER

CHF million, except where indicated	Reporting half-year ended 31.12.2019	%	Reporting half-year ended 31.12.2018	%	Change on previous year in %
Net sales third parties	399.7		388.1		3.0
Intercompany sales	16.6		14.0		
Total segment sales	**416.3**		**402.1**		**3.5**
Change in segment sales	14.2	3.5	–8.4	–2.0	
Of which translation exchange differences	–1.5	–0.4	2.4	0.6	
Of which acquisition (disposal) impact	10.2	2.5	–3.3	–0.8	
Of which organic sales growth	**5.5**	**1.4**	**–7.5**	**–1.8**	
Operating profit before depreciation and amortization (EBITDA)	**87.2**	**20.9**	**84.7**	**21.1**	**3.0**
Average number of full-time equivalent employees	2,793		2,915		

Segment sales (in CHF million) – AS AMER



Segment Access Solutions APAC

Stagnating organic sales, profitability slightly lower

Operational performance

AS APAC achieved total sales of CHF 230.5 million in the first half of financial year 2019/20. Organic sales were 0.3% below previous year's level. Segment EBITDA reached CHF 35.1 million, which is slightly lower than a year earlier (CHF 36.8 million). The EBITDA margin continued to be on a high level at 15.2% (previous year 15.6%) due to effective cost management, and as efficiency improvements and a favorable product mix have almost offset the effects of lower volume.

Market development

As in the second half of 2018/19, sales were impacted by the ongoing trade conflict between China and the US, which affects the OEM business for the US market. The business has already initiated countermeasures, such as starting to shift capacity to Chinese domestic customers and insourcing production to compensate top-line shortfall. In addition, the segment has introduced a cost reduction plan focusing on initiatives to reduce material and labor costs for its Wah Yuet business.

The segment continued to experience strong demand in the China region, with double-digit organic growth rates despite a significant slowdown in Hong Kong due to political tensions. There was good growth in the commercial sector in China, driven both by the expansion of high-end solutions and offerings as well as the continued success of cost-effective mid-market products. In addition, the residential business improved and experienced good growth as the digital door locks business gained market share.

Growth in India was impacted by delays in project business. However, the segment anticipates that growth will strengthen during the second half of 2019/20, when these projects are expected to be executed.

Sales in the Pacific region were above prior-year level due to a strong Services business, despite a slowdown in the economic environment. As in the second half of 2018/19, growth in South East Asia was negatively impacted by a weaker construction market in several countries and therefore sales were below previous year. However, the segment believes in the medium- and long-term growth potential and continues to invest in this region.

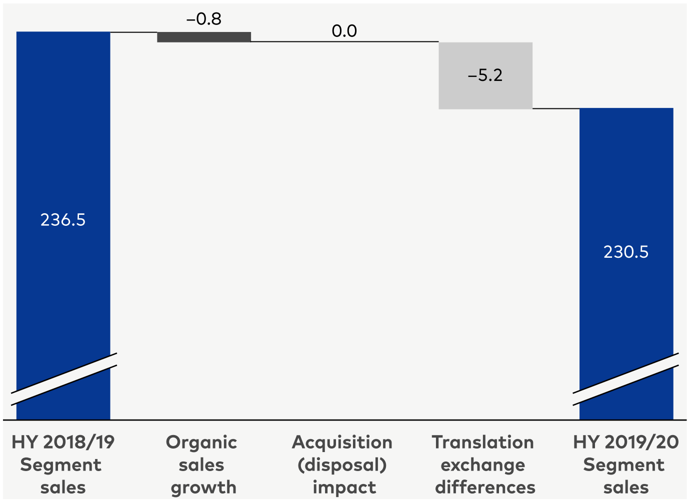
AS APAC recorded double-digit growth rates for Safe Locks, Electronic Access & Data, Services and particularly for Entrance Systems.

In principle, the business expected a better growth dynamic for the second half of 2019/20 due to the relatively low comparable base from previous year, project execution in India and internal measures to counteract the effects from the trade conflict at Wah Yuet. However, these good business opportunities are overshadowed by the impact of Covid-19. While we already see a negative impact for our China domestic business, we currently lack visibility on the extent of impact on our supply chain, and on our partners and customers. Mitigation of the situation has our full management attention.

Key figures – segment AS APAC

CHF million, except where indicated	Reporting half-year ended 31.12.2019	%	Reporting half-year ended 31.12.2018	%	Change on previous year in %
Net sales third parties	217.2		222.6		–2.4
Intercompany sales	13.3		13.9		
Total segment sales	**230.5**		**236.5**		**–2.5**
Change in segment sales	–6.0	–2.5	–1.6	–0.7	
Of which translation exchange differences	–5.2	–2.2	–7.3	–3.1	
Of which acquisition (disposal) impact	0.0	0.0	–7.3	–3.1	
Of which organic sales growth	**–0.8**	**–0.3**	**13.0**	**5.5**	
Operating profit before depreciation and amortization (EBITDA)	**35.1**	**15.2**	**36.8**	**15.6**	**–4.6**
Average number of full-time equivalent employees	3,329		3,328		

Segment sales (in CHF million) – AS APAC



Segment Access Solutions DACH

Moderate organic sales growth, lower profitability

Operational performance

AS DACH generated total sales of CHF 415.6 million in the first half of financial year 2019/20, representing year-on-year organic sales growth of 0.7%. EBITDA stood at CHF 70.3 million, down compared to the previous year (CHF 78.5 million). The EBITDA margin of 16.9% was below previous year's level of 18.3% as the effects of higher sales prices, post-merger integration synergies and cost efficiencies could not offset the negative effects of labor cost inflation and lower volumes, which impacted the profitability of some of the German and Asian production plants. The segment's main plants were negatively impacted by a reduction of inventories, as stock that has been built up last financial year to secure the relocation of the production of certain standard door closers from Germany to Asia has been reduced to normal level.

Market development

There was good growth compared to the prior-year period in Austria and particularly in Switzerland. Despite a stable underlying demand and a good order book, sales growth in Germany was slightly negative, mainly due to delays in the project business. However, volumes in Germany already improved at the end of the first half of 2019/20, and the business expects to return to organic growth for the financial year 2019/20 as a whole.

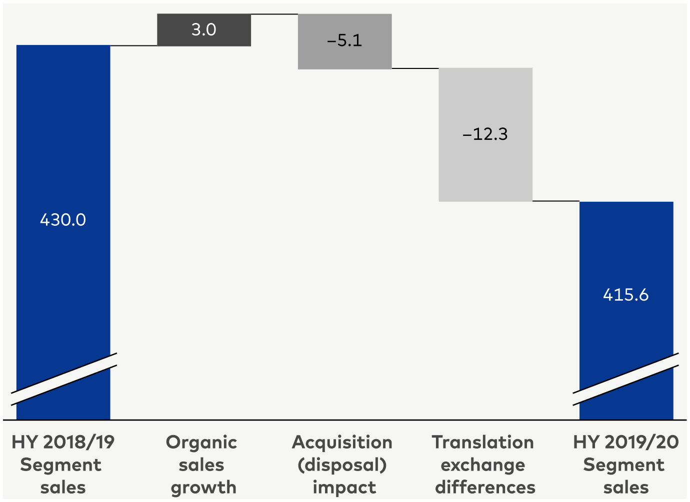
AS DACH expects that organic growth will accelerate in the second half of 2019/20, driven by the project business in Germany. The business has started to address the profitability issue with a new program that targets particularly its site in Ennepetal. Measures to further improve profitability have been initiated. These measures include the strengthening of management, improvement of the entire supply chain including further automatization and flexibilization of production. This includes the flexibility to convert staff from indirect to direct labor and to introduce flexible teams of production experts. Beside the measures currently still being implemented as part of the post-merger integration by the end of June 2020, a further reduction of around 100 jobs has been agreed with the work council to be implemented in 2020/21. The progression of the EBITDA margin in the second half of 2019/20 is expected to be supported by the realization of the remaining cost synergy potential of the post-merger integration in Germany, which will help to improve the overall cost base.

The segment continues to invest in the development of innovative solutions, such as the combination of its latest design-oriented sensor barriers (Argus) with biometric control capabilities, which enables access to attractive markets such as airports. In addition, the segment will further expand its digital solutions like connected products and digital platforms and ecosystems, which were showcased in February 2020 at the digitalBAU trade fair in Cologne (Germany).

Key figures – segment AS DACH

CHF million, except where indicated	Reporting half-year ended 31.12.2019	%	Reporting half-year ended 31.12.2018	%	Change on previous year in %
Net sales third parties	252.7		266.5		–5.2
Intercompany sales	162.9		163.5		
Total segment sales	**415.6**		**430.0**		**–3.3**
Change in segment sales	–14.4	–3.4	9.1	2.2	
Of which translation exchange differences	–12.3	–2.9	–1.8	–0.4	
Of which acquisition (disposal) impact	–5.1	–1.2	0.0	0.0	
Of which organic sales growth	**3.0**	**0.7**	**10.9**	**2.6**	
Operating profit before depreciation and amortization (EBITDA)	**70.3**	**16.9**	**78.5**	**18.3**	**–10.4**
Average number of full-time equivalent employees	3,464		3,475		

Segment sales (in CHF million) – AS DACH



Letter to shareholders
Business performance
Financial performance
Consolidated financial statements

Segment Access Solutions EMEA

Organic sales growth, higher profitability

Operational performance

AS EMEA generated total sales of CHF 374.5 million for the first half of financial year 2019/20 and organic sales growth of 1.4% compared to the previous year. EBITDA amounted to CHF 30.4 million, an increase of 1.3% over the last year's figure. The EBITDA margin was higher at 8.1% (previous year 7.9%). The increase in EBITDA was mainly driven by higher sales volumes and lower product development costs despite negative product mix impacts and lower fixed cost absorption in certain markets.

Market development

AS EMEA's sales growth was driven by high single-digit growth rates in Central and Eastern Europe, with particularly good growth for Poland, Bulgaria and Turkey, where the business gained several new projects and market demand was strong. The UK and Benelux as well as Southern Europe contributed to organic growth; sales in France were above previous year's level, despite the current political volatility.

Sales in the Middle East and Africa were below previous year as strong growth in Saudi Arabia could not compensate for a base effect in Qatar and challenging political and business conditions in both the Middle East and South Africa.

Overall sales in Scandinavia were below previous year's level particularly due to the weak performance in Norway where the company has lost market share. The business has been restructured, with centralization of certain functions such as finance, procurement and customer care. The sales organization and the leadership have been reorganized.

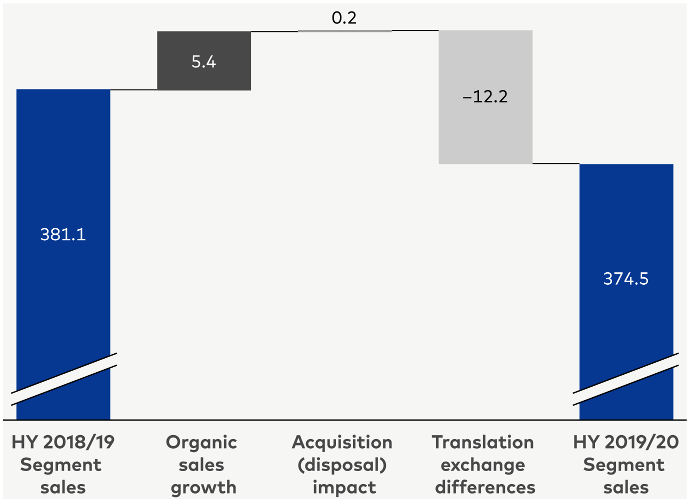
The Product Clusters Entrance Systems, Services and Mechanical Key Systems contributed the most to growth, with strong sales to retail chains in Russia and airports including Heathrow (UK) and Schiphol (NL). Lodging Systems benefited from deliveries to a major UK hotel chain, among others.

In the second half of 2019/20, the strategic focus will be on specifications and selected verticals such as healthcare, airports and hospitality to better meet customer needs, and on continued growth of the project and services businesses. In addition, the segment will continue to prioritize the recovery of its Scandinavian business. As of 1 January 2020, the segment AS EMEA is led by a new COO, Steve Bewick.

Key figures – segment AS EMEA

CHF million, except where indicated	Reporting half-year ended 31.12.2019	%	Reporting half-year ended 31.12.2018	%	Change on previous year in %
Net sales third parties	317.6		322.1		–1.4
Intercompany sales	56.9		59.0		
Total segment sales	**374.5**		**381.1**		**–1.7**
Change in segment sales	–6.6	–1.7	5.3	1.4	
Of which translation exchange differences	–12.2	–3.2	–7.9	–2.1	
Of which acquisition (disposal) impact	0.2	0.1	1.5	0.4	
Of which organic sales growth	**5.4**	**1.4**	**11.7**	**3.1**	
Operating profit before depreciation and amortization (EBITDA)	**30.4**	**8.1**	**30.0**	**7.9**	**1.3**
Average number of full-time equivalent employees	3,456		3,383		

Segment sales (in CHF million) – AS EMEA



Segment Key & Wall Solutions

Organic sales growth, higher profitability

Operational performance

Key & Wall Solutions generated total sales of CHF 198.9 million in the first half of financial year 2019/20, representing year-on-year organic sales growth of 2.8%. EBITDA stood at CHF 29.8 million, up 2.8% compared to the previous year; the EBITDA margin improved to 15.0% (previous year 14.7%) due to higher profitability in Movable Walls which was mainly driven by strong volume growth and overcompensated the lower performance of Key Systems.

Market development

The Key Systems Business Unit experienced lower sales in all regions. Sales were impacted by lower demand for key cutting machines and a weaker OEM automotive keys business globally, as well as fewer key replacements and a weaker automotive solutions business in the US. Due to lower volumes there was a negative impact on profitability, especially in the US. The business has started mitigation measures to protect its margins.

The Movable Walls Business Unit recorded strong double-digit sales growth, with the North American business being particularly strong, but all other regions contributed with strong growth as well. The Skyfold business, which was acquired in 2017, continued to perform very well including delivery of anticipated top-line synergies. There was also a continuous positive contribution from the measures to increase the automatization of the production site in Ocholt (GER). Key objective of the ongoing program is to sustainably further improve the cost base and efficiency of the European Movable Walls business.

The Key Systems Business Unit does not expect a significant change in the business environment for the second half of 2019/20. Weakness in the OEM automotive keys business will be offset to a certain extent by a major order for its Futura Auto key cutting machines. On top, the business will benefit from the launch of new products like SIX, a next-generation high-end electronic key cutting machine, and the launch of some new digital solutions, which are expected in the final quarter of the financial year 2019/20. SIX enables faster operations, higher automation and enhanced connectivity for locksmiths and digital products to reach current and future customers directly.

Based on a good order book, the Movable Walls Business Unit expects continued good growth. This will be driven by internal synergies and major new projects, including a new contract for the refurbishment of a major hotel in Las Vegas (USA).

Key figures – segment Key & Wall Solutions

CHF million, except where indicated	Reporting half-year ended 31.12.2019	%	Reporting half-year ended 31.12.2018	%	Change on previous year in %
Net sales third parties	191.5		190.1		0.7
Intercompany sales	7.4		7.2		
Total segment sales	**198.9**		**197.3**		**0.8**
Change in segment sales	1.6	0.8	11.6	6.2	
Of which translation exchange differences	–3.9	–2.0	–0.6	–0.4	
Of which acquisition (disposal) impact	0.0	0.0	5.1	2.8	
Of which organic sales growth	**5.5**	**2.8**	**7.1**	**3.8**	
Operating profit before depreciation and amortization (EBITDA)	**29.8**	**15.0**	**29.0**	**14.7**	**2.8**
Average number of full-time equivalent employees	2,255		2,288		

Segment sales (in CHF million) – Key & Wall Solutions