

RUAG Ammotec

For RUAG Ammotec, the financial year was a study in contrasting markets. Strong growth in the Armed Forces & Law Enforcement area was balanced by a challenging environment in the Hunting & Sports segment. When it came to the bottom line, the division once again succeeded in meeting its financial targets.

Business performance

RUAG Ammotec was able to meet its financial targets once again in 2018, even though its margin suffered due to the challenging environment in the Hunting & Sports market. The division's sales increased by 6 % to CHF 421 million (CHF 397 million) in the year under review. EBIT decreased to CHF 20 million (CHF 28 million). Despite a high level of investment, free cash flow was positive at CHF 12 million, and net working capital was cut to 37 % of sales (45 % in 2017). The positive bottom-line result is even more pleasing given that the company's largest segment, Hunting & Sports, which accounts for around 50 % of its business, was confronted with a sharply declining world market in terms of sales. The driver of growth in 2018 was the Armed Forces & Law Enforcement segment, which benefited more than most from the global rise in defence budgets. The division's business with actuator cartridges for industry also performed very well. In order to further enhance its competitiveness and stay abreast of the high level of demand in the Armed Forces & Law Enforcement segment, the division on the one hand decided on extensive investments and on the other initiated far-reaching organisational changes, for example relocating the marketing and sales activities in the three business units and strengthening the autonomy of the production sites.

Especially in the second half of the year, the European market for hunting and sports ammunition nosedived due to massive overcapacity on the production side and very high inventory holdings in the United States which also put a great deal of pressure on prices in Europe. It should thus be seen as a success that the decline in profits was kept very low in comparison to the unit's competitors. In the United States, sales even rose slightly – starting from a comparatively low level. Here, the refocusing of the unit's activities during the year under review showed a positive effect, with a virtually completely new team being formed.

Development in the Armed Forces & Law Enforcement segment was exceptionally pleasing. Underpinned by orders from the DDPS, sales increased considerably. The main driver of growth here was a new trend for increasing ammunition reserves among the European NATO countries. In parallel to this, the ammunition requirements of law enforcement agencies also increased. Targeted sales efforts in certain (primarily European) regions also contributed to the positive result: the division was able, for instance, to significantly enhance its business relations with the Austrian Armed Forces.

The Industrial segment, with its main customers Hilti and Takata, also looked in extremely good shape in 2018. *Inter alia*, the investments of the last few years in the partnership between RUAG Ammotec and structural engineering group Hilti, for which the division manufactures actuator cartridges for direct fastening systems, led to strong growth in sales.

By contrast, RUAG Ammotec was forced to accept a drop in the components business, which mainly involves supplying OEM ammunition for arms manufacturers and components to other ammunition producers. Here the challenging environment in the market for hunting and sports ammunition, where most of the customer base operates, was particularly evident.

Outlook

RUAG Ammotec is not expecting any radical changes to its markets in the years to come. On the one hand, the rises in global – and, in particular, European – defence budgets can be expected to continue. In particular, NATO's decision in principle to increase defence spending to 2 % of member countries' respective GDP is likely to yield positive effects in the next few years. But on the other hand, the existing overcapacities, high inventory holdings and strong price pressure in the Hunting & Sports segment are likely to persist for some time to come.

To ensure that the Armed Forces & Law Enforcement segment can benefit from the expected growth in the NATO market, the division has planned to invest heavily in the expansion of its European production capacities. Some of these investments are already being implemented. In total, around 10 % of sales are to be committed to the development and expansion of the facilities. In parallel to this, the NATO ammunition portfolio will also be expanded. Additional growth can also be expected from a targeted move to strengthen business relations with individual NATO countries.

RUAG Ammotec also expects positive impetus to come from the US market again in the years to come. In this respect the division is looking not only to further boost its sales efforts, but also to expand its existing and still comparatively small production capacities. To achieve this, it will be working with partners – and negotiations are under way. In addition to the Hunting & Sports segment, the division will also be stepping up its targeting of the Armed Forces & Law Enforcement area in the United States.

In the international competitive arena, discussions on amendments to Swiss export regulations are creating uncertainty among potential customers and partners, even in cases where the planned amendments do not envisage any direct repercussions for specific markets or products.

In order to hone its edge in the ever more competitive Hunting & Sports market, the division will continue to revise its brand strategy in 2019. This will include a repositioning of the different brands and a targeted streamlining of its portfolio. In parallel to this, it will also be subjecting its processes to a major review and optimising them with a focus on purchasing and efficiency gains.

Brief profile

RUAG Ammotec, with its Hunting & Sports, Industrial 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 hand grenades and environmentally safe disposal of pyrotechnic products.

Customers/partners

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

Numbers and facts

Net sales:	CHF 421 million
EBITDA:	CHF 38 million
EBIT:	CHF 20 million
Employees (FTE):	2,275
Based in:	Germany, Switzerland, Hungary, Sweden, France, USA, Austria, UK, Italy, Belgium, Finland