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Half-year results 2019 – Stadler on track

Stadler generated revenue of 1.1 billion Swiss francs in the first half of 2019. Order intake continues to develop very positively: in the first half of the year, it stood at around 2.3 billion Swiss francs, which is around 1.5 billion above the previous year's result. At 14.4 billion Swiss francs, the order backlog thus reached a new all-time high. As at 30 June 2019, EBIT amounted to around 46.9 million Swiss francs, compared to 35.2 million Swiss francs in the prior-year period. When evaluating the half-year results, it should be noted that, as a rule, about one third of net revenues are generated in the first half of the year, followed by the remaining two thirds in the second half.

Stadler was successfully listed on the Swiss Stock Exchange on 12 April 2019 and is largely on track despite the difficult economic environment. The half-year targets were partially exceeded. The order intake for the first half of the year totalled 2.3 billion Swiss francs, up 1.5 billion Swiss francs on the previous year (increase of 178 percent). As at 30 June 2019, the total order backlog represented 14.4 billion Swiss francs. Consolidated revenue stands at 1.1 billion Swiss francs, 40 percent above the previous year's figure. As at 30 June 2019, EBIT amounted to 46.9 million Swiss francs, compared with 35.2 million Swiss francs in the previous year.

The economic environment remains difficult. Currency distortions and the associated strengthening of the Swiss franc will remain a challenge for Stadler in the second half of the year. The pound sterling, the Swedish krona, the Norwegian krone and the euro are of particular importance to Stadler.

In the two reporting segments Rolling Stock and Service and Components, as a rule about one third of net revenues are generated in the first half of the year, followed by the remaining two thirds in the second half. This is due to the very conservative accounting and revenue recognition of our orders. Revenue is not calculated until the relevant vehicle has been delivered. As timetable changes are traditionally made towards the end of the year, more trains are put into service in the second half of the year than in the first. This explains the significantly higher share of revenue in the second half of the year. Administrative, distribution and development costs, on the other hand, are usually spread evenly over the year. As a result, profitability and operating cash flow in the first half of the year are generally considerably lower than in the second half.

Net cash flow from operating activities increased to -137.5 million francs from -156.0 million francs in the previous year. Free cash flow was -294.7 million Swiss francs compared to -184.8 million Swiss francs in the same period of the previous year. The decrease in free cash flow is mainly due to a higher increase in net working capital of 217.6 million Swiss francs (compared to an increase of 198.7 million Swiss francs in the prior year) and substantial investments of 153.9 million Swiss francs (compared to 49.9 million Swiss francs in the prior-year period) for the provision of capacities to process the high order backlog.

Encouraging order intake

In view of population growth and the trend towards urbanization, the demand for modern and environmentally-friendly mobility solutions continues to grow worldwide. At Stadler, this is leading to a very encouraging continuous rise in incoming orders. In the Rolling Stock reporting segment, order intake in the first half of the year amounted to 1.7 billion Swiss francs. This only includes orders for which the legally valid contract signature has taken place and the financing on the part of the customer has been clarified. Orders with ongoing objection periods or financing negotiations are not yet booked by Stadler as incoming orders. At 14.4 billion francs, the order backlog thus reached a new all-time high.

Battery-powered FLIRT: innovative charging technology

The German market is particularly noteworthy in terms of incoming orders. In Germany, orders worth several hundred million Swiss francs were received in the first half of the year. The order for the delivery of 55 battery-powered FLIRT Akku for Schleswig-Holstein deserves a special mention. Stadler was able to beat the international competition and succeeded in launching a new, trend-setting charging technology for battery-operated drives on the market within a very short period of time. The batteries can be charged while driving on short catenary sections. The order demonstrates the great trust placed in the rail vehicle manufacturer's ability to innovate.

Stadler also achieved a strategically important success in Scandinavia, where the sale of 60 locomotives to the Finnish VR Group further strengthened Stadler's presence.

In the USA, Stadler was able to place an order for 127 METRO trains this spring. This was Stadler's first major METRO order in the USA and the largest ever in terms of vehicle units. However, as the final signature of the contract was delayed due to an objection that has since been settled, this order is not expected to be recognized until the second half of the year.

The contracts awarded in Germany, Norway and the USA represent further successes for Stadler in strategically-relevant growth markets in the Rolling Stock segment.

At present, Stadler has around 150 orders in the pipeline and the same number under warranty. Penalty risks are emerging in the production of the 58 FLIRT vehicles for East Anglia. Although the approval for the bimodal (BMU) and electrical (EMU) multiple units was achieved in record time, acceptance by the customer is currently delayed.

Service business still on the upswing

Incoming orders in the Service and Components reporting segment amounted to 602.6 million Swiss francs in the first half of 2019, well above the previous year's level. In May, Stadler Service signed a contract for the maintenance of over 100 trains operated by Vy in Norway. It is the largest single fleet Stadler has ever contracted. In the area of modernization and refit, Stadler Service in Germany won two major orders from Bogestra and Netinera. Orders for the installation of the Stadler diagnostics device (RDS system) are smaller in volume, but very important in the current context of digitization.

Since June, Stadler Service has been successfully carrying out integrated full service for GoAhead in passenger operations in Germany. And in Great Britain, after delivering 52 new METRO trains for Merseytravel in Liverpool, Stadler will continue to be responsible for the maintenance of the trains in the ultra-modern new depot in Liverpool-Kirkdale for 35 years.

Signalling is gaining in importance

Stadler has been constantly developing its own signalling division since 2016. At the Wallisellen signalling location, several teams of highly qualified engineers are working on the implementation of the signalling strategy for the mainline, branchline and metro products. The first successes were seen last year: GUARDIA, the ETCS train control system developed by Stadler and Mermec as part of the AngelStar joint venture, is used in BLS's new FLIRT trains. Equivalent projects are also currently under way in Poland, Hungary, Slovenia, Italy and Germany. In addition, further projects are emerging and the approval for Stadler GUARDIA is currently being sought in nine countries. At the beginning of 2020, Stadler Signalling will be transformed into its own legal entity.

Capacity expansion in all regions

Stadler is building a new production plant in St. Margrethen in its home market of Switzerland. Work is progressing according to plan so that the first halls can be occupied by the end of 2019. Thanks to the new production site, the production conditions in the competence centre for double-decker multiple-unit trains – currently still in Altenrhein – will be optimized and Stadler's competitiveness increased. The investment of over 85 million Swiss francs clearly demonstrates the company's commitment towards Switzerland as a business location and towards the border triangle area.

In the USA, Stadler was able to move into the new plant in Salt Lake City in spring, whose opening was officially celebrated in May of this year. The investment volume amounted to around 60 million Swiss francs (gross). The plant is designed for 350 employees.

In Germany, the Berlin Pankow location will be expanded with a new production hall that is optimally geared to the needs of the competence centre for trams, light rail vehicles and metro vehicles. The new operating concept not only includes the construction of a new production hall, but also the creation of optimized space for logistics and commissioning during a later phase.

Stadler Service has also built and commissioned a depot in Herne for the maintenance of the S-Bahn Rhein-Ruhr. The investment amounted to over 30 million Swiss francs. In Poland, Stadler Service has built a new depot in Lodz for 7 million Swiss francs and will continue maintenance work at the new location in September 2019.

Successful IPO

Stadler Rail AG has been listed on the SIX Swiss Exchange since 12 April 2019. The highly acclaimed IPO can be seen as a great success. The share price has performed well since the first day of trading. As at 28 June 2019 it had increased by more than 15 percent in relation to the issue price of 38 Swiss francs. The stock is very broadly diversified: as at 30 June 2019, Stadler had over 27,000 shareholders, including a large number of small shareholders. Around 20 percent of the shareholders own no more than 50 shares.

After exercising the over-allotment option, a total of 40,250,000 existing shares, or 40.25 percent of the share capital, were placed in the course of Stadler's IPO. The placement volume corresponded to 1.5 billion Swiss francs. Peter Spuhler holds 39.7 percent of Stadler's share capital directly and indirectly via PCS Holding AG. A further ten percent is held by the German RAG foundation. The costs for the IPO process are fully borne by the selling shareholder.

Management changes

In the first half of 2019, the Board of Directors and the Group Executive Board underwent a number of changes, most of which were the result of a long-planned generation change. Jure Mikolčić assumed responsibility for the Division Germany on 1 February 2019. Markus Bernsteiner took over the management of the Altenrhein plant from Markus Sauerbruch on 1 June 2019. Sales Director Peter Jenelten also handed over to Ansgar Brockmeyer in May and, after 19 years of service, moved to PCS Holding in Frauenfeld. At the Annual General Meeting in March 2019, Barbara Egger-Jenzer, former member of the Berne government, became the first woman to be elected to Stadler's Board of Directors. Unfortunately, in mid-July Stadler learned of the death of the highly esteemed, long-standing member of the Board of Directors Dr. Werner Müller (since 2003), former German Federal Minister for Economic Affairs.

Outlook

Stadler is well positioned in a growing, but economically difficult, market environment. The first half of the year was in line with expectations. However, Stadler is currently facing challenges due to the adverse exchange rate development, the slowdown in economic growth, geopolitical turbulence and the delayed acceptance of vehicles on behalf of East Anglia. In the light of developments in the first half of the year, Stadler expects excluding foreign currency impacts net revenues of 3.5 billion Swiss francs and an EBIT margin of seven percent for the full financial year.

About Stadler

International rail vehicle construction company, Stadler, is headquartered in Bussnang in Eastern Switzerland. Founded in 1942, it has a workforce of nearly 10,500 based in various production and over 40 service locations. Stadler provides a comprehensive range of products in the heavy and urban transport segments: High-speed trains, intercity trains, regional and commuter heavy rail trains, underground trains, tram trains and trams. Stadler also manufactures main-line locomotives, shunting locomotives and passenger carriages, including the most powerful diesel-electric locomotive in Europe. It is the world's leading manufacturer in the rack-and-pinion rail vehicle industry.

Key Figures 1. Half-year 2019

in millions of CHF or as noted	1st half-year **2019**	as % of net revenue	1st half-year **2018**	as % of net revenue	Change in %
Stadler					
Order intake	2'310.3		831.1		178%
Order backlog[1]	14'382.5		13'178.8		9%
Net revenue	1'115.3	100.0%	797.8	100.0%	40%
Gross margin[2]	121.2	10.9%	107.4	13.5%	13%
EBITDA[3]	76.9	6.9%	63.9	8.0%	20%
Operating result (EBIT)	46.9	4.2%	35.2	4.4%	33%
Profit for the period	27.5	2.5%	7.6	0.9%	263%
Earnings per share (in CHF)	0.27		0.07		285%
Net cash flow from operating activities	(137.5)		(156.0)		
Capital expenditure[4]	153.9		49.9		208%
Free cash flow[5]	(294.7)		(184.8)		
Net working capital[1,6]	(105.1)		(322.7)		
Work in progress (net)[1,7]	(618.4)		(757.2)		
Net cash[1,8]	160.5		531.9		-70%
Equity ratio[1]	25.0%		27.9%		
Staff as FTEs	10'491		8'294		26%
Rolling Stock segment					
Order intake	1'707.7		581.6		194%
Order backlog[1]	11'669.4		10'916.6		7%
Net revenue (third parties)	1'002.0	89.8%	694.6	87.1%	44%
Service & Components segment					
Order intake	602.6		249.5		142%
Order backlog[1]	2'713.1		2'262.2		20%
Net revenue (third parties)	113.3	10.2%	103.2	12.9%	10%

[1] as at 30 June 2019 resp. 31 December 2018

[2] Gross margin is calculated as net revenue less cost of goods sold and services provided

[3] EBITDA is calculated as the sum of EBIT and depreciation and amortization

[4] Capital expenditure is calculated as the sum of investments in property, plant and equipment and intangible assets

[5] Free cash flow is calculated as EBITDA less capital expenditure less change in net working capital

[6] Net working capital is calculated by subtracting the sum of trade payables, liabilities from work in progress, other current liabilities, current provisions and deferred income and accrued expenses from the sum of trade receivables, inventories, work in progress, other current receivables, compensation claims from work in progress and accrued income and deferred expenses.

[7] Work in progress (net) is calculated as work in progress (asset) less liabilities from work in progress

[8] Net cash is calculated as cash and cash equivalents less current and non-current financial liabilities

Dates

Annual Report 2019, Annual Media and Analyst Conference:	*March 2020*
Annual General Meeting 2020:	*30 April 2020*
Half-year report 2020:	*August 2020*

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