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AFG – H1 2015 Results – 13 August 2015

Alexander von Witzleben, CEO
Felix Bodmer, CFO

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AFG Arbonia-Forster-Holding AG
Divisions and key brands

AFG Arbonia-Forster-Holding AG

Building Technology			Building Envelope	Building Security	
Heating Technology	Air-conditioning & Ventilation Technology	Sanitary Equipment	Windows & Exterior Doors	Profile Systems	Special Doors
arbonia	2014 SABIANA	2001 KERMI	2004 EgoKiefer Fenster und Türen	forster	2007 RWD Schlatter Türen
1999 prolux			2008 Slovaktual Fenster & Türen		
2001 KERMI			2013 dobroplast Windows & Doors		
			2015 WERTBAU		

Acquisition year #

Acquisition signed #

Profound Measures
Summary

H1 2015	Repositioning of AFG	Strengthened capital base
• **CHF 425 M** net revenues	• **RELOCATION** of production footprint	• **CHF 250 M** secured existing credit facility
• **CHF 16 M** EBITDA	• **WERTBAU** acquisition in Eastern Germany	• **RIGHTS ISSUE** fully underwritten
• **3.8%** EBITDA margin	• **FOCUS** on divisional strategies	• **CHF 200 M** gross proceeds
• **CHF 121 M** impairments	• **LEAN** industrial holding	• **ANCHOR SHAREHOLDER** supporting measures

Guidance full year 2015

-3% to -5%	>50	160–190	50	~40%
organic sales growth	EBITDA[1] (CHF M)	net loss (CHF M)	net debt (CHF M)	equity ratio

Guidance 2018

+3%	>100	Substantial FCF
sales growth p.a.	EBITDA (CHF M)	

1. Operating EBITDA (excl. restructuring costs)

Repositioning of AFG
Lowered cost base and redefined markets

	Today	2018
Building Envelope	**Swiss market leader with strong outposts in Poland and Slovakia** ➢ Local production for local markets ➢ ~75% of windows for Swiss market produced domestically[1] ➢ ~30% of revenues outside CH[1]	**Leading European windows group** ➢ Integrated production network with strong local market organizations ➢ ~5% of windows for Swiss market produced domestically ➢ 40-50% of revenues outside CH (undisputed leader in home market)
Building Technology	**Leading industrial manufacturer of steel panel and other radiators** ➢ Large majority of revenues from steel radiators (especially prior to acquisition of Sabiana)	**Leading European producer of HVAC[2] systems based on** ➢ Active consolidation of radiator market ➢ Expansion into growing segments (ventilation, A/C, indoor air quality, underfloor heating)
Build. Security	Further strengthening of market leadership positions in niche markets	
Holding	*Establishing a lean industrial holding*	
Strengthened capital base	***Fully underwritten CHF 200 M capital increase and agreement with lending banks (covenant waiver)***	

1. Based on FY 2014 2. HVAC = Heating, Ventilation & Air Conditioning

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Agenda

1. **H1 2015**
   Disappointing results and difficult market environment

2. **Repositioning of AFG**
   Lowered cost base and redefined markets

3. **Strengthened capital base**
   Fully underwritten capital increase and agreement with lending banks

4. **Outlook**
   Consequent execution to achieve guidance 2018

Questions

Income Statement

One-time effects have negative impacts on result

In CHF M	1-6/2015	in %	1-6/2014	in %
Net revenues	**425.1**	**100.0**	**447.0**	**100.0**
Cost of material and goods	-202.3	-47.6	-204.2	-45.7
Personnel expenses	-165.9	-39.0	-169.2	-37.8
Other operating expenses	-69.6	-16.4	-69.3	-15.5
EBITDA	**16.1**	**3.8**	**25.7**	**5.8**
Depreciation, amortisation, impairments	-141.4	-33.3	-19.9	-4.5
EBIT	**-125.4**	**-29.5**	**5.8**	**1.3**
Net financial results	-14.1	-3.3	-8.0	-1.8
Group result before income tax	**-139.5**	**-32.8**	**-2.2**	**-0.5**
Income tax expenses	6.8	1.6	-0.4	-0.1
Group result from continuing operations	**-132.6**	**-31.2**	**-2.6**	**-0.6**
Group result from discontinued operations	**-**	**-**	**1.7**	**0.4**
Group result	**-132.6**	**31.2**	**-0.9**	**-0.2**

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Reconciliation to adjusted numbers

Impairments weigh on EBIT

In CHF M	Actual 1-6/2015	Building Techn.	Building Envelope	Building Security	Others	1-6/2015 without one-time effects
Net revenues	425.1					425.1
EBITDA	16.1		0.6		1.5	18.2
EBIT	-125.4	20.3	100.0			-2.9
Group result	-132.6		-9.5		-0.3	-19.9

Presentation of the respective one-time effects on the immediate result line without disclosure of the impact on the subsequent line items.

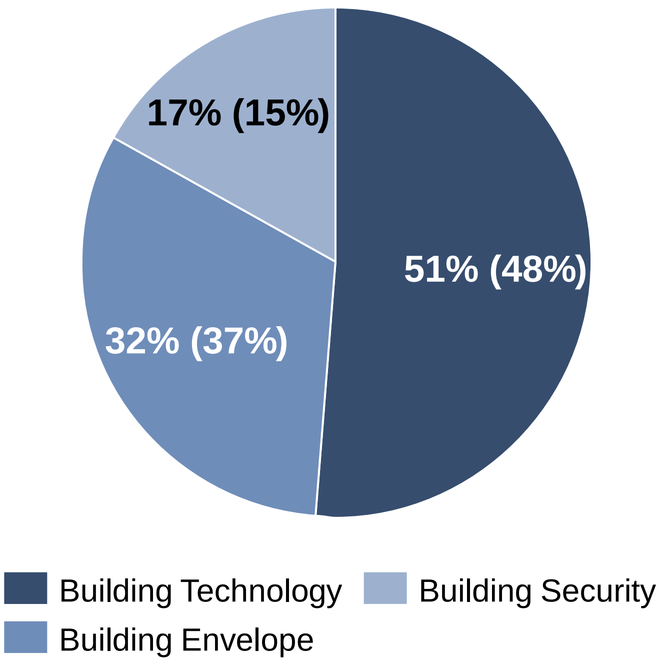
Adjusted Income Statement
Disappointing operating performance

In CHF M	1-6/2015	in %	1-6/2014	in %
Net revenues	**425.1**	**100.0**	**447.0**	**100.0**
Cost of material and goods	-202.3	-47.6	-204.2	-45.7
Personnel expenses	-163.8	-38.5	-167.9	-37.6
Other operating expenses	-69.6	-16.4	-68.1	-15.2
EBITDA	**18.2**	**4.3**	**28.2**	**6.3**
Depreciation, amortisation	-21.0	-5.0	-19.9	-4.5
EBIT	**-2.9**	**-0.7**	**8.3**	**1.9**
Net financial results	-14.1	-3.3	-8.0	-1.8
Group result before income tax	**-17.0**	**-4.0**	**0.3**	**0.1**
Income tax expenses	-3.0	-0.7	-0.8	-0.2
Group result from continuing operations	**-20.0**	**-4.7**	**-0.5**	**-0.1**

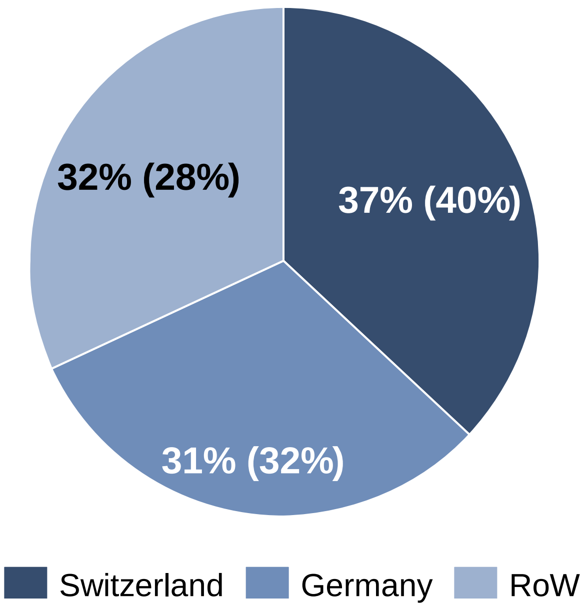
Blue figures are adjusted by one-time effects.

Net revenues by Division / Country
Sabiana acquisition influences split

Net revenues by Division



Net revenues by Country



Figures in brackets represent H1 2014 figures.

Organic growth by Divisions
Negative FX effects and organic growth

Net revenues as reported in CHF M	1-6/2015	1-6/2014	Δ
AFG	**425.1**	**447.0**	**-4.9%**
Building Technology	217.7	216.4	0.6%
Building Envelope	135.9	163.3	-16.8%
Building Security	71.3	66.3	7.6%

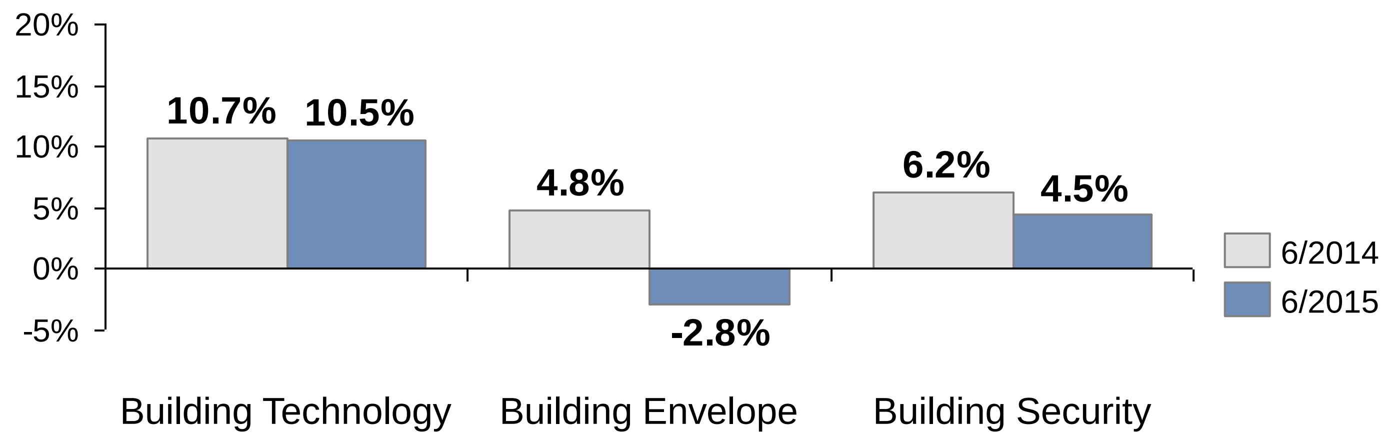
Effects in net revenues	Currency effects	Acqui-sition effects	Organic growth [1]
AFG	**-8.2%**	**7.9%**	**-4.6%**
Building Technology	-12.9%	16.5%	-2.9%
Building Envelope	-4.3%	-	-12.5%
Building Security	-2.6%	-	10.2% [2]

1. Adjusted for currency and acquisition effects 2. Including changes in the distribution structure in Germany

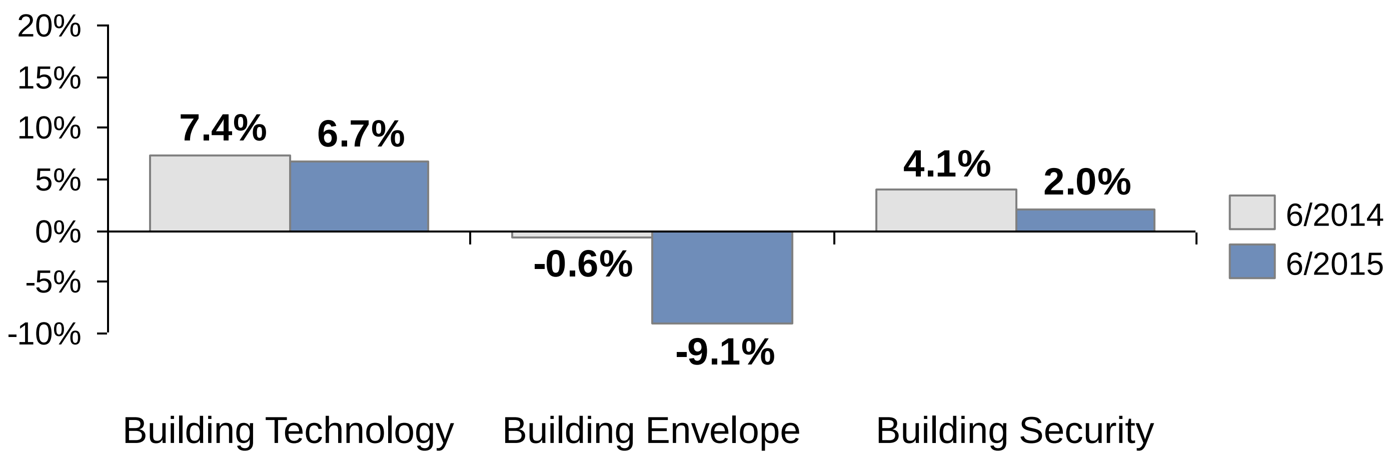
EBITDA- / EBIT-margins per Division

Margin decline in all divisions

EBITDA margin, adjusted



EBIT margin, adjusted



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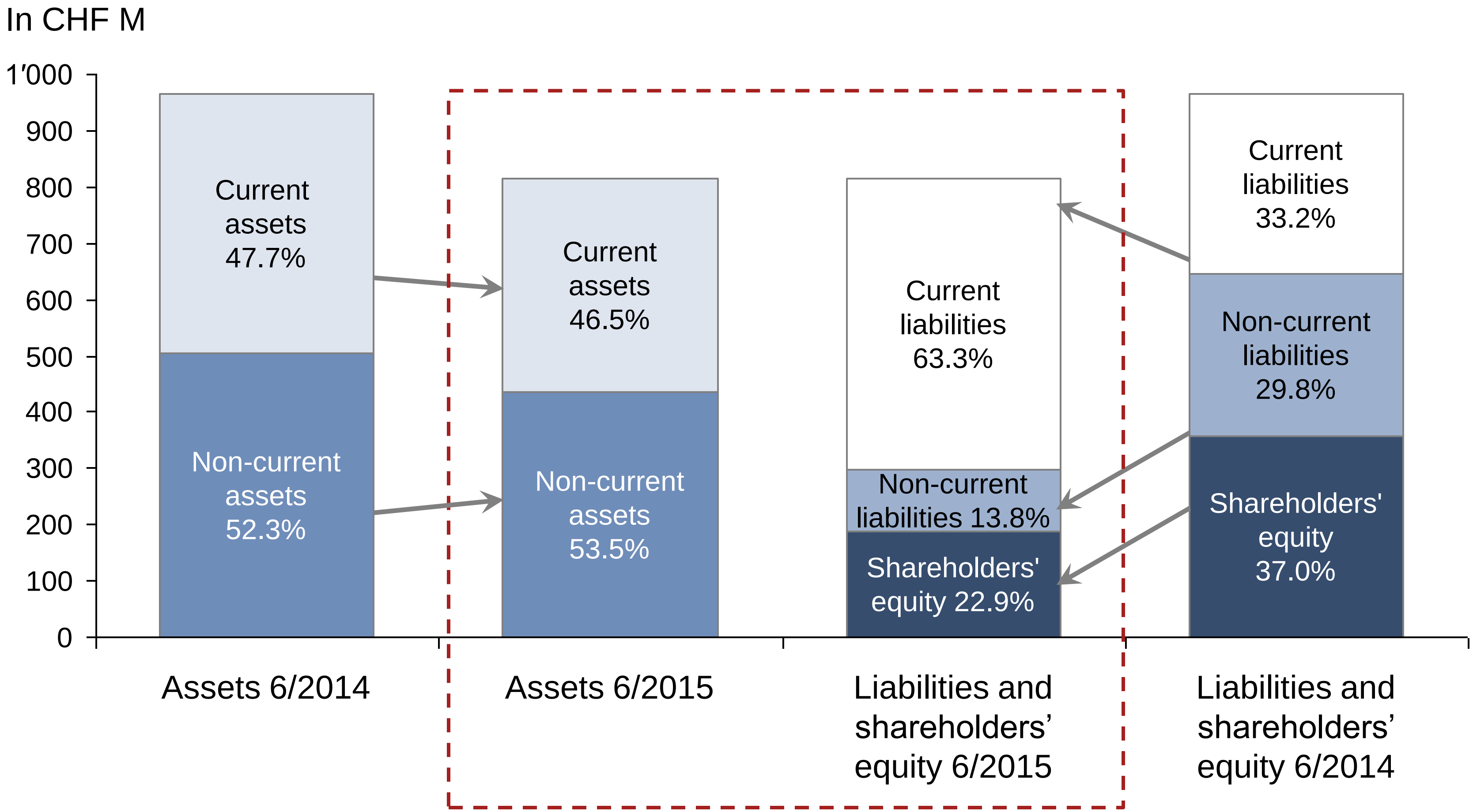
Impairments
Balance sheet risks addressed

In CHF M	Impairment requirements	Remaining per 30 June 2015	
		Goodwill	Intangible assets from PPA [1]
Total as of 30 June 2015	**121.2**	**44.7**	**56.9**
EgoKiefer	82.6	-	-
RWD Schlatter	-	8.1	5.7
Slovaktual	-	13.9	8.0
Dobroplast	18.2	-	11.8
Sabiana	20.3	22.7	29.6
Others	-	-	1.8

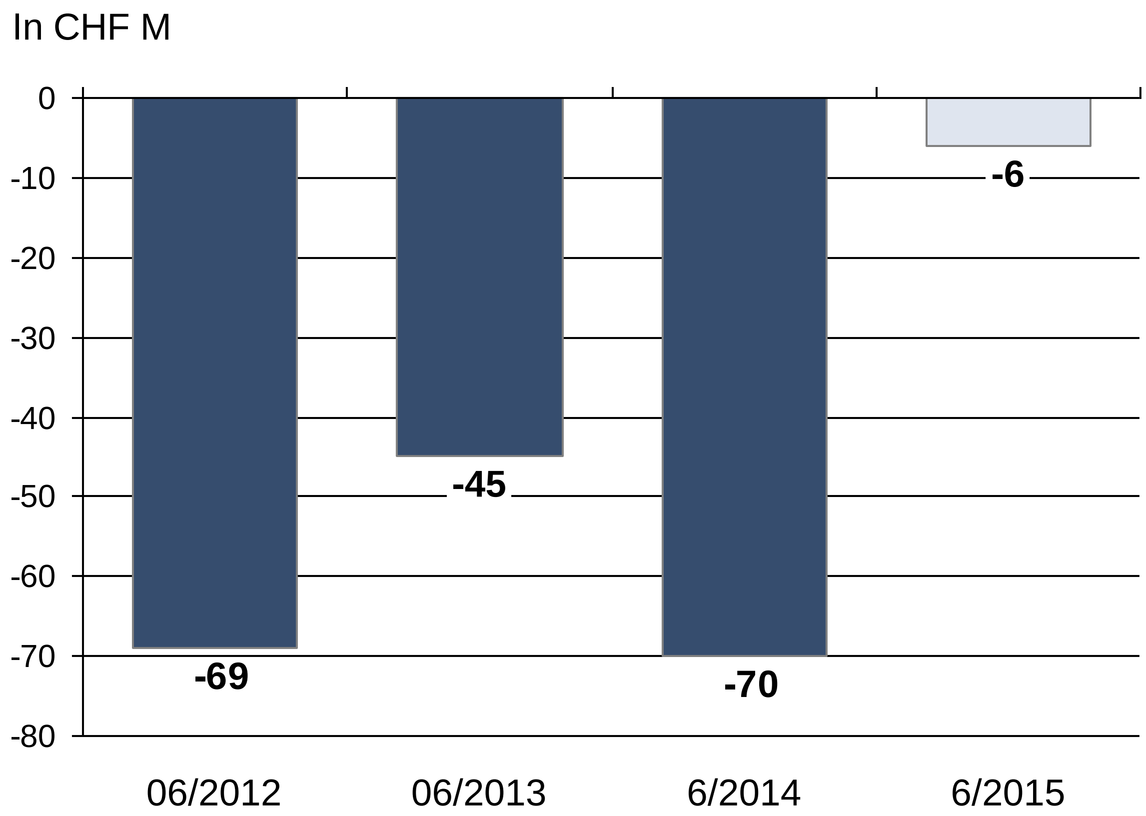
1. PPA: Purchase Price Allocation

Balance Sheet
Financial Covenant for Equity Ratio broken



Free Cash Flow, adjusted [1]

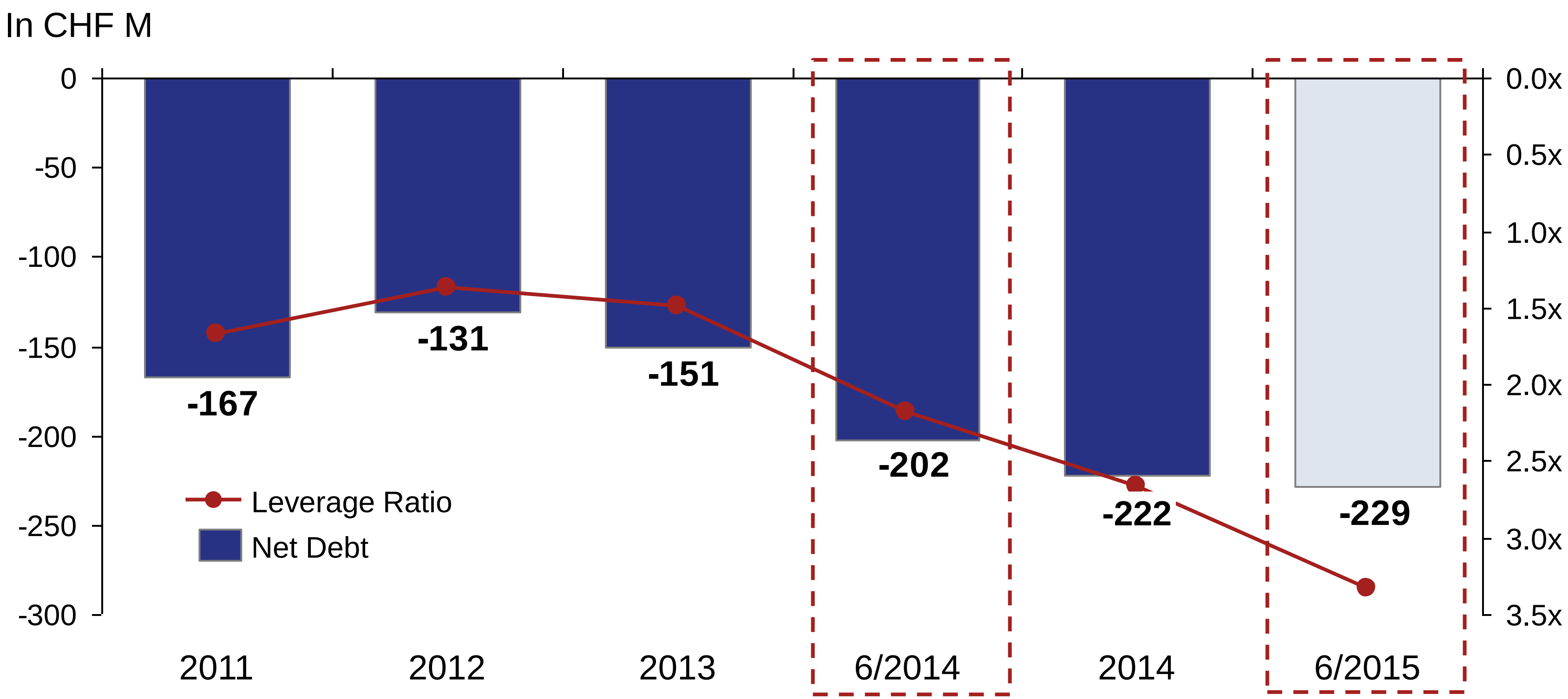
NWC measures resulted in positive impact



1. Free cash flow without acquisition / disposal of subsidiaries, adjusted

Net Debt and Leverage Ratio[1]

Financial Covenant for Leverage Ratio[1] broken



Waiver for financial covenants from lending banks received

1. Leverage ratio = Net debt / EBITDA

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   Consequent execution to achieve guidance 2018

Questions

Need to restructure and reposition AFG
To ensure long-term competitiveness

Continued weak financial performance

Sustained market pressure

New FX-reality

Restructure and reposition AFG to ensure long-term competitiveness in Europe

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Restructuring and repositioning of AFG
Key strategic Pillars

Focus of AFG

- *Building supplier*
- *Europe*
- *Energy efficiency*

Objective:
Long-term competitiveness in Europe

1. **Relocation of production footprint**
2. **Focus on divisional strategies**
3. **Lean industrial holding**

Strengthened capital base & continuity with new anchor shareholder

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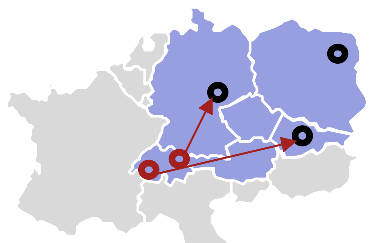
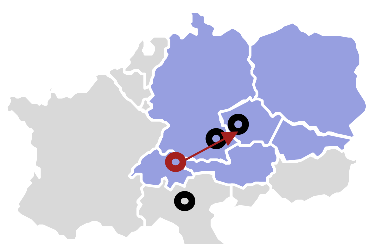
1 Relocation of production footprint
Three production sites in Switzerland affected

	Production footprint	Planned relocations	Labour cost advantage[1]
Building Envelope		▪ Transfer of PVC production from Villeneuve to Slovaktual in 2016 (90 FTEs) ▪ Transfer of wood and wood/alu production from Altstätten to Wertbau until end of 2017 (160 FTEs)	>80% >50%
Building Technology		▪ Transfer of special radiator production from Arbon to Stříbro until end of 2016 (70 FTEs)	>80%

Recurring cost savings of CHF >20 M p.a. from 2018 onwards[2]

1. Based on Cologne Institute for Economic Research (IW Köln) 2. Vs. 2014 – mainly driven by labour cost differences Note: Only main production sites shown above

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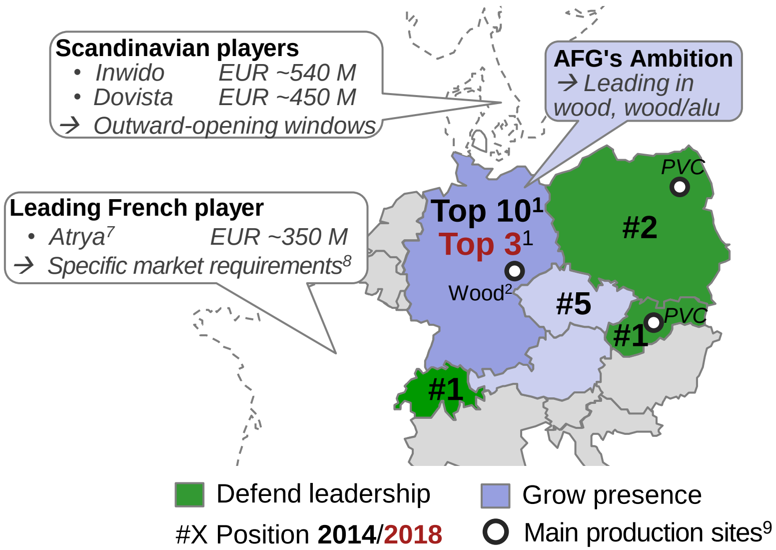
2 **Focus on divisional strategies**

Building Envelope: European leader in windows

Market ambition



Largest Central European Players[3]

1.	Internorm / IFN[4]	EUR ~340 M
	AFG[5]	EUR ~340 M
3.	WERU / Unilux[6]	EUR ~200 M
4.	Finstral	EUR ~190 M
5.	4B	EUR ~165 M

Competitive position

Production footprint

- 2 of the 5 largest Central European PVC window production sites – located in Eastern Europe
- 1 of 5 largest Central European wood, wood/alu production sites – located in Eastern Germany

Market presence

- Secure clear leadership position in CH (500+ FTEs serve our customers locally)
- Grow German (and Austrian) market – Wertbau with 700 sales partners across Germany as basis for future growth
- Strengthen leading positions in Poland, Slovakia and Czech Republic

1. Market position in wood and wood/alu windows 2. Incl. wood/alu 3. Windows sales 2014 4. Internorm (EUR 304 M) and HSF 5. Incl. Wertbau 6. Owned by HIG capital 7. Window sales (incl. Tryba & Norba) 8. E.g. different installation depths, integrated shutters, monoblock and regulatory requirements 9. Lublin and Altstätten not shown above

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2 Acquisition of Wertbau
Missing piece to become major European player

Cost efficient wood, wood/alu production

- Family company with revenues of EUR 30 M
- Modern, lean production site in Eastern Germany
- Major capacity reserves
- Existing supplier partnership with EgoKiefer for wood windows since 2012
- Same IT System (PrefSuite)

Access to German market

Established presence across Germany

- Network of 700 sales partners across Germany
- Reputation as high-quality supplier

Fragmented overall market in Germany

- Only 2 players with sales > EUR 100 M
- Wertbau among Top 20 overall – Top 10 in wood[1]

Attractive base for further growth

- Increased sales from Slovaktual & Dobroplast
- Improved cost position due to increased volumes

Total investment of CHF 40 M to acquire Wertbau and extend wood, wood/alu production in Eastern Germany[2]

1. Incl. wood/alu 2. Including required investments in machinery and equipment to allow for relocation of EgoKiefer wood and wood/alu production to Wertbau

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EgoKiefer to remain Swiss market leader
~25% market share in PVC, ~5% in wood/alu

EgoKiefer
Fenster und Türen

- Designed, developed and tested in Switzerland
- Largest sales and service organization in Swiss market to serve our customers (incl. project mgmt)
- 10 own sales locations and over 350 branded dealers and sales partners in Switzerland
- Comprehensive and competitive product range
- Local production of specialty windows & express line

Over 500 employees continue to serve our customers in Switzerland

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Focus on divisional strategies
Building Technology: Leading HVAC[1] solutions

Business units	Today	Ambition
Heating technology	Market leader in steel radiators in DE and CH (Top 4 EU)	▪ Rationalize footprint and secure cost leadership ▪ Consolidate radiator market in Europe ▪ Expand in growing market segments (e.g. underfloor and industrial heating, X-optimized, Smart Home Connectivity)
		▪ Develop leadership position in growing residential ventilation market ("kontrollierte Wohnraumlüftung") ▪ Leverage cross-selling
Air-conditioning and ventilation technology	European leader in fan coils and #2 in radiant panels	▪ Drive fan coil growth (superior energy consumption/ noise level and increasing customer demand) ▪ Grow business with patented electronic filter (indoor air quality & energy savings)
Sanitary equipment	Market leader in shower enclosures in DE (Top 3 EU)	▪ Maintain leadership position in DE and grow business ▪ Drive trends for comfort and universal design in bathroom ▪ Significant operational & sales synergies with BU Heating

1. HVAC = Heating, Ventilation & Air Conditioning

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Focus on divisional strategies
Building Security: Strengthen leading positions

Business units	Today	Ambition
Profile systems	Market leader for premium steel systems in Europe	▪ Strengthen leadership position in Europe through – Entry into direct distribution in Germany, Austria, UK, Poland, Denmark and Luxembourg – Acquisition of Bloxer ▪ Maintain high innovation rate (focus on security & design) ▪ Further develop new markets
Special doors	Swiss market leader for wooden special doors in Switzerland	▪ Strengthen leadership position in Switzerland through launch of new products (e.g. connector-fan-door, smoke-control, ecological doors) ▪ Expand distribution to Germany and Austria

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3 Lean industrial holding
Major reduction of holding costs

Today		Ambition
Fully-fletched industrial holding	→	**Lean industrial holding with close management of divisions**
Duplication of functions at corporate level (e.g. HR, procurement, sustainability)		
Cost-intensive setup (HQ / AFG Arena)		

Reduction of holding costs to 1% of revenues by 2018

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Questions

Strengthened capital base
Capital increase & syndicated credit facility

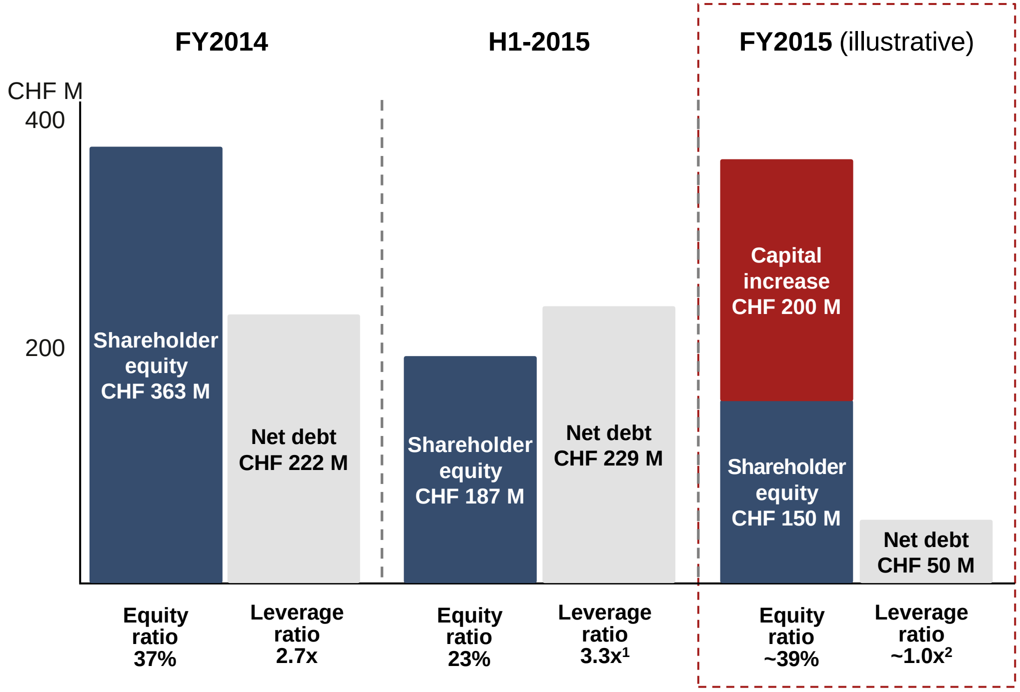
Key aspects

		Key aspects
Capital increase	**CHF 200 M**	▪ Discounted rights issue with tradable subscription rights ▪ Underwritten by syndicate of banks and fully supported by anchor shareholder Artemis
Syndicated credit facility	**CHF 250 M due 2018**	▪ Successful negotiation with lending banks to obtain waiver for covenant requirements ▪ Subject to capital increase
Anchor shareholder	**Artemis (M. Pieper)**	▪ Artemis will fully exercise its subscription rights and reserves the right to increase its stake from currently 26.7 to 33.3%[1]

1. Remaining below take-over threshold

Capital increase
Financial effects

Shareholder equity and net debt development



Financial effects

- Decrease leverage ratio to below 1.5x[2]
- Increase equity ratio to > 40% mid-term
- Increase operational and financial flexibility
- Secure re-financing of 2016 bond maturity

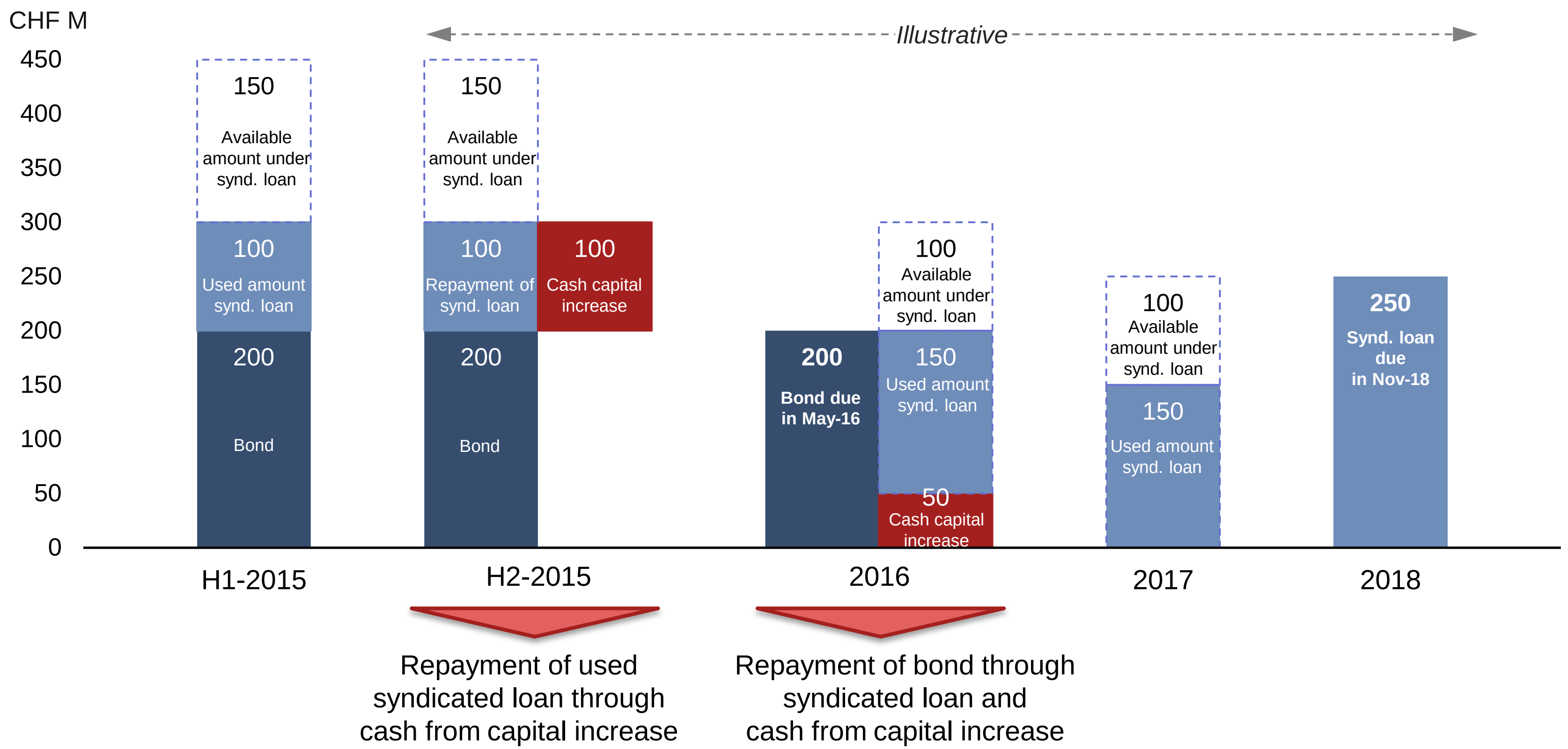
1. Based on EBITDA LTM 2. Based on operating EBITDA (excl. restructuring costs)

Capital Increase
Use of Proceeds

- Reduce net debt & increase equity base after announced impairments
- Fund costs in relation to the proposed repositioning of AFG
- Secure re-financing of 2016 bond maturity
- General corporate purposes

Maturity profile of financial debt

AFG fully financed until 2018



AFG with considerable financing headroom until 2018 through syndicated loan and excess cash

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Transaction overview and next steps
Capital increase of CHF 200 million

Transaction overview

Offering
- Public offering in Switzerland (Rights offering)
- Institutional offering outside the US and Switzerland (RegS)

Offer structure
- Discounted rights issue with tradable subscription rights
- Underwritten by syndicate of banks[2]
- Anchor shareholder Artemis (26.7%) will fully exercise its subscription rights and reserves the right to increase its stake to 33 1/3%[1]
- Lock-ups: - Company: 180 days
  - Artemis: 180 days

Issue size
- CHF 200 M

Terms
- Subscription price: to be determined
- Subscription ratio: to be determined
- Final terms to be communicated before EGM[3]

Expected timeline

14.-19.8.	First Roadshow
21.8.	Invitation to extraordinary general meeting (EGM)
Before EGM	Communication of final terms of capital increase
11.9.	**Extraordinary general meeting (EGM)**
Mid Sept.	**Launch of rights issue** Rights trading period Subscription / exercise period (incl. potential 2nd Roadshow)
End Sept.	Capital increase Payment and Settlement

1. Remaining below takeover threshold 2. Sole Global Co-ordinator (UBS), Joint Bookrunners (UBS & Berenberg), Co-Lead Managers (Zürcher Kantonalbank & Vontobel)
3. Capital increase is subject to EGM approval

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Outlook
EBITDA of > CHF 100 M by 2018

Guidance full year 2015

Negative outlook for full year 2015

Organic sales growth	EBITDA[1]
-3% to -5%	> CHF 50 M

Net loss	Net debt
CHF 160–190 M	CHF 50 M

Impacted by

- **Impairments: CHF ~120 M**
- **Restructuring costs: CHF ~30 M (mainly cash effective in 2016/17)**

Guidance 2018

Consequent execution of measures to achieve

Sales growth p.a.	EBITDA
+3%	> CHF 100 M

Free cash flow
Substantial

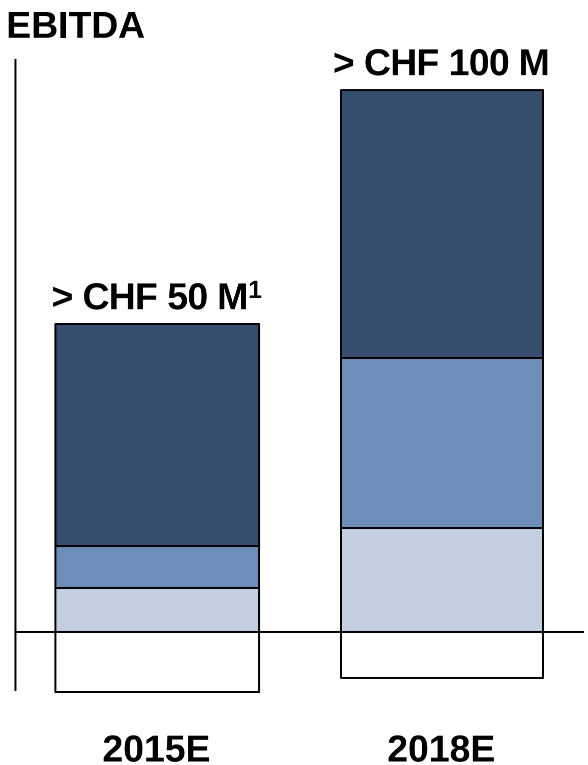
Enabled by

- **Strong capital base**
- **Clearly defined strategy focused on production relocations**
- **Experienced management team**
- **Committed anchor shareholder**

1. Operating EBITDA (excl. restructuring costs)

Achieving Guidance 2018
Well balanced contribution across divisions

EBITDA guidance



Drivers

Building Technology
- Consolidate radiator market in Western Europe
- Further expand into growing segments (e.g. ventilation)
- Maintain leading position in shower enclosures

Building Envelope
- Relocate production to reduce cost base and build integrated production network
- Reinforce leading Swiss market position
- Expand position in German market (Wertbau)

Building Security
- Strengthen leading positions in niche markets
- Maintain high innovation rate

Lean industrial holding

1. Operating EBITDA (excl. restructuring costs)

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Summary

Why AFG?

- **Building Technology**
  Addressing market dynamics through further expansion into growing market segments and active consolidation of radiator market
- **Building Envelope**
  Transformation of challenged Swiss position into leading major European player based on best production footprint in the industry, scale and strong market presence
- **Building Security**
  Market leaders in their segments with high innovation rate
- **Strengthened capital base**
  AFG fully financed over the next years with a strong balance sheet

AFG 2018: Leading specialized European Building Supplier

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Questions?

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Thank you