

# Annual General Meeting 2019

## **Summary of Speech**

Dr. Jürgen Köhler

CEO of SGL Carbon SE

Wiesbaden, May 10, 2019

*Courtesy translation. The spoken word prevails.*

**Good morning ladies and gentlemen,**

**good morning shareholders,**

on behalf of SGL Carbon's Board of Management, I would like to welcome you warmly to today's Annual General Meeting.

On this occasion one year ago, I introduced you to the new SGL Carbon.

Why the *new* SGL Carbon?

- New, because we had successfully completed the sale of our former core business with graphite electrodes and cathodes.
- New, because we had begun to consistently focus our remaining business units on high-growth areas like mobility, energy supply and digitization.
- New, because we had strengthened our business unit Composites – Fibers & Materials by taking over our former joint ventures with BMW and Benteler.
- And new, because we have given our company a new look, with a distinctive, modern brand identity.

I also stated one year ago that the new SGL Carbon has a great deal of substance and tremendous potential for growth.

Today, twelve months later, I am now in a position to present you with the first positive interim results. During the past fiscal year, SGL Carbon exceeded its targets both in terms of sales revenue and earnings.

And — already during our first year as the new SGL Carbon — we have realized sales revenue of over one billion euros.

One billion euros — that equates to a 22 percent increase in sales revenue year on year.

About half of that increase in sales revenue relates to strong organic growth in the Mobility, Digitization, Chemicals and Industrial Applications market segments.

The remaining portion of the increase was due to non-recurring factors such as the first-time full consolidation of our former joint ventures with BMW and Benteler, and the first-time application of a new accounting standard, IFRS 15.

In our business with composite materials (CFM), operational sales revenue grew particularly in the Automotive and Aerospace market segments.

In our business with specialty graphites — Graphite Materials & Systems, or GMS for short — sales revenues grew in the double-digit percentage range in nearly all market segments.

Group EBIT before non-recurring charges also developed very well and, at about 65 million euros, was 61 percent higher than in the previous year. This was primarily due to the positive performance of our GMS business unit.

The return on capital employed (ROCE) based on EBIT before non-recurring charges increased once again, rising from 4.6 to 5.4 percent.

Not least because of our higher operating profit, we also realized a positive consolidated net result from continuing operations. Although the result from continuing operations was still at minus 7.8 million euros in 2017, during the past fiscal year it increased to plus 51.3 million euros.

The consolidated net result, including the effects from divested operations, was 41 million euros in fiscal year 2018.

It should be noted that the consolidated net result of 139 million euros in 2017 was at that time largely due to the accounting profit resulting from the sale of our business with cathodes.

As a result of our positive consolidated net result during the past year, our equity ratio increased to more than 33 percent, meaning that we achieved our target of at least 30 percent.

Our net financial debt increased to 242 million euros. That increase is primarily due to the full consolidation of our former joint venture with BMW.

Last but not least, during the past fiscal year we issued a new convertible bond in a principal amount of 159 million euros, which has improved our financing profile.

Despite these overall very positive developments, the company unfortunately does not yet have the capacity to distribute dividends. With continued growth, our company will also be able to operate in a considerably more profitable manner. Once that happens, the payment of earnings-related dividends will be possible.

### **Ladies and gentlemen,**

during the past fiscal year, we not only more than reached our targets in terms of sales revenue and earnings.

We also successfully implemented our new strategy and significantly improved our company's operating capacity.

In addition, the integration of our former joint ventures with BMW and Benteler was swift and efficient.

Their integration was so successful because we did not merely impose our SGL processes onto both companies.

Quite the contrary, in fact, we carefully examined who could learn the most from whom, and how that knowledge could be the most useful for the entire company.

As a result of that integration, in our business unit Composites – Fibers & Materials we can now also cover the entire value chain, from raw materials to composite material components.

That is a clear competitive advantage that sets us apart in the market and gives us decisive quality and cost advantages. In addition, we can now offer our customers the at times complex product certifications from a single source.

We also made progress in the past fiscal year with the introduction of our Operations Management Systems.

We currently have production facilities at 31 sites around the world, which up until now were being managed in different ways to some extent.

As a result, we are introducing a management system with uniform standards, rules and performance indicators. That is simplifying our processes, increasing our efficiency, and facilitating the exchange of information between plants and business units.

Today, 28 of our sites are already being managed according to our Operations Management System. And by the end of the year, all 31 of our sites will be, meaning we are right on track.

### **The new SGL Carbon is focusing on growth markets.**

Particularly in the Automotive, LED, Semiconductor, and Battery market segments, demand from our customers has steadily increased and is continuing to increase.

For that reason, we have already expanded our production capacity at various sites during the past year.

In a new production hall in Bonn, we are producing specialty graphite components for the automotive industry. Components for water pumps and brake boosters are in serial production there, which can be used both in cars with traditional combustion engines as well as in vehicles with electric motors. You can see in the photo how empty the new hall still was in 2018. It is now full of equipment, and capacities are fully booked.

At our site in St. Marys in the US state of Pennsylvania, we have expanded capacities for our silicon-carbide-coated graphite wafers, which are indispensable for the production of LEDs. And not only that! First and foremost, we have adapted our production processes to the requirements of our customers, meaning that our production is now taking place in clean rooms. That is very important, because the cleanliness of our carrier plates determines the increasing efficiency of the LEDs.

During the past year, we also expanded our production capacities in Poland and the US for our graphite materials for batteries.

As you know, graphite is an indispensable component in the anodes of lithium-ion batteries. This business will grow substantially in the coming years primarily as a result of the rapidly increasing number of electric vehicles. According to estimates,

demand for lithium-ion batteries will increase by up to 30 percent annually by the year 2025.

But not all batteries are alike. Although raw materials, components and end products are standardized down to the last detail in other sectors, lithium-ion batteries and their components still differ enormously today.

We are taking that into account with the expansion of our battery application lab in Meitingen. In that lab, our experts are doing research and development concerning the correct composition of graphite materials required to increase battery performance and efficiency — the key idea here of course being the range of electric vehicles.

Our continuing objective is to offer customers needs-based, optimal solutions.

The examples I've just mentioned demonstrate that the new SGL Carbon is not only upgrading itself quantitatively, but first and foremost also qualitatively.

We are steadily evolving — from a supplier of materials, into a provider of integrated solutions.

### **The new SGL Carbon is a technology-based company.**

And so, it is only logical that we continuously expand our technological competence.

During the past year, we have gone about this in Meitingen with the battery application lab I already mentioned, as well as with our Fiber Placement Center and our new 3D printing center.

Fiber Placement is an advanced procedure in the mass production of composite materials. The technology allows for a high degree of automation in the placement of carbon fibers, while at the same time offering greater flexibility and a particularly effective use of materials.

With our new Fiber Placement Center, we are now offering this technology, which originated in the aviation industry, also to other sectors at an industrial level.

Speed, efficiency and innovation — those are the three advantages of 3D printing. The technology has no longer been in its infancy for some time now.

This additive production process is already providing considerable advantages in the development of prototypes and small series. What often takes several weeks or months in traditional production can be accomplished with 3D printing over night.

In addition, it can be used to create complex molds and designs that were previously extremely difficult to produce, if they could be produced at all.

SGL Carbon is one of the first manufacturers in the world to possess the necessary know-how in the area of highly complex 3D printing with carbon and silicon carbide.

And I am pleased to announce that, shortly after setting up our new printing center, we have already received our first customer orders for 3D-printed solutions.

## **The future also means digitization.**

Granted, in this day and age, that is a much-used buzzword.

Our approach is very clear, however: digitization must benefit our customers.

Practical examples of this could be:

- allowing customers to predefine their product requests using an online configuration tool and then to follow the status of their order online.
- In turn, SGL Carbon could also monitor the performance of the devices supplied by us, by digitally networking with our customers.

During the past year, we began to lay the foundations to turn that digital vision into reality. Ever since, we have been working intensively to digitalize important work processes, parts of production, and customer contact elements.

The new SGL Carbon's promise is clear:

We provide intelligent, trendsetting, sustainable solutions for future issues like mobility, energy supply, and digitization.

We want to offer our customers “Smart Solutions”. And in order to do that, we are breaking new ground.

During the past year, we have underpinned that aspiration by introducing our new brand and presenting our new look.

Our employees are very proud of their new SGL.

And the feedback from our customers about our new brand has been entirely positive.

## **Ladies and gentlemen,**

during the past fiscal year, we have made many changes and considerable progress.

During its first year, the new SGL Carbon has demonstrated that it has a great deal of substance and tremendous potential for growth.

Let us now take a look to the future — first of all to the remainder of the current year, and then to our medium-term objectives up to the year 2022.

As the new SGL Carbon, we are well-positioned and well-balanced. We are benefitting from structural, future-oriented growth areas like e-mobility, energy supply and digitization.

As a result, we are confident that we that we will again perform well this year despite the slowing economic growth across the globe.

## **2019 will be another growth year for us.**

We expect our sales revenues to increase in the mid-single-digit percent range, an increase that will primarily be volume-driven.

Group EBIT before non-recurring charges is expected to stabilize on the prior year level, which recorded a substantial increase.

After a net profit of about 41 million euros generated in fiscal year 2018, our consolidated net result should break even this year.

It should be noted that the consolidated net result in the previous year benefited from the first-time consolidation of our former joint venture with BMW, which created a non-cash positive non-recurring item in the amount of 28 million euros. In addition, we also plan to increase expenses in the financial result mainly from the issue the corporate bond in April in the amount of 250 million euros.

As we announced in December 2018, we will also increase our capital expenditure in the coming years, the reason for which being strong customer demand in certain market segments and the necessary expansion of our production capacities.

From today's perspective, we are budgeting for capital expenditure of about 100 million euros for fiscal year 2019.

The focus will be on our business unit dealing with specialty graphites. I will provide more details about the type and extent of capital expenditure required there shortly.

Despite our high capital expenditure and elevated interest costs, however, we expect our negative free cash flow to improve considerably during the current fiscal year.

Here I must emphasize that, if we had not decided to allocate additional expenditure to expand our capacities, we would likely have already achieved positive cash flow during the current fiscal year.

## **Let me now turn briefly to our results for the first quarter of 2019, which we released on Tuesday.**

We have had a good start to the fiscal year.

Sales revenues increased significantly by about 10 percent to 289 million euros.

Group recurring EBIT amounted to about 19 million euros.

That is just under 2 million euros less than in the previous year. But last year's EBIT included the income of about 4 million euros from a land sale. Adjusted for that effect, recurring EBIT is about 2 million euros higher than in the same quarter of the previous year.

At about 5 percent, the return on capital employed (ROCE) based on EBIT before non-recurring charges is nearly on the level of the previous year.

Following the successful placement of a corporate bond in a principal amount of 250 million euros, as well as the conclusion of a syndicated loan totaling 175 million euros, our refinancing measures are completed.

With regard to our existing financial liabilities, SGL Carbon is now fully financed until the year 2023.

**Dear shareholders,**

the markets in which we operate are very attractive.

Due to high customer demand, we are reaching the limits of our capacity, particularly in the area of specialty graphites.

For that reason, we have decided to seize the resulting additional growth opportunities for SGL Carbon. We will continue to selectively and gradually invest in our production capacities.

Up to the year 2022, that will lead to capital expenditure that is above depreciation levels.

Our new medium-term budget up to the year 2022 now provides for an increase in our original sales revenue target, from 1.3 to nearly 1.4 billion euros.

Subsequently, we also anticipate additional EBIT in the low-double-digit million euro range for the year 2022.

We expect our EBIT margin target to remain at at least 10 percent.

And our ROCE based on EBIT target to be at least 11 percent.

**The new SGL Carbon is a growth company.**

Both of our business units will grow at different rates, however, as they follow different dynamics.

In our business with fibers and composite materials, we expect growth to be project-driven, which should increase considerably toward the end of our planning timeframe.

In our business with specialty graphites, however, we expect growth to be virtually linear.

What is the cause of these different growth rates?

Compared to steel and aluminum, carbon-fiber-reinforced materials are a very recent type of material, the business for which is still at the beginning of its life cycle.

The related market still has to develop — a trend in which we want SGL Carbon to play a leading role. These new materials and products are only just beginning to break through on an industrial scale.

As SGL Carbon, we have a significant part to play in that process.



During the past months, we have acquired numerous forward-looking projects. Due to development times — especially in Aerospace and with our Automotive customers — those projects will only be reflected in our sales revenues and earnings in the medium to long term, however.

The situation is quite different with specialty graphites. Our solutions for traditional, structurally growing industries are already well established, and are constantly being developed and improved.

With our specialty graphites, we are already reaching our growth and profitability targets today.

### **Ladies and gentlemen,**

I would now like to turn to the developments that are affecting our two business units.

In our composite materials business unit, our competitive advantage — that is to say, our ability to cover the entire value chain — is becoming increasingly noticeable.

Since taking over our former joint ventures with BMW and Benteler, we can now offer everything from raw materials, to fibers, through to finished components, all from a single source.

Since last year, we have been called upon to manufacture 13 new serial products for the automotive industry.

Such products include leaf springs, tailgates, stiffening elements, battery enclosures, and other smart solutions.

For example, we are going to make carbon fibers and various fabrics from glass and carbon fibers for BMW's iNEXT. In order to do that, we will work together closely with BMW along the various stages of the value chain.

The carbon fibers are being developed at our plant in Moses Lake, in Washington State in the US. They will then be sent for further processing to our German site in Wackersdorf.

To our knowledge, our project will be the second-largest in the entire e-mobility sector after the BMW i3.

As the e-mobility industry expands, the use of large battery enclosures made from glass fiber and carbon fiber reinforced plastics is taking on a far more important role. Such battery enclosures are located in the underbody of vehicles.

In collaboration with the Chinese automobile manufacturer NIO, we have developed a prototype for their electro-SUV, which was presented at the Shanghai motor show in April.

Our battery enclosure has enormous advantages: it is 50 percent lighter than the conventional steel model. Our solution also meets the highest standards in terms of fire resistance, stiffness, and electromagnetic shielding.

And we provide yet another special feature: battery enclosures made from composite materials can also accommodate in-built sensors, which can detect damage to a vehicle's underbody at an early stage.

Starting in 2020, we will also be supplying our battery enclosures to a European automobile manufacturer, and are already in talks with other potential customers.

We already produce leaf springs from glass-fiber-reinforced plastic — which you can see in green in the picture — for several of the models produced by the automobile manufacturer Volvo. The leaf springs are manufactured at our plant in Austria, in a large quantity of several hundred thousand per year — that is to say a couple thousand per day — which is unique in the industry.

We are currently implementing similar projects with other automobile manufacturers in Europe and North America.

In addition to the Automotive market segment, Aerospace is another large growth market for our business with fibers and composite materials.

Our newly acquired projects in the Aerospace segment are also benefitting from our entire value chain.

For several years now, we have been working together with Airbus. Up to now, we have been supplying the company with tailor-made materials for aircraft doors and floor panels.

I am pleased to announce that we are now expanding our collaboration to include helicopters, for which we concluded a framework agreement in January. Among other things, the agreement provides for us to supply fabrics for helicopter structural components.

In March, we also concluded a supply agreement with the Turkish carrier Onur Air. During the first half of this year, we will already be delivering insulation materials for all of the aircraft engines in their Airbus A321 fleet.

In addition, Onur Air will also become our distribution partner in the Middle East. As a result, we anticipate potential sales of several hundred additional panels to other airline carriers in the region.

This is yet another milestone on our growth path, as we will not only be expanding our customer portfolio, but also strengthening our regional presence.

These examples demonstrate how heavily our business with fibers and composite materials depends on projects, and how significantly such projects influence our growth dynamic.

They also demonstrate that our customers are no longer only demanding materials, but also an ever-increasing level of component and serial production expertise.

Demands that we as SGL Carbon are now perfectly positioned to meet.

**Before I conclude, let me give you a brief overview of our plans for specialty graphites.**

Due to continuing strong customer demand, we are planning to expand our capacities in stages over the next few years.

In order to do so, we are following a modular investment strategy, meaning that we will only invest as much as customer demand requires. If that demand changes, then we will adjust our capital expenditure accordingly.

- In the Battery market segment, we will expand our capacities for graphite materials. The focus of our capital expenditure will be our low-cost site in Poland.
- In the LED and Semiconductor market segment, we are expanding our production of silicon carbide coatings at our US site in St. Marys, Pennsylvania. We are also planning a second production line outside of the US, in order to serve our Asian customers even better.
- In the Automotive market segment, following our capital expenditure in Bonn, we will now expand our production site in Poland, from which our international customers will be supplied with specialty graphite solutions for brake boosters, cooling water pumps, and exhaust applications in the future.

**Ladies and gentlemen,**

As you can see, we have big plans for the years to come as well.

I am confident that we will achieve our growth targets.

The new SGL Carbon is more diversified and customer-focused than ever before.

And we are also more focused, on the structural growth areas of the future.

Without our employees, however, there would be no new SGL. *They* are what is driving the development of our company.

During the past year, they have put their heart and soul into ensuring that the new SGL Carbon had a good start to its "first" year. For this, they deserve our very special thanks.

We would also like to thank our customers, suppliers, business partners, and you — our shareholders — for your trust and loyalty.

SGL Carbon will continue to pursue a clear goal: sustainable and profitable growth.

And "smart solutions" are the way to achieve that goal.

We provide sustainable, trendsetting, pioneering solutions for future issues like mobility, energy supply, and digitization.

We have the answers to tomorrow's questions, today.

Thank you for your attention!