Press Release

Wiesbaden, November 12, 2020

SGL Carbon takes decisive countermeasures in the crisis - comparatively solid business development in the third quarter

- Sales revenues increased approx. 10% to €227 million compared to the prior quarter. Operating recurring EBIT improved substantially to €15 million compared to the prior quarter which was weakened by the pandemic
- Group sales revenues in 9M/2020 declined by approx. 18% to €684 million. Group operating recurring EBIT reached €25 million (9M/2019: €54 million)
- Current status of the new 5 year plan, as announced on October 30, 2020, requires impairment charge of €80-100 million in the fourth quarter of 2020. Additionally, restructuring program resolved with earnings improvement measures of more than €100 million until 2023
- Outlook for Group sales and operating recurring Group EBIT for 2020 confirmed. Outlook for Group net result however reduced to minus €130 to €150 million due to impairment charge and restructuring expenses
- Free cashflow of approx. €44 million in 9M/2020. As a result, very positive development of liquidity to €167 million as of September 30, 2020 due to strict spend control and non-capital market related funding measures (year-end 2019: €137 million).

The mid-term business prospects for SGL Carbon are impacted by the corona pandemic and structural changes in some markets. While the development in the automotive and aerospace sectors is lower than expected in the last 5 year plan, the wind energy business is growing much stronger than previously planned. These changes in the mix and the resulting deviations in earnings prompted the company to conduct an event-driven impairment test in the reporting segment CFM. On the basis of the current status of the preliminary 5 year plan – as announced on October 30, 2020 – this resulted in the need for an impairment charge of €80-100 million, which will be recorded in the fourth quarter of 2020.

In order to sustainably strengthen the profitability and competitiveness of SGL Carbon, the Board of Management has resolved an extensive restructuring program with planned earnings improvement measures totaling more than €100 million until 2023 (compared to the base year 2019). It includes a planned socially compatible reduction in personnel of more than 500 employees as well as substantial reduction in indirect spend. From today's perspective, costs of approx. €40 million are anticipated for the implementation of the program, of which a little more than half is expected to be recognized in profit and loss in the fourth quarter of 2020.
For the full year 2020, SGL Carbon continues to expect Group sales revenues to decline by 15% to 20% and operating recurring Group EBIT to record a slightly positive result. However,

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outlook for Group net result is reduced to minus €130 to €150 million due to the above-mentioned measures.

“Like many other companies, the corona pandemic is also having a significant impact on us. In addition, we also see structural changes in some of our markets, such as in the automotive and aerospace sector. Thanks to decisive countermeasures, we are managing the crisis relatively well operationally. In addition, with our restructuring program, we have laid the foundation for the sustainable transformation of the company towards a leaner, profitable and successful SGL Carbon", explains Dr. Torsten Derr, CEO of SGL Carbon.

Group business development influenced by the Corona pandemic, structural changes in some markets and a positive one-off effect

SGL Carbon's sales revenues in the third quarter at €227 million were around 10% higher than in the previous quarter. At around €15 million, operating EBIT before non-recurring items was significantly better than in the previous quarter, which was weak due to the pandemic.

In the nine-month period, however, sales fell significantly by almost 18% (no currency effect) to €683.5 million (9M/2019: €832.4 million), primarily due to the weaker business development caused by the pandemic as well as expected declines in Battery & other Energy (GMS) and capacity adjustments in Textile Fibers (CFM). Accordingly, recurring EBIT in the reporting period fell by 38% to €33.9 million (9M/2019: €54.2 million). This includes a positive one-off effect of € 8.5 million from the compensation agreement with the buyer of a former business unit (Showa Denko).

The net financial result improved significantly in the nine-month period to minus €23.4 million (previous year: minus €32.6 million). The result from continuing operations before income taxes changed significantly from minus €59.4 million in the prior year period to plus €1.4 million in the reporting period, as the previous year contained an impairment loss of around €75 million. After taxes, the consolidated net result for the reporting period was minus €3.9 million compared to minus €74.5 million in the same period of the previous year.

Free cash flow improved significantly to approx. €44 million in 9M/2020 (9M/2019: minus €9.6 million). As a result, liquidity developed very positively to approx. €167 million as of September 30, 2020, due to strict spend control and non-capital market related funding measures (year-end 2019: €137 million).

Business development by segment

Composites - Fibers & Materials (CFM): Second quarter marked the trough in sales and earnings development - significant recovery in the third quarter

While the first quarter 2020 in the reporting segment CFM was still relatively unaffected by the Corona crisis, the effects were clearly visible in the second quarter 2020. Fortunately, the negative effects eased again in the third quarter, so that the development – particularly in earnings – was substantially better than expected at the half year mark. Compared to the previous quarter, CFM sales revenue increased by 20% to €97.7 million. Recurring EBIT even increased significantly from minus €1.9 million to €8.8 million. Compared to the third quarter of 2019, however, sales revenue decreased by approx. 11% while recurring EBIT improved significantly from minus €4.6 million in Q3/2019 to €8.8 million in Q3/2020.

In a nine-month comparison, sales revenue declined by approximately 14% (no meaningful currency effect) to €283.4 million. The largest percentage decline was recorded in the loss-making market segment Textile Fibers. This is due to the fact that, as part of the earnings improvement measures, SGL Carbon had at the end of 2019 started to convert one acrylic fiber line to precursor and to idle two acrylic fiber lines. Corona-related declines were recorded in the market segments Automotive and Industrial Applications. In contrast, business with the wind energy sector increased by more than 60% and thus again developed more favorably than initially anticipated. The Aerospace business remained relatively stable on a low level.

Recurring EBIT improved from minus €1.8 million in the prior year period to €10.6 million in the first nine months 2020. The substantially improved results in the wind energy business and the positive effects from the earnings improvement measures implemented at the end of 2019 were only partially offset by the weaker Automotive business and the approximately €4 million lower earnings contribution from At-Equity accounted investments. Accordingly, the EBIT margin improved from minus 0.5% to 3.7% in the reporting period.

After consideration of non-recurring items of minus €7.6 million, EBIT in the first nine months 2020 improved to €3.0 million (9M/2019: minus €82.8 million). Non-recurring items in the reporting period and in the prior year period mainly included the additional depreciation relating to the purchase price allocation from the acquisition of the shares in the SGL Composite companies as well as the impairment charge of €74.7 million in the prior year period.

Graphite Materials & Systems (GMS): Negative sales and earnings development intensified due to corona pandemic and late-cycle nature of business

The effects from the Corona pandemic have further increased in the reporting segment Graphite Materials & Systems (GMS) in the third quarter 2020. This is mainly due to the late cyclical nature of the GMS business. Compared to the previous quarter, sales went down by around 7% to €115.1 million. Recurring EBIT fell by around 11% to €11.1 million. Compared to the prior year quarter, sales declined by approximately 25% and EBIT by approximately 55%.

In a nine-month comparison, sales revenue in the reporting period declined by approximately 22% (no material currency impact) to €373.1 million due to expected changes in the supply chain of the lithium-ion-battery business as well as pandemic-related lower sales revenues in all market segments except Semiconductors, which grew by a low double-digit percentage.

Compared to the record earnings level in the prior year period (9M/2019: €74.5 million), recurring EBIT in the reporting period decreased by approximately 52% to €35.4 million. The IFRS 15 effect alone contributed €10 million to the earnings decline. The EBIT margin deteriorated to 9.5% (9M/2019: 15.5%). In line with the development in sales revenues, almost all market segments recorded an earnings decline compared to the prior year period. Only the market segments Semiconductors and Automotive & Transport remained stable and close to the prior year level.

Corporate: Sales and earnings positively influenced by one-time income from the agreement with Showa Denko

Sales revenues in the reporting segment Corporate in the first nine months 2020 increased by approximately 14% (no currency effect) compared to the prior year level due to the agreement between SGL Carbon and Showa Denko, which was concluded in July 2020, to change resp. terminate by mutual agreement, all contractual relationships between the two parties against a low double-digit million € compensation payment from Showa Denko. An amount of €8.5 million of the compensation related to the early termination of rental and service contracts, and was recorded in sales revenues and in recurring EBIT as a positive one-time effect in the third quarter 2020.

At minus €20.6 million, operating recurring EBIT in the reporting segment Corporate remained 11% below the prior year level (9M/2019: minus €18.5 million). Taking into consideration the positive one-time effect in the amount of €8.5 million and non-recurring items of minus €1.5 million, EBIT improved by approximately 27% to minus €13.6 million (9M/2019: minus €18.5 million). Non-recurring items in the reporting period mainly relate to restructuring expenses for consulting services.

Free cash flow: Significant improvement due to improved operating performance, optimized working capital and restrictive capital expenditure

Cash flow from operating activities in the first nine months of 2020 improved significantly by €38.9 million to €68.8 million, in particular because, in contrast to previous years, there was no significant increase in working capital in the first nine months of the year. In addition, cash flow from investing activities improved from minus €39.5 million in the prior year period to minus €25.1 million in the reporting period. Capital expenditure was reduced significantly by around a third to €33.2 million in the reporting period (9M/2019: €50.7 million). As a result of the above effects, free cash flow from continuing operations improved significantly to €43.7 million in the reporting period (9M/2019: minus €9.6 million).

Outlook 2020

Group outlook: Sales and operating recurring EBIT confirmed. Net result well below previous guidance. Comfortable liquidity situation

While the global economic backdrop continued to remain fragile and dominated by Covid-19, a Group outlook for the fiscal year 2020 based on certain assumptions was once again presented on July 28, 2020. Even though the uncertainty has recently increased regarding a second pandemic wave and an associated further decline in demand due to a recession, SGL Carbon is able to confirm guidance for Group sales and Group operating recurring EBIT for the fiscal year 2020: Based on the expected developments in the reporting segments as described above, the company continues to expect full year 2020 Group sales revenues to decline by 15% to 20% and Group operating recurring EBIT to record a slightly positive result.

As reported on October 30, 2020, Group net result from continuing operations is likely to be substantially below our prior guidance (improvement to a negative low double-digit million € amount) and below the prior year result of minus €90 million. SGL Carbon now expects a result in the magnitude of minus €130 to €150 million. The reasons for this are the impairment charge and the restructuring expenses, which will be recorded in the fourth quarter 2020.

To take into account the reduced operating earnings expectations and in the context of a conservative free cash flow management, SGL Carbon had reduced capital expenditures in the current year to approximately €60 million. Investment focus in the business unit CFM is on the market segment Automotive (primarily to execute on the new battery case orders). In addition, we have invested into the conversion of another textile acrylic fiber line to precursor to supply our carbon fiber production. At GMS, the investment focus is on the market segment Battery & other Energy (fuel cell components).

Thanks to the successful execution of additional non-capital market related funding options mentioned above, the March 2020 guidance of a mid double-digit million € increase in net debt at year-end 2020 compared to year-end 2019 can be more or less confirmed despite substantially lower operating earnings expectations. The increase in net debt can largely be attributed to the payment of the purchase price for SGL Composites USA (the carbon fiber plant of our former joint venture with BMW in Moses Lake, Washington, U.S.), in the amount of 62 million U.S. Dollar, which is due at the end of this year.

Based on the good liquidity position as of September 30, 2020, further cash inflows from the measures mentioned above and despite the purchase price payment planned in the fourth quarter 2020 as well as the upcoming cash outflows for restructuring measures, SGL Carbon expects a continued comfortable liquidity situation. In addition, the syndicated loan in the amount of €175 million continues to remain available and undrawn.

CFM outlook: Sales decline by around 10%, but significant improvement in operating recurring EBIT.

For the business unit CFM, SGL Carbon continues to anticipate sales revenues to decline by approximately 10%. Declining sales in the market segment Textile Fibers, which is mainly the result of our capacity adjustments, as well as the Covid-19 related demand decline in the automotive industry, is unlikely to be compensated by the strong growth in the wind energy business. For operating recurring EBIT we now anticipate a slightly positive result. Among other things, the earnings improvement measures implemented in the Textile Fibers business in the second half of 2019 as well as price increases in the wind energy business implemented early 2020 will contribute to the earnings improvement compared to the prior year.

GMS outlook: Sales decline by approx. 20% and disproportionate decline in operating recurring EBIT by at least 50%

In the business unit GMS, SGL Carbon still expects sales revenues to decline by approximately 20% due to the reduced business volume in all market segments expect Semiconductors, which is expected to grow slightly. For operating recurring EBIT, the Company also continues to anticipate a decline by at least 50% based on the reduced sales revenue expectations and the resulting significantly lower capacity utilization.

Corporate outlook: Significant deterioration in operating recurring EBIT

In the reporting segment Corporate, SGL Carbon continues to expect a substantial deterioration in the operating recurring EBIT, due to expected higher consulting costs in the reporting period as well as the prior year benefiting from one-time gains from services provided to the buyer of the former PP-activities. This forecast does not take into account the positive one-time income in the third quarter of 2020 in the amount of €8.5 million.

Key Figures of SGL Carbon
(in € million)

	First Nine Months 2020	First Nine Months 2019	Change
Sales revenue	683.5	832.4	-17.9%
EBITDA before non-recurring items	86.0	107.2	-19.8%
Operating EBIT[1] before non-recurring items	25.4	54.2	-53.1%
Operating profit (EBIT) before non-recurring items	33.9	54.2	-37.5%
Return on sales (EBIT margin) [2]	5.0%	6.5%	-1.5%-points
Return on capital employed (ROCE $_{EBIT}$) [3]	2.3%	4.7%	-2.4%-points
Operating profit (EBIT)	24.8	-26.8	-
Consolidated net result	-3.9	-74.5	94.8%
Earnings per share, basic and diluted (in €) [4]	-0.03	-0.61	95.1%
Payments to purchase intangible assets and property, plant & equipment	-33.2	-50.7	-34.5%
Free cash flow from continuing operations	43.7	-9.6	-

	September 30, 2020	December 31, 2019	Change
Total assets	1,454.1	1,504.8	-3.4%
Equity attributable to shareholders of the parent company	372.0	418.6	-11.1%
Net financial debt [5]	262.4	288.5	-9.0%
Debt ratio (Gearing) [6]	2.66	2.40	-
Equity ratio [7]	25.6%	27.8%	-2.2%-points
Employees	4,948	5,127	-3.5 %

1 EBIT before non-recurring items and before positive one-time effects of €8.5 million in the first nine months of 2020
2 Ratio of EBIT before non-recurring items to sales revenue
3 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)
4 Based on an average number of 122.3 million shares (previous year: 122.3 million shares)
5 Financial liabilities (nominal amounts) less liquidity
6 Net financial debt divided by equity attributable to the shareholders of the parent company
7 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, fuel cell and other energy storage systems. In addition, SGL Carbon develops solutions for chemical and industrial applications.

In 2019, SGL Carbon SE generated sales of around 1.1 billion euros. The company has approx. 5,100 employees at 31 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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