Management Report 2020

Strategic realignment

What a year for Meyer Burger: The reporting period ends so very differently than it began. Meyer Burger is reinventing itself. The company from Switzerland stands for a new beginning, the “renaissance” of the entire European solar industry. This time, it aims to succeed where others failed years ago: Bringing industrial mass production of solar components back to Europe.

With this goal in mind, Meyer Burger is in the process of transforming itself from a pure equipment supplier to a manufacturer of solar modules and cells. In doing so, Meyer Burger does not intend to bring just any solar modules to the market. The key terms are “high efficiency” and “heterojunction/SmartWire”. Behind this is nothing other than a complete technology change in the industry, which is often compared to the upgrade from 4G to 5G in the mobile phone sector.

Meyer Burger can claim to have optimized the new technology in a unique way and brought it to mass production. The improved processes are patent-protected, and the resulting products are protected in the important markets. This technological lead is the basis for the conviction that the new business model will bring sustainable success. Production costs and prices are controlled in such a way that the company becomes and remains profitable.

Momentum & market

Meyer Burger's new plans come at an extraordinary time. A pandemic has the world in its grip and is showing its limits. Suddenly, global issues are coming into focus, supply chains are becoming tangible, the issues of energy supply and climate change can no longer be ignored, they are acute. The year 2021 will be a decisive year for people around the world, and it will also be for the people at Meyer Burger. In the company's nearly 70-year history, it has probably never had as much tailwind as it does today.

In the long term, solar energy is the cheapest of all renewable ways of generating electricity. In addition, the technology is ecologically advantageous and increasingly desired both socially and politically. Solar is a key driver of the energy transition. The global and European market potential is immense, and the use of solar power is steadily increasing. Worldwide, more than 630 gigawatts (GW) of solar capacity were installed at the end of 2020, 53 GW of which were in Germany. Taking into account the need for sector coupling, continuous annual additions are expected in Europe, resulting in a substantial market size.

The overall political context is now giving enormous impetus to the development of the German and European solar industry. The relevant keywords here are Climate Protection Plan 2030, energy transition targets, Green Deal and Green Recovery. A strategic autonomy of Europe can be strengthened very concretely with photovoltaics in a critical infrastructure area and expanded in the future. A large-scale PV industry underpins political priorities such as the Green Deal with concrete projects and makes ambitious climate targets in combination with domestic value creation finally realistic.

Capital increase & targets

Business development in 2020 reflects the ongoing strategic realignment. Order intake, sales and margins still refer to Meyer Burger’s prior business as an equipment manufacturer, which will be superseded by cell and module production in the future. It also includes the effects from the divestments made in 2020.

Meyer Burger achieved incoming orders of CHF 44.3 million in the fiscal year 2020, compared to CHF 188.3 million in 2019. Adjusted for divestments, incoming orders decreased by 78.6%. Orders on hand as at 31 December 2020 amounted to CHF 36.2 million (31 December 2019: CHF 105.1 million). The book-to-bill ratio was 0.49 for the fiscal year 2020 (0.72 for 2019).

Restructuring Meyer Burger

Switzerland remains the home of Meyer Burger. This is where the heart beats and an important part of the brain works. Because it is in Switzerland that engineers ensure that Meyer Burger stays at the forefront of global solar technology with its technological developments. The Meyer Burger Research team in Neuchâtel has been working on novel solar cells for years together with one of the world's most renowned solar research institutes, the CSEM in Switzerland. In 2020, they were able to report a record: The new generation of solar cells achieved an efficiency of 25.4 percent. This is one of the highest efficiencies ever achieved for industrial wafers.

The process uses contacting only on the backside to convert additional sunlight into electricity and creates the prerequisite for simplified, cost-optimized production of ultra-high efficiency crystalline silicon modules. The focus of this work is on the implementation of new photovoltaic technologies in industrial mass production with the aim of increasing average efficiencies at the module level and achieving the corresponding reduction in manufacturing costs.

Not far from the technology team in Switzerland are colleagues from Pasan, a wholly owned subsidiary of Meyer Burger Technology Ltd. The company develops industrial applications for measuring solar cells and modules for customers worldwide and is the market leader in this field. Pasan has also developed measurement and testing equipment for Meyer Burger's new manufacturing facilities.

Meyer Burger's new modules come from the development department at its headquarters in Thun. Here, a large team of specialists is working to ensure that the highly efficient solar cells also become highly efficient modules.

The operational headquarter is located at Meyer Burger's largest production site in Hohenstein-Ernstthal in Germany. This is where the new technologies from in Switzerland are transferred to industrial mass production processes. The industrialization of new technologies has been taking place at this site for many years, and a technical center and a demo line shorten the path from the laboratory to machine construction – as of this year, no longer for customers worldwide, but only for Meyer Burger itself. Most of the new machines currently being installed at the new sites come from Hohenstein-Ernstthal. Another part comes from Thun.

In Hohenstein-Ernstthal and Thun in particular, internal restructuring has taken place in order to optimally position the two sites for the future. From there, some employees will move to the new production sites.

In addition to the build-up, there have also been adjustments: Meyer Burger disposed of the microwave and plasma technology company Muegge GmbH and its 100 employees during the reporting period and sold the company at a profit.

New production: set-up and reconstruction

With the production sites in "Solar Valley" in Thalheim (city of Bitterfeld-Wolfen, Saxony-Anhalt) and in Freiberg (Saxony), Meyer Burger is bringing two of Europe's most traditional solar sites back to life. Everything is going according to plan at the new manufacturing sites. With cutting-edge technology in global demand from engineers in research and development and skilled workers in production, the company is creating new jobs. With a team of around 350 employees at both sites, production is scheduled to start in the second quarter of 2021.

In the previous months, the factory in Freiberg, which remains the largest and most modern solar module production facility in Europe, was rebuilt. Meyer Burger itself had supplied many of the machines there ten years ago. Now the equipment had to be adapted to the new technology and the new module sizes. Modern equipment complements the set-up of the production facility in such a way that in the future it will be possible to produce here in a highly automated manner in accordance with Industry 4.0 standards.

In Bitterfeld-Wolfen, 150 kilometers away, Meyer Burger employees have prepared the 27,000 square meter former solar cell factory for its second life. They have adapted the infrastructure, renewed the ventilation systems and renovated the industrial floor of the three large production halls. Currently, they are preparing to bring in the new machines for the production of highly efficient solar cells.

The new production facility is being built to particularly environmentally friendly standards. A report by the Fraunhofer Institute for Solar Energy Systems confirms that solar cell production based on Meyer Burger's heterojunction technology has significant environmental benefits compared to conventional manufacturing. Meyer Burger's investments are considered exceptionally innovative and sustainable. On this basis, the state of Saxony-Anhalt and the Federal Republic of Germany pledged up to €15 million in environmental aid for setting up production in Thalheim at the end of 2020.

Net sales

Net sales reached CHF 90.5 million (2019: CHF 262.0 million) and accordingly declined by 65.5%. Adjusted for divestments and currency effects, the organic decline in sales for the continuing operations was 63.6%. Sales development further decreased to

CHF 39.5 million in the second half of 2020 from CHF 51.0 million in the first half of 2020. The regional sales mix has changed slightly from the previous year, although Asia remained the most important sales region for Meyer Burger: Asia accounted for 64% of net sales in 2020 (72% in 2019), while Europe accounted for 30% (23% in 2019) and the Americas for 6% (5% in 2019).The regional sales mix is expected to change under the new business model.

Operating income after cost of products and services

The operating income after cost of products and services was CHF 37.9 million (CHF 144.5 million in 2019, restated), reflecting a margin of 41.8% (2019: 55.1%). The operating income in 2020 includes gains of CHF 11.8 million from the divestments of subsidiaries Muegge and Gerling and the PiXDRO business. Excluding the divestments, the operating income after cost of products and services would have been CHF 26.1 million, reflecting a margin of 28.8%.

Operating expenses

Personnel expenses declined by 48.3% to CHF –53.9 million. This decline is influenced by the current divestments, but mostly based on the efforts to restructure and prepare the organization in the course of the ongoing business transformation under strict cost management. Other operating expenses in the fiscal year 2020 amounted to CHF –28.5 million, a decline of 26.9% compared to 2019.

EBITDA

Due to the phase out of the current business, sales declined strongly and were not yet counterbalanced by sales of solar cells and modules. Even with the strict cost reductions, EBITDA was below the level achieved in the previous year and totaled CHF –44.6 million in the fiscal year 2020 (CHF 1.1 million in 2019, restated). The EBITDA margin was –49.3% compared to 0.4% a year earlier.

EBIT

Depreciation, amortization and impairments totaled CHF 13.5 million (CHF 16.7 million in 2019 restated). This decline can be attributed to the divestments of the current and prior year as well as the fact that the depreciation and amortization of certain assets was completed during the previous year. The result at the EBIT level amounted to CHF –58.1 million (CHF –15.5 million in 2019 restated).

Financial result and result from investment in associates

The financial result, net, was CHF –3.4 million (2019: CHF –7.9 million). Financial expense in the fiscal year 2020 included interest expense for the convertible bond of CHF –1.5 million (2019: CHF –2.0 million). The valuation of intercompany loans to foreign subsidiaries led to financial gain from unrealized positive foreign currency translation effects of CHF 6.1 million (2019: CHF –4.2 million). In addition there were other unrealized currency translation effects of CHF –6.2 million (2019: CHF 0.9 million), interest expense for mortgage loans and other interest expense of CHF –0.7 million (2019: CHF –1.0 million), other financial expense of CHF –1.2 million (2019: CHF –1.7 million) and interest income of CHF <0.1 million (2019: CHF 0.1 million). The proportionate result from investments in associates due to the acquired interest in Oxford PV amounted to CHF –2.8 million (2019: CHF –3.0 million).

Non-operating result

The non-operating result amounted to CHF 0.1 million. In the previous year, the non-operating result included the gain from the sale of the investment property portion of CHF 4.0 million.

Taxes

Tax expenses for the fiscal year 2020 were CHF –0.3 million (2019: CHF –0.5 million restated). Tax expenses related to current income taxes on profits for the fiscal year 2020 were CHF –0.6 million and deferred income taxes were CHF 0.4 million.

Net result

Meyer Burger generated a Group result of CHF –64.5 million in the fiscal year 2020 (2019: CHF –22.9 million restated). The net result per share was CHF –0.04 (2019: CHF –0.03).

Balance sheet as at 31 December 2020

The balance sheet total increased compared to the previous year, mainly because of the capital increase which started Meyer Burger’s business transformation towards cell and module production. The balance sheet total stood at CHF 296.8 million (31 December 2019: CHF 267.5 million restated). Cash and cash equivalents stood at CHF 139.7 million (31 December 2019: CHF 35.5 million). In addition, the Group held CHF 17.3 million of restricted cash (31 December 2019: CHF 26.3 million), which is pledged for guarantee facilities used for customer prepayments. Property, plant and equipment increased to CHF 38.1 million (31 December 2019: CHF 32.9 million) mainly based on the net effect of divestments and the investments made in the new production facilities in Freiberg, Germany and Bitterfeld-Wolfen, Germany. Total liabilities declined to CHF 34.3 million (31 December 2019: CHF 93.6 million restated) due to the repayment of the convertible bond and the overall reduction of operating liabilities in the year of transformation. Equity stood at CHF 259.8 million (31 December 2019:

CHF 169.1 million restated). The equity ratio was 87.5% as at 31 December 2020 (31 December 2019: 63.2% restated).

Cash flow

Cash flow from operations was CHF –34.9 million (2019: CHF –83.5 million). The negative cash flow from operations is mainly attributable to the result partially offset by the overall decrease in net working capital. Cash flow from investing activities was CHF 11.3 million (2019: CHF 59.6 million). This positive cash flow is the result of the divestments of the subsidiaries Muegge and Gerling and the PiXDRO business in the Netherlands, the release of bank deposits with restricted use and the investments made in the new production facilities in Freiberg, Germany and Bitterfeld-Wolfen, Germany. Cash flow from financing activities was CHF 127.9 million (2019: CHF –29.5 million) and mainly includes the net proceeds from the capital increase and the repayment of the convertible bond.

R&D investments

Meyer Burger invested a total of CHF 26.2 million or about 29% of net sales in R&D during 2020 (2019: CHF 32.7 million; about 12% of net sales). Research and development expenses are not capitalized in the balance sheet but recognized as expenses. The strategic focus on HJT/SmartWire connection technologies entails the divestment of non-core activities and a concentration of future R&D activities on cell and module production. Meyer Burger expects to keep its annual R&D expenses at a steady level.

Currencies

In 2020, 4% of net sales were generated in Swiss Francs (2019: 2%), 73% in Euros (2019: 81%), 9% in US dollars (2019: 9%), whereas other currencies amounted to 14% (2019: 8%). To maintain a natural hedge, Meyer Burger strives to have as great a share of sales as possible in the currencies in which subsidiaries provide their services. To hedge against residual currency risks, the company can use forward currency contracts where necessary. It does not hedge against foreign currency risks on the carrying amounts of foreign subsidiaries or on the conversion of the earnings of these subsidiaries, however. Meyer Burger did not enter into any hedges in 2020 and 2019.

Workforce

Employees (FTE)	2020	2019	2018[1]	2017	2016[2]
Total at year-end	**548**	805	1191	1276	1 435
Operations	185	304	481	587	605
Research, Development	162	213	281	232	297
Sales, Services	126	189	281	322	345
Finance, Administration	75	99	148	135	188

1 Definitions of certain individual functions were changed in accordance with new company HR policies. As a result, transfers from Operations (formerly Production, Logistics) to Research/Development and Finance/Administration functions occurred in 2018.
2 Number of FTEs as at 31 December 2016, adjusted by 70 people who had already left the company by the end of 2016 in connection a structural program.

Employees

At the end of 2020, Meyer Burger employed about 576 people (or 548 full time equivalents [FTEs]), with permanent working contracts (2019: 805 FTEs). In addition, the Group employed 10 temporary full-time workers (2019: 48 temporary full-time employees) and 21 apprentices (2019: 27 apprentices). The change in the number of employees during the fiscal year 2020 is mainly a result of the ongoing business transformation, as well as the divestments made. The average number of full-time employees in 2020 was 559 FTEs (2019: 998 FTEs).

– For more information on Human Resources issues see page 18.

Risk management

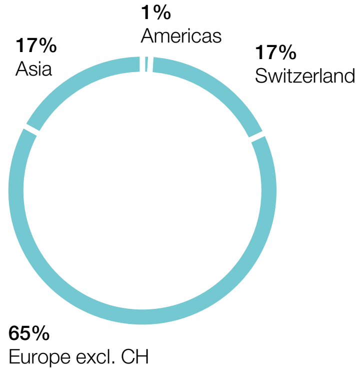
Meyer Burger uses various risk management instruments to manage its strategic, financial and operational risks. The Board of Directors has primary responsibility for evaluating strategic risks. Financial and operational risks are mainly assessed by the Executive Board. The results are submitted to the Board of Directors at regular intervals and any necessary countermeasures determined. Risk management is integrated within the company's management processes and involves Planning, Finance & Controlling, Internal Audit, Production & Logistics, Research & Development, Product Management, Sales, IT, Corporate Communications, Human Resources, and external Tax and Legal Consulting.

– For information about financial risk management see Note 3 on page 92.

Occupational safety is of major importance to Meyer Burger. Risks are minimized and a high degree of process safety is achieved through careful analysis of operating procedures and the provision of employee training.

– For information about employees see the next section and the corresponding part of the Sustainability Report on page 18.

Employee structure by region in 2020 in %



Employee structure by gender in 2020 in %