



PRESS RELEASE

Franke Holding AG
Franke-Strasse 2
P.O. Box 230
4663 Aarburg
Switzerland

Telephone +41 62 787 3131
www.franke.com

Year-end result 2014: Franke Group reports good organic growth and higher operating profitability

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For the Franke Group, the 2014 financial year was a successful year overall despite challenging market conditions. Net sales have grown, mainly driven by organic growth. Almost all divisions contributed to this growth. Greater operating profitability could also be achieved due to growing sales and substantial efficiency improvements based on the Operational Excellence program launched in 2013. The Swiss National Bank's decision to unpeg the Swiss franc from the euro will result in the Franke Group facing challenging business conditions in 2015.

- Sales up 3.1% to CHF 2.13 billion
- Good organic growth of 3.8%
- Increase in EBITDA of 14.0%; EBITDA margin reached 10.8% (2013: 9.7%)
- Increase in EBIT of 21.1%, reflecting an EBIT margin that has also improved to 6.3%
- Equity ratio improved by 0.5% to 53.4%

"In 2014, we have returned to the growth path in terms of sales and profitability. We achieved good year-end organic sales growth even though the market conditions were challenging," said Alexander Zschokke, CEO of the Franke Group. "Our organic growth was supported by almost all divisions. Particularly gratifying was the fact that Franke Kitchen Systems posted stable and solid growth. During 2014, we were also able to gain market share, especially in our key region Europe. Furthermore, we delivered sustained improvements in costs and efficiency improvements made over the last two years – with the result that our company's structure has become more efficient. We also made significant investments in important product innovations, particularly in the divisions Franke Kitchen Systems, Franke Foodservice Systems and Franke Coffee Systems."

Higher organic growth

The Franke Group generated consolidated **net sales** of CHF 2.13 billion compared to CHF 2.07 billion in 2013, representing an increase of 3.1% (2013: 2.9%). The main driver was organic growth, accounting for 3.8%, thereby clearly exceeding previous year (0.5%). All divisions delivered positive organic growth with the exception of Franke Foodservice Systems, which posted flat sales mainly due to weakening demand in Asia. The acquisition effect contributed 2.2% to growth. Currency translation resulted in a negative impact of -2.9% on consolidated net sales, due to the strengthening of the Swiss franc.

Improved operating profitability driven by the Operational Excellence program

EBIT grew from CHF 111.9 million to CHF 135.4 million in the financial year, which represents a rise of 21.1% and also reflects an improved EBIT margin after restructuring of 6.3% compared to 5.4% in the previous year. However, restructuring expenses also weighed on results in 2014. In total, they amounted to CHF 12.9 million (CHF 3.7 million in 2013), which covers expenses in 2014 and also includes provisions for restructuring measures that were announced during the year and will be finalized in 2015.

Sales growth, predominantly stable foreign exchange rates and commodity prices, as well as a number of various internal cost efficiency initiatives, led to the EBIT improvement. The latter is based on the Group's Operational Excellence program, which was launched mid-2013 and is now bearing fruit. The program, with its four work-streams of Purchasing Excellence, Complexity Pruning, Footprint Optimization and SG&A Optimization, substantially contributed to boosting Franke's profitability.

Total **operational investments** in the reporting period were CHF 87.4 million compared to CHF 226.6 million in the previous year, including the investments in property, plants and equipment and intangible assets. Last year's figure comprised the considerations transferred for the acquisitions of the tap manufacturer KWC/Switzerland and Nokite/China, as well as the producer of sauce dispensing solutions FundaMetal Design/Canada.

With 8,964 **employees** as of December 31, 2014, the headcount was 273 lower than on the same date a year earlier.

2014 – a year of driving innovation and product development

As a central pillar of the One Franke strategy, the Group is continually developing and innovating its customer offering, which is therefore key to future growth. In 2014, the Group successfully developed new product platforms across divisions. The Franke Coffee Systems division has been working on the strategically important rejuvenation of its product range. To defend its leadership in the category, Franke had further significantly improved product reliability, ease of use and in-cup quality by developing the new

A200 and A600 coffee machines and its first C250 capsule coffee machines, which were successfully launched at the Internorga trade fair in Hamburg in March 2015.

At Franke Kitchen Systems a key initiative is the new Frames by Franke product line, an innovative integrated modular kitchen system based on a thorough understanding of how consumers prepare and cook food. Aligning all components of contemporary kitchens in terms of design, materials and functionality – from sinks and suitable taps to hoods, and right down to electrical appliances, the concept of Frames by Franke was presented for the first time at the Living Kitchen fair in Cologne in 2015.

Moreover, Franke Foodservice Systems in partnership with Primaira LLC has developed an exclusive version of the technology company's Air Purification System for walk-in coolers in foodservice establishments. Already proven in maritime applications, the product doubles the holding time of fresh fruits and vegetables by using ozone to eliminate microbes that cause spoilage and odors.

Finally, Franke has entered into a collaborative relationship with the Intel* Corporation to bring technology innovation to Franke products spanning across multiple groups within the Franke organization. "We are thrilled about this collaboration with a world-leader in consumer and commercial kitchen and foodservice systems all the way to water and beverage systems. Intel technology will enable Franke to add new IoT (Internet of Things) capabilities to their products, demonstrate market leadership and deliver new, exciting and useful features to their customers," said Christian Morales, Corporate Vice President and General Manager of Intel in EMEA. "It's great to be working with Intel, one of the world's leading technology innovators, to find exciting new ways to enhance Franke products and provide real value to our customers," said Alexander Zschokke, CEO of the Franke Group. Franke will make product-related announcements as appropriate through 2015.

Outlook

2014 was very clearly influenced by organizational realignment in line with the One Franke strategy. A great deal of effort was invested in the organization's further development. This has now resulted in structural improvements and new innovative products, which laid strong foundations for further sustainable and profitable growth.

The start of the new financial year 2015 proved very difficult in view of the Swiss National Bank's decision to unpeg the Swiss franc from the euro. Because of the Franke Group's significant cost base in Switzerland, a much stronger Swiss franc will have a negative impact on results not only through translation but also reduced margins on export businesses and increased competitive pressure in

Franke's home market. Short-term measures as well as medium-term structural adjustments have therefore been initiated to compensate for the negative effects.

Franke will expand the Operational Excellence program with additional restructuring measures to maintain the Group's profitability and mitigate the FX challenges in 2015. The focus will be on structural changes to make the Group competitive in the long run and on maximizing the natural hedge possibilities of a global business and footprint. Despite volatile markets and uncertainties for the major economies, the Franke Group sees opportunities across markets and segments and is determined to seize those opportunities by driving customer proximity, innovation and product development.

***Franke** is part of the Artemis Group. As a world-leading provider of solutions and equipment for domestic kitchens, private bathrooms, semi-/public washrooms, professional food service, coffee preparation and beverage delivery, the Franke Group is globally active with about 9,000 employees working in 37 countries, generating revenues of CHF 2.1 billion.*

Contact

Gabriele Hepp
Head of Communications
Franke Holding AG

T +41 62 787 3358
M +41 79 108 3225
E gabriele.hepp@franke.com