Overview

The macroeconomic and geopolitical environment continued to become more challenging during the first half of the financial year 2019/20. The results were in general comparable to those of the second half of 2018/19, as some negative macroeconomic effects such as the trade conflict between the US and China and the economic slowdown in markets such as South East Asia continued. The business continued to be impacted by internal issues in Norway and the hollow metal door business (Mesker) in the US. Even though the latter topics were already addressed in the past financial year, there was still an impact on both top and bottom line.

In addition to a demanding environment in some of our markets and a much weaker business environment in Hong Kong, the ongoing appreciation of the Swiss Franc also affected our half-year results.

Sales

In the first half of financial year 2019/20, dormakaba generated consolidated net sales of CHF 1,385.7 million (previous year CHF 1,396.5 million). Organic sales growth of 0.8% and the positive effect of acquisitions and divestments of 0.5% could not offset the strong negative currency translation impact of –2.1% due to the appreciation of the Swiss Franc against major currencies in the reporting period compared to the previous year.

CHF 1,385.7 million

consolidated net sales

Profitability

The profitability of dormakaba was below previous year's level which was reflected in both a slightly lower gross margin and a lower EBITDA margin.

15.5%

EBITDA margin

The gross margin for the reporting period was 42.5% (previous year 42.6%). EBITDA decreased by 4.0% to CHF 214.1 million (previous year CHF 223.0 million). The EBITDA margin decreased to 15.5% (previous year 16.0%). The lower EBITDA contribution is mainly attributable to the continuation of external and internal factors that were the main drivers of the weaker performance in the second half of last financial year. All internal topics are being addressed with high attention. In addition, extraordinary non-recurring costs impacted the reporting period. These effects overcompensated improvements in operational efficiencies, final merger-related cost synergies, a positive M&A effect, and slightly lower raw material costs.

The financial performance in the first half of the financial year 2019/20 varied from segment to segment. AS AMER increased its sales, while the EBITDA margin was slightly below previous year's level due to higher freight costs and increased customs tariffs. AS APAC recorded sales slightly below previous year's figures. The sustained strong demand in China could not fully compensate for the negative growth in South East Asia, the difficult business environment in Hong Kong and the negative impact of the trade conflict between China and the US. The AS DACH segment increased its organic sales, while profitability was affected by lower volumes, labor cost inflation and lower EBITDA contribution from its main production plants. The business has started to address the profitability issue with a new program that targets particularly its site in Ennepetal. AS EMEA made further progress in terms of higher organic sales and higher profitability. The Key & Wall Solutions segment improved both its sales and profitability, mainly due to strong growth in Movable Walls.

EBIT decreased by CHF 10.0 million to CHF 178.1 million (previous year CHF 188.1 million), consequently the EBIT margin declined to 12.9% (previous year 13.5%).

The net financial result for the reporting period was CHF –21.0 million (previous year CHF –18.0 million) and includes interest expenses for the acquisition of the US-based Alvarado Manufacturing, which is part of dormakaba since end of July 2019. Last year's financial result benefited from a book gain from the divestment of the ISEO minority participation.

Profit before taxes decreased to CHF 157.1 million in the period under review (previous year CHF 170.1 million). Income taxes for the reporting period amounted to CHF 37.7 million, resulting in an effective income tax rate of 24.0% compared to 25.5% in the previous year. The lower income tax expense is a result of countries with lower-than-average tax rates contributing more to the tax profit of the Group as a whole, as well as positive one-time impacts.

Net profit
dormakaba closed the first half of financial year 2019/20 with a lower net profit of CHF 119.4 million (previous year CHF 126.7 million). This is mainly attributable to the declined operating performance and net financial result. Net profit after minority interests was at CHF 61.3 million (previous year CHF 66.1 million).

Cash flow and balance sheet
Cash flow from operations amounted to CHF 192.1 million due to improvements in working capital management (previous year CHF 149.1 million). Cash flow from investing activities of CHF –191.8 million was driven by CHF –141.4 million for acquisitions as well as capital expenditures of CHF –50.2 million (previous year CHF –45.2 million) in property, plant and equipment and intangible assets, which represent 3.6% of sales (previous year 3.2%). The previous-year period included proceeds from the sale of investments in associates and joint ventures in the amount of CHF 41.1. Cash flow from financing activities of CHF 40.7 million includes the dividend payments to company shareholders as well as to minority shareholders in total of CHF 125.5 million.

As at 31 December 2019, total assets were at CHF 1,878.2 million. Within current assets, cash and cash equivalents amounted to CHF 100.2 million; inventories stood at CHF 466.0 million (24.8% of total assets; previous year 24.5%), and trade receivables at CHF 476.9 million (25.4% of total assets; previous year 24.0%). Non-current assets consisted mainly of property, plant, and equipment worth CHF 470.9 million (25.1% of total assets; previous year 23.3%). Total liabilities were at CHF 1,767.8 million (94.1% of total assets; previous year 92.7%), of which CHF 680.4 million reflects the two corporate bonds due in 2021 and 2025. Net financial debt increased by CHF 71.4 million to CHF 836.1 million (31 December 2018: CHF 764.7 million). The increase was related to the acquisitions completed during the reporting period as well as to dividend payments for the FY 2018/19, which was higher than operating cash flow of the reporting period.

dormakaba's equity amounted to CHF 110.4 million as at 31 December 2019, with an equity ratio of 5.9% (CHF 140.7 million or 7.3% as at 31 December 2018). The change in equity is mainly due to acquisition-related goodwill, which was entirely offset against equity and translation exchange differences.

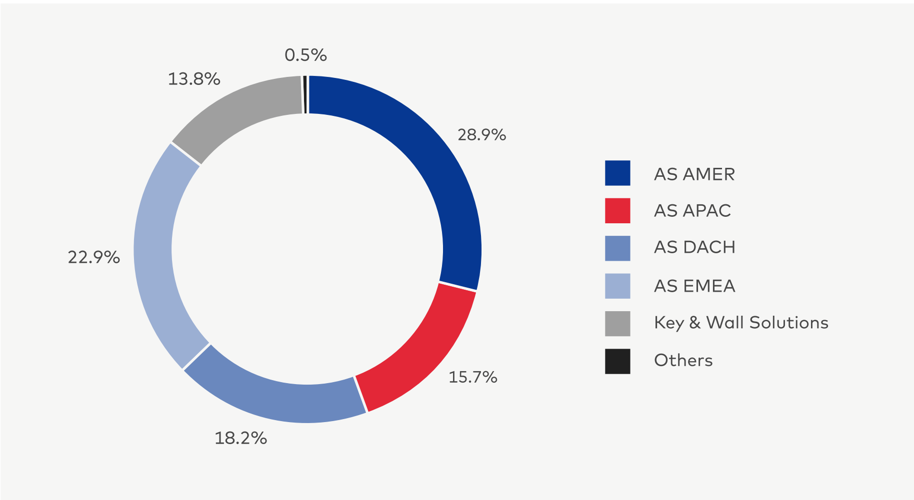
Currency effects
The average Euro exchange rate against the Swiss Franc fell by 3.9% year-on-year from CHF 1.1405 to CHF 1.0961. The average exchange rate of the US Dollar slightly decreased by 0.2% from CHF 0.9900 to CHF 0.9880. Most other major currencies also depreciated against the Swiss Franc, such as the Australian Dollar by 5.8%, the British Pound by 3.0% and the Chinese Renminbi by 2.6%. Therefore, the currency translation had an overall negative impact on net sales and operational profitability.

Key figures

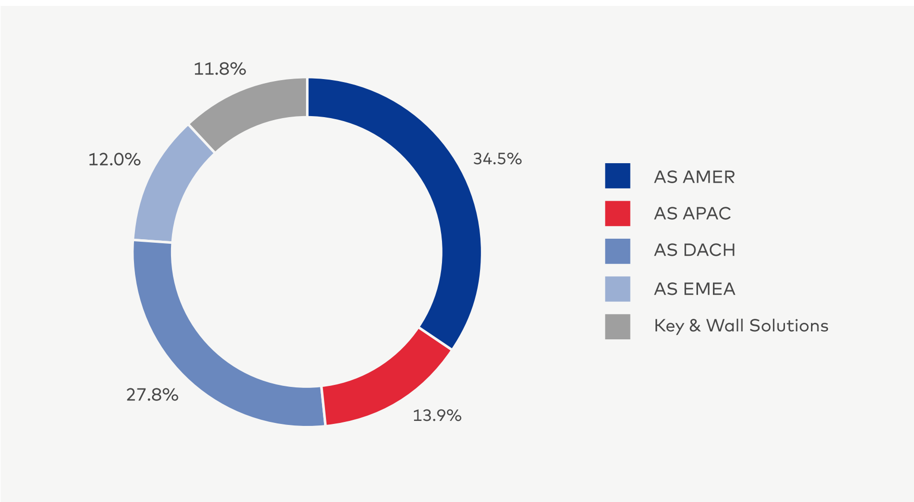
CHF million, except where indicated	Reporting half-year ended 31.12.2019	%	Reporting half-year ended 31.12.2018	%
Net sales	1,385.7		1,396.5	
Change in sales	–10.8	–0.8	–4.1	–0.3
Of which translation exchange difference	–28.4	–2.1	–14.3	–1.0
Of which acquisition (disposal) impact	7.1	0.5	–19.8	–1.4
Of which organic sales growth [1]	**10.5**	**0.8**	**30.0**	**2.1**
Operating profit before depreciation and amortization (EBITDA)	**214.1**	**15.5**	**223.0**	**16.0**
Operating profit (EBIT)	**178.1**	**12.9**	**188.1**	**13.5**
Profit before taxes	157.1	11.3	170.1	12.2
Net profit	119.4	8.6	126.7	9.1
Other key figures				
Total assets	1,878.2		1,921.8	
Net debt	836.1		764.7	
Market capitalization	2,877.7		2,457.9	
Average number of full-time equivalent employees	15,746		15,801	

1) Organic growth in sales refers to the growth compared to the same period of previous year adjusted for the impacts from currency translation as well as impacts from acquisition and disposal.

Third-party sales by segments



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



Net debt reconciliation

CHF million	Reporting half-year ended 31.12.2019	Reporting half-year ended 31.12.2018
Net debt	**836.1**	**764.7**
Current borrowings	250.0	209.3
Other non-current liabilities	5.9	8.8
Bonds	680.4	680.5
Cash and cash equivalents	–100.2	–133.9