sgl carbon

Press Release

Wiesbaden, March 25, 2021

SGL Carbon responds to the crisis with consistent countermeasures and initiates extensive transformation - stable EBIT before non-recurring items and clearly positive free cash flow in the difficult Corona year 2020

- Consolidated sales in 2020 at €919.4 million and thus 15% below the prior year
- Consolidated net result of minus €132.2 million (2019: minus €90.0 million) due to impairment losses at CFM and restructuring expenses
- EBIT before non-recurring items slightly improved to €50.2 million (2019: €48.4 million)
- Operating EBIT before non-recurring items and one-off effects slightly above expectations at €19.5 million (2019: €46.6 million)
- Free cash flow noticeably improved by €91.0 million to €73.7 million (2019: minus €17.3 million) due to strict investment and expenditure limits as well as one-off effects
- Net financial debt slightly reduced to €286.6 million despite purchase price payment for carbon fiber plant in Moses Lake
- Restructuring and transformation program: More than €100 million recurring savings by end of 2023 targeted, thereof around €40 million were already achieved in 2020
- Outlook for 2021: Sales in the range of €920 million to €970 million, EBITDA pre-exceptionals between €100 million and €120 million (2020: €92.8 million)

In the fiscal year 2020, the Covid-19 pandemic had a major impact on the business development of SGL Carbon. Even though production did not have to be shut down at any time thanks to effective hygiene and protection measures, the Company was faced with a substantial reduction in demand. While for the reporting segment Composites – Fibers & Materials (CFM) a recovery of demand could be observed until end of the year, the demand in the reporting segment Graphite Materials & Systems (GMS) improved only slightly by year end. Consolidated sales in 2020 amounted to €919.4 million and were therefore 15% below the prior year (2019: €1,086.7 million). Due to the impairment at CFM and restructuring expenses, the consolidated net result amounted to minus €132.2 million (2019: minus €90.0 million).

Nevertheless, SGL Carbon was able to stabilize EBIT before non-recurring items by utilizing one-off effects from sales of real estate and a compensation from the buyer of our former graphite electrode business, Showa Denko. EBIT before non-recurring items improved slightly by 3.7% to €50.2 million (2019: €48.4 million).

SGL Carbon was also able to partially counterbalance the pandemic's effects from an operational standpoint, for example by acquiring new customers in the wind sector and through a variety of already effective cost savings. As a result, operating EBIT before non-recurring

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items and one-off effects declined as anticipated, but was nevertheless slightly above expectations with €19.5 million (2019: €46.6 million).

Moreover, free cash flow from continuing operations improved noticeably to €73.7 million (2019: minus €17.3 million) due to strict investment and expenditure limits as well as one-off effects. In addition, net financial debt was slightly reduced to €286.6 million (2019: €288.5 million) despite the payment of the purchase price of USD62 million, or €51.4 million, for 49% of the shares in SGL Composites US (the carbon fiber plant in Moses Lake from the former joint venture with BMW).

Comprehensive restructuring and transformation program above plan

SGL Carbon initiated a fundamental transformation of the Company in 2020. In order to quickly enhance profitability, the Board of Management has resolved a comprehensive restructuring and transformation program as of October 30, 2020 which comprises administrative areas as well as the business units. The business units have been divided into four homogeneously tailored divisions since the beginning of 2021. Central research and central analytics have been allocated to the four new business units, and the production sites have been clearly assigned. This new structure now allows full profit and loss responsibility to be transferred to the business unit heads and thus a better steering of the units with a focus on profitability. Furthermore, the program includes extensive cost saving measures and a number of improvement initiatives in the areas of production, purchasing, sales and administration, including measures to further develop the corporate culture. In total, more than 700 individual measures have been defined, which are being implemented by approx. 300 employees worldwide.

The program is scheduled to result in recurring savings of more than €100 million by 2023 (compared to 2019). Besides a substantial reduction of indirect spend, these savings also consist of a planned socially acceptable reduction of personnel of more than 500 employees. Total costs of around €40 million are anticipated for implementation of the measures. Around €40 million of the expected savings were already achieved in 2020. In addition, more than 50% of the planned personnel reduction was already triggered by agreements reached until end of December 2020.

Comments from the Board of Management

“The general public frequently describes 2020 as a ‘lost’ year with lower demand. Instead of accepting this situation, however, we rolled up our sleeves and renewed our Company from scratch. We are extremely proud of our teams and what they accomplished. We therefore thank all our employees for their enormous efforts during this challenging time. We also thank our shareholders for their patience and interest in SGL Carbon”, says Dr. Torsten Derr, Chief Executive Officer of SGL Carbon.

“We have succeeded in handling the crisis, while simultaneously creating a structure in which we can promote particularly promising businesses in a more targeted manner. Overall, SGL Carbon is more stable thanks to the improved cost structure. Moreover, we have no significant maturities due on existing financial instruments before 2023. When the global economy returns to normal, SGL Carbon benefits twice: our business will come back, and costs will be significantly lower“, adds Thomas Dippold, Chief Financial Officer of SGL Carbon.

Further key financial figures

Net interest expense decreased by 15.3% to €27.1 million compared with the prior-year expense of €32.0 million, mainly due to lower interest expense for pensions. Furthermore, other financing result improved from minus €6.9 million to minus €2.3 million, mainly because other financing result of 2019 was impacted by expenses for the repurchase of the convertible bond. As a result, net financing result significantly improved by 24.4% to minus €29.4 million (2019: minus €38.9 million) compared to previous year.

At €55.8 million, capital expenditure for intangible assets and property, plant and equipment were significantly reduced to well below the range of €70 to 80 million forecast for the year under review (2019 capital expenditure: €95.1 million).

Primarily as a result of the positive free cash flow less the payment of the purchase price for the acquisition of 49% of the shares in SGL Composites US from BMW, available liquidity increased to €141.8 million at the end of fiscal year 2020 (2019: €137.1 million).

The return on capital employed ($ROCE_{EBIT}$) of SGL Carbon's continuing operations improved from 3.9% in 2019 to 4.5% in 2020, mainly due to a lower capital employed.

Financial performance of the reporting segments

Composites - Fibers & Materials (CFM): Substantial improvement in earnings

While the first quarter 2020 in the reporting segment Composites - Fibers & Materials (CFM) was still relatively unaffected by the coronavirus crisis, the negative effects were clearly visible in the second quarter of the year. Fortunately, the negative effects eased again over the further course of the year, which means that development in the second half of the year was substantially better than expected. Earnings were also positively impacted by improvement measures in the production process, but also by lower raw material and energy costs. In total, sales during the period under review fell by around 9% (no notable currency effects) to €391.3 million from €431.6 million in the same period of the previous year.

The largest percentage downturn was seen in the Textile Fibers market segment. This was due to the fact that, as part of the activities to improve earnings, SGL Carbon started to idle two acrylic fiber lines at the end of 2019 and to convert another line to precursor. COVID-19-related declines were also recorded in the Automotive and Industrial Applications market segments. Aerospace remained relatively stable year-on-year. In contrast, business with the wind industry increased year-on-year by around 45% and thus better than originally forecasted.

EBIT before non-recurring items in the CFM reporting segment improved to €19.1 million compared to minus €8.3 million in the previous year. This corresponds to a return on sales of 4.9% after minus 1.9% in the prior year. The substantially improved earnings in the business with the wind industry and in the Textile Fibers market segment as well as the positive impact of the activities put in place to improve earnings have only been partially offset by the weaker automotive business and the lower earnings contributions from investments accounted for At-Equity (down by around €4 million). Operating EBIT before non-recurring items of €14.2 million was adjusted for one-off items from personnel-related credits and income from the sale of assets totaling €4.9 million.

In addition, significant differences to the last five-year plan became apparent in the CFM reporting segment on October 30, 2020, due to the persisting weakness in the market segments Automotive and Aerospace. This triggered an event-driven impairment test for all the cash generating units (CGUs) of CFM. As a result, an impairment loss for goodwill and property, plant & equipment totaling €106.5 million was recognized in the fourth quarter of 2020. The impairment loss related only to the new CF (Carbon Fibers) CGU.

Graphite Materials & Systems (GMS): Downturn in demand due to pandemic

The impact of the coronavirus pandemic increased further in the second half of the year in the Graphite Materials & Systems (GMS) reporting segment. This is mostly due to the late cyclical nature of the GMS business. In total, within the reporting period, sales in the GMS segment decreased by almost 20% to €495.4 million compared to the record high of €622.5 million in the previous year (no major currency translation effect).

As a result of the pandemic, contributing factors included the anticipated changes in the supply chain for lithium-ion batteries as well as lower sales in all market segments with the exception of semiconductors. Semiconductor sales enjoyed double-digit growth.

Compared to the record-breaking earnings in the same period of the previous year (€85.5 million), EBIT before non-recurring items in the period under review decreased by around 50% to €42.4 million. The EBIT margin fell to 8.6% (previous year: 13.7%). Operating EBIT before non-recurring items of €33.1 million was adjusted for one-off items from insurance income and personnel-related credits totaling €9.3 million. In line with the development in sales, almost all market segments recorded a substantial decline in earnings compared to the same period of the previous year. This is due to the substantially reduced capacity utilization for industrial and chemical applications as well as the lower absorption of fixed costs, particularly in the second half of the year, which could only be partially compensated by cost savings. Only in the market segment automotive & transport earnings remained stable.

Corporate: Significant one-off income

Sales in the Corporate reporting segment in fiscal 2020 were in line with the previous year's level (no currency effects). The positive impact on sales from the agreement between SGL Carbon and Showa Denko in July 2020 in the amount of €8.5 million was offset by lower services to the discontinued business units (former Performance Products or PP business unit).

In the reporting segment Corporate, EBIT before non-recurring items improved year on year to minus €11.3 million (previous year: minus €28.8 million). The main driver for this strong improvement in earnings was the positive impact of the agreement with Showa Denko in the amount of €8.5 million and income from the sale of land and buildings of €7.9 million. These one-off effects were adjusted in the operating EBIT before non-recurring items amounting to minus €27.8 million. Also, lower expenses for management incentive plans as a result of the reduced earnings in the Group helped to improve the EBIT. In line with our expectations, expenses for our central research and development activities were lower than in the previous year at €9.4 million (previous year: €11.4 million) due to cost cutting activities.

Outlook

Group performance

Following the dramatic economic slump seen in 2020, we anticipate that fiscal year 2021 will be marked by a moderate recovery. Sales should be above the level of the previous year (2020: €919.4 million), within the range of €920 million to €970 million. We expect our EBITDA pre-exceptionals to improve to €100 million - €120 million (2020: €92.8 million), which should positively reflect the savings generated by the restructuring measures we initiated. Following a consolidated net loss – continuing operations of €132.9 million in fiscal year 2020 – which can primarily be attributed to the impairment loss in CFM and restructuring expenses – the consolidated net result of continuing operations should improve significantly in 2021, ranging between minus €20 million and a balanced result.

Business trends in reporting segments

From the beginning of 2021 onwards, we will report along the four new business units of SGL Carbon. These are: Graphite Solutions (GS) and Process Technology (PT), both together previously GMS, as well as Carbon Fibers (CF) and Composite Solutions (CS), previously together CFM.

Segment	KPI	Act 2020	Outlook 2021[1)]
GS	Sales	407.5	slight improvement
	EBITDA pre-exceptionals	63.1	significant improvement
PT	Sales	88.2	constant
	EBITDA pre-exceptionals	3.4	constant
CF	Sales	303.9	constant
	EBITDA pre-exceptionals	41.4	slight improvement
CS	Sales	88.6	significant improvement
	EBITDA pre-exceptionals	-4.7	slightly positive
Corporate	EBITDA pre-exceptionals	-10.4	significant decline

1) “Slight“ indicates a range of up to 10%; „significant“ indicates a range of more than 10%

For our Graphite Solutions (GS) reporting segment, we expect demand to recover gradually in 2021, as a result of which sales in all market segments should improve slightly or at least remain constant. In particular due to the savings generated by restructuring measures, we anticipate EBITDA pre-exceptionals to improve significantly. In our Process Technology (PT) reporting segment, we are not yet seeing any significant momentum, as the chemicals industry continues to be reluctant to invest in new projects. As a result, we anticipate that sales and earnings in PT will remain on the level of the previous year. In our Carbon Fibers (CF) reporting segment, we expect sales to be on the level of 2020, while EBITDA pre-exceptionals should improve slightly due to the restructuring measures that have been initiated. Sales in our Composite Solutions (CS) reporting segment will increase significantly in 2021, as new automotive projects have been launched, such as the production of battery cases made from composite materials. The increase in sales revenue will in particular contribute to a positive EBITDA pre-exceptionals. The significant deterioration of EBITDA in our Corporate reporting segment can be attributed mainly to the fact that the comparable figure for 2020 benefited from lower expenses for management incentive plans.

Outlook for capital expenditures and free cash flow

After limiting capital expenditure to about €55 million in the year under review, we expect for the current fiscal year capital expenditure to be on the level of depreciation and amortization, which should decrease to about €60 million in 2021, due to the impairment recognized in 2020. Capital expenditure will focus on the continued expansion of our production facilities for fuel cell components, as well as on the project-related expansion of our production facilities for composite materials (e.g. for battery cases) for customers from the automotive industry.

The Group's financing requirements are determined by the strategic business plans of our operating business units, which are reviewed and adjusted annually based on new projections. By constantly managing cash flow, selling land not required for operations, and significantly reducing working capital, we have achieved positive free cash flow in 2020. Available liquidity and our financing framework, all provide sufficient means to cover our anticipated liquidity requirements for 2021. As business will recover over the course of 2021, we expect working capital to increase, which we will finance from our own resources so that we achieve balanced free cash flow overall.

Key financial figures of SGL Carbon (in € million)

Financial performance

	2020	2019	Change
Sales	919.4	1,086.7	-15.4%
EBITDA before non-recurring items [1]	123.5	120.0	2.9%
EBITDA before non-recurring items and one-off effects (EBITDA pre-exceptionals)	92.8	118.2	-21.5%
EBIT before non-recurring items [1]	50.2	48.4	3.7%
Operating EBIT before non-recurring items and one-off effects[2]	19.5	46.6	-58.2%
Result from continuing operations before income taxes	-123.1	-73.2	-68.2%
Consolidated net result	-132.2	-90.0	-46.9%
Return on sales (EBIT-margin)[3]	5.5%	4.5%	1.0%-points
Return on capital employed ($ROCE_{EBIT}$) [4]	4.5%	3.9%	0.6%-points
Return on capital employed ($ROCE_{EBITDA}$) [5]	11.1%	9.6%	1.5%-points
Earnings per share, basic and diluted (in €)	-1.08	-0.74	-45.9%

[1] Before non-recurring items of minus €143.9 million in 2020 and minus €82.7 million in 2019
[2] Before non-recurring items of minus €143.9 million and one-off effects €30.7 million in 2020 versus minus €82.7 million and €1.8 million in 2019
[3] EBIT before non-recurring items to sales revenue
[4] EBIT before non-recurring items to average capital employed (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital
[5] EBITDA before non-recurring items to average capital employed (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital)

Net assets

	Dec. 31, 2020	Dec. 31, 2019	Change
Equity attributable to the shareholders of the parent company	220.7	418.6	-47.3%
Total assets	1,258.8	1,504.8	-16.3%
Net financial debt	286.5	288.5	0.7%
Equity ratio [6]	17.5%	27.8%	-10.3%-points
Leverage ratio [7]	2.3	2.4	4.2%
Headcount [8]	4,837	5,127	-5.7%

[6] Equity attributable to the shareholders of the parent company to total assets
[7] Net financial debt to EBITDA before non-recurring items
[8] As of Dec. 31, including employees with fixed-term contracts

Financial position

	Dec. 31, 2020	Dec. 31, 2019	Change
Payments to purchase intangible assets and property, plant and equipment	55.8	95.1	-41.3%
Depreciation/amortization expense	73.3	71.6	2.4%
Working capital	351.8	406.8	-13.5%
Free cash flow [9]	73.7	-17.3	-

[9] Cash flow from operating activities (continued operations) minus cash flow from investing activities (continued operations)

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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