sgl carbon

Press Release

Wiesbaden, March 27, 2019

SGL Carbon exceeds sales revenue and earnings targets for fiscal year 2018 and confirms the Group guidance for fiscal year 2019 and mid-term targets 2022

- Group sales revenue up 22 percent to surpass 1 billion for the first time in new structure; around 50 percent of this increase driven by strong organic growth
- Group recurring EBIT up by around 61 percent
- Dr. Jürgen Köhler, CEO of SGL Carbon: "As the new SGL Carbon we are much better diversified and our business model benefits from structural growth topics such as electric mobility, energy supply, and digitization"
- Composites – Fibers & Materials (CFM): Sales increase in the core growth markets automotive and aerospace
- Graphite Materials & Systems (GMS): Double-digit growth in almost all market segments
- Group sales and earnings impacted by positive effects particularly relating to the full consolidation of former joint ventures with BMW Group and Benteler and the initial adoption of IFRS 15
- SGL Carbon confirms the Group guidance 2019 and mid-term targets 2022

In 2018, SGL Carbon surpassed its sales revenue and earnings targets. Sales slightly exceeded the threshold of 1 billion euros and thus surpassed the increased guidance. At the same time, the company's earnings grew substantially above the prior-year level. Around half of the sales increase of 22 percent was due to strong organic growth. In addition, the SDAX-listed company recorded positive effects in sales and earnings mainly related to the full consolidation of the former joint ventures with BMW Group and Benteler and the initial adoption of IFRS 15. Recurring Group EBIT rose by 61 percent to 65 million euros, mainly relating to the good operating performance of the business unit GMS. Due to the increased operating profit, a significantly improved net financing result and fair value adjustments, the net result from continuing operations increased strongly to reach 50.3 million euros. Thereby, for the first time as the new SGL Carbon, the company reached a positive result from continuing operations.

In fiscal year 2019, the company expects Group sales to increase by a mid-single-digit percentage range. After the significant increase in 2018, the Group EBIT is expected to stabilize on the prior-year level. SGL Carbon's consolidated net result should break even in 2019. In this context it should be noted that the previous year benefited from a high positive one-time effect, and that SGL Carbon is expecting higher interest costs in net financing results in 2019 mainly from the planned issue of a corporate bond. At the same time, the company confirms its new mid-term sales target of nearly 1.4 billion euros on an unchanged EBIT margin target of at least 10 percent in the year 2022. This should result in an additional EBIT contribution in the low double-digit million euros range for the year 2022.

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"In the first year of the new SGL Carbon, we surpassed our sales revenue and earnings targets for 2018," says Dr. Jürgen Köhler, CEO of SGL Carbon. "Our strategy is paying off. We are convinced that we will again perform well in this year despite the slowing economic growth across the globe. As the new SGL, we are much better diversified and our business model benefits from structural growth topics such as electric mobility, energy supply, and digitization."

In fiscal year 2018, sales from continuing operations of SGL Carbon grew by 21.8 percent to reach 1.048 billion (previous year: 860.1 million) euros. Around half of this increase was driven by strong growth in the market segments Mobility, Digitization, Chemicals, and Industrial Applications. The remaining sales growth was due to changes in the scope of consolidation and the first-time application of IFRS 15. Recurring EBIT strongly increased to 64.6 (previous year: 40.1) million euros, resulting in an increase in the EBIT margin from 4.7 percent to 6.2 percent. The return on capital employed (ROCE) based on recurring EBIT improved from 4.6 percent to 5.4 percent.

Non-recurring items totaled 16.3 million euros. In particular, these included the adjustment to the fair value of the previously proportionately consolidated joint operations with BMW Group. Including non-recurring items, earnings before interest and taxes (EBIT) amounted to 80.9 (previous year: 49.0) million euros. Due to the early repayment of the corporate bond in October 2017 and the repayment of the convertible bond 2012/2018 in January 2018, the net financing result significantly improved by 47.9 percent to minus 29.6 (previous year: minus 56.8) million euros.

The improved operating result of SGL Carbon, together with the positive development in the net financing result, led to a significantly higher than expected Group result from continuing operations of 51.3 (previous year: minus 7.8) million euros. Consolidated net income for fiscal year 2018 amounted to 41.3 (previous year: 138.9) million euros. It should be noted, however, that the consolidated net income of the year 2017 had been positively impacted by a book gain of 155 million euros from the sale of the cathodes, furnace linings, and carbon electrodes business.

Composites – Fibers & Materials (CFM): Strong development in the automotive and aerospace market segments

Sales revenues in the business unit CFM significantly increased by 27.3 percent (currency adjusted: 28.0 percent) to 422.5 (2017: 331.9) million euros in the year 2018. The sales growth was primarily due to structural effects as a result of the first-time consolidation of the Benteler SGL joint venture, which was previously accounted for At-Equity, as well as the full consolidation of the SGL Automotive Carbon Fibers (SGL ACF) joint venture, which was previously proportionally consolidated. These effects more than compensated for the sale of the interests in the formerly fully consolidated SGL Kümpers joint venture. Operationally, the increase in revenues was mostly driven by the Automotive and Aerospace market segments. In the Industrial Applications and Textile Fibers market segments, revenues were roughly on the prior year level, while revenues with the wind industry were substantially lower than in the previous year. Recurring EBIT fell slightly to 20.8 (previous year: 22.7) million euros. Earnings in the Automotive market segment almost doubled due to the full consolidation of SGL Composites (the former SGL ACF) as well as increased demand for the company's products. The Aerospace market segment also recorded a slight increase in earnings. In contrast, the Wind Energy, Textile Fibers and Industrial Applications market segments recorded significant declines. The return on capital employed (ROCE) based on recurring EBIT of the reporting unit CFM retracted from 5.8 percent to 3.2 percent.

Graphite Materials & Systems (GMS): Double-digit growth rates in nearly all market segments

In fiscal year 2018 nearly all market segments of the business unit GMS grew by a double-digit rate. Sales revenues of GMS therefore increased by 15.6 percent (currency adjusted by 17.0 percent) to 589.9 (previous year: 510.2) million euros. The market segments Battery & other Energy, LED, Semiconductors, Automotive & Transport as well as Chemicals and Industrial Applications contributed to the sales increase. The only exception was the Solar market segment, where SGL Carbon intentionally limited sales to below the prior year level to meet the high demand of the isostatic graphite specialties in the fast-growing segments Semiconductors and LED. The initial adoption of IFRS 15 led to sales revenue increasing by 24.9 million euros. Adjusting for this and currency effects, sales revenues in the GMS segment increased by approximately 12 percent.

In total, recurring EBIT improved substantially more than proportionately to sales by 59 percent to 76.0 (previous year: 47.8) million euros. This led to a higher Return on Capital Employed (ROCE) based on EBIT of the GMS business unit, increasing from 12.2 percent to 16.5 percent. Recurring EBIT includes an effect from the initial adoption of IFRS 15 in the amount of 16.2 million euros, which is mostly due to the price increases. Adjusting for this, EBIT increased by 26 percent.

Corporate: Earnings slightly decreased

Recurring EBIT was at minus 32.2 million euros in the reporting segment Corporate, and therefore slightly lower than last year’s minus 30.4 million euros. This included a positive effect in the amount of 3.9 million euros from the sale of land in Canada, which nearly compensated for the implementation costs for the Operations Management System (OMS), higher costs for central projects as well as the termination of cost allocations to the now sold division Performance Products. Expenses for the central research activities totaled 8.0 million euros and were thus lower than the previous year’s figure of 9.4 million euros due to higher subsidies for the Air Carbon III Program.

Free cash flow from continuing operations improved; equity ratio above prior-year level

Operating cash flow from continuing operations improved noticeably to 23.6 million euros, up from net cash used of 82.3 million euros in the prior-year period mainly due to the significant improvement in the operating result and the lower increase in working capital of 34.1 (2017: 89.2) million euros. Cash flow from investing activities increased to minus 82.1 million euros during the year under review, up from minus 62.4 million euros in fiscal year 2017. It contains, among others, the purchase price paid for the full acquisition of SGL Composites (formerly: SGL ACF Germany), located in Wackersdorf (Germany). Free cash flow from continuing operations improved to minus 58.5 million euros, compared with minus 144.7 million euros in the previous year. Together with the free cash flow from discontinued operations, the total free cash flow was nearly break even.

As of December 31, 2018, total assets reached 1,585.1 (December 31, 2017: 1,541.7) million euros. The equity ratio improved from 29.6 percent to 33.5 percent. Shareholders’ equity increased from 457.0 million euros to 531.6 million euros, mainly related to the positive consolidated net result of 41.3 million euros, the allocation of the fair value of the conversion right of the convertible bond to capital reserves, adjustments made to the parameters for calculating the provision for pensions as well as currency gains. Net financial debt of SGL Carbon amounted to 242.2 million euros at year-end 2018 (December 31, 2017: 139.0 million euros). The increase corresponds largely to the net financial debt assumed upon full consolidation of SGL Composites USA and Germany.

Guidance 2019: SGL Carbon expects sales increase and break even net income

In addition to the strong operating result of GMS, fiscal year 2018 was characterized by positive non-recurring items stemming from positive effects from the full consolidation of the former SGL ACF as well as from the initial adoption of IFRS 15. The resulting high comparative base has an impact on the company's outlook for the current fiscal year. Despite the global economic slowdown, SGL Carbon expects consolidated sales revenue to increase by a mid-single-digit percentage rate, primarily volume-driven. After the significant increase in 2018, recurring Group EBIT is expected to stabilize on the level of the prior year.

After a consolidated net profit of about 41 million euros in fiscal year 2018, the Group's consolidated net result should break even in 2019. It should be noted, however, that the previous year benefited from a non-cash positive special item of about 28 million euros, resulting from the full consolidation of SGL ACF. In addition, SGL Carbon is projecting higher financing costs in its financial result for 2019, mainly due to the planned issue of a corporate bond to refinance debt maturities at the end of 2020.

As already announced at the end of 2018, capital expenditures will be increased due to higher customer demand. SGL Carbon therefore currently anticipates its capital expenditure budget for fiscal year 2019 to be in the range of approximately 100 million euros, up from 78 million euros in the past year. Capital expenditure in the GMS business unit will focus on the Automotive & Transport, LED, Semiconductors, and Battery & other Energy market segments. The focus of capital expenditure in the reporting segment CFM, which should make up less than one third of SGL's capital expenditure, will mainly continue to be the Automotive segment. In this area, SGL Carbon will continue to strengthen the value chain, particularly for fabrics and components, and will convert an acrylic textile fiber line to PAN precursor to supply our carbon fiber production.

Even though capital expenditures and interest expenses are expected to increase, SGL Carbon anticipates a significant decrease in the negative free cash flow to a low double-digit million euros amount due to an improvement in the working capital. On a normalized capex level (i.e. on par with depreciation), SGL Carbon would be able to reach a positive free cash flow already in 2019.

Guidance CFM: Sales growth in mid-single-digit percentage range; EBIT to remain nearly unchanged

In the reporting segment Composites – Fibers & Materials (CFM), SGL Carbon currently expects sales to increase at a mid single-digit percent rate, primarily driven by higher volume growth. Sales revenue with the aerospace industries should remain on the level of the previous year and with the automotive industry close to the level of previous year, while slight sales revenue growth is anticipated for the Industrial Applications and Textile Fibers market segments. The latter is also dependent upon the development of raw material prices. The company expects significant growth in sales revenue in the wind energy industry compared with the relatively low prior-year figure, which was influenced by the sale of SGL Kümpers and weak demand from customers. Recurring EBIT should remain on the level of the previous year in this area, as newly acquired projects will only positively influence the result in the medium term.

In contrast to the previous years, the first quarter should be the weakest quarter of fiscal year 2019. This is mainly due to the rapid and strong price decline in raw material prices at the end of 2018, which resulted in reduced selling prices for textile fibers. Based on higher priced inventory of raw materials, the company experienced a temporary margin contraction in the fourth quarter of 2018. This trend continued into January and February 2019. As a result, the company expects recurring EBIT in the first quarter of 2019 to remain on the level of the closing quarter of 2018. However, since March 2019, and in the further course of the year, it is expected that the lower raw material prices will have a positive impact on the business performance.

Guidance GMS: Sales and earnings approximately on the high prior-year level

Sales revenue in the reporting segment Graphite Materials & Systems (GMS) was heavily influenced in the previous year by the initial adoption of IFRS 15. In light of this, SGL Carbon expects sales revenues in fiscal year 2019 to be around the high level of the previous year, as higher price and volume trends should be offset by negative currency effects. Despite a short-term slowdown in the market environment, significant sales growth is once again expected in the LED and semiconductor industries, as the company expects to gain additional market share as a result of its technological leadership. From the current point of view, the Automotive & Transport market segment should also record a double-digit sales increase, while the Chemicals and Industrial Applications market segments should remain on the level of the previous year. As in the previous year, sales of the market segment Solar will be limited below the previous year's level to give priority to the Semiconductors and LED market segments. The nearly stable development projected for the Battery & other Energy market segment should be assessed in view of the positive impact from IFRS 15 in the previous year. The same is true for EBIT in the GMS business unit, which is expected to remain on a similar level to that seen in the previous year, which also benefited from the positive impact from IFRS 15. As a result, GMS should once again exceed its target EBIT margin of 12 percent (before non-recurring items), reinforcing the fact that its business model is also stable in a weakening global economy.

In contrast to the previous years, the first quarter should be the strongest quarter of fiscal year 2019, due to an optimal combination of a very good product mix, high capacity utilization, and low costs. This high earnings level is unlikely to be sustainable at this high level, mainly due to the fact that shipment levels are skewed to the first half of the year and somewhat lower shipments are planned for the second half of the fiscal year. In addition, the first quarter of 2019 should include a one-time positive IFRS 15 effect in the mid-single-digit million euro range.

"Based on the positive sales development in 2017 and 2018 we expect annual sales growth of approximately 8 to 9 percent in the medium term", says Dr. Michael Majerus, CFO of SGL Carbon. "Our business segments follow different dynamics. GMS as the more established business already reaches our sales and margin targets and should increase them further in the mid-term. CFM is still at the beginning of its life cycle. Within the last twelve months, CFM has won various important projects, which will noticeably improve sales and earnings only in the mid- to long-term due to their development time."

At the end of 2018, SGL Carbon adopted its new five-year plan, which provides for an increase in capital expenditure during the period 2019 to 2021, particularly in the GMS business unit in order to seize additional growth opportunities, especially in the rapidly growing LED and Battery & other Energy market segments. Consequently, the company raised its target for Group sales 2022 from approximately 1.3 billion to nearly 1.4 billion euros. As a consequence of the higher sales level, this leads to an expected additional EBIT contribution in a low double-digit million euros amount for the year 2022. The EBIT margin in 2022 is expected to remain within the framework of the communicated target of at least 10 percent.

Key Figures of SGL Carbon
(in million euros)

	2018	2017	Change
Sales revenues	1,047.5	860.1	21.8%
EBITDA before non-recurring items	127.2	90.7	40.2%
Operating profit (EBIT) before non-recurring items	64.6	40.1	61.1%
Return on sales (EBIT margin) [1)]	6.2 %	4.7 %	+1.5%-points
Return on capital employed ($ROCE_{EBIT}$) [2)]	5.4 %	4.6 %	+0.8%-points
Operating profit (EBIT)	80.9	49.0	65.1 %
Consolidated net result from continuing operations	50.3	-16.2	>100%
Result from discontinued operations, net of income taxes	-9.0	155.1	>-100%
Consolidated net result	41.3	138.9	-70.3%
Earnings per share, basic and diluted (in €) continuing operations [3)]	0.41	-0.13	>100%
Payments to purchase intangible assets and property, plant & equipment	-78.1	-52.9	-47.6%
Free cash flow from continuing operations	-58.5	-144.7	59.6%

	Dec. 31, 2018	Dec. 31, 2017	Change
Total assets	1,585.1	1,541.7	2.8%
Equity attributable to shareholders of the parent company	531.6	457.0	16.3%
Net financial debt [4)]	242.2	139.0	74.2%
Debt ratio (Gearing) [5)]	0.46	0.30	–
Equity ratio [6)]	33.5%	29.6%	+3.9%-points
Employees	5,031	4,732	+6.3%

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. 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 and other energy storage systems. In addition, SGL Carbon develops solutions for chemical and industrial applications.

In 2018, SGL Carbon generated sales of around 1 billion euros. As of December 31, 2018, the company had approximately 5,000 employees worldwide in 33 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 in the Newsroom of SGL Carbon at www.sglcarbon.com/press and at www.sglcarbon.com.

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