sgl carbon

Press Release

Wiesbaden, May 12, 2021

SGL Carbon with solid development in the first quarter – Outlook for 2021 fully confirmed

- Group sales in the first quarter 2021 of €241.5 million, down 2% below prior year (currency adjusted on prior year level)
- Expected positive impact from a contract termination with a customer of reporting segment Graphite Solutions contributes around €9 million to sales and earnings
- Transformation program proceeds according to plan in all areas
- EBITDA pre of €33.0 million significantly higher year-on-year (Q1/2020 €29.0 million), EBIT increases to €17.0 million (Q1/2020 €6.4 million)
- Positive net result at €6.1 million (Q1/2020 minus €4.3 million)
- Liquidity at €168.6 million also developed positively (year-end 2020 €141.8 million)
- Net financial debt decreases by 5% to €271.5 million (year-end 2020 €286.5 million)
- Equity ratio increases to 20.4% (Year-end 2020 17.5%)
- Outlook for fiscal year 2021 fully confirmed

SGL Carbon's consolidated sales amounted to €241.5 million in the first quarter (Q1/2020 €246.8 million), representing a slight decline of 2%. Currency adjusted, sales were on a par with the prior-year level. SGL Carbon's sales performed differently across the customer industries in the first quarter. In the Automotive lightweight construction sector and in the Semiconductor industry, the company benefited from a recovery in economic activity. In contrast, especially the development in the late-cyclical graphite business for Industrial Applications as well as SGL Carbon’s solutions business for the Chemical Industry continued to suffer from pandemic-related weaknesses. However, the order intake in the Chemicals segment in recent months is showing signs of a noticeable recovery.

On the earnings side, the company was able to further improve its key figures in the first quarter. EBITDA pre rose by 14% to €33.0 million in the reporting period (Q1/2020 €29.0 million). EBIT also increased significantly to €17.0 million compared to €6.4 million in the first quarter of 2020. In addition, the company now also achieved a positive net result of €6.1 million again compared to minus €4.3 million in the prior-year period.

The consistent further implementation of the restructuring and transformation program made a contribution to the positive earnings development. It is proceeding according to plan in all areas. With a total of over 700 measures in the areas of purchasing, personnel, operations and service functions, we are making steady progress across all sites. As part of the restructuring, headcount will be reduced as well. More than 60% of the planned personnel measures were

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already implemented at the end of the quarter.

In addition, SGL Carbon continued to clearly focus on improving liquidity and reducing debt in the first quarter. As a result, liquidity of €168.6 million as of March 31, 2021 developed positively compared to the end of the year (€141.8 million). Free cash flow from continuing operations was positive at €24.1 million. SGL Carbon's net financial debt decreased by 5% to €271.5 million as of March 31, 2021 (year-end 2020 €286.5 million).

"Our first quarter results show that we are delivering despite the continued headwinds in some of our markets. One key element of this progress is our global restructuring and transformation program, in which we are making very good progress. Also operationally, there are already some areas at SGL Carbon that are seeing increasing demand again and are now coming strengthened out of the crisis. In addition, we are now pursuing a clear 'margin before volume' strategy with which we are focusing on profitability. We fully confirm our guidance for the full year 2021," explains Dr. Torsten Derr, CEO of SGL Carbon.

Profitability improved

The financial result improved from minus €9.4 million in Q1/2020 to minus €6.4 million in the reporting period. In particular, lower interest expenses for pensions and lower effects for the compounding of liabilities, as well as foreign currency valuations of intercompany loans led to this positive development.

Due to the increase in EBIT and the improved financial result, earnings before income taxes increased from minus €3.0 million in the prior-year period to €10.6 million in the reporting period.

Segment Reporting

Since January 1, 2021, SGL Carbon has been managing its operating business in four business units, each having a homogeneous business model and clearly defined responsibility for earnings. The former reporting segment Composites - Fibers & Materials (CFM) has been broken down into the units Carbon Fibers (CF) and Composite Solutions (CS). The former reporting segment Graphite Materials & Systems (GMS) has been split into Graphite Solutions (GS) and Process Technology (PT). The reporting segments as presented below directly derive from the new business units.

Reporting segment Graphite Solutions (GS): Dynamic demand from the semiconductor sector

Sales development in the reporting segment Graphite Solutions (GS) in the first quarter of 2021 was slightly below the previous year's level by around 3% (currency adjusted no change) at €108.3 million, but slightly above our expectations.

The Battery & Other Energy market segment showed stable development compared with the previous year. In addition, an expected positive sales and earnings effect of around €9 million is included in this market segment in the first quarter of 2021 from the early termination of a contract. The contract termination agreed in March will lead to a corresponding compensation payment, which will be received in the second quarter. The LED & Semiconductor market segment was able to increase sales significantly. In contrast, demand from the Industrial Applications market segment declined significantly in the first quarter of 2021.

Compared with the good prior-year quarter (Q1/2020 €20.8 million), EBITDA pre increased by 10% to €22.9 million in the reporting quarter, mainly as a result of the financial compensation. This led to a temporary increase in the EBITDA margin to 21.1% (Q1/2020 18.6%). In line with the sales development, the Battery & Other Energy and LED & Semiconductor market segments recorded an increase in earnings, while earnings in the Automotive & Transportation market segment increased due to productivity improvements. All other market segments recorded a decline in earnings compared to the prior-year quarter due to lower demand.

Reporting segment Process Technology (PT): Incoming orders from the Chemical Industry point to recovery

Sales in the reporting segment Process Technology (PT) declined significantly in the first quarter by 16% (currency adjusted minus 18%) to €19.3 million (Q1/2020 €23.0 million). The main reason for this was the decline in order intake from all three regions (Asia, Europe and North America) in the previous year due to the pandemic. Following this decline in demand from the Chemical Industry since mid-2020, order intake recovered noticeably in the first quarter of 2021, amongst others due to the conclusion of contracts for synthesis plants.

This expected temporary decline in sales also led to a reduction in EBITDA pre from €0.7 million in the prior-year quarter to minus €0.5 million in the reporting quarter. This corresponds to an EBITDA margin of minus 2.6% (Q1/2020 3.0%).

Reporting segment Carbon Fibers (CF): Automotive business picks up noticeably

At €81.1 million, sales in the reporting segment Carbon Fibers (CF) in the first quarter of 2021 were on the same level as in the previous year (currency adjusted plus 4%) and slightly above expectations. The earnings situation in the first quarter of 2021 was characterized by the favorable Automotive business, which exceeded expectations and the prior-year figure. Sales in the Wind Energy market in the first quarter of 2021 were slightly below previous year. The Acrylic Fibers business, on the other hand, is characterized by currently volatile raw material prices and shows higher sales due to higher raw material prices, which is attributable to the increased acrylonitrile price. Sales in the other customer industries declined slightly due to portfolio adjustments.

Major investment accounted for At-Equity is the Ceramic Brake Discs business (Brembo SGL: development and production of carbon ceramic brake discs) which is allocated to the market segment Automotive and has two production sites in Meitingen (Germany) and Stezzano (Italy). Aggregated sales of the At-Equity accounted investments increased by approximately 33% to €62.4 million in Q1/2021 (Q1/2020 €46.9 million, 100% values for companies) and are not included in Group consolidated sales.

EBITDA pre in the first quarter of 2021 improved significantly to €13.9 million compared with €10.3 million in the prior-year quarter due to the €3.7 million improvement in income from investments accounted for At-Equity. At Textile Fibers, the increase in raw material prices was largely passed on to customers, although there was no improvement in the gross margin. The EBITDA margin in the reporting segment improved significantly to 17.1 %, compared with 12.6 % in the prior-year quarter.

Reporting segment Composite Solutions (CS): Sales up 24% at the start of the year

The reporting segment Composite Solutions (CS) is strongly affected by the Corona crisis due to its share of sales with the Automotive and Aerospace market segments, which are affected more than average. Due to the recovery in the Automotive market segment and the start of new automotive projects, the first quarter started encouraging. Sales in the reporting segment CS increased significantly by 24% to €28.6 million in the first quarter of 2021 compared to the previous year's figure of €23.0 million (adjusted for currency effects 26%).

EBITDA pre in the reporting segment CS improved to €1.8 million in the first quarter of 2021, compared to minus €0.8 million in the prior-year quarter. Accordingly, the EBITDA margin in this reporting segment increased significantly to 6.3%, compared to minus 3.5% in the prior-year quarter. In addition to strong sales growth, this development was due to savings in connection with the restructuring of the reporting segment and individual improvement initiatives.

Reporting segment Corporate: One-time effects from transformation

As expected, sales in the reporting segment Corporate in the first quarter of 2021 were significantly lower year-on-year (no currency effect). This was due to lower rental income as a result of the sale of land and buildings at the former site in Lemwerder in the previous quarter and lower services to divested businesses.

EBITDA pre in the reporting segment Corporate decreased significantly year-on-year to minus €5.1 million (Q1/2020 minus €2.0 million) despite savings in the central research department. This decrease is attributable on the one hand to higher consulting expenses, which will not be repeated to the same extent in subsequent quarters, and on the other hand the prior-year quarter still included positive earnings effects from final invoices for services to divested businesses.

Outlook

Guidance for 2021 fully confirmed: Noticeable sales and earnings growth expected

We confirm our guidance for the fiscal year 2021. The following statements summarize the detailed report in the Annual Report 2020.

The overall economic situation remains dominated by Covid-19. In particular, a further wave of pandemics and an associated further decline in demand are not included in the current annual forecast. Following the sharp economic downturn in 2020, we continue to expect fiscal year 2021 to be characterized by a moderate recovery. This includes the reported effect from the contract termination in the reporting segment Graphite Solutions, and therefore cannot be projected for the full year.

Group financial targets

€m	Actual 2020	Outlook 2021[1]
Sales	919.4	920 to 970
EBITDA pre	92.8	100 to 120
Return on capital employed (ROCE $_{EBIT}$)	4.5%	Slight improvement
Consolidated net result - continuing operations	–132.9	–20 to 0
Capital expenditure	55.8	at the level of depreciation and amortization (around 60)
Free cash flow [2]	93.2	20

[1] "Slight" indicates a variation of up to 10%; "significant" indicates a variation of more than 10%
[2] Calculation adjusted

Since the end of 2020, the reporting segment Graphite Solutions has been in the pandemic-related downturn mainly resulting from the market segment Industrial Applications, which was accompanied by a weak order entry. As reported, we were in a consolidation phase in the first quarter of 2021. As we have already been slowly ramping up production again since the beginning of 2021, we expect earnings to improve slightly over the course of the year due to increasing fixed cost absorption and savings from the restructuring.

In the reporting segment Process Technology, we are currently seeing an upturn in project inquiries from customers. As the sustainability of the rising order entry remains to be seen, we continue to expect sales and EBITDA pre at prior-year level.

In 2020, the earnings situation in the reporting segment Carbon Fibers was characterized by the Automotive market segment, which developed positively despite the consequences of the pandemic and should also have a positive impact in fiscal 2021. We also expect raw material price increases in the other product areas at Carbon Fibers, some of which will be passed on to customers. We continue to expect sales at the level of 2020, while EBITDA pre should improve slightly as a result of the restructuring measures initiated.

Sales in the reporting segment Composite Solutions will increase significantly in 2021, as new automotive projects such as the production of battery cases made from composite materials are ramping up and there is also high demand for existing projects. In particular, the significantly increased sales volume as well as savings will contribute to a positive EBITDA pre.

In total, we were able to increase liquidity at the end of the first quarter of 2021 compared to year-end 2020. For fiscal year 2021, we continue to expect a capital expenditure budget on the level of depreciation and amortization. Due to the revival of business, we expect working capital to increase in the course of the year. Due to the adjusted presentation of interest paid and received in the cash flow from financing activities, we expect a positive free cash flow in the amount of the reclassed interest item of approx. €20 million.

Key financial figures of SGL Carbon (in € million)

	First Quarter 2021	First Quarter 2020	Change
Sales	241.5	246.8	-2.1%
EBITDA pre[1)]	33.0	29.0	13.8%
EBITDA pre-margin	13.7%	11.8%	+1.9% points
Operating profit (EBIT)	17.0	6.4	> 100%
Net result	6.1	- 4.3	-
Earnings per share - basic and diluted (in €)	0.05	- 0.04	-
Payments to purchase intangible assets and property, plant & equipment	-6.9	-7,9	
Free cash flow – continued operations[2)]	24.1	26.8	

	Mar 31, 2021	Dec 31, 2020	Change
Equity attributable to the shareholders	270.1	220.7	22.4%
Net financial debt	271.5	286.5	5.2%
Leverage ratio [3)]	2.0	2.3	-
Headcount	4,746	4,837	-1.9%

[1)] Q1/21 adjusted for insurance benefit of €2.0 million, the carry-forward of the purchase price allocations of the SGL Composites companies totaling minus €2.6 million and restructuring expenses of minus €1.6 million. Q1/20 adjusted for insurance benefit of €0.1 million, the carry-forward of the purchase price allocations of the SGL Composites companies totaling minus €2.6 million and other material one-off effects of minus €4.5 million
[2)] Defined as cash flow from operating activities minus cash flow from investing activities
[3)] Net financial debt to EBITDA before non-recurring items of the last twelve months

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 2020, SGL Carbon SE generated sales of more than 900 million euros. The company has approx. 4,800 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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