sgl carbon

Press Release

Wiesbaden, March 12, 2020

Diverging development in the two business units impact fiscal year 2019 of SGL Carbon – Group guidance for 2020 confirmed

- Consolidated sales revenues in fiscal year 2019 up by 4 percent to around 1.1 billion euros
- Consolidated recurring EBIT down by 25 percent to 48 million euros; record results of graphite specialities business did not fully compensate for the weak development in the carbon fiber business
- Composites – Fibers & Materials (CFM): Cyclical und structural weaknesses impact the result of the market segments Wind Energy, Textile Fibers and Industrial Applications, which have limited strategic significance in the medium term
- Graphite Materials & Systems (GMS): Sales and earnings on record level due to strong growth in the market segments Semiconductors and Automotive
- Non-cash impairment charge of around 75 million euros was recorded at CFM in the third quarter of 2019
- Free cash flow significantely improved
- Issue of a new corporate bond and early redemption of the 2015/2020 convertible bond has significantly improved the maturity profile
- SGL Carbon confirms guidance for fiscal year 2020: sales expected sligthly below previous year; recurring EBIT approximately 10 to 15 percent below previous year level
- Dr. Michael Majerus, Spokesman of the Board of Management of SGL Carbon: “The financial development of the fiscal year 2019 conceals the fact that our strategic orientation is correct. This is evident from our growth and the increasing number of contracts and projects we acquired in our strategic core markets. Main drivers are the topics sustainable mobility and energy as well as digitization. Therfore, we expect that we can grow our consolidated revenue by a mid to high single digit percentage per year on average between 2020 and 2024.“

The fiscal year 2019 developed very differently in the two business units of SGL Carbon. The record result in the graphite specialities business could not fully compensate for the weak development in the market segments Wind Energy, Textile Fibers and Industrial Applications in the carbon fiber business. Group sales grew by 4 percent to 1.1 billion euros. Recurring Group EBIT declined by 25 percent to 48 million euros. Due to the ongoing weakness in the market segments Textile Fibers and Industrial Applications the business unit CFM recorded a non-cash impairment loss of 75 million euros in the third quarter of 2019.With minus 90 (prior year: plus 41) million euros, consolidated Group result declined significantly compared to last year’s good results. The Group confirms its guidance for 2020 published in October 2019.

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Group sales is expected to decline slightly compared to the prior year level, whereas Group recurring EBIT is expected to reach a result around 10 to 15 percent below the prior year level. Consolidated net result of the Group in 2020 should strongly improve compared to prior year level to a low double digit loss.

“The financial development of the fiscal year 2019 conceals the fact that our strategic orientation is correct. This is evident from our growth and the increasing number of contracts and projects we acquired in our strategic core markets. Main drivers were the topics sustainable mobility and energy as well as digitization. Therefore, we expect that we can grow our consolidated revenue by a mid to high single digit percentage per year on average between 2020 and 2024,” says Dr. Michael Majerus, Spokesman of the Board of Management of SGL Carbon. “Growth drivers in our business unit CFM are the market segments Automotive, especially the e-mobility business, as well as aerospace. In the business unit GMS, we are benefiting from positive market developments in Semiconductors, LEDs, fuel cell components, and sustainable mobility. Based on a Group wide stronger capacity utilization and an improved product mix geared towards applications and solutions with higher margins, we expect to achieve our Group ROCE target of at least 9 to 10 percent.”

In fiscal year 2019, sales of SGL Carbon increased by 3.7 percent to reach 1,086.7 million (previous year: 1,047.5 million) euros, mainly attributable to the business unit GMS. Recurring EBIT declined by 25.1 percent to 48.4 (previous year: 64.6) million euros. The weaker performance in the CFM reporting segment could not be compensated by the good performance of GMS. As a consequence, return on capital employed (ROCE) based on recurring EBIT declined from 5.4 percent in the previous year to 3.9 percent.

Non-recurring items totaling minus 82.7 million euros primarily comprise impairment losses of 74.7 million euros in the reporting segment CFM. In addition, in the previous year, the transition of the former joint venture with the BMW Group (SGL ACF) to full consolidation required an adjustment to the fair value of the net assets of the previously proportionally consolidated joint operation on the acquisition date. This resulted in a positive one-time effect in the amount of 28.4 million euros. Group earnings before interest and taxes (EBIT) after non-recurring items decreased to minus 34.3 (previous year: 80.9) million euros. The financial result decreased to minus 38.9 (previous year: minus 29.6) million euros, mainly due to the interest expenses from the corporate bond issued in April 2019 and other financial expenses resulting from the early repayment of the convertible bond 2015/2020 in July 2019. With the issuance of the new corporate bond the refinancing measures are largely completed, and the debt maturity profile of SGL Carbon has considerably improved. Group result from continuing operations before income taxes thus decreased to minus 73.2 (previous year: 51.3) million euros. The tax expense included value adjustments of 7.4 million euros to deferred tax assets in the UK and Germany. Consolidated net income amounted to minus 90.0 (previous year: 41.3) million euros.

Composites – Fibers & Materials (CFM): Sales slighty above prior year, results strongly affected by cyclical and structural declines

Sales revenues in the business unit CFM slightly increased by around 2 percent (currency adjusted: unchanged) to 431.6 (previous year: 422.5) million euros. The strongest driver of this development was the market segment Wind Energy, which saw its sales multiply. However, the prior year was still impacted by the sale of the former joint venture with Kümpers. Sales in the market segment Aerospace were down on the previous year as well due to the postponement of a major order invoicing to the fiscal year 2020. The market segments Industrial Applications and Textile Fibers also showed declines in sales due to cyclical and structural weaknesses. Sales in the market segment Automotive declined slightly due to significantly lower demand for one car model in the fourth quarter.

Recurring EBIT in the business unit CFM declined to minus 8.3 (previous year: 20.8.) million euros. The main causes are the deteriorations in the market segments Textile Fibers and Wind Energy. The market segment Textile Fibers was impacted by expensive raw material inventories during the first half of the year and by adverse cyclical and structural developments during the second half. The market segments Wind Energy and Automotive were not able to improve their results due to the unfavorable product mix. The earnings decline in the market segment Aerospace is due to the postponement of the invoicing of a major order. Return on capital employed (ROCE) based on recurring EBIT of the business unit CFM thus reached minus 1.3 (previous year: 3.2) percent.

Following the significant deviation from expectations for the market segments Wind Energy, Textile Fibers and Industrial Applications in the business unit CFM as reported in August 2019, SGL Carbon accelerated the preparation of the new five-year plan. This triggered an event-driven impairment test for each of the two cash-generating units Carbon Fibers & Composite Materials (CF/CM) and Composites DE (SGL ACF). The test revealed solely for CF/CM an impairment loss in the amount of 74.7 million euros. The non-current assets of the former joint ventures with BMW (SGL ACF) and Benteler, acquired in recent years, were not affected by the impairment. Other non-recurring items mainly consist of the additional amortization of minus 8.7 million euros on the amounts identified and capitalized or recognized as liabilities in the course of the purchase price allocations of the SGL Composites companies in the US, Austria and Germany. Furthermore, a positive non-recurring item in the amount of 28.4 million euros was recorded in the prior year. EBIT after non-recurring items declined from 36.6 million euros to minus 91.5 million euros in the reporting period.

To improve the result of CFM, SGL Carbon decided on a comprehensive package of measures. Amongst others, it consists of the targeted reduction of around 3 percent of the headcount in the business unit CFM as well as an accelerated conversion of textile fiber lines into precursor lines for carbon fiber production. In addition, SGL Carbon plans to improve the product mix in the market segments Industrial Applications and Textile Fibers, and intends to implement selective price increases. Two acrylic fiber lines were temporary idled. In the context of the development agreement with the international Solvay Group announced in December 2019, the company plans to accelerate growth in the highly attractive and high-volume aerospace market.

Graphite Materials & Systems (GMS): Record year due to strong growth in Semiconductor and Automotive

Sales in the business unit GMS increased by around 6 percent (currency adjusted by 3 percent) to a record level of 622.5 (previous year: 589.9) million euros. However, the market segments developed very differently. While sales to the semiconductor and automotive industries grew at a strong double-digit rate, sales to the chemical industry, industrial applications, the LED industry and the Battery & other Energy segment remained at roughly at the same level as last year. As in previous years, SGL Carbon deliberately kept sales to the solar industry slightly below the prior year level in order to primarily serve semiconductor customers, among others.

Recurring EBIT improved more than proportionally by 13 percent to 85.5 (previous year: 76.0) million euros. This led to a significantly higher EBIT margin of 13.7 percent (previous year: 12.9 percent). Main reason was the improved result in the market segment Semiconductor. In addition, the market segments Battery & other Energy, LED and Industrial Applications also contributed to the improved earnings. Earnings in the market segment Automotive & Transport remained roughly on prior year level, as the start-up costs in the first half of the year could be reduced in the second half, as expected. In contrast, Chemicals and Solar were slightly below the prior year level. Return on Capital Employed (ROCE) based on recurring EBIT of the GMS business unit reached 16.3 percent (previous year: 16.5 percent).

Due to the accelerated commercialization, the business with gas diffusion layers for fuel cells was reclassified in the fourth quarter of 2019 from Central Innovation in the reporting segment Corporate to the market segment Battery & other Energy in the business unit GMS with retroactive effect from January 1, 2019.

Corporate: Earnings improved compared to previous year

Sales revenues in the reporting segment Corporate was down slightly to 32.6 (previous year: 35.1) million euros, which is due to the above mentioned reclassification of the business with gas diffusion layers for fuel cells. At minus 28.8 (previous year: minus 32.2) million euros, recurring EBIT significantly improved even though the prior year result included a positive effect of 3.9 million euros from the sale of a property. Increased expenses for central research acitivites were more than offset by lower expenses for management incentive plans resulting from the significant decline in earnings at CFM and thus also in the Group.

Free Cash flow from continuing operations improved significantly

Cash flow from operating activities from continuing operations improved noticeably to 61.9 (previous year: 23.6) million euros. The increase was mainly due to the reduction in working capital. Net cash used in investing activities from continuing operations declined slightly to minus 79.2 (previous year: minus 82.1) million euros. The previous year included, among other factors, a cash outflow of 23.1 million euros from the purchase price paid for the full acquisition of SGL Composites (formerly: SGL ACF Germany), located in Wackersdorf (Germany). Capital expenditure for intangible assets and property, plant and equipment increased to 95.1 (previous year: 78.1) million euros, as expected. Total free cash flow from continuing operations significantely improved to minus 17.3 (previous year: minus 58.5) million euros.

As of December 31, 2019, total assets of SGL Carbon reached 1,504.8 (December 31, 2018: 1,585.1) million euros. Shareholders’ equity decreased to 418.6 (December 31, 2018: 531.6) million euros, resulting in an equity ratio of 27.8 percent (December 31, 2018: 33.5 percent). The decrease mainly related to the impairment loss in the business unit CFM and to the adjustments made to the parameters for calculating the provision for pensions in Germany and the USA due to the low interest environment. Net financial debt amounted to 288.5 million euros and thus within the expected range of below 300 million euros.

Group Guidance 2020 confirmed: Changes in the supply chain in the Lithium-ion battery business of GMS lead to a temporary dent; Group sales expected to slightly decline and Group EBIT approximately 10 to 15 percent below prior year

The fiscal year 2020 will be marked by relatively subdued expectations for the global economic development and by geopolitical risks. Estimations of the potential impact from the coronavirus (COVID-19) on the business development of SGL Carbon in terms of magnitude and duration are not possible yet. SGL Carbon expects a temporary dent in the growth path in the Lithium-ion battery business due to changes in the supply chain, which will resume over the medium term as a result of product developments and new customers and the strong growth anticipated in the fuel cell components business. Nevertheless, the company confirms the initial guidance from October 2019 for the current fiscal year. Accordingly, it continues to expect a slight decline in the consolidated sales revenue, as well as a consolidated recurring EBIT 10 percent to 15 percent below the 2019 level. It should also be taken into account that the previous year benefited from lower expenses for management incentive plans, due to the downward trend seen in the business unit CFM and thus the Group as a whole.

Following a consolidated net loss of approximately 90 million euros in fiscal year 2019 – which can primarily be attributed to impairment charges in CFM and to deferred tax assets – the consolidated net result should improve significantly in 2020 to a low double-digit loss.

Following capital expenditures of approximately 95 million euros in the previous year, capital expenditures will be limited to between 70 million and 80 million euros, and thus approximately on the level of depreciation and amortization, in the current year. The reason for that decision is in part the postponement of previously planned investments in the capital-intensive anode materials business for Lithium-ion batteries, in favor of growing the business with fuel cells, which has a much lower capital intensity. In addition, SGL Carbon intends to conservatively manage its free cash flow in light of the anticipated decrease in consolidated EBIT. In the business unit GMS, capital expenditures will be focused on the market segment Battery & other Energy (fuel cell components), as well as on Semiconductors and LED. Capital expenditures in the business unit CFM will focus in part on the market segment Automotive (in particular to fulfill new orders for battery cases and leaf springs). In addition, the company is continuing to invest into converting existing textile fiber lines into PAN precursor lines in order to supply its carbon fiber production.

The Group’s financing requirements are determined by the strategic business plans of the operating business units, which are reviewed annually based on the new projections. Solid balance sheet ratios, the available financing framework, and the operating cash flow all provide sufficient means to cover the anticipated liquidity requirements for 2020. The expected mid-double-digit million euro increase in net financial debt at the end of 2020 compared to year-end 2019 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.

Guidance CFM: Stable sales revenues and slightly positive EBIT expected

Sales development in the business unit Composites – Fibers & Materials (CFM) will be impacted by the earnings improvement measures in the market segment Textile Fibers, where a sales decline of approximately 25 percent is anticipated, as one acrylic fiber line is being converted to precursor for carbon fiber production and two lines temporarily idled to save costs. In contrast, sales revenue in the Aerospace segment should increase noticeably, also due to the postponement of the invoicing of orders from 2019 to 2020. Following the solid growth seen in the previous fiscal year, sales revenue from the wind industry should continue to increase, both in terms of prices and volumes. Industrial applications should also show growth. Sales revenues from the automotive industry are expected approximately on the level of the prior year, as newly acquired projects will only have a gradual impact on sales revenues.

All in all, SGL Carbon expects sales revenue in the business unit CFM to remain approximately on the prior year level. Due in particular to the implemented earnings improvement measures in the past year, but also based on selective price increases, a turnaround to a slightly positive recurring EBIT is expected for CFM.

Guidance GMS: Slight decrease in sales revenues envisaged; ajdusted for the development in the business with Lithium-ion batteries in the Battery & other Energy segment, the result of GMS should improve

The business unit Graphite Materials & Systems (GMS) achieved record sales and EBIT figures in fiscal year 2019. From the current perspective, however, that excellent development will not continue in 2020, as changes in the supply chain of the Lithium-ion battery business are causing a temporary decrease in the market segment Battery & other Energy. That decrease will only be of a short-term nature, however, as very robust growth in the business with fuel cell components, which is still of limited importance today, will help the segment to grow once again. Furthermore, the company is continuing to develop its anode material technology in order to attract new customers and open up new markets with special focus on numerous battery projects within the EU.

Primarily because of the expected decline in the anode material business, SGL Carbon anticipates a high single digit percentage decline in sales revenue in the business unit GMS. Adjusted for the development in Battery & other Energy, however, sales revenues for GMS should remain approximately on the level of the previous year despite the overall subdued global economic outlook. The expected decline in sales revenues in the market segment Industrial Applications is expected to be mostly compensated by the ongoing growth in semiconductors. A similar development in earnings in the business unit GMS is anticipated. Only due to the development in the market segment Battery & other Energy as described above, a substantial decrease of approximately 20 percent in recurring EBIT is anticipated. Adjusted for the development in the anode materials business, however, recurring EBIT would improve. All in all, GMS should reach a (recurring) EBIT margin of well above 10 percent, once again underscoring that its business model is stable even in a weakening global economic environment.

Key Figures of SGL Carbon

(in million euros)

	2019	2018	Change
Sales revenues	1,086.7	1,047.5	3.7%
EBITDA before non-recurring items	120.0	127.2	-5.7%
Operating profit (EBIT) before non-recurring items	48.4	64.6	-25.1%
Return on sales (EBIT margin) [1)]	4.5 %	6.2 %	-1.7%-points
Return on capital employed ($ROCE_{EBIT}$) [2)]	3.9 %	5.4 %	-1.5%-points
Operating profit/loss (EBIT)	-34.3	80.9	>-100%
Result from continuing operations	-89.9	50.3	>-100%
Result from discontinued operations, net of income taxes	-0.1	-9.0	98.9%
Consolidated net result	-90.0	41.3	>-100%
Earnings per share, basic and diluted (in €) continuing operations [3)]	-0.74	0.41	>-100%
Payments to purchase intangible assets and property, plant & equipment	-95.1	-78.1	-21.8%
Free Cash flow from continuing operations	-17.3	-58.5	70.4%

	Dec. 31, 2019	Dec. 31, 2018	Change
Total assets	1,504.8	1,585.1	-5.1%
Equity attributable to shareholders of the parent company	418.6	531.6	-21.3%
Net financial debt [4)]	288.5	242.2	19.1%
Debt ratio (Gearing) [5)]	0.69	0.46	–
Equity ratio [6)]	27.8%	33.5%	-5.7%-points
Employees	5,127	5,031	1.9%

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 (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, 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.

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