

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.

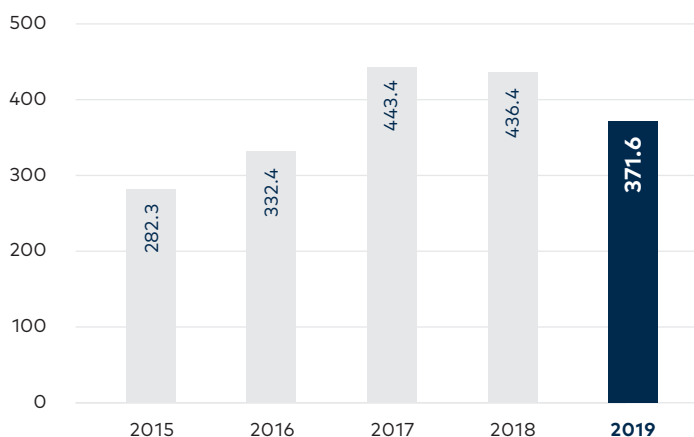
Streamlining of management and Board

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.

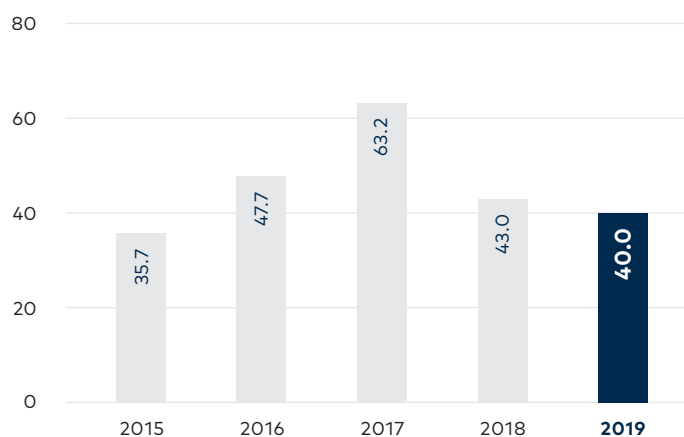
Dividend

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



Plasma Control Technologies

2019 was a demanding year for the Plasma Control Technologies division. The excess capacity that had built up in 2018 in the market for memory chips persisted in the first three quarters of 2019 and hurt demand for new equipment. The first signs of an improvement were seen mid-way through the second half of the year. The expected introduction of 5G-enabled mobile phones and an increase in demand from the electric car industry and from data centers led to a renewed rise in demand for logic and memory chips at the end of the year.

Tracking with these developments, Plasma Control Technologies in the first half of 2019 saw a revenue decline of 40.9% compared to the still strong year-earlier period and of 17.6% relative to the weak second half of 2018. Thanks to good preparations, the division was able to match the demand increase in the fourth quarter by ramping up its manufacturing to full capacity utilization and closing the second half slightly ahead of the first six months. Sales for the full year were CHF 151.7 million (prior year: CHF 212.2 million).

During the market correction, the division maintained the investment in its forward-looking projects: the product portfolio expansion, and the structures, processes and facilities that make Comet more efficient, faster and more flexible. Coupled with the sharp slump in sales, this led to EBITDA earnings of CHF 15.4 million (prior year: CHF 43.5 million) and an EBITDA margin of 10.1% (prior year: 20.5%).

Intensified efforts in the areas of key account management, R&D and operations were already crowned with success in 2019: Plasma Control Technologies won a very significant order from a major customer. As well, the division completed the development of the first prototype phase for its modular, flexible and high-precision RF generator. Preparing for the manufacturing of this new product, it paved the way for serial production by moving the German generator operations to the new, leased site in Aachen at the end of 2019. The first sales of the new generator are expected in 2021. In Flamatt, investment in equipment will markedly improve the efficiency and speed of capacitor production in order to be able to react even more nimbly to swings in demand. To create additional capacity for the production of new RF impedance matching networks in Asia, the division

Key financials of Plasma Control Technologies at a glance

CHFm	2019	2018
Net sales	151.7	212.2
EBITDA	15.4	43.5
EBITDA margin	10.1%	20.5%
Number of employees worldwide	544	535

Sales by market in percent



selected Penang, Malaysia, as the location, evaluated a partner, determined the production facility design and, in early 2020, established the subsidiary as a legal entity.

X-Ray Modules

The Industrial X-Ray Modules division once more proved its robustness in fiscal year 2019. Thanks to a taut cost regime, it raised its profitability at EBITDA level for the fourth consecutive year, despite a slowdown in the core market of non-destructive testing.

As was the case for the sister division X-Ray Systems, the market environment in the module business was defined by the decelerated global economic growth and weaker demand for investment goods. This was particularly noticeable in the automotive and aerospace markets. Sales in the security segment closed the full year in positive territory after a difficult first six months. For the Industrial X-Ray Modules division overall (also referred to in this report simply as "X-Ray Modules"), sales were CHF 78.1 million (prior year: CHF 81.2 million), representing a year-over-year decrease of 3.8%.

By lowering production costs and through rigorous cost management across all functions, the division was able to counteract the effects of the reduced sales. EBITDA operating earnings improved to CHF 21.7 million (prior year: CHF 20.7 million) and the EBITDA margin was high at 27.8% (prior year: 25.5%).

With the development of its sealed, high-precision and high-resolution Xplorer microfocus tube, the division reached an important milestone for the entry into the semiconductor and electronics market. As well, at the end of 2019, X-Ray Modules

announced the introduction of two new product families: "ION" for the security segment, and "Meso-Focus" for the non-destructive testing market.

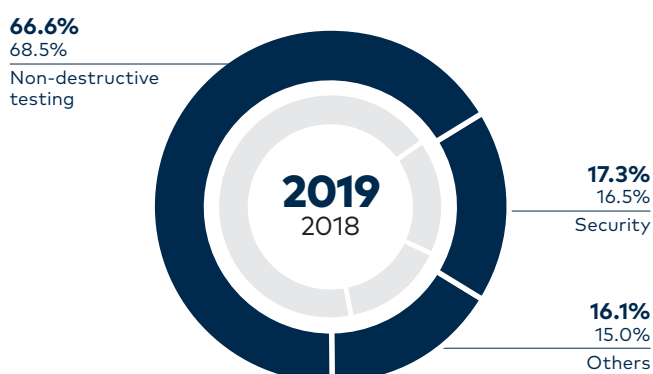
X-Ray Systems

The X-Ray Systems division in 2019 fully met the expectations placed in it, rapidly putting remedial measures into action and strongly improving its profitability from the weak previous year. The division also strategically realigned its business and thus laid the foundation for a suc-

Key financials of X-Ray Modules at a glance

CHFm	2019	2018
Net sales	78.1	81.2
EBITDA	21.7	20.7
EBITDA margin	27.8%	25.5%
Number of employees worldwide	279	314

Sales by market in percent



successful transformation of the systems activities.

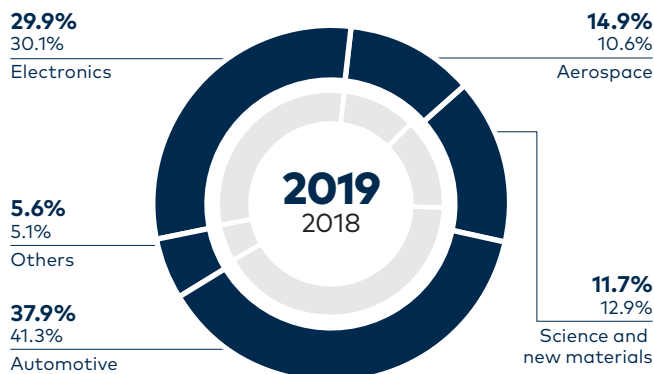
Although the slower global economic growth and reduced demand for manufacturing goods weighed on the market, X-Ray Systems increased its sales in the fiscal year by 2.9% to CHF 139.6 million (prior year: CHF 135.7 million). With its x-ray and computed tomography systems, the division grew sales in the aerospace and semiconductor/electronics sectors. An important contribution to success came from recent product innovations, such as the award-winning Geminy software platform. Used with CT systems, it

enables synergies between the product groups while cutting complexity. The significant growth in the aerospace segment was due mainly to deliveries of several relatively large systems resulting from successful prior-year sales activities. In the automotive market, business for X-Ray Systems as well weakened in the latter half of the year, as a result of the general slowdown and of a sharp contraction in the wheel segment. The market for inspection systems for labs and research institutions also softened somewhat. A gratifying performance was seen in Asia, the largest regional market, and especially in Japan, where a dynamic team has doubled sales over the past four years.

Key financials of X-Ray Systems at a glance

CHFm	2019	2018
Net sales	139.6	135.7
EBITDA	12.0	1.0
EBITDA margin	8.6%	0.7%
Number of employees worldwide	439	420

Sales by market



The program of improvement measures launched in the prior year produced results. Thanks to leaner processes, X-Ray Systems raised efficiency in areas such as sales, which was realigned; in the research and development department, which was also realigned and was placed under new management; and in defect prevention, where costs were greatly reduced. The division also achieved significant advances in the services section, which substantially improved communication with customers through the use of new software. X-Ray Systems grew profitably and significantly lifted its EBITDA earnings to CHF 12.0 million (prior year: CHF 1.0 million), with an EBITDA margin of 8.6% (prior year: 0.7%).

With new leased premises, the division also created the necessary infrastructure in Hamburg for further growth. Providing its customers with technology-award-winning new functionalities for Industry 4.0, it propelled several product families to the next level. And importantly, it developed its focus strategy geared to three core markets and to standardized systems.

ebeam Technologies

At ebeam, the prior year's divestiture of the loss-making US systems business, combined with further measures to increase efficiency, had a positive impact in 2019. The division significantly reduced its cost base. Its EBITDA loss decreased from the prior year's CHF 19.9 million to CHF 6.2 million. The division's sales of CHF 15.5 million (prior year: CHF 20.0 million) were in line with expectations.

In light of the Group's strategic realignment and the focusing on plasma control and x-ray technology, the Board of Directors decided in summer 2019 to evaluate the strategic options for the ebeam business. Various possibilities were analyzed and discussions held with potential partners.

The completion of this process is expected in the course of 2020. Until then, the ongoing production for customers is safeguarded thanks to the timely retention of key personnel. Comet believes that no unplanned special charges against 2020 earnings will arise in connection with this strategic decision.

Key financials of ebeam Technologies at a glance

CHFm	2019	2018
Net sales	15.5	20.0
EBITDA	-6.2	-19.9
EBITDA margin	-39.8%	-99.3%
Number of employees worldwide	68	77