Media Release

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08/11/2010 - Rieter back to positive operating results and 92% increase in orders received

As a leading supplier to the textile machinery and automotive markets, Rieter successfully exploited the improved market environment in the first half of 2010 to generate organic growth. Compared with the same period of the previous year, Rieter's order intake increased by 92% to 1'615.3 million CHF (840.0 million CHF in 2009) and sales grew by 34% to 1'201.3 million CHF (899.8 million CHF in 2009). The Rieter Group and both divisions returned to profit at the operating level. The Rieter Group achieved an operating result before interest and taxes (EBIT) of 14.6 million CHF in the first six months. Rieter will reach the announced turnaround and expects to reaffirm the positive half-year operating result for the 2010 financial year as a whole. Furthermore, Rieter already aspires to a positive net result for the current year.

Rieter's markets revived significantly again in the first half of 2010, thus continuing the trend recorded in the second half of 2009. As a leading supplier to the textile and automotive industries, Rieter exploited this market recovery, which was especially pronounced in the textile machinery sector, to generate growth in all regions. The ongoing restructuring programs, which will for the most part be completed at the end of 2010, continued to be implemented in the first six months. They have made a significant contribution to the improvement in results. At the same time Rieter pressed on with important projects for the further expansion of capacity in both divisions in Asia and the development of market-specific products manufactured locally. In the context of restructuring measures and the strategy of focusing on the core business, the sale of the nonwovens activities announced in the fourth quarter of 2009 and the disposal of automotive design and engineering firm Idea Institute were completed on March 9 and June 30, 2010, respectively.

Orders received at the Rieter Group rose by 92% to 1'615.3 million CHF (840.0 million CHF in 2009). This was mainly attributable to striking growth at Textile Systems, where orders increased four-fold, and orders were also 35% higher at Automotive Systems. Adjusted for exchange rate fluctuations the increase for the group as a whole amounted to 94%. There covery in the markets, which gained momentum in the course of the period under review, affected all regions.

Group sales rose by 34% to 1'201.3 million CHF (899.8 million CHF in 2009). Expressed in local currencies, the increase amounted to 35%. This growth was equally attributable to the improved trend of business at both Textile Systems and Automotive Systems.

The Rieter Group and both divisions returned to profit at the operating level. The operating result before interest and taxes (EBIT) amounted to 14.6 million CHF, an increase of 151.1 million CHF compared with the same period of the previous year. This striking improvement in the operating result is attributable to improved capacity utilization due to a 301.5 million CHF increase in sales and further progress in lowering the break even point through rigorous implementation of the restructuring and cost-cutting programs. This resulted in a consolidated pre-tax result of -2.7 million CHF (-149.8 million CHF in 2009) and a net result of -15.3 million CHF (-145.5 million CHF in 2009) at June 30, 2010.

Even after two extremely difficult years in 2008 and 2009, Rieter still has a sound balance sheet. The equity ratio on June 30, 2010, was 33% (36% on December 31, 2009) and net liquidity amounted to -18.0 million CHF (10.4 million CHF on December 31, 2009). Net cash from operating activities was marginally positive at 0.2 million CHF (-13.5 million CHF in 2009), despite the volume-related increase in net working capital and restructuring expenditures. Capital expenditure in the first six months increased only slightly compared with the same period of the previous year to 26.7 million CHF (22.8 million CHF in 2009). However, Rieter is planning to double capital expenditure in the second half of 2010 compared with the same period of 2009, primarily due to the expansion of capacity in Asia and for new customer projects. The financial stability of the Rieter Group was further reinforced by the successful placement of a 250 million CHF bond issue on March 30, 2010, thus enabling Rieter to diversify its financial resources and their maturities.

Rieter’s workforce totaled 12'490 at the end of the period under review (12'761 on December 31, 2009), which corresponds to a reduction of 271 jobs in the reporting period. While personnel numbers were reduced by some 700 in the first half of 2010 as a result of restructuring measures and divestments, this reduction was partially offset by the continued expansion of both divisions in China and India as planned, and the Automotive Systems capacity increase in North America in response to high demand. The overall proportion of personnel employed in high-cost countries continued to decline from 62% to 60%. The proportion employed in low-cost countries increased accordingly to 40% due to further expansion in Asia. More temporary personnel was hired at both divisions to manage the upswing.

Textile Systems: four-fold increase in orders received and marginally positive operating result

The investment climate in the textile industry improved significantly in the first half of 2010. Markets are reviving across the board. The main reason for this is the especially favorable margin situation for spinning mills, as demand for yarn has grown and yarn prices have risen. At the same time raw material prices – especially for cotton – have not increased to the same extent. Added to this is a backlog of demand for investment in plant replacements and updates.

Orders received by Rieter Textile Systems in the first six months of 2010 increased by 290% to 738.6 million CHF (189.6 million CHF in 2009). The upswing was most pronounced for staple fiber machinery, but demand for technology components was also strong. The largest volume of orders came from Turkey, India and China. Other Asian markets such as Indonesia, South Korea, Bangladesh and Pakistan also recorded very strong growth. More investments were also made by customers in the US and Brazil. After focusing mainly on plant replacements in the second half of 2009, demand for new installations increased substantially in the period under review.

The good order situation resulted in a better capacity utilization in the first half of 2010, and delivery lead times tended to lengthen. Short-time working was therefore discontinued as of the end of June in all departments and at all sites of Textile Systems. Sales in the first six months did not yet rise as steeply as order intake; they increased by 30% to 324.6 million CHF (249.5 million CHF in 2009), resulting in a healthy book-to-bill ratio of 2.28. The fastest growth was recorded in Asia, where sales increased by 65% compared with the same period of the previous year. Textile Systems posted a marginally positive operating result (EBIT) of 2.0 million CHF. This corresponds to an improvement by 60.2 million CHF compared with the same period of the previous year, on a 75.1 million CHF increase in sales. Rieter Textile Systems continued the systematic implementation of restructuring and cost-cutting programs in the first six months of the year, which made a significant contribution to this outcome. In the context of focusing on the Textile Division’s core businesses, Rieter signed a contract with international technology group Andritz in the fourth quarter of 2009 for the sale of Rieter’s nonwovens activities in France. This sale was completed in the first quarter of 2010.

Rieter Textile Systems, the leading systems supplier in the field of spinning machinery and installations for short staple fibers as well as the relevant technology components and services,continued to expand capacity in India in the period under review. The division will progressively expand the range of products manufactured locally in China and India in order to secure a leading position on the major Asian markets in future as a supplier of integrated systems and technology components.

Automotive Systems: striking increase in sales and positive operating result
Automobile production in the first half of 2010 increased to 36.7 million vehicles compared with 26.1 million in the same period of the previous year. The highest growth rates were recorded in North America, which alongside Europe is one of Rieter’s main markets. Output increased there by 73% to 6.0 million vehicles. North America was thus the most dynamic market in the first six months, ahead of China (+46%). However, these growth rates have to be viewed against the backdrop of the previous year’s very low levels: the slumpin vehicle production in North America in the second quarter of 2009 was exceptionally steep – also due to the insolvency of two automobile manufacturers. In Europe, Rieter’s other main market, output continued to grow (+25%) even after scrappage premiums were phased out, but at a much slower pace than in the second half of 2009. The recovery in automobile production is being driven by strong growth in consumer demand. Production of commercial vehicles, which has been at a very low level in the past year, again increased worldwide, especially in the second quarter of 2010. China’s share of global output of heavy commercial vehicles already amounts to some 40%.

Rieter Automotive successfully exploited its customers’ positive production figures to drive its own growth. The division’s sales increased by 35% to 876.7 million CHF in the first half (650.3 million CHF in 2009). Organic growth was achieved in all regions and was fueled by a broad-based portfolio of customers and products. Expressed in local currencies, sales growth amounted to 36%. The highest growth rates were recorded in North and South America and in Asia, where growth in China was 70%.

Rieter Automotive Systems posted a positive operating result of 18.5 million CHF (-78.0 million CHF in 2009), an improvement of 96.5 million CHF compared with the same period of the previous year. Besides the volume effect (sales +226.4 million CHF), this was attributable to highly effective implementationof the restructuring and cost-cutting programs.

In the context of the ongoing restructuring programs, Rieter sold Italian design and engineering firm Idea Institute to Quantum Kapital AG of Switzerland in the first half of 2010. Rieter Automotive will thus focus even more closely on its core business and work on the long-term profitable development of the division. The new customer programs, with which Rieter Automotive was able to follow up its order acquisition successes in 2009 due to its reinforced position with innovative products, will also contribute to these efforts.

Rieter Automotive Systems commenced production in a new plant in southern India in the first half of the year. This is the second manufacturing facility in this emerging market, which has great growth potential. The same is true of China, where Rieter Automotive operates a development and acoustics center in addition to several manufacturing plants in order to serve both Chinese and foreign manufacturers even more effectively. As a leading global manufacturer of systems for acoustic comfort and thermal management as well as underbody modules, Rieter will continue the progressive expansion of its production capacity in these growth markets. However, the Automotive Division will also seize opportunities for further profitable growth in Europe and North America.

Outlook

Rieter has been participating successfully in the global recovery of the textile machinery and automotive markets since mid-2009. Demand developed especially dynamically in the first half of 2010. Positive consumer sentiment in Europe and North America together with sustained economic growth in the large Asian markets are the main prerequisites for the continuation of this favorable trend.

Rieter expects a substantial increase in sales in the 2010 financial year compared to 2009, with both divisions contributing to this trend. In the second half of 2010 the Textile Systems Division in particular will see a further strong increase in sales compared with the first six months due to the good order situation. Sales by the Automotive Systems Division are expected to be lower in the second half-year compared with the period under review due to normal seasonal factors as well as currency effects.

Overall, Rieter foresees an improvement in capacity utilization in the second six months driven by demand and due to the ongoing restructuring programs. Rieter expects both divisions to post another positive operating result (EBIT) in the second half and operating margins at group level to continue their improvement. Rieter will achieve the announced turnaround and expects to reaffirm the positive half-year operating result for 2010 as a whole. Furthermore, Rieter already aspires to a positive net result for the current year.

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