

Review of 2019

Comet masters the challenges of a demanding year.

A continued weak semiconductor market at the beginning of 2019, then a trend reversal and significant demand increase in the fourth quarter, requiring rapid ramp-up – Comet is reporting on a challenging year. Thanks to swift and vigorous action, the Group closed the year with results above expectations.

The consolidated net sales of CHF 371.6 million were off 14.8% from the prior year. Nevertheless, Comet raised its operating profitability in terms of EBITDA margin from 9.8% in the prior year to 10.8%. This significantly surpassed the guided range of 7%–8.5%. Net income, at CHF 12.0 million, was in line with the year-earlier level. What is more, net working capital was successfully reduced as planned and free cash flow rose from CHF 0.8 million to CHF 30.0 million. Comet is financially sound, with an equity ratio of 50% and net debt that was reduced from CHF 39 million to CHF 25 million. On this solid footing, and invigorated by a sharpened strategic focus and the Boost improvement program, Comet is moving forward with renewed strength.

Semiconductor cycle reflected in sales trajectory

After the semiconductor market correction in 2018, the year 2019 was defined by continued weak demand in this market important to Comet. The industry's overcapacity especially for memory chips reduced demand for Comet's products in the first three quarters. In the fourth quarter, the market picked up again. Comet's Plasma Control Technologies division rapidly and flexibly ramped up manufacturing capacity, although this was not able to make up for the weak previous quarters. The division's sales of CHF 151.7 million were 28.5% below the prior year's. Meanwhile, the picture in the x-ray business was mixed. X-Ray Systems achieved growth with recent product innovations in the electronics sector and benefited from sizeable prior-year orders in the aerospace industry. Sales increased by 2.9% to CHF 139.6 million. X-Ray Modules held its own despite reduced demand for manufactured goods in the end markets of automotive and aerospace. Its sales of CHF 78.1 million were only slightly less than in the prior year. At ebeam, the main focus was on examining strategic options for the further reduction of risks and costs. Sales were CHF 15.5 million, as expected.

Measures taken have traction – Profitability above both prior year and expectations

In this demanding market environment, Comet was quick to take substantial cost-saving measures. Besides the cost reductions, the better utilization of production capacity at the end of the year and the absence of prior-year one-time costs of CHF 10.5 million were positive for EBITDA. Despite the fact that sales were 14.8% lower than in the year before, Comet delivered consolidated EBITDA earnings of CHF 40 million (prior year: CHF 43 million). The EBITDA margin rose from the prior year's 9.8% to 10.8%. The largest contribution was made by the X-Ray Modules division, which increased its EBITDA profit from CHF 20.7 million to CHF 21.7 million and improved its EBITDA margin by 2.3 percentage points to 27.8% despite lower sales. At X-Ray Systems, the program of measures launched in the previous year had the desired effect: The division generated EBITDA of CHF 12.0 million (prior year: CHF 1.0 million). This corresponded to an EBITDA margin of 8.6% and exceeded the target for the year. In order to maintain the ability to take advantage of future opportunities, Comet continued to invest in promising forward-looking projects, including bolstering its product portfolio. This was particularly evident at Plasma Control Technologies. The division adjusted its costs to reflect current demand in the semiconductor market, but kept up investment in the new RF power generator, which was presented to key accounts in the summer. This and the 28.5% reduction in sales were reflected in the EBITDA earnings result of CHF 15.4 million (prior year: CHF 43.5 million). In the ebeam business, the increased focus on the further reduction of risks and costs paid off. The EBITDA loss was reduced from CHF 19.9 million in the prior year to CHF 6.2 million, thanks

also to the non-recurrence of one-time costs of CHF 6.6 million.

Strategic realignment adopted – Implementation launched

The growing digitalization and demand for ever more powerful, more reliable and smaller semiconductors offers major opportunities for Comet's established technologies. After its strategic review, the Board of Directors has therefore decided to focus the Group on the core businesses of plasma control and x-ray and the high-volume markets of semiconductor and electronics, automotive, aerospace and security. This includes the repositioning of the x-ray systems business as a manufacturing partner of choice

Sales in CHF million
2019

371.6

2018: 436.4

Net income in CHF million
2019

12.0

2018: 12.3

Free cash flow in CHF million
2019

30.0

2018: 0.8

that will focus on modular standardization, high-volume markets and the expansion of its service offering. An important success factor for this shift are capabilities in data analytics and artificial intelligence. Comet will therefore increase its investment in developing and expanding these competencies.

As part of focusing on its core business, Comet also decided to review its strategic options for the ebeam business and mitigate the risks associated with it; this process was begun in the summer.

In order to strengthen the core business and be able to serve the Asian growth market faster and better, the decision was also made to establish a manufacturing site in Penang, Malaysia, and open a subsidiary there. These and other measures form part of Boost, the comprehensive improvement program adopted by the Board of Directors in conjunction with the refocusing. At its center are initiatives to promote growth and efficiency: Thus, for example, structures, processes and costs Group-wide are being adjusted and made more flexible so as to raise profit-

Comet Group key consolidated financial results

In thousands of CHF	2019	2018 ¹	2017	2016	2015
Net sales	371,606	436,356	443,370	332,437	282,321
Operating income	19,939	18,771	50,737	36,473	25,488
In % of net sales	5.4%	4.3%	11.4%	11.0%	9.0%
EBITA	24,541	29,426	55,129	39,630	27,994
In % of net sales	6.6%	6.7%	12.4%	11.9%	9.9%
EBITDA	39,974	42,966	63,203	47,699	35,718
In % of net sales	10.8%	9.8%	14.3%	14.3%	12.7%
Net income	12,027	12,347	35,336	27,336	17,106
In % of net sales	3.2%	2.8%	8.0%	8.2%	6.1%
Operating cash flow ²	48,688	27,727	38,353	33,179	35,672
In % of net sales	13.1%	6.4%	8.7%	10.0%	12.6%
Total assets	391,710	380,266	389,789	344,908	255,642
Shareholders' equity	195,948	198,292	201,548	176,345	162,205
In % of total assets	50.0%	52.1%	51.7%	51.1%	63.4%
Number of employees (year-end)					
Switzerland	494	509	535	438	366
International	836	837	900	792	729
Total	1,330	1,346	1,435	1,230	1,095

¹ Amounts for 2018 in this annual report are restated for IFRS 16 (see note 2.2 in the consolidated financial statements).

² Net cash provided by operating activities, as per consolidated statement of cash flows.

ability and better cushion future market volatility.

New leadership

In terms of personnel, too, 2019 was a year of renewal for Comet. Heinz Kundert, Patrick Jany and Christoph Kutter were elected to the Board of Directors and Heinz Kundert became the new Chairman of the Board. On the Executive Committee, Heinz Kundert took over as CEO on an interim basis from René Lenggenhager, who left the Group in June 2019. The succession process to select a new CEO and CFO is well underway. With Heinz Kundert as Chairman of the Board and interim CEO, the necessary stability is given.

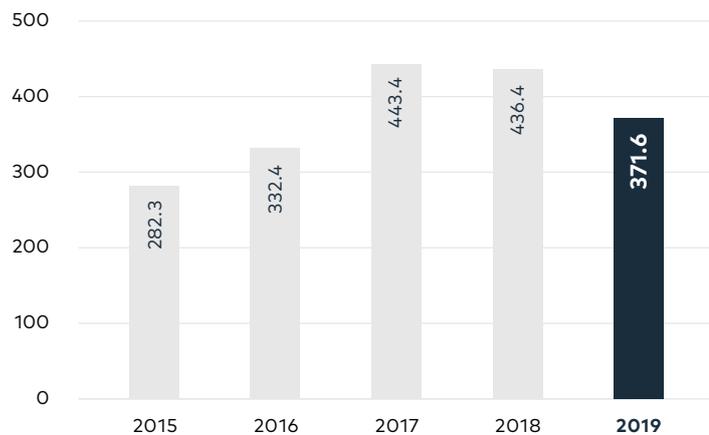
Streamlining of management and Board

As part of its corporate focusing, Comet reduced the size of the Executive Committee from seven members to six. Following the decision of Franz Richter and Christoph Kutter not to stand for re-election, going forward the Board of Directors has decided to limit the number of Board members to five. With the remaining five Board members, a balanced mix of competencies and experience is achieved. The Board of Directors thanks Franz Richter and Christoph Kutter for their valuable contributions to the development of the company. As well, in line with contemporary corporate governance practice, the Board will propose at the next Annual Shareholder Meeting to abolish the age limit of 70 years for Board members that is currently specified in the company's Bylaws.

Dividend

At the Annual Shareholder Meeting on April 23, 2020, the Board of Directors will propose a dividend of CHF 1.00 per share (2019: CHF 1.20). This represents a dividend of 65% of the Group's net income (2019: 75%).

Net sales in CHF million



EBITDA in CHF million

