

ascom

Half-year Report 2019





Jeannine Pilloud,
Chairperson & CEO

Letter to Shareholders

Dear Shareholders,

Ascom faced a very challenging first half-year 2019. Despite great efforts and many things that went right in the past, revenue was lower while costs have increased. Unfortunately, the first half-year 2019 headed into the wrong direction – and we want and must turn this around: to return onto the path of success. Nevertheless, our strategic positioning in Healthcare is strong and our portfolio shows a solid development.

At the beginning of August 2019, we announced that Holger Cordes will be leaving Ascom after three years of serving as CEO. On behalf of the Board of Directors, I would like to thank him for his dedicated service for Ascom and the strategic re-positioning of the Company. We wish him all the best for his professional and personal future.

The Board of Directors has taken the decision that in addition to my role as Chairperson of the Board, I also assume operational leadership as acting CEO of the Ascom Group with immediate effect. The dual mandate is a tribute to the current situation of Ascom and it will last as long as necessary. Jürg Fedier, member of the Board of Directors and Chairman of the Audit Committee, has been appointed as Independent Lead Director to assure best-practice Corporate Governance.

I am fully aware that my new role means not only a great personal challenge. It also means a lot of responsibility to lead Ascom into a successful future and to complete the current transformation process.

The Board of Directors and the Management have defined specific actions to better exploit our growth potential and to improve the Company's long-term profitability. Ascom has to become faster, more customer-focused, and the solutions have to be impeccable.

Ascom has a remarkable portfolio of products and solutions, mainly in the Health-care sector. During the first half of 2019, we won several important projects such as a Digistat contract we secured with the Campus Bio-Medico University Hospital in Rome to deliver the Ascom Healthcare Platform and its software solutions Digistat; in the UK we were able to win our largest ever Ascom smartphone order and signed a joint contract with the British mobile care monitoring specialist Person Centred Software, that put state-of the-art Ascom smartphones in the hands of several thousand of care home staff across UK.

However, the transformation to a solution company still needs a concentrated and focused effort. Costs have to be better aligned to the revenues, and it is very important to implement a consistent delivery model throughout our markets. Ascom's offering has to be a speed boat in this large growing market.

The Board of Directors and the Management are convinced that the strategic positioning of Ascom is correct, and we will do our utmost to return to growth and to increase profitability sustainably. However, in 2019, we have a challenging journey ahead of us. We want to prepare the ground to enable Ascom to earn the fruits of our efforts and to create shareholder value. We will inform you constantly and transparently on all relevant steps and milestones to be accomplished.

On behalf of the entire Board, I like to thank you, our valued shareholders, our business partners and our employees for the strong support and trust. We also extend our special thanks to all our highly respected customers, for their confidence in our products, solutions and services.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Pilloud', with a stylized initial 'J'.

Jeannine Pilloud
Chairperson & CEO

Challenging first half-year 2019

Ascom experienced a weaker than expected performance during the first six months 2019. The half-year results were impacted by weak demand in the OEM business, and ongoing issues in the service business. Therefore, net revenue declined by 4.2% at constant currencies. As a consequence, the EBITDA margin dropped significantly. Nevertheless, despite the lower operational profitability, Group profit increased to CHF 6.5 million (H1/2018: CHF 5.4 million) due to one-off effects.

Good performance in UK and the DACH region

Ascom generated for the first half-year 2019 net revenues of CHF 137.0 million, representing a decline of 4.2% at constant currencies (H1/2018: CHF 146.9 million). Ascom suffered from weak demand in the OEM business (accounting for about 10% of total revenue in H1/2018), which declined by about 30%. Moreover, the initiated measures to increase the quality and capacity of the service business did not fully materialize.

The various regions performed differently. UK and the DACH region showed a solid performance with a high single-digit revenue growth. The Benelux region and the Nordic countries faced delays in project delivery resulting in a revenue decline compared to H1/2018. Business in North America was in line with the previous year while the business in Australia and Asia was slower.

The healthcare sector accounts for about 64% of the revenue of the first half-year 2019, in line with the previous year. While the revenue share of OEM business fell from 10% to 7%, the enterprise sector grew from 26% to 29%. Recurring revenue increased to 26% compared to 23% in H1/2018.

Order backlog continued to grow

Ascom achieved a total volume of new orders of CHF 161.7 million in the first half-year 2019 (H1/2018: CHF 169.3 million). Order backlog stood at CHF 172.1 million (H1/2018: CHF 164.0 million), representing an increase of 8.7% at constant currencies, which is a solid basis for a better business performance in the second half of 2019 and in 2020.

On a positive note, important orders such as a large contract with a leading hospital in Singapore, the important contract with the renowned Italian Campus Bio-Medico University Hospital and a large order for Ascom Myco 3 smartphones in the UK were secured in the healthcare sector. Furthermore, the proof of concept tests of the smartphone Ascom Myco 3 are ongoing with many customers, and will lead to further orders in the second half-year 2019.

Profitability hit by lower revenue

Profitability in the first half of 2019 was lower than in the previous year, primarily due to the decline in revenue and a lower gross margin, while overall functional costs remained at previous year's level. Therefore, EBITDA came to CHF 1.4 million (H1/2018: CHF 9.6 million), with an EBITDA margin at 1.0% compared to 6.5% for the first half-year 2018.

Higher Group profit due to one-off effects

In spite of the lower operational profitability, Ascom closed the first half of 2019 with a higher Group profit of CHF 6.5 million (H1/2018: CHF 5.4 million) due to one-off effects, in particular the divestment of the non-operating property Technologiepark Teningen (Germany) resulting in a substantial book gain.

Positive operating cash flow and solid balance sheet structure

During the first six months of the year, Ascom generated a positive cash flow of CHF 5.5 million from operating activities. At balance sheet date of 30 June 2019, cash and cash equivalents stood at CHF 14.2 million with an equity ratio of 35.2%.

Consolidated balance sheet

Assets

CHFm	Note	30.6.2019	%	31.12.2018	%
Cash and cash equivalents		14.2		21.2	
Trade receivables		62.3		79.7	
Other short-term receivables		7.8		6.3	
Inventories and work in progress		23.9		19.8	
Prepayments and accrued income		19.8		18.5	
Current assets		128.0	64.5	145.5	66.6
Property, plant and equipment		7.4		11.2	
Intangible assets		35.9		36.1	
Financial assets		27.3		25.6	
Non-current assets		70.6	35.5	72.9	33.4
Total assets		198.6	100.0	218.4	100.0

Liabilities and shareholders' equity

CHFm	Note	30.6.2019	%	31.12.2018	%
Borrowings	7	25.0		–	
Trade payables		16.5		18.0	
Other liabilities		11.4		15.6	
Provisions		2.8		5.9	
Customer prepayments and deferred revenue		23.8		19.9	
Accrued liabilities		23.4		24.5	
Current liabilities		102.9	51.8	83.9	38.4
Borrowings	7	–		20.0	
Provisions		25.7		31.3	
Non-current liabilities		25.7	12.9	51.3	23.5
Total liabilities		128.6	64.8	135.2	61.9
Share capital		18.0		18.0	
Capital reserves		15.2		15.1	
Own shares		(0.4)		(0.4)	
Retained earnings		37.2		50.5	
Shareholders' equity		70.0	35.2	83.2	38.1
Total liabilities and shareholders' equity		198.6	100.0	218.4	100.0

The notes on pages 8 to 11 are an integral part of the consolidated interim financial statements.

Consolidated income statement

CHFm	Note	1 st half-year 2019	%	1 st half-year 2018	%
Net revenue		137.0	100.0	146.9	100.0
Cost of sales		(75.7)		(76.1)	
Gross profit		61.3	44.7	70.8	48.2
Marketing and sales		(40.7)		(39.9)	
Research and development		(15.8)		(16.5)	
Administration		(9.4)		(10.0)	
Other operating expenses		(0.8)		(0.8)	
Operating result (EBIT)		(5.4)	(3.9)	3.6	2.5
Financial income		1.7		2.2	
Financial expenses		(0.3)		(0.5)	
Ordinary result		(4.0)	(2.9)	5.3	3.6
Non-operating result	5	8.4		(0.1)	
Extraordinary result	6	1.1		1.1	
Profit before income tax		5.5	4.0	6.3	4.3
Income tax		1.0		(0.9)	
Group profit for the period¹		6.5	4.7	5.4	3.7

¹ Attributable to the owners of the parent.

Earnings per share in CHF

CHFm	1 st half-year 2019	1 st half-year 2018
Basic	0.18	0.15
Diluted	0.18	0.15

Additional information – non-GAAP measures

CHFm	1 st half-year 2019	%	1 st half-year 2018	%
EBITDA ¹	1.4	1.0	9.6	6.5

¹ Earnings before interest, income tax, depreciation and amortization (EBITDA) as a subtotal includes the operating result (EBIT) before deduction of depreciation and impairment of property, plant and equipment as well as amortization and impairment of intangible assets. As defined, EBIT and EBITDA do not include the impact of non-operating or extraordinary results. In the first half-year 2019, operating depreciation and amortization amounted to CHF 6.8 million (previous year: CHF 6.0 million).

The notes on pages 8 to 11 are an integral part of the consolidated interim financial statements.

Consolidated statement of changes in equity

CHFm	Attributable to owners of the parent							Total shareholders' equity
	Capital reserves ¹				Retained earnings			
	Share capital	Own shares	Share premium	Other capital reserves	Currency translation adjustments	Goodwill offset	Other retained earnings	
Balance at 1.1.2018	18.0	(0.5)	1.1	13.9	(3.5)	(54.9)	109.0	83.1
Group profit for the period	–	–	–	–	–	–	5.4	5.4
Currency translation adjustments	–	–	–	–	(5.0)	–	–	(5.0)
Share-based payments	–	–	–	0.1	–	–	–	0.1
Dividends paid ²	–	–	–	–	–	–	(16.2)	(16.2)
Balance at 30.6.2018	18.0	(0.5)	1.1	14.0	(8.5)	(54.9)	98.2	67.4
Balance at 1.1.2019	18.0	(0.4)	1.1	14.0	(8.8)	(54.9)	114.2	83.2
Group profit for the period	–	–	–	–	–	–	6.5	6.5
Currency translation adjustments	–	–	–	–	(3.6)	–	–	(3.6)
Share-based payments	–	–	–	0.1	–	–	–	0.1
Dividends paid ²	–	–	–	–	–	–	(16.2)	(16.2)
Balance at 30.6.2019	18.0	(0.4)	1.1	14.1	(12.4)	(54.9)	104.5	70.0

¹ Non-distributable statutory and legal reserves of Ascom Holding AG; CHF 3.6 million (previous year: CHF 3.6 million).

² Refer to note 4.

The notes on pages 8 to 11 are an integral part of the consolidated interim financial statements.

Consolidated statement of cash flows

CHFm	Note	1 st half-year 2019	1 st half-year 2018
Group profit for the period		6.5	5.4
+ Depreciation of property, plant and equipment		1.3	1.4
+ Amortization of intangible assets		5.7	4.8
+/- (Profit)/loss from disposal of property, plant and equipment	5	(3.5)	–
+ Share-based payments		0.1	0.1
+/- Addition/(release) of provisions		(6.4)	(0.8)
+/- Adjustment for non-cash items		1.2	0.3
+/- Change in inventory and work in progress		(5.0)	(1.1)
+/- Change in trade receivables		15.1	8.7
+/- Change in trade payables		(1.0)	(5.7)
+/- Change in other receivables and prepayments		(1.7)	–
+/- Change in accrued and other short-term liabilities and deferred income		(1.8)	5.7
– Interest income		(0.7)	(0.6)
+ Interest expenses		0.4	0.4
+ Interest received		0.4	0.4
– Interest paid		(0.1)	(0.1)
+/- Income tax (benefits)/expenses		(1.0)	0.9
– Income tax paid		(2.5)	(2.7)
+/- Foreign currency translation differences on intra-group positions		(1.5)	(2.7)
Cash flow from operating activities		5.5	14.4
– Purchase of property, plant and equipment		(1.2)	(1.5)
+ Proceeds from disposal of property, plant and equipment	5	6.9	–
– Purchase of intangible assets		(6.8)	(3.8)
– Acquisition of a subsidiary or business ¹		–	(3.0)
+/- Change in financial assets and other non-current assets		–	(0.4)
Cash flow from investing activities		(1.1)	(8.7)
+/- Proceeds from/(repayment of) short-term borrowings	7	(2.0)	–
+/- Proceeds from/(repayment of) long-term borrowings	7	7.0	6.0
– Dividends paid	4	(16.2)	(16.2)
Cash flow from financing activities		(11.2)	(10.2)
+/- Foreign currency translation differences on cash and cash equivalents		(0.2)	(0.4)
Increase/(decrease) in cash and cash equivalents		(7.0)	(4.9)
+ Cash and cash equivalents at 1.1.		21.2	30.3
Cash and cash equivalents at 30.6.		14.2	25.4

¹ Cash outflow attributable to the contingent purchase price payment related to the acquisition of UMS in 2016.

The notes on pages 8 to 11 are an integral part of the consolidated interim financial statements.

Notes to the consolidated interim financial statements

1. GENERAL INFORMATION AND BASIS FOR PREPARATION

These unaudited consolidated interim financial statements of Ascom Holding AG and its subsidiaries cover the period from 1 January to 30 June 2019 and are prepared in accordance with Swiss GAAP FER 31 (“Complementary recommendation for listed companies”). These consolidated interim financial statements contain an update of information already published and must therefore be read in conjunction with the year-end financial statements dated 31 December 2018, which were prepared in conformity with the entire existing guidelines of Swiss GAAP FER (Generally Accepted Accounting Principles FER/FER = Fachempfehlung zur Rechnungslegung = Accounting and reporting recommendations). The accounting policies have been applied consistently by Group companies. Furthermore, applied accounting and disclosure policies comply with the provisions of the listing rules of the SIX Swiss Exchange and the Swiss company law.

Preparation of the consolidated interim financial statements demands certain estimates and assumptions that affect the reported assets, liabilities, income and expenses and contingent liabilities at the time the accounts are prepared. If, at a later point in time, variations should occur to such estimates and assumptions, which were decided upon by the management in good faith at the time the accounts were prepared, the original estimates and assumptions are adapted accordingly in the accounting period in which the data changes.

Ascom Group’s business activities are not subject to pronounced seasonal fluctuations. However, experience has shown that, factoring out economic influences, higher sales and therefore higher profitability are usually generated in the second half of the year largely following the investment spending patterns of Ascom’s customers.

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Ascom Holding AG, the parent company of the Group, is a public limited company and domiciled in Baar, Switzerland.

2. ACCOUNTING PRINCIPLES

The consolidated interim financial statements were prepared according to the same accounting principles as those applied for the consolidated financial statements for the year ended 31 December 2018.

Ascom is exposed to translational and transactional effects of foreign currency fluctuations, in particular to the currencies below:

CHFm	ISO code	Unit	30.6.2019	Average 1 st half-year 2019	31.12.2018	Average 1 st half-year 2018
Euro	EUR	1	1.111	1.128	1.127	1.167
US dollar	USD	1	0.976	0.995	0.984	0.968
Swedish krona	SEK	1	0.105	0.108	0.110	0.115
Pound sterling	GBP	1	1.239	1.288	1.260	1.325

3. SEGMENT INFORMATION

Due to the unity and strategic focus of the business on Healthcare ICT, the top management (Group Executive Board) and the management structure of the Ascom Group are organized by functions. The allocation of financial resources of the Group by the Board of Directors and the Group Executive Board is decided centrally and by function. Research and development of the whole range of products and solutions is carried out centrally, while sales are carried out regionally with central support. Distribution and services are managed within central global functions. Accordingly, regional sales subsidiaries are responsible for the sale and delivery of the whole range of products, services and solutions in their sales area, supported by global R&D, global Supply Chain and global Services, as well as central marketing and administrative functions. The Company's risks and opportunities vary by region and are impacted and supported by local regulatory requirements, most notably in healthcare. Accordingly, the financial management and allocation of Company resources by the Group Executive Board is primarily based on regional market and net revenue developments.

Segment reporting is therefore reflecting Ascom's business as one single reportable segment. The allocation of incoming orders and net revenue is disclosed below based on the regional sales structure.

Allocation of incoming orders and net revenue

CHFm	Incoming orders		Net revenue	
	1 st half-year 2019	1 st half-year 2018	1 st half-year 2019	1 st half-year 2018
Benelux	39.2	44.8	30.2	33.7
Nordics	26.9	28.5	22.1	24.2
DACH	25.5	25.9	23.2	21.8
Rest of Europe	27.4	24.4	21.2	21.9
Americas	24.3	23.4	23.8	23.5
Asia, Australia, Africa	9.2	8.3	6.8	7.5
OEM (Original Equipment Manufacturer)	9.2	14.0	9.7	14.3
Total	161.7	169.3	137.0	146.9

4. DIVIDENDS PAID, OWN SHARES, SHARE-BASED PAYMENTS

On 10 April 2019, the Annual General Meeting of Ascom Holding AG approved a dividend of CHF 0.45 per share entitled to dividends. The total payout amounted to CHF 16.2 million (previous year: CHF 16.2 million).

In the period under review, Ascom disposed of 232 registered shares in conjunction with the award of matching share under Ascom share matching plans.

5. NON-OPERATING RESULT

CHFm	1 st half-year 2019	1 st half-year 2018
Non-operating income	8.9	0.6
Non-operating expense	(0.5)	(0.7)
Total non-operating result	8.4	(0.1)

Non-operating result relates exclusively to non-core legacy real estate activities.

In May 2019, Ascom divested for CHF 6.9 million (EUR 6.1 million) the Technologiepark Teningen which is located north of Freiburg in Breisgau (Germany). It was a non-operating property for Ascom and let to third parties since the divestment of the former division Energy Systems in 2003.

The non-operating income of CHF 8.9 million is mainly due to the profit from disposal (CHF 3.5 million) and the release of provisions for environmental costs.

6. EXTRAORDINARY RESULT

The extraordinary result of CHF 1.1 million (previous year: CHF 1.1 million) is due to a contingency provision adjustment related to the disposal of the Network Testing Division in 2016.

7. BORROWINGS

The Group syndicated credit facilities expired on 24 May 2016 and were replaced by revolving multi-currency credit facilities in an aggregate amount equal to CHF 35.0 million with two banks to fund working capital in the ordinary course of business, at variable interest rates (LIBOR + 0.8%), with an option to fix the interest rate monthly for a maximum period of 12 months. In addition, the Group has an uncommitted guarantee line of CHF 10.0 million with a Swiss bank. At 30 June 2019, Ascom used the cash lines as shown in the table below (borrowings denominated in CHF):

CHFm	30.6.2019	31.12.2018
Current	25.0	–
Non-current	–	20.0
Total borrowings	25.0	20.0

As the final maturity of the Group's credit facilities is 24 May 2020, the outstanding borrowings at 30 June 2019 are classified as current. The credit facility includes two financial covenants: a debt service ratio (calculated as the ratio of net debt and outstanding bank guarantees to EBITDA) and an equity ratio (calculated as the ratio of shareholders' equity to total assets). The financial covenants are fully complied with.

8. TIME OF RELEASE FOR PUBLICATION

The Board of Directors approved the 2019 consolidated interim financial statements on 5 August 2019 and gave permission for publication at the media conference on 14 August 2019.

9. SHARE INFORMATION

	1 st half-year 2019	1 st half-year 2018
Number of registered shares nom. CHF 0.50 ¹	36,000,000	36,000,000
Share price per registered share in CHF (high/low of the period under review)	14.94/12.02	25.70/17.66
Share price per registered share in CHF ¹	12.78	18.00
Market capitalization in CHFm ¹	460.1	648.0

¹ At the end of the period.

Summary of key financial data

CHFm	1 st half-year 2019	1 st half-year 2018
Incoming orders	161.7	169.3
Order backlog ¹	172.1	164.0
Net revenue	137.0	146.9
EBITDA	1.4	9.6
EBITDA in % of net revenue	1.0	6.5
Earnings before interest and income tax (EBIT)	(5.4)	3.6
EBIT in % of net revenue	(3.9)	2.5
Personnel expenses	(71.8)	(70.0)
Depreciation, amortization and impairment ⁵	(6.8)	(6.0)
Group profit for the period	6.5	5.4
Net cash flow from operating activities	5.5	14.4
Capital expenditures on property, plant and equipment	1.2	1.5
Capital expenditures on intangible assets	6.8	3.8
Research and development expenditures ²	(17.4)	(19.3)
Balance sheet total ¹	198.6	211.7
Shareholders' equity ¹	70.0	67.4
Shareholders' equity in % of balance sheet total ¹	35.2	31.8
Net cash or (net debt) ^{1,3}	(10.8)	1.4
Gearing in % ⁴	35.7	35.6
Dividends paid/distribution of share premium	16.2	16.2
Number of employees (FTE) ¹	1,306	1,227

¹ At the end of the period.

² Research and development costs excluding depreciations, amortization, impairment and capitalized costs.

³ Cash and cash equivalents less borrowings.

⁴ Borrowings/shareholders' equity.

⁵ Excludes depreciation, amortization and impairment from non-operating result.

Dates and contacts

Important dates

7 November 2019
Analyst & Investor Day
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Declaration of forward-looking statements

This Half-year Report contains forward-looking statements relating to Ascom. Because these forward-looking statements are subject to risks and uncertainties, the reader is cautioned that actual future results may differ from those expressed in or implied by the statements, which constitute projections of possible developments. All forward-looking statements are based only on data available to Ascom at the time of preparing this Half-year Report.

The complete 2019 Half-year Report of the Ascom Group is available in English only and can be viewed online at: <https://www.ascom.com/Investor-Relations/Financial-information/Reports-and-presentations.html>

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