

# Rieter Holding Investor Presentation

November 2013

1. Rieter's market: Short – staple
2. Rieter's position
3. Rieter's investment program 2012/2013
4. Half-year results 2013
5. Market development and outlook

# Rieter's market: Short staple spinning machines and components



Rieter's customers spin any fiber with a length from 25 to 45 mm to yarn

## Fibers

- Length: 25 – 45 mm
- Types: Man-made (synthetic and cellulosics) and natural (cotton)
- Consumption: 39.9 million tons (2011)
- Consumption growth: ~2.3% p.a.

## Spinning mills

- ~ 8,000 globally diversified customers
- Value drivers: High utilization, yarn property differentiation, constant quality and reliability of yarn, raw material sourcing

## Machines / components

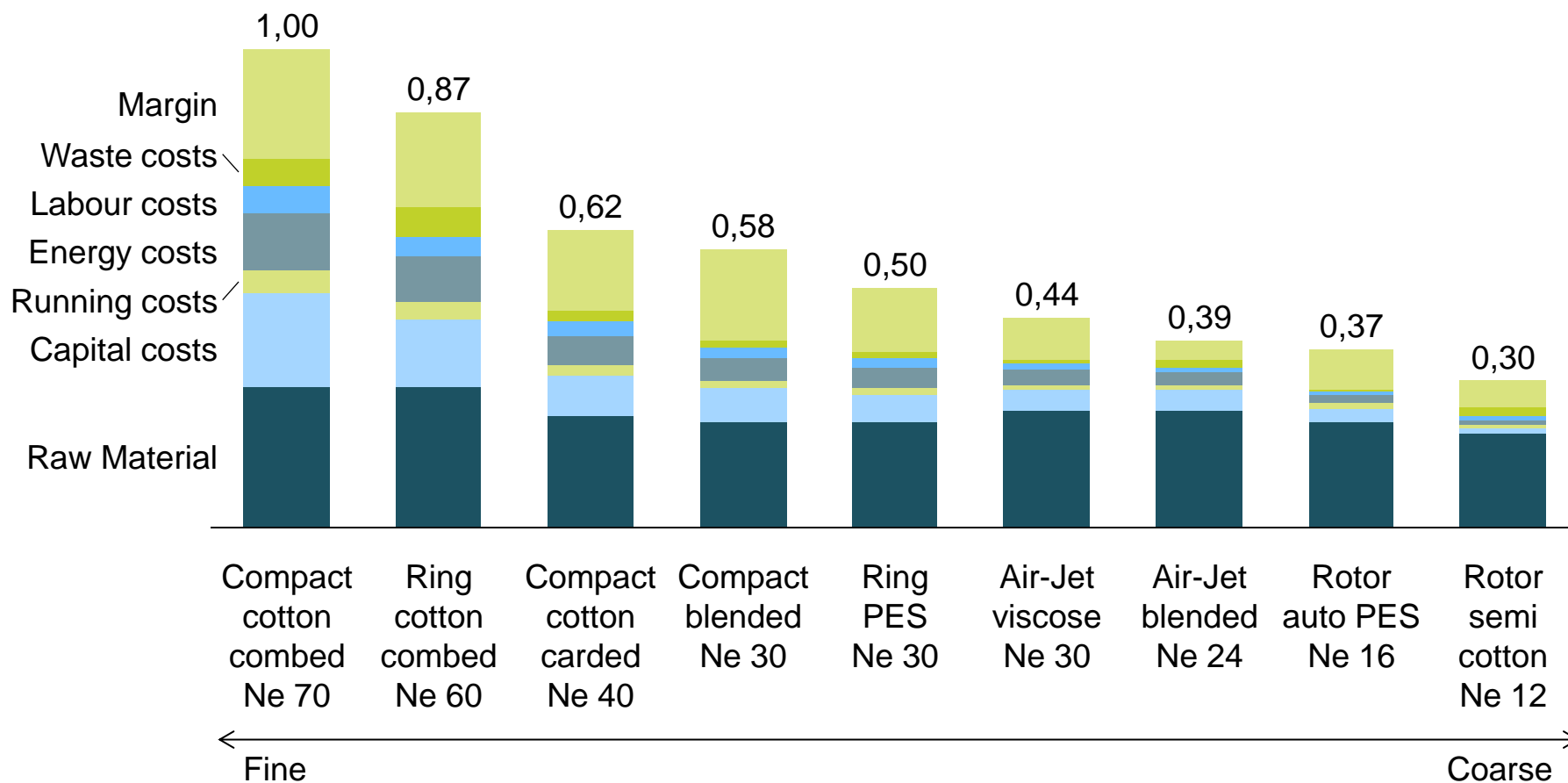
- Multi-machine systems with precision components
- High-tech but not disruptive technology
- Main competitors: 2 regional system suppliers, 3 sub-system suppliers and various machine and component suppliers

# Rieter's market: Fiber and yarn price




Different yarn products exist – Rieter machines spin all short staple yarns

Selection of short staple yarn prices, cost and margins in USD/kg (estimated 2013 indexed)




## Macro trends will have a positive impact on Rieter's position

### Future growth drivers




Growing **fiber demand** calls for additional capacity beyond productivity gains

- Population growth
- Rising disposable incomes in Asia
- Faster fashion cycles
- Demand growth (~2.3% p.a. till 2030) higher than productivity increase (~1% p.a.)



Trend to increasing **quality, fineness** and **automation**

- Labour cost increase
- Labour availability
- Raw material availability
- Quality awareness of end-customer
- Quality in down-stream (weaving and knitting)



**Replacement** of installed capacity

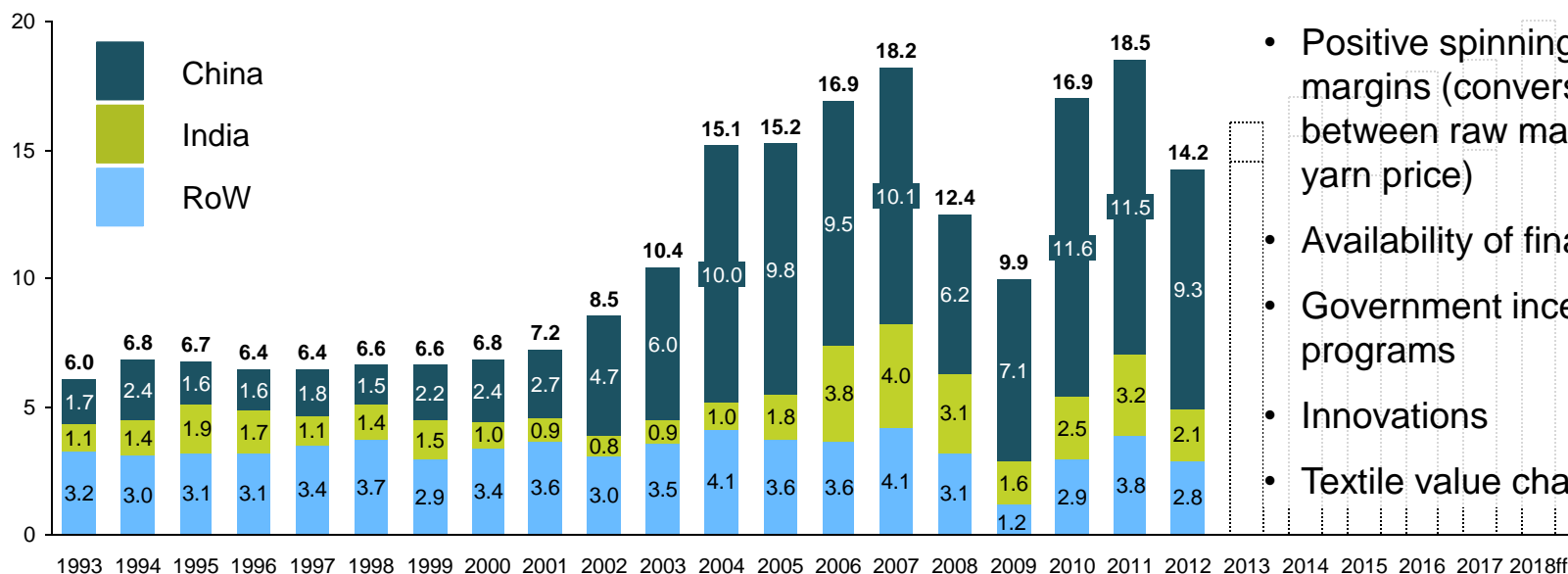
- Government programs (e.g. 12th Five Year Plan in China)
- End-of-lifetime
- Energy cost

# Rieter's market: Growth and investment cycle triggers



**In a cyclical market, India and China will continue to drive growth**

**Spindle equivalents (shipments) - in million**



## Investment cycle triggers:

- Positive spinning mill margins (conversion between raw material and yarn price)
- Availability of financing
- Government incentive programs
- Innovations
- Textile value chain shifts

### Future growth drivers

Growing fiber demand calls for additional capacity beyond productivity gains

Trend to increasing quality, fineness and automation

Replacement of installed capacity

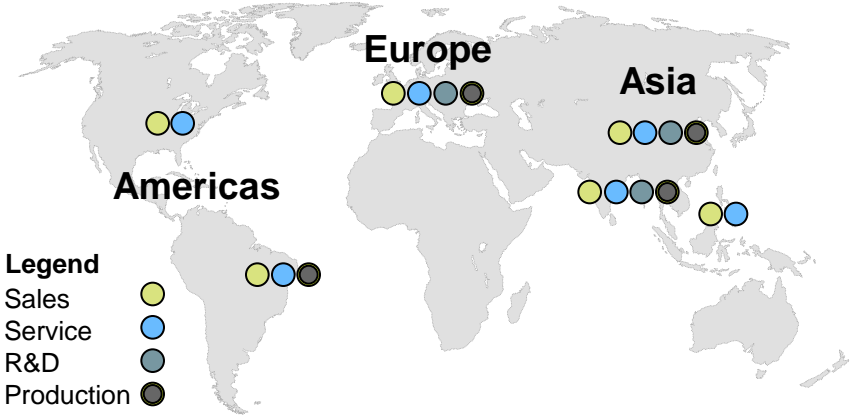
Source: ITMF 2012, Rieter

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# Rieter – Broadest global systems supplier



## Global supplier...



## ...of spinning machinery and components



## Full-liner for all fibre types...

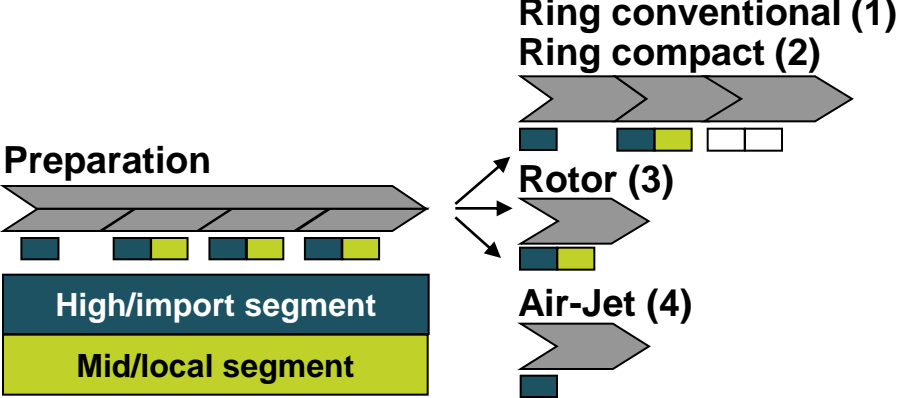
From raw material...



...to yarn



## ...covering preparation and all four spinning technologies

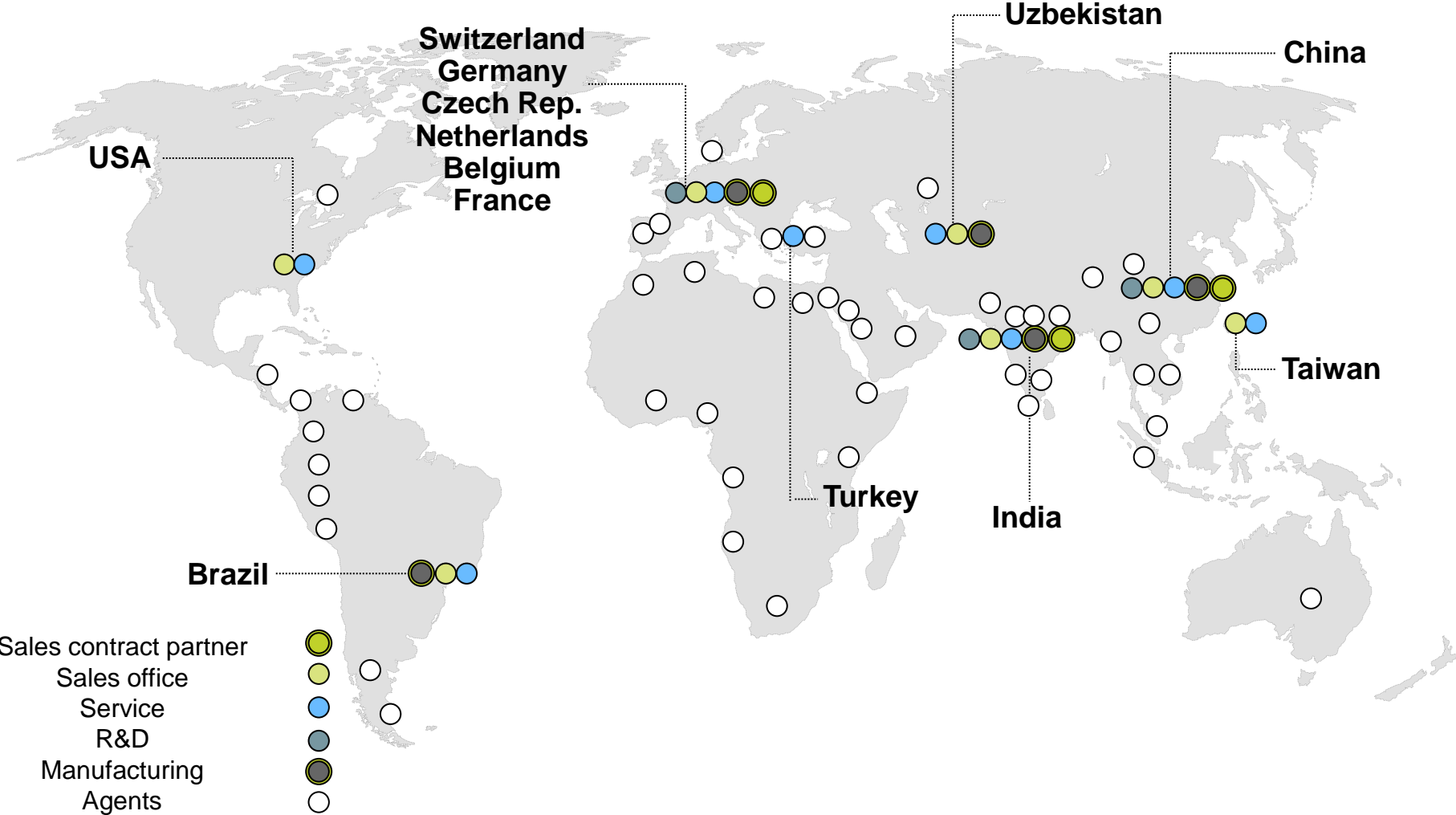




# Global supplier: Rieter's locations worldwide



Rieter is present in all relevant textile producing countries

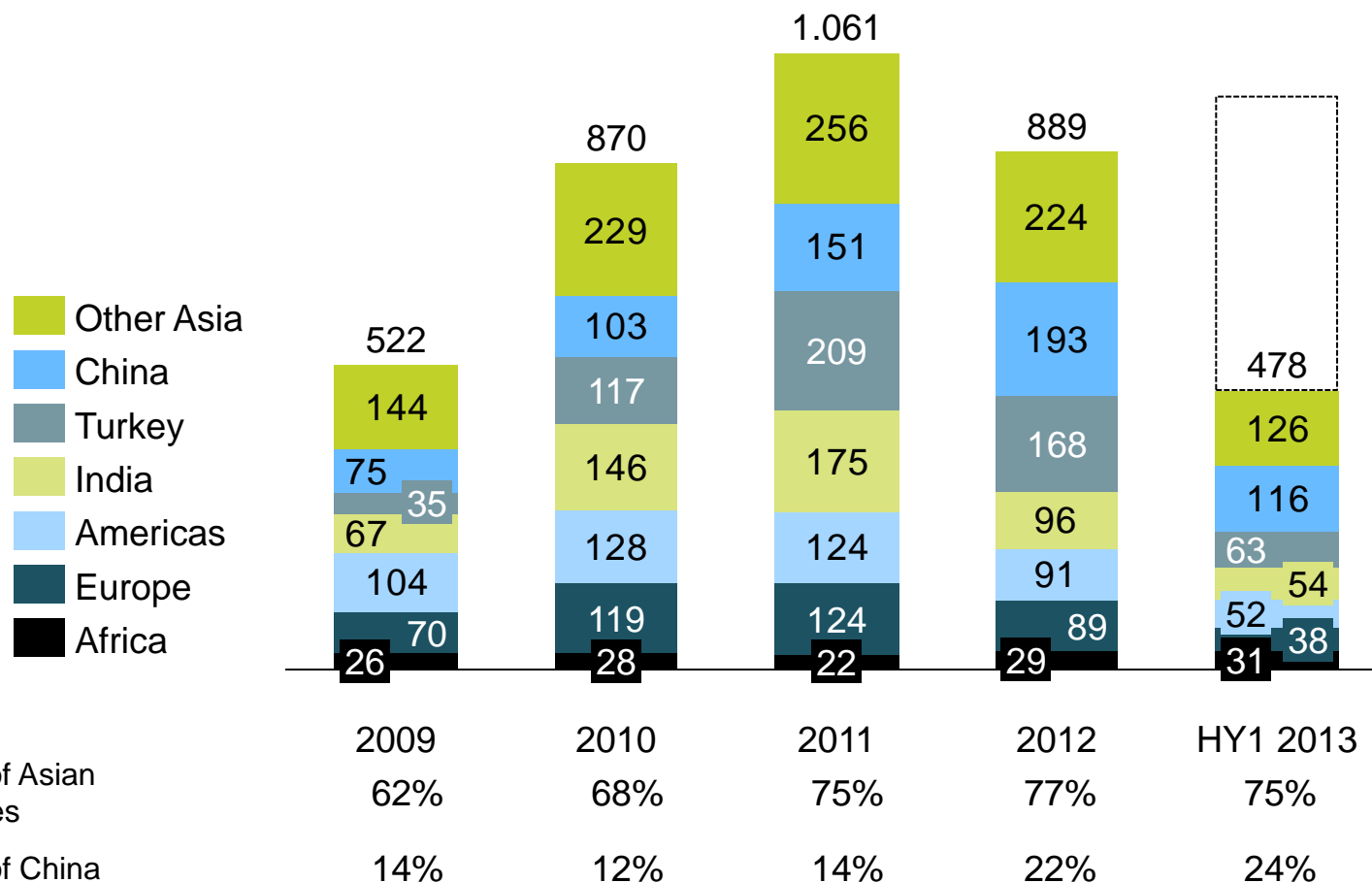


# Global supplier: Rieter sales by country



Share of sales to Asia and China is increasing

Distribution of sales (in million CHF)

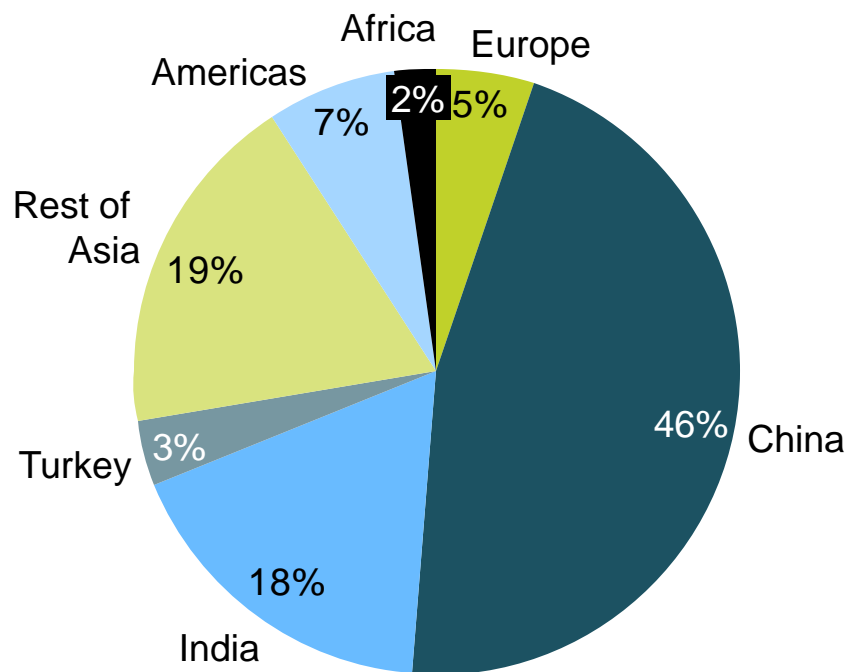


# Global supplier: Rieter's markets and sales



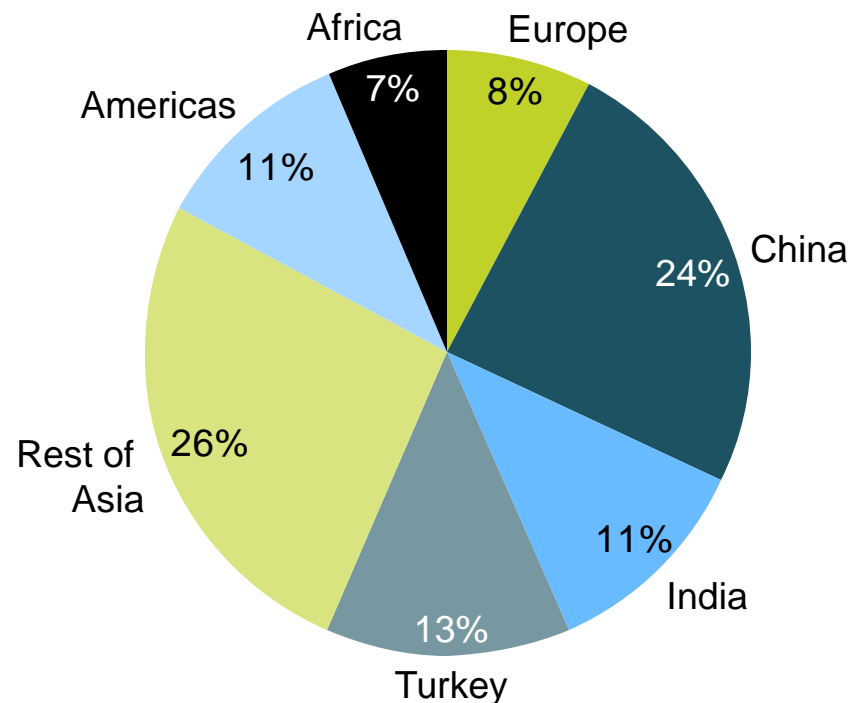
Installed capacities in China represents largest potential to increase sales

2011, world-wide installed capacity (spindle equivalents) in %



Source: ITMF statistics

HY1 2013, Rieter sales distribution in %

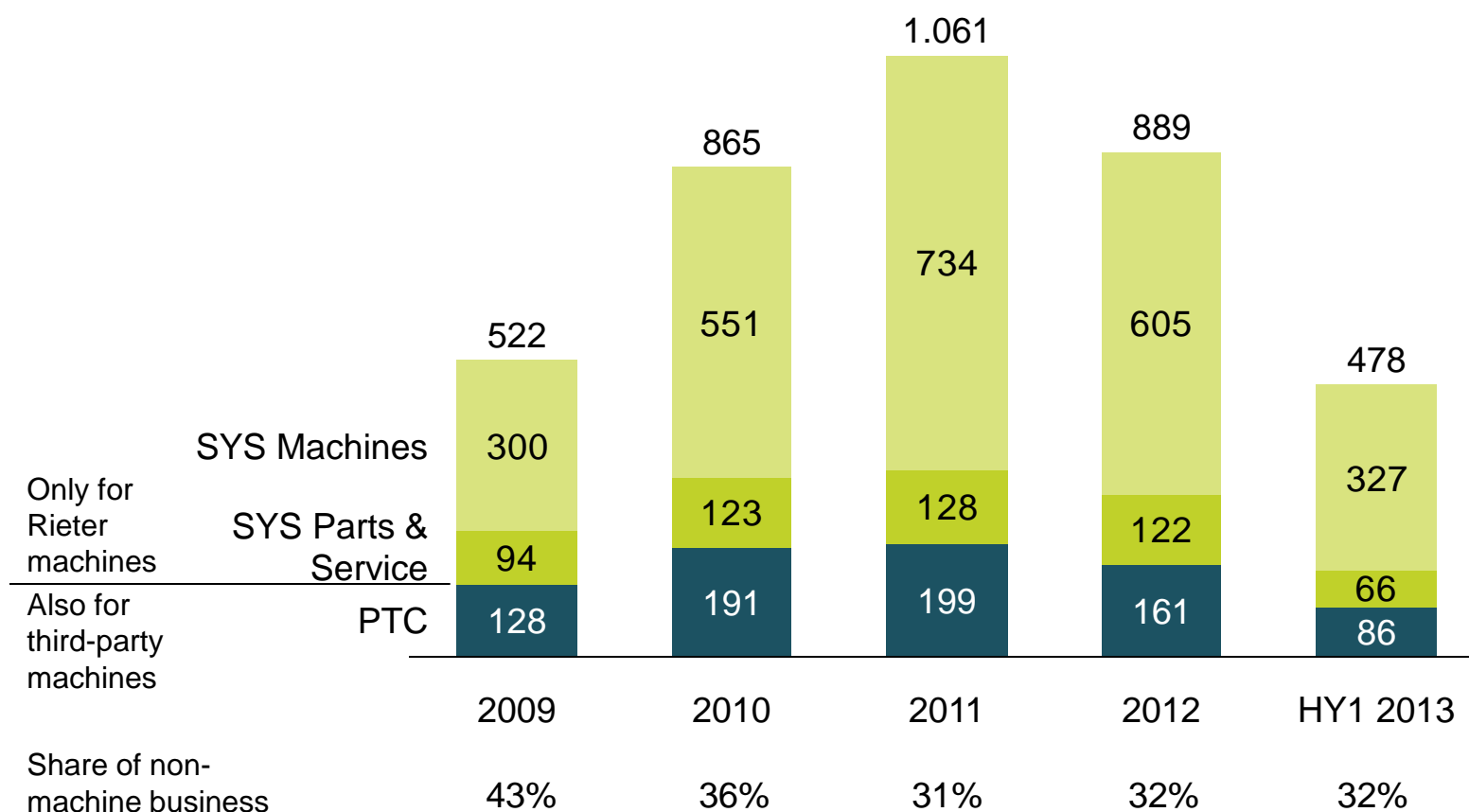


# Machinery and components: Sales by product type



**Around 30% of sales is less cyclical parts & service and PTC business**

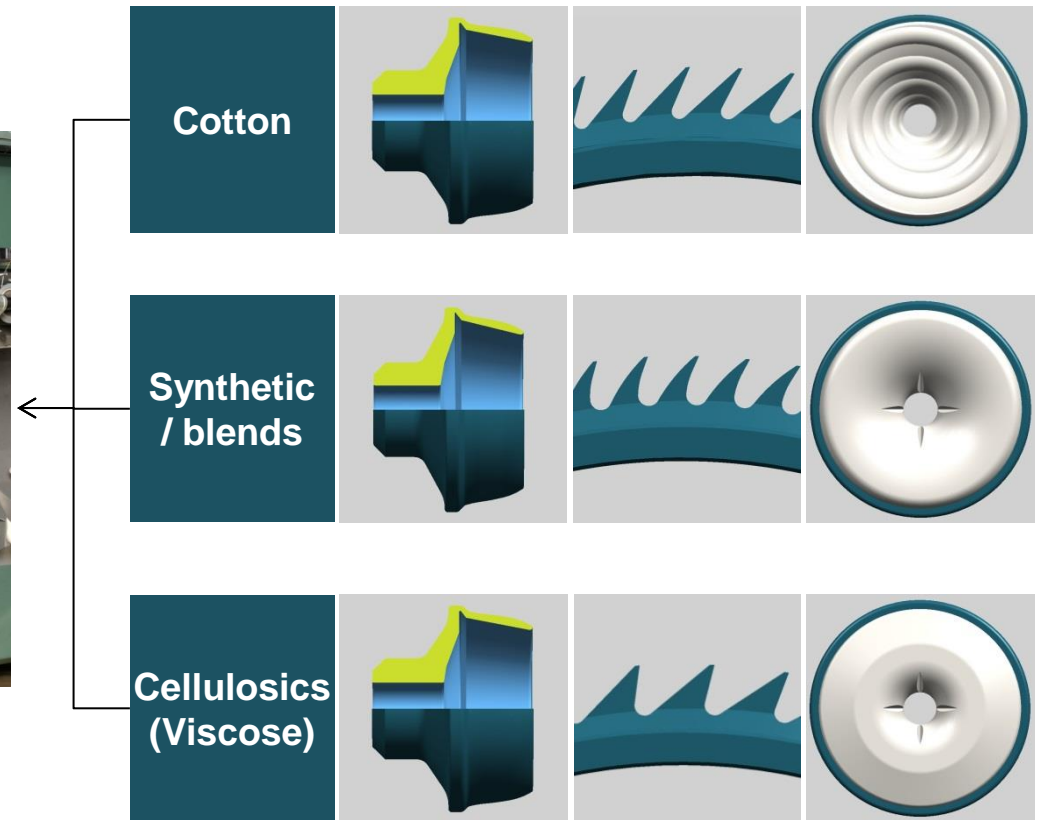
Distribution of sales (in million CHF)



# Full-liner: Spinning technology for all fiber types

Rieter's products can be adapted to spin all fiber types

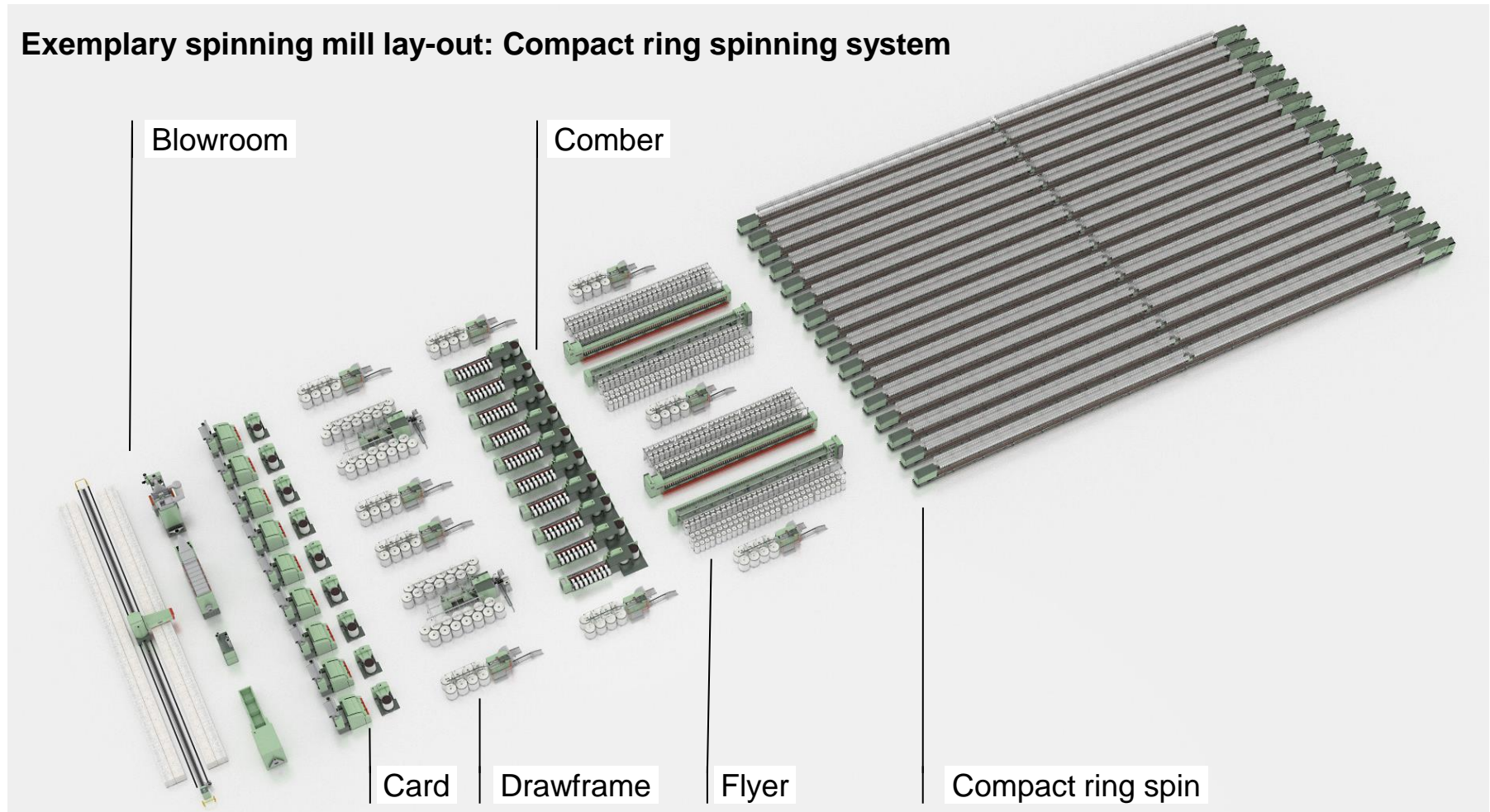
Example Rotor R 60 – component options for all fiber types



# Full-liner: Rieter offers full systems

Spinning mills are a system of pre and end spinning machines

## Exemplary spinning mill lay-out: Compact ring spinning system






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# Rieter – Investment program 2012 / 2013



## Investment program near completion – delay in process improvements

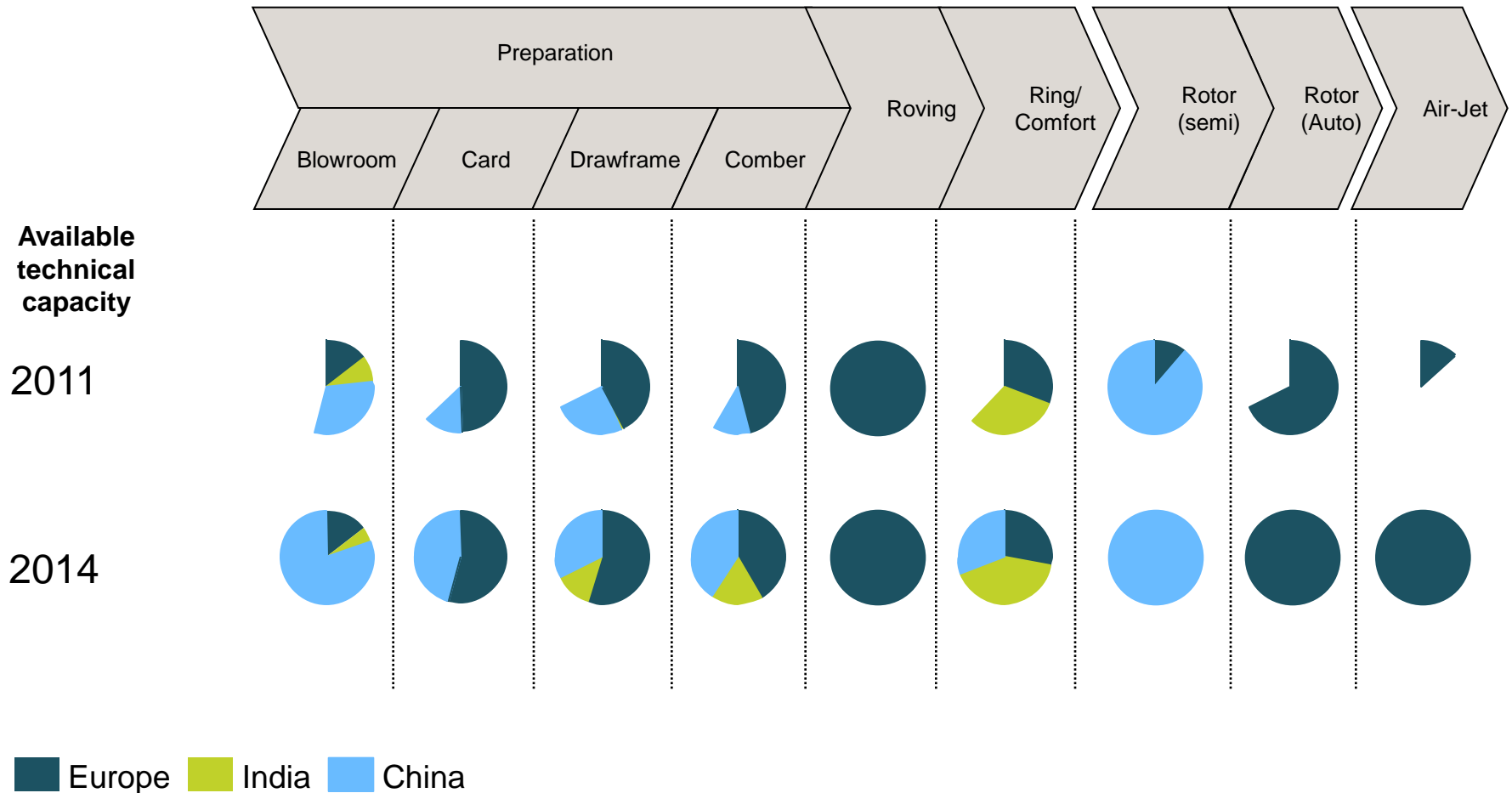
	2012	2013	2014
<b>Expansion in Asia</b> 	<ul style="list-style-type: none"> <li>Inauguration of first stage of second plant in Changzhou (China)</li> <li>Construction of second plant in India</li> </ul>	<ul style="list-style-type: none"> <li>Completion of plant II in Changzhou</li> <li>Ramp-up of second plant in India</li> </ul>	<ul style="list-style-type: none"> <li>Full additional production capacity available</li> </ul>
<b>Innovation</b> 	<ul style="list-style-type: none"> <li>Airspinning machine (J 20) well received at ITMA Asia</li> <li>First J 20 full system operational at client</li> </ul>	<ul style="list-style-type: none"> <li>Continued controlled market introduction</li> <li>Focus on additional fiber types and cost reduction</li> </ul>	<ul style="list-style-type: none"> <li>Reduction of temporary personnel for investment program 2012 / 2013</li> <li>Shift of market-specific functions to expanded sites</li> </ul>
<b>Process improvements</b> 	<ul style="list-style-type: none"> <li>Improvements in new plants, centralization in Switzerland realized</li> <li>Global processes defined</li> </ul>	<ul style="list-style-type: none"> <li>Operational Excellence in main plants completed</li> <li>Go-live of new IT-supported processes with delay of half a year</li> </ul>	<ul style="list-style-type: none"> <li>Realization of efficiency gains from process improvements</li> </ul>
<b>~ 140 million CHF</b>	Cost: 25.3 Capex: 51.6	~ 25 ~ 35 - 40	



# Expansion in Asia: Addressing growth potential



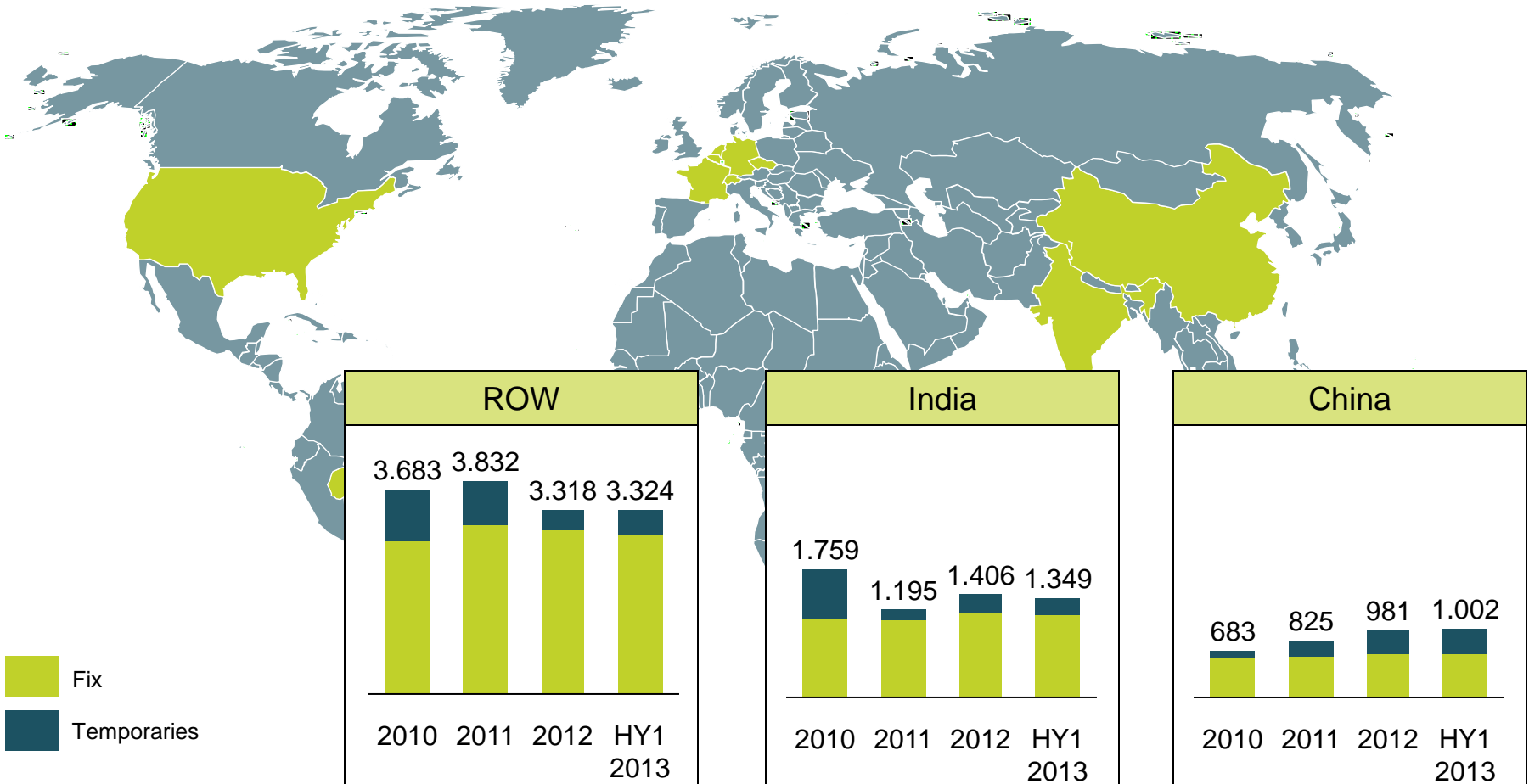
Increase in locally available product portfolio to address growth potential



# Expansion in Asia: Employees

Focus on flexibility also in China and India

Distribution of employees (FTE)



# Innovation: Continued technology leadership



Rieter continues to drive innovation in both pre and end spinning



Varioline



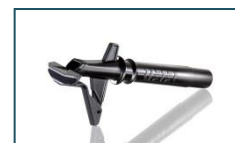
RSB D 45



C 70



E 80



ECOrized



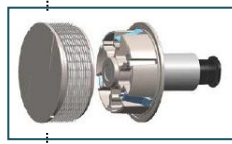
Q 10



J 20



R 60



Clip-on Opening Roller



SB-D 22



R 35



K 46

2011

2012

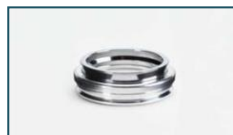
2013



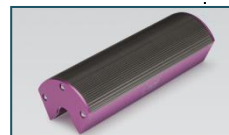
Hipro Metallic Wire



Primacomb 9030



TRITON



Ri-Q-Comb



ProFil CleanB



Crocodoff



EliTe® Compact Set V5



S 60



EliTe® EliVAC CDS



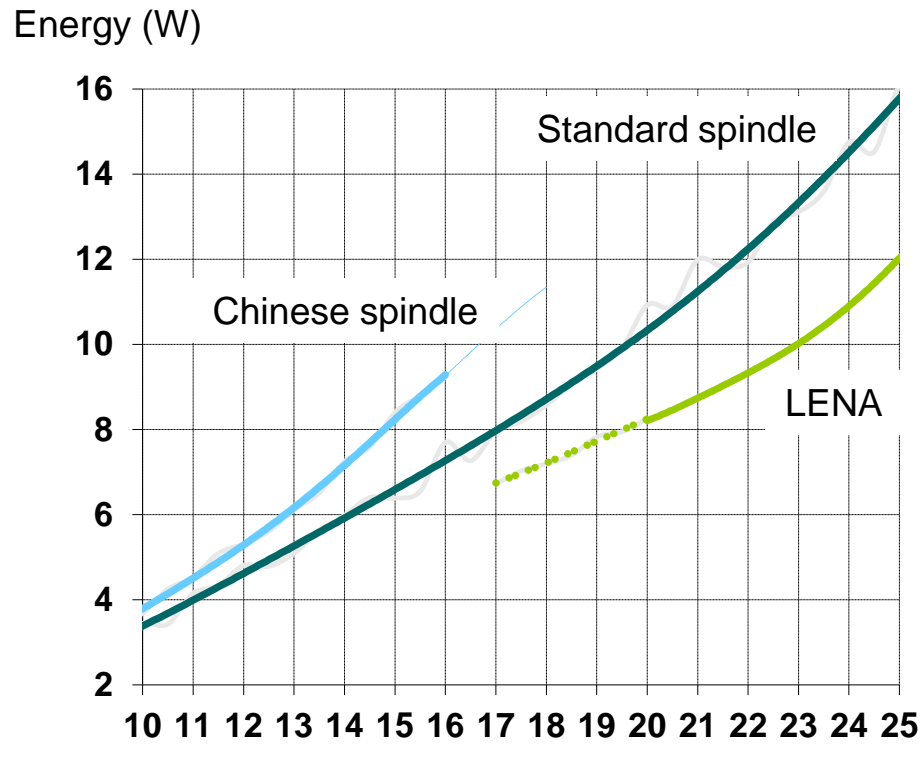
OPAL



LENA

# Innovation: PTC – Example LENA

## Premium Textile Components with technological edge




### Customer Benefits:

- Low energy consumption
- Higher production speed
- Extended life time
- Low noise level

# Innovation: Airjet progress

Market introduction progresses along with continued system improvement



	J 10	J 20	J 20 (V2)
Year	2010	2011	2013
Application range	<ul style="list-style-type: none"> <li>Cellulosics</li> <li>Blends</li> </ul>	<ul style="list-style-type: none"> <li>Cellulosics</li> <li>Blends</li> </ul>	<ul style="list-style-type: none"> <li>Combed cotton</li> <li>Cellulosics</li> <li>Polyester blends</li> </ul>
Machine length	100 spinning units	120 spinning units	120 spinning units
Automatization	4 robots	4 robots	4 robots
	First Com4@Jet Licensee in Switzerland	First Com4@Jet Licensee in Austria	First Com4@Jet Licensee in China

## Clear strengthening of position thanks to investment program

	Position 2011	Position 2013
<b>Global presence:</b> sales / service / production	<ul style="list-style-type: none"> <li>Global sales and service with production in EU, small set-up in IN and CN</li> </ul>	<ul style="list-style-type: none"> <li>Strong set-up also in CN</li> <li>Increased set-up in IN</li> <li>Capacities increased</li> </ul>
<b>All four end-spinning systems:</b> Offer of all known end-spinning systems	<ul style="list-style-type: none"> <li>Ring spin, compact spin, rotor spin and first version of air-jet spin system</li> </ul>	<ul style="list-style-type: none"> <li>Airjet system also available</li> </ul>
<b>All fiber types:</b> Textile technology and competence	<ul style="list-style-type: none"> <li>Short staple: Cotton / polyester / cellulosics. Airjet only viscose</li> </ul>	<ul style="list-style-type: none"> <li>Airjet now also with cotton and polyester blends</li> </ul>
<b>Full systems:</b> Ability to offer full systems from design to plant	<ul style="list-style-type: none"> <li>Delivery of systems from Europe</li> </ul>	<ul style="list-style-type: none"> <li>Availability of full systems also in China</li> </ul>
<b>Technology leadership:</b> Textile technology and engineering leadership	<ul style="list-style-type: none"> <li>Parts and components leadership</li> </ul>	<ul style="list-style-type: none"> <li>Sensoric competence further improved</li> </ul>

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# Rieter – Financial key figures



## Order intake upswing in first half year 2013 thanks to strong market position

CHF million	HY1 2013	HY2 2012	HY1 2012	FY 2012
Orders received <sup>(1)</sup>	<b>711.4</b>	435.6	404.1	839.7
Sales	<b>478.1</b>	401.2	487.3	888.5
EBITDA	<b>34.3</b>	18.3	47.6	65.9
EBIT <sup>(2)</sup>	<b>17.1</b>	1.2	31.5	32.7
EBIT margin (of sales)	<b>3.6%</b>	0.3%	6.5%	3.7%
Net profit <sup>(3)</sup>	<b>5.0</b>	4.2	21.5	25.7
R&D expenditures	<b>22.1</b>	21.8	20.9	42.7
Capex <sup>(4)</sup>	<b>26.5</b>	57.3	24.3	81.6
Free cash flow	<b>-12.1</b>	-16.8	-15.5	-32.3

(1) Including cancellations of 60 million CHF in 2012

(2) Including strategic project costs of 10.4 million CHF (2012: 25.3 million CHF)

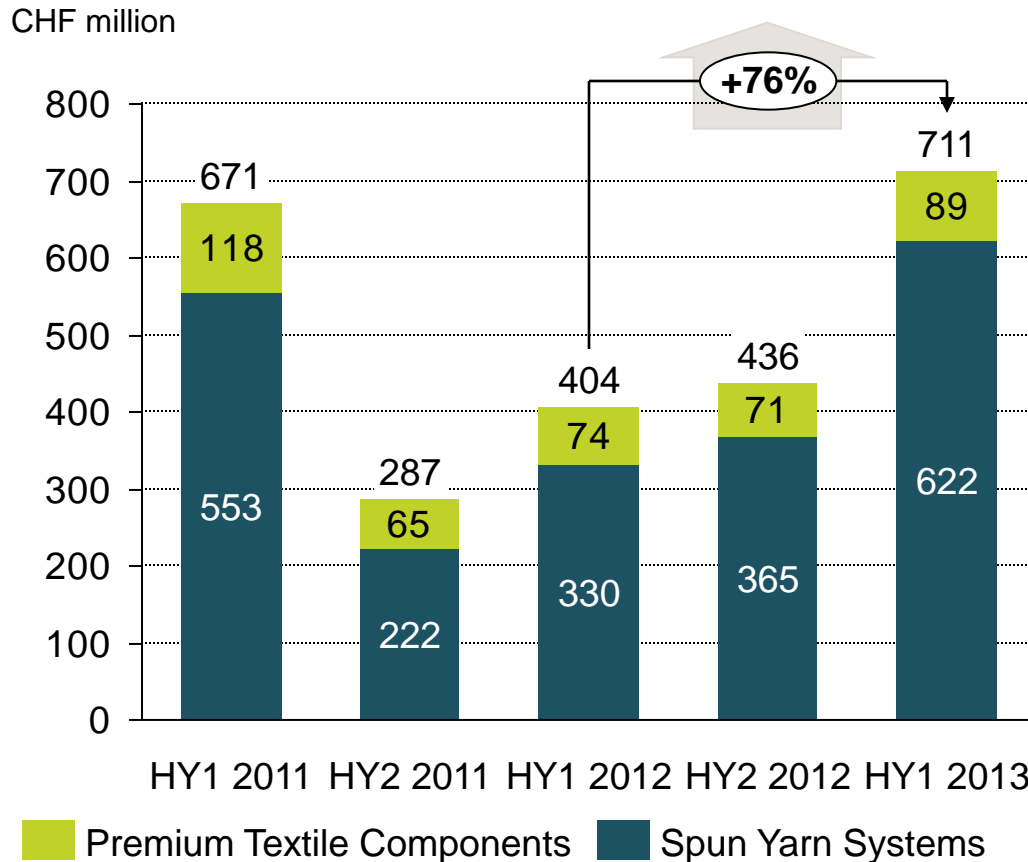
(3) Including gain on sale of investments of 0.3 million CHF (2012: 17.6 million CHF)

(4) Including capex for strategic projects of 21.2 million CHF (2012: 51.6 million CHF)



# Orders by business group

## Significant increase in order intake with largest share from Turkey

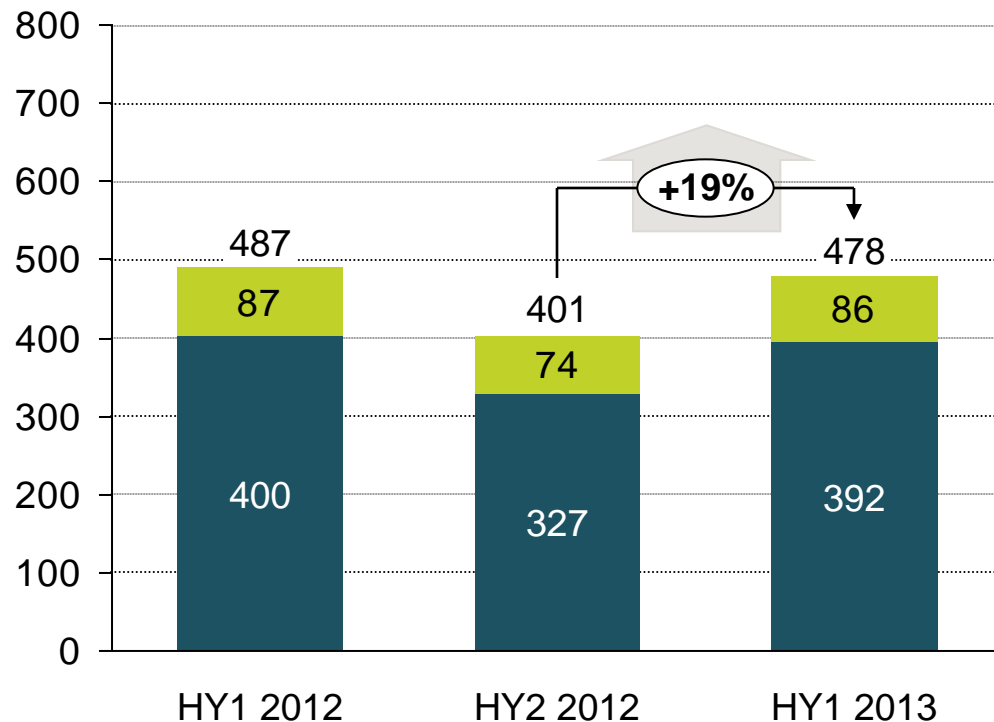


- Continued market recovery allows both Business Groups to profit from strong market position
- Turkey with largest share of order intake
- Growth in China thanks to localized product portfolio
- India with main focus on components
- Order backlog at around 780 million CHF at June 30, 2013

# Sales by Business Group

Sales with increase of 19% versus second semester 2012

CHF million



Premium Textile Components Spun Yarn Systems

- Sales increase by both Business Groups compared to second semester:
  - SYS: +20%
  - PTC: +15% / +9% segment sales
- PTC with sales level of HY1 2012 thanks to slight recovery in demand from Chinese textile machinery producers and Indian spinning mills

# Operating result (EBIT)

## EBIT improvement against second semester 2012

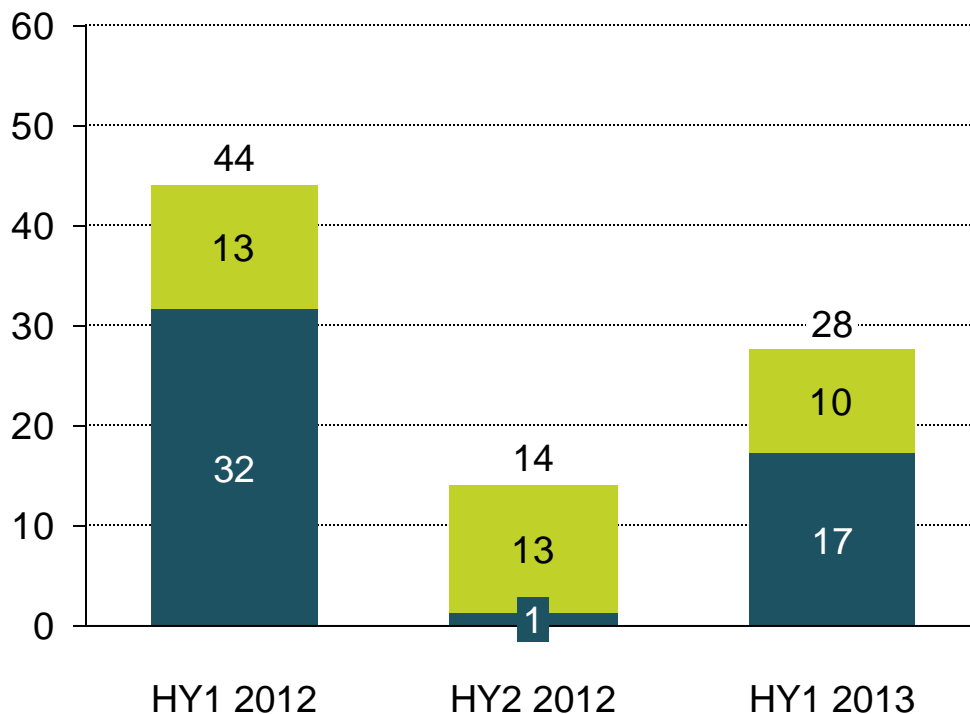
In % of sales

6.5%

0.3%

3.6%

CHF million



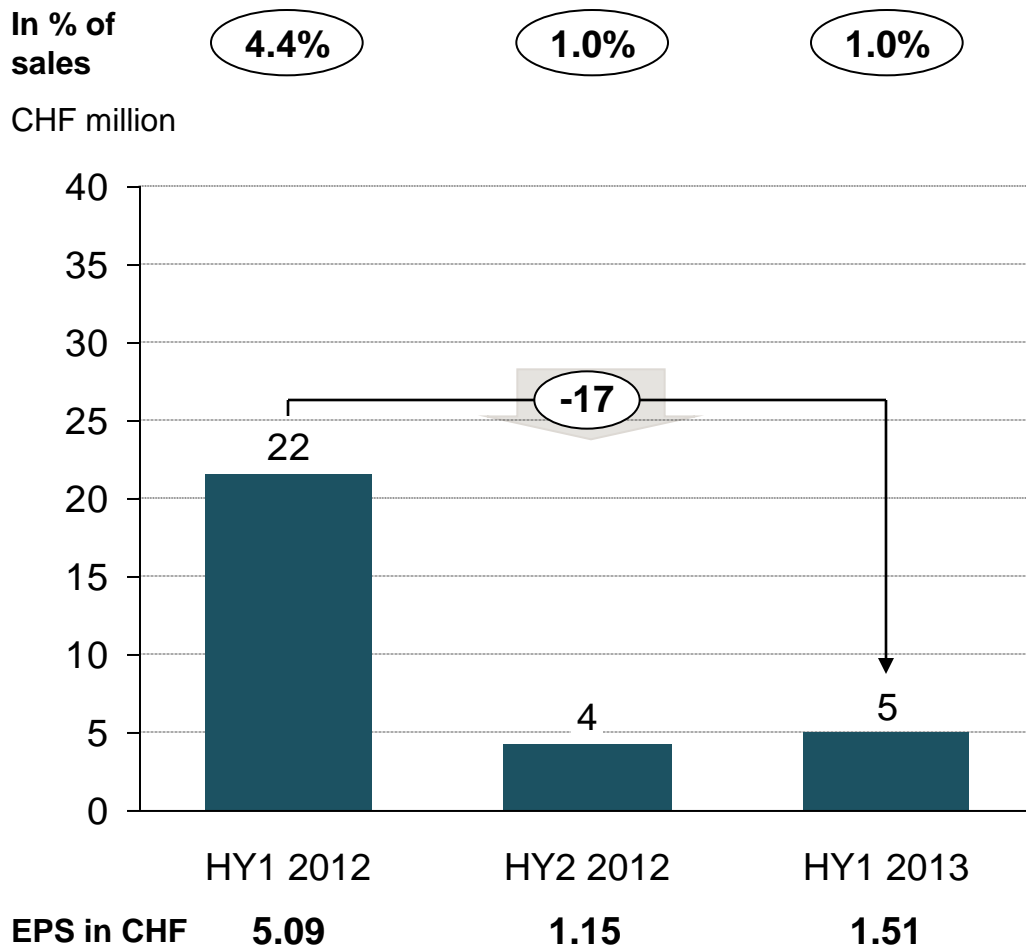
■ Strategic project costs
 ■ EBIT

- Increasing sales volume against second semester 2012 leads to profitability improvement
- Delivery of in 2012 concluded orders with lower margins in the machine business (SYS) with negative impact in HY1 2013
- Strategic project costs of 10.4 million CHF for investment program 2012/2013 included in HY1 2013
- R&D expenses increased to 22.1 million CHF (4.6% of sales)
- HY1 2012 included extraordinary disposal gain of 6.0 million CHF from sale of two Czech production sites

# Net profit



## Net profit margin at 1.0% of sales – EPS of 1.51 CHF in HY1 2013



- Net profit including 0.3 million CHF extraordinary gain on sale of investments (HY1 2012: 4.4 million CHF, HY2 2012: 13.2 million CHF)
- Financial result of –7.4 million CHF mainly due to interest costs
- Tax rate at 50% due to country mix
- Earnings per share at 1.51 CHF

# Balance sheet



## Net liquidity at 63.2 million CHF and equity ratio at 34%

CHF million	<b>30.06. 2013</b>	31.12. 2012	30.06. 2012
Total assets	<b>1092.7</b>	1070.1	1061.7
Non-current assets	<b>363.5</b>	356.3	325.5
Net working capital	<b>74.9</b>	62.0	85.2
Liquid funds	<b>323.0</b>	351.9	362.3
Net liquidity	<b>63.2</b>	95.6	107.4
Short-term financial debt	<b>21.8</b>	6.7	6.7
Long-term financial debt	<b>238.0</b>	249.6	248.2
Shareholders' equity	<b>367.2</b>	376.4	371.4
in % of total assets	<b>34%</b>	35%	35%

- Net liquidity of 63.2 million CHF mainly impacted by negative free cash flow of -12.1 million CHF and dividend of -11.6 million CHF paid out in April 2013
- IAS 19 («Employee Benefits») leads to reduction of equity by 0.4 million CHF at year-end 2012
- Shareholders' equity ratio at 34%
- Bond of 250.0 million CHF (2010 – 2015, 4.5%) secures financing of business development
- Authorized capital of 500,000 shares approved in AGM 2012 allowing timely execution of corporate development

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## Market continues on strong level

- Market conditions are still favourable, although with wide regional diversification.
- Demand in Turkey and China weakened compared with the strong order intake in the first half year, and in India improved only slightly. Thanks to strong market positioning, Rieter was able however to take full advantage of the gratifying demand particularly in other Asian markets and North America.
- Accumulated order intake per end of the third quarter 2013 totalled just over one billion Swiss francs. At the same time Rieter has managed to uphold margins in a challenging competitive environment.

- With broadly based business worldwide, Rieter still expects a good but slightly declining demand for textile machinery and components during the last few months of 2013. Demand depends among other factors on the development of yarn and raw materials prices, currency exchange rates, financing costs, and global consumer sentiment.
- Based on the current order backlog – already reaching well into 2014 – full year sales for 2013 are expected to show low double digit growth compared to 2012. Against 2012 levels before disposal gains, operating result (EBIT) is expected to profit from volume growth. This includes strategic project costs of about 25 million CHF for the 2012/2013 investment program.
- Rieter continues to focus on lowering the break-even threshold, and in this connection is continuing with the workforce adjustments announced in spring 2013. At the same time, Rieter also seeks to improve profit margins by reducing production costs, through optimal allocation of capacities and price discipline.



# Guidance over the cycle

	Over the cycle
Sales	Sales growth of > 5%
EBIT margin	> 9% over the cycle, peak years > 12%
Net result	> 6 % over the cycle, peak years > 8%
RONA	peak years > 14%
Capex	4 – 5 % of sales
Dividend policy	Target pay-out ratio of approx. 30% of net result

# Disclaimer

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# Agenda 2013 / 2014

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**Publication of sales figures for the 2013 financial year:**

February 4, 2014

**Results media conference and presentation of the 2013 financial statements:**

March 18, 2014

**Annual General Meeting:**

April 9, 2014

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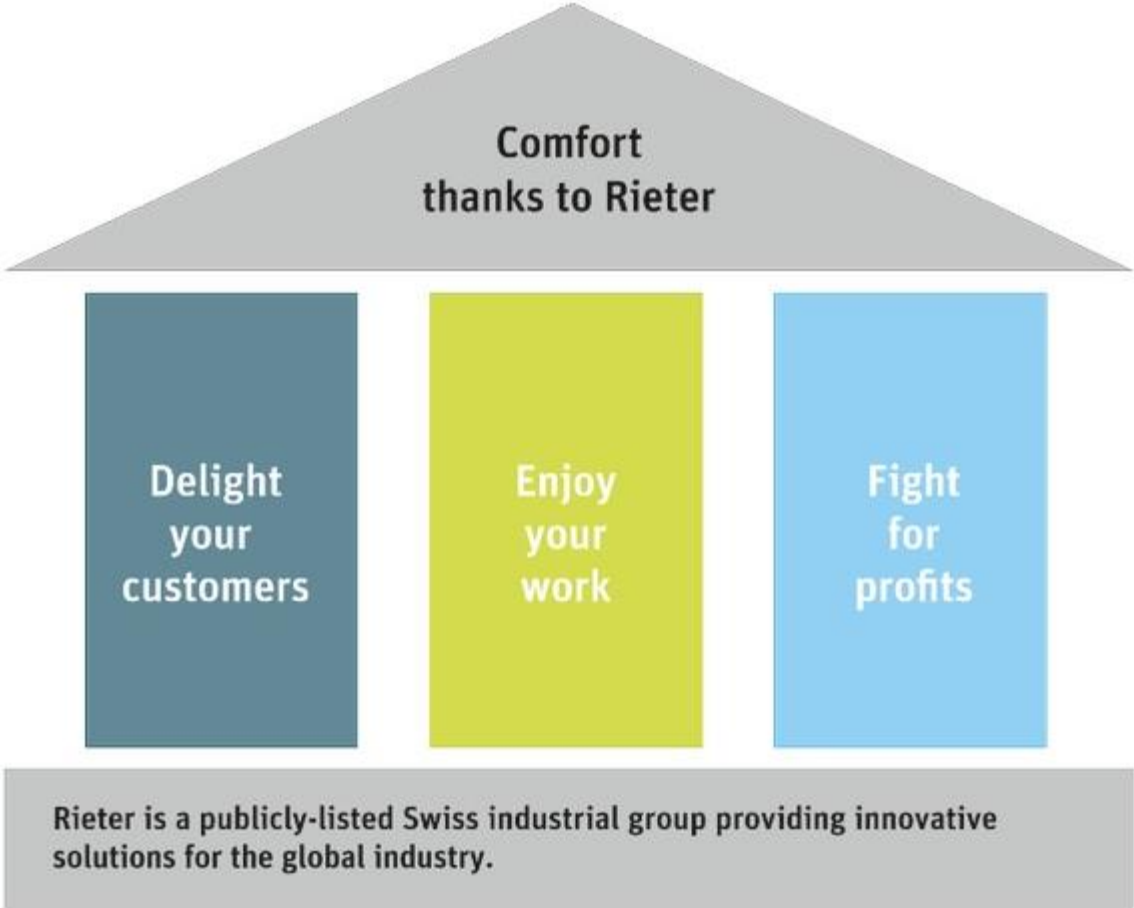
[media@rieter.com](mailto:media@rieter.com)

# Appendix



# Values and principles

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## Strategic intent

### Organic growth / growth by acquisitions

- Stay No. 1 in the import segment, become at least No. 2 in the local segment
- Strengthen position in China and India
- Close product gaps through innovation and external opportunities

### Innovation

- Improve yarn quality
- Increase fiber yield / productivity
- Achieve cost and energy savings (for spinning mills)

### Cycle management

- Maintain break-even focus
- Generate free cash flow throughout the cycle
- Keep key know-how

## Measures to increase profitability have been initiated

- **Reduce break-even** after conclusion of investment program 2012 / 2013:
  - Reduction of global workforce by 5% over the next 24 months predominantly in Switzerland through
    - Natural fluctuation
    - Reduction of temporary personnel specifically engaged for the investment program
    - Early retirements and to some extent reduction of permanent staff
- **Increase margins** in both business groups:
  - Production cost savings
  - Optimal capacity management
  - Price discipline
- **Focus on free cash flow** by reducing capital expenditures and optimizing inventories

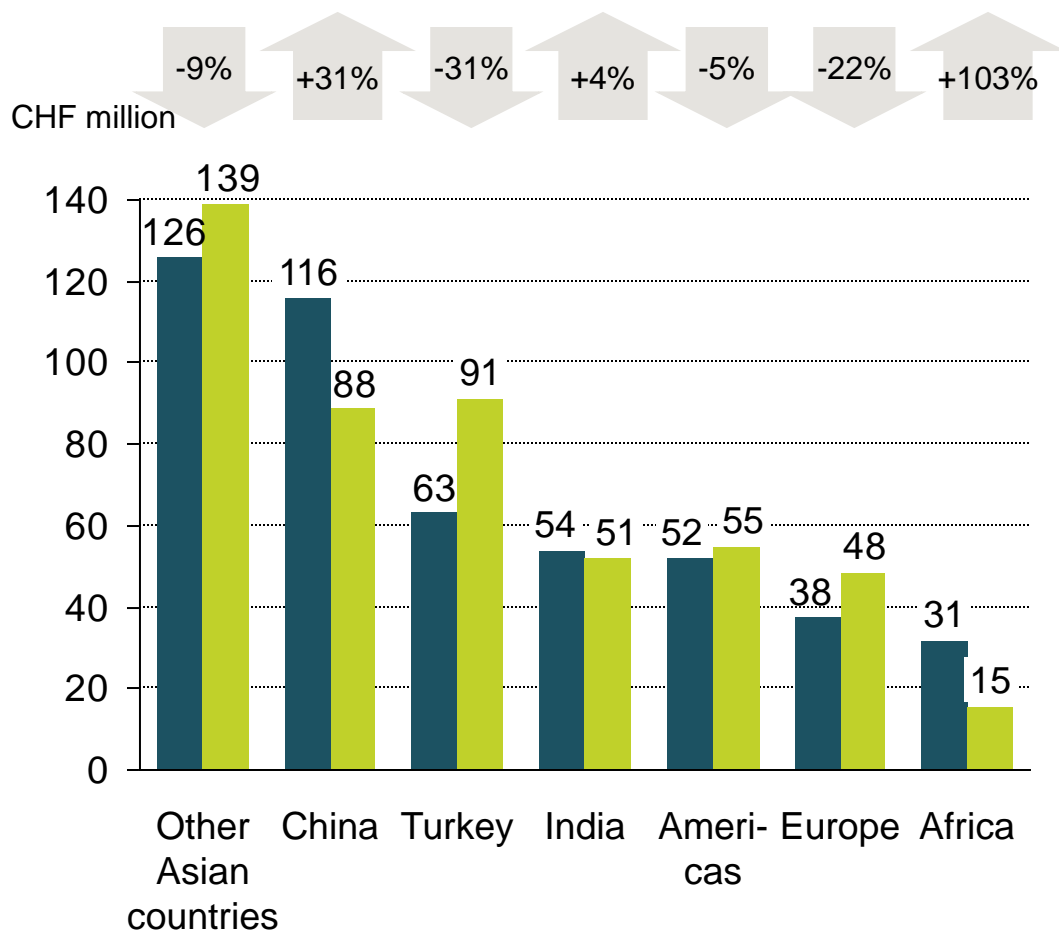
## Rieter is a leading supplier of short staple textile machinery and components

- **Rieter – an industrial group based in Winterthur, CH, operating on a global scale**
  - Formed in 1795, and a leading supplier of short-staple spinning machinery and technology components
  - Widest product range in this industrial sector worldwide
  - Global presence in 10 countries with 18 manufacturing facilities and a workforce of about 4 700 employees worldwide (27% of workforce is based in Switzerland)
- **Rieter – a strong brand with a long tradition**
  - Rieter's innovative momentum has been a powerful driving force for industrial progress.
  - Products and solutions are ideally tailored to its customers' needs and are increasingly also produced in customers' markets.
- **Rieter aspires to achieve sustained growth in enterprise value for the benefit of shareholders, customers and employees**
  - Seeking to maintain continuous growth in sales and profitability
  - Primarily by organic growth, but also through strategic alliances and acquisitions
- **The company comprises two Business Groups:**
  - Spun Yarn Systems (SYS) develops and manufactures machinery and systems for processing natural and man-made fibers and their blends into yarns
  - Premium Textile Components (PTC) supplies technology components and service offerings to spinning mills and also to machinery manufacturers



# Sales development by region

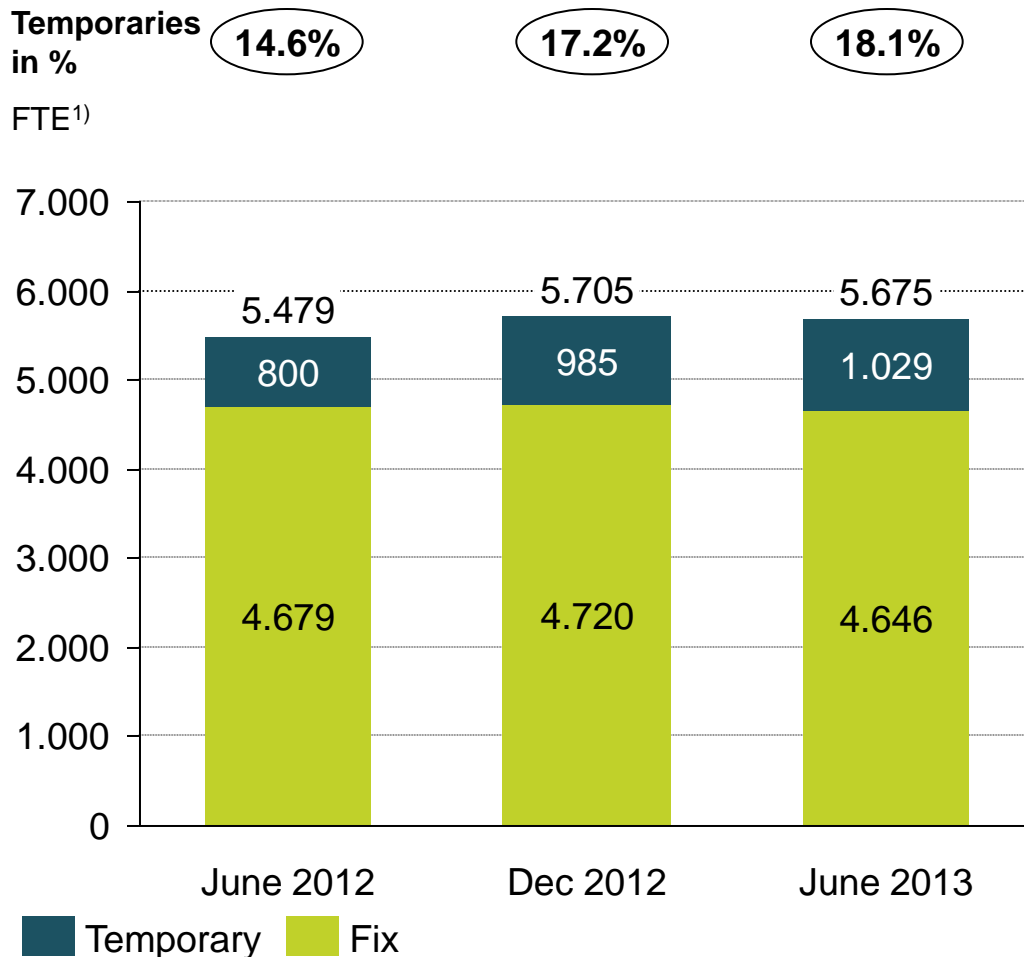
## Continued growth in China in first semester 2013



- Sales to China grows in absolute and relative terms (to 24% vs. 18% HY1 2012)
- Lower sales to main market regions Turkey and other Asian countries reflect weaker demand in 2012
- Share of sales to India remains around 11% (HY1 2012: 11%)
- Share of sales to Asia at 75% (HY1 2012: 76%)
- Overall, Rieter reinforced its market position in HY1 2013

# Changes in workforce

## Continued reduction of fix workforce



- In March, 2013, announced global workforce reduction of 5% over the next 24 months is ongoing (mainly in Switzerland)
- Higher sales volume versus second semester 2012 mainly handled through increased productivity

1) Excluding apprentices, including temporary employees

# Net working capital



## Demand drives increase of net working capital to 74.9 million CHF

CHF million	<b>30.06. 2013</b>	31.12. 2012	30.06. 2012
Inventories	<b>248.4</b>	229.3	208.7
Trade receivables	<b>111.5</b>	91.1	121.9
Other receivables	<b>46.3</b>	41.5	43.3
Trade payables	<b>-85.7</b>	-97.3	-72.4
Advance payments	<b>-115.4</b>	-79.8	-74.8
Other current liabilities	<b>-130.2</b>	-122.8	-141.5
<b>Net working capital</b>	<b>74.9</b>	62.0	85.2

- Increase in order intake leads to higher inventories
- Seasonal increase of trade receivables compared to year-end 2012
- Advance payments from customers driven by higher order intake

# Free cash flow



## Free cash flow of –12.1 million CHF impacted by high investments

CHF million	<b>HY1 2013</b>	HY1 2012
Net profit	<b>5.0</b>	21.5
Interest and tax expense (net)	<b>11.8</b>	13.1
Depreciation and amortization	<b>17.2</b>	16.1
Other non-cash items	<b>-3.6</b>	-13.3
+/- Change in net working capital	<b>-5.9</b>	-33.8
+/- Interest paid / received (net)	<b>-10.0</b>	-10.1
+/- Taxes paid	<b>-7.9</b>	-10.4
+/- Capital expenditure, net	<b>-21.9</b>	-20.3
+/- Change in other financial assets	<b>1.9</b>	-0.1
+/- Divestments	<b>1.3</b>	21.8
<b>Free cash flow</b>	<b>-12.1</b>	-15.5

- Free Cash Flow is driven by low earnings, continued high investments and increase in net working capital
- High capital expenditures are mainly driven by investment program 2012/2013

# Key investment highlights of Rieter

