sgl carbon

Press Release

Wiesbaden, 06. November 2018

# SGL Carbon continues good performance in the third quarter and now anticipates sales of 1 billion euros for fiscal year 2018

- Group sales increased by 23 percent to 786 million euros in first nine months
- Nearly half of Group sales increase driven by strong organic growth in market segments Mobility, Digitization, Chemicals and Industrial Applications
- Recurring Group EBIT increased by approximately 80 percent to 59 million euros; including IFRS 15 effects of about 15 million euros
- Group sales and earnings in first nine months impacted by high positive effects, particularly relating to the initial adoption of IFRS 15 and to the full consolidation of former joint ventures with BMW Group and Benteler
- Successful placement of 159 million euros convertible bond; maturity profile extended until 2023
- Guidance for Group sales increased; revenues of 1 billion euros expected for the first time as “new SGL Carbon”
- Net income anticipated to increase to a mid double-digit million euros amount and therefore reach the upper end of the previous guidance range
- Dr. Jürgen Köhler, CEO of SGL Carbon: “Strong organic growth continues”

In the third quarter 2018, SGL Carbon remained on its growth path. During the first nine months 2018, sales revenues and earnings rose substantially above prior year level. Nearly half of the sales growth of approximately 23 percent was driven by the strong organic sales increase in the market segments Mobility, Digitization, Chemicals and Industrial Applications. The remaining sales growth resulted from high positive effects, mainly relating to the initial adoption of IFRS 15 and the full consolidation of the former joint ventures with BMW Group and Benteler. Including IFRS 15 effects of about 15 million euros, recurring Group EBIT increased by approximately 80 percent to reach 59 million euros. Due to the increased operating profit, a significantly improved net financing result and fair value adjustments in the first quarter 2018, the consolidated net result significantly increased to 48 million euros. Furthermore, due to the successful issue of a convertible bond in the amount of 159 million euros in the third quarter the maturity profile was extended until 2023.

Thanks to the good development, SGL Carbon has increased its full year 2018 guidance for sales revenue growth to approximately 15 percent. This corresponds to a revenue target in the amount of approximately 1 billion euros for fiscal year 2018. Additionally, the company now expects the net result from continuing operations to increase to a mid double-digit million euros amount and therefore reach the upper end of the previous guidance range.

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**“Following the good performance of our business, we have once again increased our sales guidance,” says Dr. Jürgen Köhler, CEO of SGL Carbon. “In fiscal year 2018, we expect to reach the 1 billion euros sales mark for the first time as the ‘new SGL Carbon’. By focusing on the future topics Mobility, Energy and Digitization, we will continue our sustainable growth. We aim for sales revenues of 1.3 billion euros by 2022.”**

In the first nine months of 2018, SGL Carbon increased its sales revenues by 22.5 percent (currency adjusted by 25 percent) to 786.3 (previous year: 642.1) million euros. Nearly half of the sales improvement was driven by strong organic growth in the market segments Mobility, Digitization, Chemicals and Industrial Applications. Recurring Group EBIT rose by 79,4 percent to reach 59.2 (previous year: 33.0) million euros. This was particularly due to the improved operational performance of GMS – including effects of IFRS 15 of about 14.7 million euros. The return on capital employed (ROCE) based on recurring EBIT improved from 4.8 percent to 6.1 percent. Non-recurring items totaled 20.5 million euros. In particular, these include the adjustment to the fair value of the previously proportionately consolidated joint operation with BMW Group amounting to 28.4 million euros at the date of acquisition. EBIT after non-recurring items amounted to 79.7 (previous year: 28.0) million euros. Due to the repayment of the corporate bond in October 2017 and the convertible bond 2012/2018 in January 2018, net financing result significantly improved from minus 38.6 million euros in the previous year period to minus 21.3 million euros. Consequently, pre-tax result from continuing operations rose to 58.4 (previous year: minus 10.6) million euros. The issue of the new convertible bond 2018/2023 had no material impact on the financial result due to its proximity to the reporting date. The Group’s consolidated net result came to 47.7 (previous year: 5.3) million euros.

**Composites – Fibers & Materials (CFM): Growth in sales revenues and earnings particularly due to structural effects**

Sales revenues in the business unit CFM increased by 28 percent (currency adjusted by 30 percent), to reach 323.9 (previous year: 253.9) million euros in the first nine months of 2018. Above all, main drivers were structural effects resulting from the full consolidation of the former at-equity accounted joint ventures Benteler-SGL and the former partially consolidated joint venture SGL Automotive Carbon Fibers (SGL ACF). This more than offset the sale of the former fully consolidated joint venture SGL Kümpers. Operationally, sales growth was driven mainly by the market segments Aerospace and Automotive. Sales in the Textile Fibers segment remained on the prior year level, while sales in the Wind Energy segment declined. Recurring EBIT increased by 22 percent to 20.9 (previous year: 17.2) million euros. The highest earnings growth was recorded in the market segment Automotive, primarily resulting from the full consolidation of SGL Composites (previously SGL ACF). While earnings in the Aerospace and Textile Fibers segments were at a similar level as in the previous year, the segments Wind Energy and Industrial Applications recorded significant declines. The return on capital employed (ROCE) based on recurring EBIT in reporting segment CFM amounted to 4.6 (previous year: 5.2) percent.

**Graphite Materials & Systems (GMS): Improved results in nearly all market segments**

Sales revenues in the business unit GMS significantly increased by 15 percent (currency adjusted by 17 percent) to reach 436.8 (previous year: 381.5) million euros in the first nine months of 2018. Main drivers were the double-digit growth rates recorded in the market segments Battery & other Energy, LED, Semiconductors, Automotive & Transport as well as Chemicals. Sales development in the market segment Industrial Applications was slightly above the prior year level. The company limited sales to the Solar market segment to below the prior year level, as deliveries to customers from the Semiconductor and LED segments were increased, who posted a high demand for isostatic graphite specialties. The initial adoption of IFRS 15 led to a sales increase of approximately 24 million euros. Adjusted by this and by currency effects, sales of GMS increased by around 11 percent.

Recurring EBIT increased substantially more than proportionately by 59 percent to reach 59.5 (previous year: 37.5) million euros mainly due to improved results in nearly all market segments. This contains an effect from the initial adoption of IFRS 15 amounting to 14.7 million euros. Adjusted for this effect, recurring EBIT increased by 19 percent. The return on capital employed (ROCE) based on recurring EBIT in the business unit GMS increased to 16.0 (previous year: 11.8) percent.

**Corporate: Recurring EBIT approximately at prior year level**

Recurring EBIT in the reporting segment Corporate approximately remained on the prior year level and amounted to minus 21.2 (previous year: minus 21.7) million euros. This includes a positive effect in the amount of 3.9 million euros from a land sale, which more than compensated for the implementation costs for the Operations Management System (OMS) and the termination of cost allocations to the now sold business unit Performance Products. Expenses of our central research and development activities at 6.1 million euros were at the prior year level.

**High investing activities with impact on free cashflow; equity ratio increased**

The cash flow from operating activities from continuing operations in the first nine months of 2018 improved significantly by 34.8 million euros to 7.6 million euros mainly due to the positive performance in the second quarter 2018. This reflects the improvement in the operating result. Cash flow from investing activities declined from minus 10.2 million euros to minus 47.5 million euros and includes, among others, the cash outflows for the acquisition of the SGL Composite company in Wackersdorf (previously SGL ACF Germany) amounting to 23.1 million euros. As a result of the purchase price payment for the acquisition of SGL ACF and the resulting increase in cash outflow from investing activities, free cash flow from continuing operations declined slightly to minus 39.9 (previous year: minus 37.4) million euros.

Total assets increased to 1,620.0 (December 31, 2017: 1,541.7) million euros. At the same time, the equity ratio rose by 4 percentage points to 33.6 percent due to the more than proportional increase of equity attributable to the shareholders by 19.2 percent to 544.6 (December 31, 2017: 457.0) million euros, mainly attributable to the net result as well to effects from the adoptions of IFRS 15 and IFRS 9 on transition date January 1, 2018, the fair value of the conversion right of the convertible bond according to IFRS as well as the adjustment of pension provisions to the higher interest rate environment. Net financial debt increased to 220.9 (December 31, 2017: 139.0) million euros, primarily attributable to the full consolidation of SGL Composites (USA). In contrast, payments received for the sale of the former business unit Performance Products in the first quarter 2018 had a positive effect on the net financial debt.

**SGL Carbon raises its sales outlook**

Once again, SGL Carbon raises its guidance for 2018, which was already adjusted upwards at the half year stage. Now a Group sales increase of approximately 15 percent (before: slightly more than 10 percent) is anticipated for the fiscal year 2018. Accordingly, for the first time, the “new SGL Carbon“ expects to reach the 1 billion euros sales mark. Adjusted for currency and structural changes, this corresponds to growth in a high single-digit percentage range. In addition, SGL Carbon anticipates a low double-digit million euro positive impact on Group sales from the initial adoption of IFRS 15.

Group recurring EBIT should continue to slightly outpace the renewed higher sales growth expectations, driven by the positive effects of a noticeable increase in volume demand, the successful implementation of price increase initiatives in the business unit GMS, the additional contribution to earnings resulting from the full consolidation of the former joint venture SGL ACF, and cost savings. In contrast, however, the company anticipates slightly weaker than expected earnings from CFM, higher personnel and raw material costs compared to the previous year, as well as less favorable exchange rates. In addition, SGL Carbon anticipates a high single-digit to low double-digit (before: mid to high single-digit) million euro positive impact on Group EBIT from the initial adoption of IFRS 15.

The preliminary purchase price allocation (PPA) relating to the full consolidation of the former joint ventures increases depreciation by approximately 10 million euros p.a. until 2021. These will be recorded under non-recurring items in the reporting segment CFM.

SGL Carbon now specifies its guidance for net result from continuing operations at the upper end of the previous guidance range. The company now expects a mid (before: low to mid) double-digit million euro amount. In addition to the higher operating result, the improvement compared to the loss of 16 million euros in the prior year derives mainly from the lower interest expense as a result of the early repayment of the corporate bond on October 30, 2017, as well as the repayment of the convertible bond, which matured on January 25, 2018.

Net financial debt at the end of 2018 should be considerably higher than at the end of 2017, in particular due to the full consolidation of the former joint venture SGL ACF. Nevertheless, SGL Carbon expects to remain within its target gearing level (net financial debt divided by equity attributable to the shareholders) of about 0.5, and a leverage ratio based on EBITDA under 2.5.

**Guidance CFM: Sales anticipated growing 25 percent year-on-year due to acquisitions**

The guidance for sales in the business unit CFM remains unchanged. This also applies to each market segment. The company still expects for the business unit a sales increase of approximately 25 percent primarily as a result of acquisitions. Adjusted for currency and structural changes, this corresponds to growth in the mid to high single-digit percentage range compared to the prior year.

Sales with the automotive industry should more than double, primarily due to the full consolidation of the former joint ventures with Benteler and BMW Group as well as the strong demand development. Sales should slightly increase in the market segment Aerospace, while sales in the market segments Industrial Applications and Textile Fibers are expected on the level of the previous year. At the same time sales with the wind energy industry should decrease by more than half, owing to the deconsolidation of the former joint venture with Kümpers as well as to the weak customer demand.

Higher earnings contribution resulting from the full consolidation of the former joint venture SGL ACF as well as increasing volume demand will be partially offset by negative currency effects, higher development costs and the weaker than initially expected earnings in the market segments Wind Energy, Textile Fibers and Industrial Applications. Consequently, SGL Carbon now expects a recurring EBIT in the reporting segment CFM approximately on the prior year level.

The initial adoption of IFRS 15 does not significantly impact sales or EBIT in the CFM segment.

**Guidance GMS: EBIT still increases more than proportionately to now higher expected sales growth**

For the business unit GMS, SGL Carbon now expects a slightly higher sales increase than the one outlined in the half year report. Sales should still only increase slightly, but adjusted for currency effects, this now corresponds to a growth of approximately 10 percent (before: mid to high single-digit). In addition, SGL Carbon anticipates a low double-digit million euro positive impact on sales in this business unit from the initial adoption of IFRS 15.

Significant sales growth is expected for the LED, Automotive & Transport, and Semiconductor segments. Sales of the market segments Industrial Applications and Chemicals should slightly increase, while sales below the level of the previous year are anticipated for the solar market segment, as deliveries to customers from the semiconductor and LED segments will be increased. The company also expects sales growth for lithium ion batteries.

Following the overall strong development in the first nine months 2018, recurring EBIT in the business unit GMS is still expected to increase substantially more than proportionately to the now higher expected sales growth. The positive effect from the initial adoption of IFRS 15 is also anticipated to be higher than previously expected. SGL Carbon now plans a high single to low double digit million euro amount, by which EBIT in this segment will be increased. All in all, the company expects that the reporting segment GMS will once again surpass the target Group ROCE (EBIT in relation to capital employed) of at least 9-10% and record an improvement over the prior year level.

## Key figures of SGL Carbon
(in million euros)

| | 9M-2018 | 9M-2017 | Change |
|---|---|---|---|
| Sales revenues | 786.3 | 642.1 | 22.5% |
| EBITDA before non-recurring items | 105.7 | 70.1 | 50.8% |
| Operating profit (EBIT) before non-recurring items | 59.2 | 33.0 | 79.4% |
| Return on sales (EBIT margin) [1] | 7.5 % | 5.1 % | +2.4%-points |
| Return on capital employed (ROCE EBIT) [2] | 6.1 % | 4.8 % | +1.3%-points |
| Operating profit (EBIT) | 79.7 | 28.0 | >100% |
| Result from continuing operations | 52.0 | -17.4 | >100% |
| Result from discontinued operations, net of income taxes | -4.0 | 25.5 | >-100% |
| Consolidated net result | 47.7 | 5.3 | >100% |
| Earnings per share, basic and diluted (in €) continuing operations [3] | 0.42 | -0.17 | >100% |
| Payments to purchase intangible assets and property, plant & equipment | -38.7 | -30.3 | - 27.7% |
| Free Cashflow from continuing operations | -39.9 | -37.4 | - 6.7 |

| | Sep. 30, 2018 | Dec. 31, 2017 | Change |
|---|---|---|---|
| Total assets | 1,620.0 | 1,541.7 | 5.1% |
| Equity attributable to shareholders of the parent company | 544.6 | 457.0 | 19.2% |
| Net financial debt [4] | 220.9 | 139.0 | 58.9% |
| Debt ratio (Gearing) [5] | 0.41 | 0.30 | - |
| Equity ratio [6] | 33.6% | 29.6% | +4.0%-points |
| Employees | 4,455 | 4,193 | 6.2% |

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. It's 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 2017, SGL Carbon generated sales of around 860 million euros. As of December 31, 2017, the company had approximately 4,200 employees worldwide in 34 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 digitalization. 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 in the Newsroom of SGL Carbon at www.sglcarbon.com/press and at www.sglcarbon.com.



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