

RUAG Ammotec

The division's long-standing sales growth continued. Pressure on margins from the civil market in the United States could only be partially offset.

Business performance

In 2017 RUAG Ammotec expanded net sales by 3.1 %, from CHF 385 million to CHF 397 million. EBIT fell from CHF 31 million to CHF 28 million. The main drivers of this decline in earnings were the US business, which suffered from pressure on margins, and higher commodity prices. There were no significant one-time effects in the period.

2017 was an exceptionally difficult year for the entire ammunition industry. The civil market in the United States declined significantly after the presidential elections. In the expectation that the new US government would enact more restrictive gun laws, ammunition had been stockpiled both at every level of the retail trade and by consumers. Donald Trump's victory proved these fears groundless, and the market subsequently plummeted. Satisfyingly, however, the market position in the division's original European business continued to strengthen.

A decisive factor for the years to come will be the change in the company's leadership. On 1 October, Christoph M. Eisenhardt became the division's new CEO and joined RUAG's Group Executive Board. He took over from Cyril Kubelka, who had held the position since 2004.

In the armed forces and law enforcement sector, where RUAG Ammotec supplies precision standard and special ammunition, domestic markets were further solidified. The high level of the previous year was maintained in Germany. In Switzerland business even improved considerably despite intensifying competition. The GP11 contract from the DDPS was particularly instrumental to this pleasing development. As expected, due to export policy restrictions the export segment was unable to make any gains.

In the hunting & sport segment, where RUAG Ammotec is represented with a broad range of top brands such as RWS, norma, Rottweil and GECO, the division improved its position in the key European markets. Overall, sales increased in over two thirds of RUAG Ammotec's relevant markets. Performance was again particularly positive in Germany, where growth was well above expectations. Gains were recorded in

both new products in the retail goods assortment and innovative products for the hunting & sport segment, such as the new RWS 10.3x68 Mag. calibre, or the RWS SPEED TIP PRO cartridge, which successfully diversified into the .30-calibre range.

The components business, where RUAG Ammotec is the leader in heavy metal-free ignition technologies, held steady during the year under review. In the industrial segment, including actuator cartridges for the construction industry and special applications for automotive safety systems, the division was able to sustain the sales performance of the previous year. The components business with other ammunition producers was influenced by the negative conditions in the US market and thus declined.

The hunting & sport and industrial applications segments make up 58 % of total sales, with armed forces and law enforcement accounting for 42 %.

Outlook

In order to become more robust in the face of volatilities in individual markets, RUAG Ammotec will continue to push ahead with its strategy of internationalization. Thus, in May 2017 the division gained consent for a licence to set up an ammunition production facility in Brazil. The division is currently looking into a variety of scenarios. Based on this, a decision will need to be made as to whether, how and when RUAG will put its plans into action.

In the coming years, it must be assumed that export restrictions will be extended to other markets. In the armed forces & law enforcement segment in particular, this may have negative consequences. These circumstances require the division to concentrate on further developing the home markets, in which it anticipates stable or increasing demand over the next few years, and to maintain a clear focus on Europe and other NATO countries. Lucrative individual markets will be developed as part of projects.

For the hunting & sport segment, RUAG Ammotec anticipates moderate growth, although the US business is set to remain extremely challenging with the tight margin situation. The division will continue to systematically pursue expansion in neighbouring market segments, focusing on optics and hunting & sports weapons. This should contribute positively to the result in 2018. In addition to this, the division is planning to scale up its distribution network. Despite increasing online activity, specialist retail operations remain the backbone of the hunting and sport business.

Enhanced marketing activities will be needed to defend the division's strategically important European business against the increasingly export-oriented US competition. On top of this, conditions are growing more difficult due to environmental standards and restrictions in logistics for weapons and ammunition. This could have a slight negative impact on the segment's results.

For the industrial business, the division expects a positive impetus. The priorities here are to carry over the division's unique technological capabilities to new applications and to establish further strategic partnerships.

New processes and technologies will secure RUAG Ammotec's ability to face the future. The aim is to generate the requisite investments largely from cash flow. In 2018, one focus area will be on implementing planned investments to allow the division to transact its expected medium-term business and sustainably increase its profitability.

Brief profile

RUAG Ammotec, with its Hunting & Sport and Armed Forces & Law Enforcement business units, is the European market leader in small-calibre ammunition, pyrotechnic elements and components. Its precision ammunition for special forces is in high demand worldwide. The division is also the leader in heavy-metal-free primer technologies as used in actuator cartridges in the construction industry and automotive safety system applications. The product range also includes large-calibre training systems, hand grenades and environmentally safe disposal of pyrotechnic products.

Customers/partners

Swiss Armed Forces, German Bundeswehr and other foreign armed forces, law enforcement organizations, hunters and sporting marksmen, industrial partners

Numbers and facts

Net sales:	CHF 397 million
EBITDA:	CHF 43 million
EBIT:	CHF 28 million
Employees (FTE):	2,257
Based in:	Germany, Switzerland, Hungary, Sweden, France, USA, Austria, UK, Italy, Belgium, Finland, Brazil