sgl carbon

Press Release

Wiesbaden, August 6, 2019

SGL Carbon increases sales in the first half-year 2019 and confirms its guidance for the fiscal year

- Group sales increased by approximately 6 percent to 562 million euros driven by organic growth in the market segments Digitization, Energy, and Chemicals
- Group recurring EBIT at almost 38 million euros; adjusted for the positive one-time effect in the prior year, Group recurring EBIT decreased by approximately 2 million euros
- EBIT in the business unit Composites – Fibers & Materials (CFM) improved slightly in the second quarter 2019 compared to the first quarter; business unit Graphite Materials & Systems (GMS) recorded a second quarter 2019 slightly below the record result of the first quarter
- Guidance for the fiscal year 2019 confirmed
- Dr. Jürgen Köhler, CEO of SGL Carbon: “Despite a cooling global economy, demand for our solutions continued to be high, especially in the digitization, energy and chemicals markets“
- Successful placement of a 250 million euros corporate bond in April
- BMW loans which provided financing for the former joint venture SGL ACF repaid as of end of June; convertible bond 2015/2020 redeemed in July ahead of maturity

Against the backdrop of a slowing global economy, SGL Carbon held up well in the first half of 2019. Sales revenue grew by approximately 6 percent compared to the previous year to reach 562 million euros. Adjusted for a positive one-time effect of around 4 million euros in the prior year, Group recurring EBIT reached nearly 38 million euros, approximately 2 million euros below prior year’s first half. Recurring EBIT in the business unit Composites – Fibers & Materials (CFM) decreased significantly, whereas business unit Graphite Materials & Systems (GMS) substantially increased its recurring EBIT. SGL Carbon therefore confirms its guidance for the fiscal year 2019 and anticipates a mid-single-digit percentage sales increase and a group recurring EBIT on the prior year level. As previously guided, a break-even consolidated net result is expected. In this context, it should be noted that the prior fiscal year benefited from a non-cash positive non-recurring item of about 28 million euros resulting from the full consolidation of SGL ACF. In addition, for the year 2019 the company plans increased expenses in the financial result from the refinancing measures implemented lately.

“Despite a cooling global economy, demand for our solutions continued to be high, especially in the digitization, energy and chemicals markets," says Dr. Jürgen Köhler, CEO of SGL Carbon. “As expected, business unit GMS will continue to perform on the high prior year level. Following the weak performance of our CFM business unit during the first half of the year, we have initiated comprehensive measures to improve results.

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Overall, we confirm our guidance for the fiscal year."

In the first quarter of 2019, sales revenue of SGL Carbon increased by 6.1 percent to 561.5 (previous year: 529.3) million euros. The increase is primarily attributable to higher deliveries and price increases in the business unit GMS. Although recurring EBIT decreased by 14.5 percent to 37.8 (previous year: 44.2) million euros, the prior-year period included an income of 3.9 million euros from a land sale. Adjusted for this effect, recurring EBIT of SGL Carbon decreased by 6 percent. The decline in earnings in the business unit CFM could not be offset by the improvements in operating earnings in the business unit GMS and in Corporate. The return on capital employed (ROCE) based on recurring EBIT was 4.6 (previous year: 6.0) percent. EBIT after non-recurring items decreased to 33.5 (previous year: 71.0) million euros, mainly due to high positive non-recurring item in the previous year. In the first half of the prior year an adjustment to the fair value of the net assets of the previously proportionally consolidated joint operation with the BMW Group (SGL ACF) was required. This resulted in a positive impact on non-recurring earnings amounting to 28.4 million euros. Because of the positive non-recurring item in the prior year and a decreased net financing result in the reporting period, the result from continuing operations before income taxes decreased significantly from 57.3 million euros to 14.8 million euros in the reporting period. Consolidated net result of the period amounted to 10.1 million (previous year: 47.3) million euros.

Composites – Fibers & Materials (CFM): Temporarily unfavorable product mix, postponement of project billings and a weak first quarter in the market segment Textile Fibers characterize first half year

Sales revenue in the business unit CFM at 219.4 million euros remained, as expected, close to the prior year level (currency adjusted: minus 3 percent). While the market segment Wind Energy recorded strong growth compared to the very weak prior year, the market segment Industrial Applications posted lower sales due to the weakening global economy. The market segment Aerospace also remained below the prior year level due to different timings of project billings. Sales in the market segments Automotive and Textile Fibers remained close to the prior year level. Recurring EBIT in the second quarter improved slightly compared to the weak first quarter, primarily reflecting the improvement in the market segment Textile Fibers. However, recurring EBIT in the first half 2019 reached 2.8 (previous year: 17.3) million euros and was substantially below the prior year level. Accordingly, the EBIT margin in the business unit decreased to 1.3 (previous year: 7.7) percent. The main reason for this development was lower earnings in the market segments Automotive and Aerospace, caused by a temporary unfavorable product mix respectively different timing of project billings. The market segment Wind Energy also recorded declining earnings due on one hand to a delivery pushback into the second half of this year based on external factors, and on the other hand to a temporary unfavorable product mix. The earnings decline in the market segment Textile Fibers is attributable to the unfavorable margin development in the first quarter, which already improved in the second quarter. The earnings improvement in the market segment Industrial Applications was not able to compensate for above developments. Return on capital employed (ROCE) based on recurring EBIT of the reporting unit CFM reached 0.9 (previous year: 5.3) percent.

Graphite Materials & Systems (GMS): Strong increase of sales revenue in most market segments; earnings grew more than proportionately

Sales revenue in the reporting segment GMS in the first half 2019 increased by 12 percent (currency adjusted: 9 percent) to 321.0 (previous year: 288.0) million euros. The main drivers for this development were the market segments Semiconductor and LED, which increased their sales double-digit. The market segment Automotive & Transport also grew more than proportionately and increased its sales by more than 30 percent. Strong growth of 10 percent was also recorded in the market segments Industrial Applications and Chemicals. As expected, sales in the market segment Battery & other Energy remained slightly below the prior year level while in the market segment Solar, sales were again limited to below the prior year level to prioritize sales to the Semiconductor and LED industries. In total, recurring EBIT increased substantially more than proportionately by 21 percent to 48.5 (previous year: 40.0) million euros. This led to a higher EBIT margin that increased from 13.9 percent to 15.1 percent due to improved results in most market segments. The market segment Solar posted earnings slightly below the prior year level. Despite higher sales, earnings in the market segment Automotive & Transport declined due to customary start-up costs relating to new projects, which are expected to decline in the course of the year. Return on capital employed (ROCE) based on recurring EBIT of the reporting unit GMS reached 16.8 (previous year: 14.8) percent.

Corporate: Increase in sales revenue; earnings on prior year level

In the first quarter 2019, sales in the reporting segment Corporate increased by 20 percent (no currency effect) to 21.1 (previous year: 17.6) million euros mainly due to substantially higher sales in the market segment Energy. This relates to sales of the central research & development department (Central Innovation), that almost doubled to reach 5.3 million euros and related mainly to the business with fuel cell components. Recurring EBIT reached minus 13.5 million euros and was thus at the prior year level. However, the prior year included a positive effect from a land sale in Canada in the amount of 3.9 million euros. Adjusted for this effect, EBIT improved substantially due to the non-recurrence of costs relating to last year's implementation of the Operations Management System (OMS), high one-time income from services provided to the former graphite electrode business, as well as lower net expenses of the central research and development activities. These were 0.7 million euros below the prior year level due to the increased earnings contribution from the business with fuel cell components.

Free cash flow from continuing operations again significantly improved

Cash flow from operating activities in the first half 2019 improved significantly by 23.2 million euros to 15.4 (previous year: minus 7.8) million euros. Main reason was the reduced increase in working capital. Cash flow from investing activities improved from minus 31.2 million euros to minus 24.6 million euros, mainly because the net cash payment for the acquisition of the SGL Composites company in Wackersdorf (Germany) amounting to 23.1 million euros was included in the prior year period. Capital expenditures in intangible assets and property plant and equipment increased by 53 percent to 33.6 (previous year: 21.9) million euros. Free cash flow from continuing operations improved significantly to minus 9.2 (previous year: minus 39.0) million euros.

As of June 30, 2019, total assets of SGL Carbon were at 1,784.7 million euros, an increase of 12.6 percent compared to year-end (December 31, 2018: 1,585.1 million euros) mainly due to the cash inflow from the corporate bond issued in April 2019. Equity attributable to the shareholders decreased by 4.8 percent to 506.2 million euros. The reduction is mainly attributable to the lower pension discount rate environment in Germany and the USA. Overall, the equity ratio as of June 30, 2019 decreased to 28.4 percent (December 31, 2018: 33.5 percent), not only due to the negative impacts from the pension discount rate changes but also because of the temporary increase of total assets. Adjusted for the full repayment of the convertible bond 2015/2020 and the resulting reduction in total assets in July 2019, the pro forma equity ratio as of June 30, 2019 was 31.5 percent.

In April 2019, SGL Carbon successfully placed Senior Secured Notes in the amount of 250 million euros due September 2024. SGL Carbon used the proceeds to prefund its existing convertible bond 2015/2020, to completely repay the loan by BMW related to the full acquisition of the former BMW Joint Venture SGL ACF and to pay the transaction costs related to the issuance of the convertible bond. The loan of the BMW Group was repaid at the end of June, the convertible bond was fully repurchased in July 2019.

SGL Carbon confirms its guidance for 2019

The fiscal year 2018 was impacted by positive effects from the initial adoption of IFRS 15 as well as positive non-recurring items resulting from the full consolidation of the former SGL ACF. This high comparative base influences the outlook for the current year. In addition, the company acknowledges reports on a global economic slowdown. Nevertheless, SGL Carbon continues to anticipate a mid-single digit percentage Group sales increase for 2019, which will mainly be volume driven. Group EBIT (before non-recurring items and purchase price allocation) is expected to stabilize on the prior year level, which recorded a substantial increase over 2017.

After a consolidated net profit of approximately 41 million euros in the fiscal year 2018, the company expects a break-even consolidated net result in the fiscal year 2019. It should, however, be noted, that the previous year benefited from a non-cash positive non-recurring item in the amount of 28 million euros relating to the full consolidation of SGL ACF. In addition, SGL Carbon plans increased expenses in the financial result mainly from one-time effects in conjunction with the early repayment of the convertible bond 2015/2020 and the issue of the corporate bond in April 2019 to refinance maturities due at the end of 2020. With this bond and the 175 million euros syndicated loan signed in January 2019, the company has completed its refinancing measures and is financed until 2023 with respect to existing financial liabilities.

For fiscal year 2019, SGL Carbon continues to expect capital expenditures of approximately 100 million euros after 78 million euros in the prior year. Net financial debt at year-end 2019 is anticipated to be a mid-double-digit million euro amount higher than at year end 2018 mainly due to higher capital expenditures as well as increasing interest expenses. SGL Carbon will, however, remain within its target leverage ratio, i.e. the ratio of net financial debt to EBITDA, of below 2.5. As previously announced, the target gearing level of approximately 0.5 could temporarily be exceeded due to additional capital expenditures in the years 2019 through to 2021.

Guidance CFM: Continue to expect a mid-single-digit percentage sales growth and EBIT to remain nearly unchanged

As described in the interim report on the first quarter 2019, the initial quarter was the weakest quarter of this year. SGL Carbon was already able to improve earnings in the second quarter, albeit not in a meaningful magnitude. Nevertheless, the company adheres to its previous guidance, even though the market segment Industrial Applications is developing weaker than expected and the subdued first half increases risks to achieving the full year target. SGL Carbon has therefore implemented comprehensive measures to improve results especially in the market segment Textile Fibers, which should begin to support earnings already this year.

Therefore, SGL Carbon continues to expect a mid-single-digit percentage sales growth, mainly driven by higher volume growth. Recurring EBIT in this business unit should approximately reach the prior year level, as the company anticipates higher project billings (market segment Aerospace) and an improved product mix (market segment Automotive) in the second half-year. In addition, the second half-year should benefit from the implemented measures to improve earnings.

Guidance GMS: Sales and earnings approximately on the high prior-year level

In the prior year, sales in the reporting segment GMS was substantially positively impacted by the initial adoption of IFRS 15. Against this background, for the fiscal year 2019, SGL Carbon continues to anticipate sales approximately on the same high level of the prior year. The same applies to the EBIT in the business unit GMS, which was also boosted by positive IFRS 15 effects in 2018. Despite the strong first half, SGL Carbon expects full year 2019 EBIT approximately on the same level as in the prior year, as the company is planning somewhat lower volumes as well as reducing inventory levels, which will lead to a lower fixed costs absorption but improve free cash flow. GMS should therefore once again exceed the target EBIT margin of 12 percent (before non-recurring items) and thus confirm that this business model is robust even in a weakening global economic environment.

Key Figures of SGL Carbon
(in million euros)

	H1 2019	H1 2018	Change
Sales revenue	561.5	529.3	6.1%
EBITDA before non-recurring items	73.1	75.0	-2.5%
Operating profit (EBIT) before non-recurring items	37.8	44.2	-14.5%
Return on sales (EBIT margin) [1)]	6.7%	8.4 %	-1.7%-points
Return on capital employed (ROCE EBIT) [2)]	4.6%	6.0 %	-1.4%-points
Operating profit (EBIT)	33.5	71.0	-52.8%
Consolidated net result from continuing operations	10.2	51.3	-80.1%
Result from discontinued operations, net of income taxes	-0.1	-4.0	97.5%
Consolidated net result	10.1	47.3	-78.6%
Earnings per share, basic and diluted (in €) continuing operations [3)]	0.08	0.42	-81.0%
Payments to purchase intangible assets and property, plant & equipment	-33.6	-21.9	-53.4%
Free Cashflow from continuing operations	-9.2	-39.0	76.4%

	30 June 2019	31. Dec. 2018	Change
Total assets	1,784.7	1,585.1	12.6%
Equity attributable to shareholders of the parent company	506.2	531.6	-4.8%
Net financial debt [4)]	272.9	242.2	12.7%
Debt ratio (Gearing) [5)]	0.54	0.46	–
Equity ratio [6)]	28.4%	33.5%	-5.1%-points
Employees	5,094	5,031	1.3%

1 Ratio of EBIT before non-recurring items to sales revenue
2 EBIT before non-recurring items for the last twelve months to average capital employed – continuing operations (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital)
3 Based on an average number of 122.3 million shares (previous year: 122.3 million shares)
4 Financial liabilities (nominal amounts) less liquidity
5 Net financial debt divided by equity attributable to the shareholders of the parent company
6 Equity attributable to shareholders of the parent company divided by total assets

About SGL Carbon

SGL Carbon is a technology-based company and world leader in the development and production of carbon-based solutions. Its high-quality materials and products made from specialty graphite and composites are used in industrial sectors that determine the future: automotive, aerospace, solar and wind energy, semiconductor and LEDs as well as in the production of lithium-ion batteries and other energy storage systems. In addition, SGL Carbon develops solutions for chemical and industrial applications.

In 2018, SGL Carbon SE generated sales of around 1 billion euros. The company has approximately 5,100 employees at 32 locations in Europe, North America, and Asia.

Materials, products and solutions from SGL Carbon are embedded in the major topics of the future: sustainable mobility, new energies and cross-industry digitization. Further developments in these areas demand more intelligent, more efficient, networked and sustainable solutions. This is where the entrepreneurial vision of SGL Carbon evolves around: contributing to a smarter world.

Further information on SGL Carbon can be found at www.sglcarbon.com/press.

Important note:
To the extent that our press release contains forward-looking statements, the latter are based on information that is available at present and on our current forecasts and assumptions. Forward-looking statements, by their very nature, entail known as well as unknown risks and uncertainties that may lead to actual developments and events differing substantially from the forward-looking assessments. Forward-looking statements must not be understood to be guarantees. Instead, future developments and events depend on a large number of factors; they comprise various risks and imponderables and are based on assumptions that may possibly turn out not to be appropriate. These include unforeseeable changes to fundamental political, economic, legal and societal conditions, particularly in the context of our main customers' industries, the competitive situation, interest and exchange rate trends, technological developments as well as other risks and uncertainties. We perceive additional risks e.g. in pricing developments, unforeseeable events in the environment of companies acquired and Group member companies as well as in current cost savings programs from time to time. The SGL Carbon assumes no obligation and does not intend to adjust or otherwise update these forward-looking statements either.

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