

# **Design the future**

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## **Annual Financial Results 2014**

Detlef Borghardt, CEO

Wilfried Trepels, CFO

March 12, 2015



# Executive Summary



1

## Targets for 2014 successfully reached

- Sales increase of 12.0% to €959.7mn (previous year: 857.0) driven by positive development in all regions and Business Units.
- Improvement of adj. EBIT to €70.7mn (previous year: 59.3) and adj. EBIT margin to 7.4% (previous year: 6.9).

2

**Dividend payment of €0.32 per share** (previous year: 0.27) proposed to Annual General Meeting 2015 which corresponds to €14.5mn and around 44% (previous year: 50%) of net earnings.

3

Measures for **improvement of Trailer Systems BU's profitability** progressed according to plan; significant milestones reached in 2014 with **considerable progress in the German plant consolidation** and presentation of **plenty of product innovations** at MATS and IAA Commercial vehicles.

4

**Aftermarket business activities strengthened** with opening of new Parts Distribution Center in Malaysia; start implementation of brand GoldLine for the American markets.

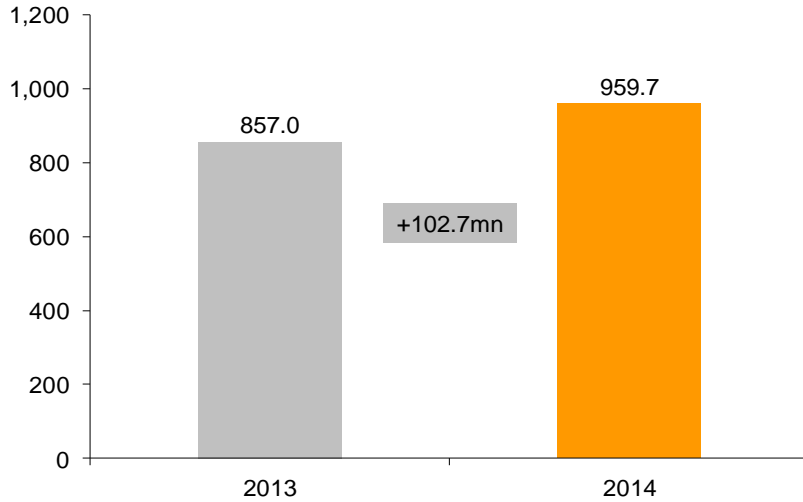
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## Outlook 2015 confirmed

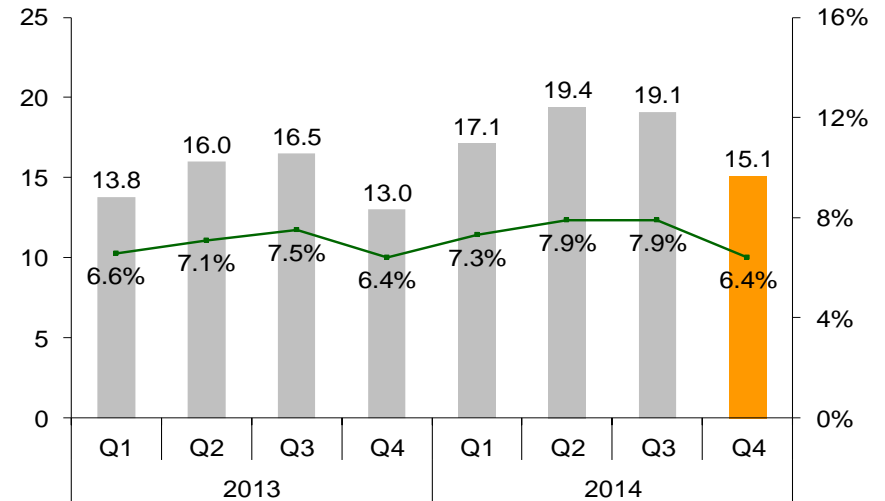
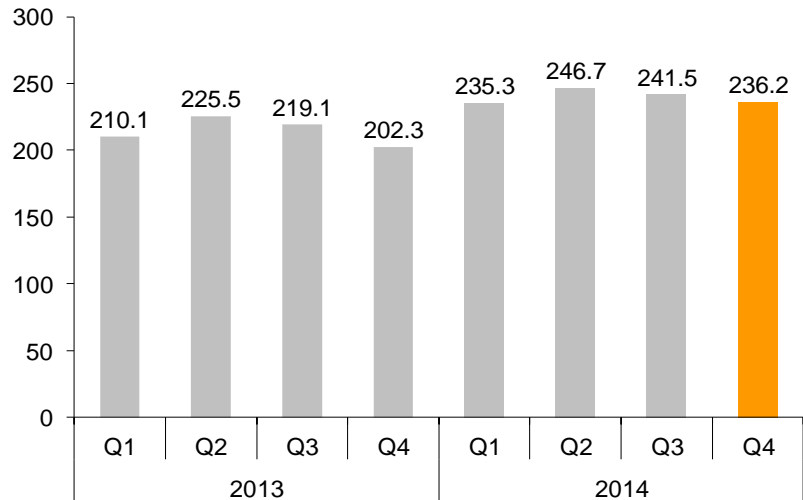
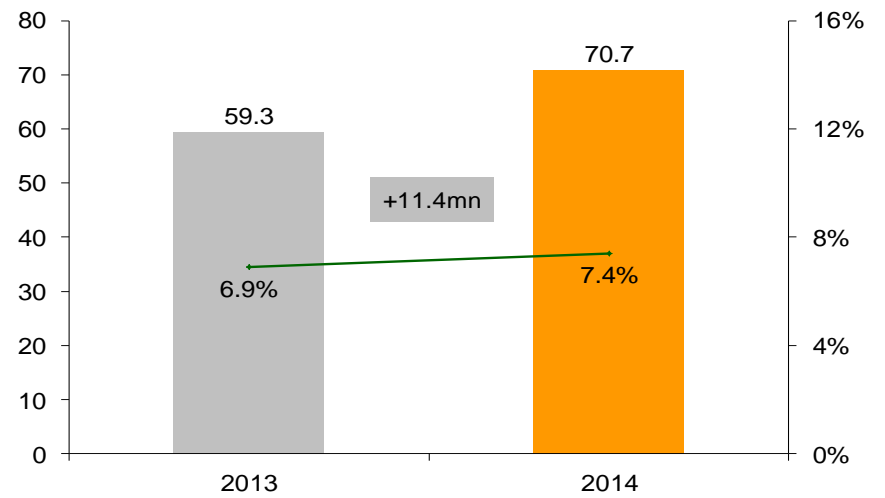
- Sales between €980mn and €1.035bn.
- Adj. EBIT margin of 9 to 10%.
- Assumption: no deterioration of political, overall economic and industry-specific conditions.
- Strategy 2020 to be presented together with the results of Q1/2015 on May 13, 2015.

# Business performance – group sales and group adjusted EBIT

## Sales in €mn

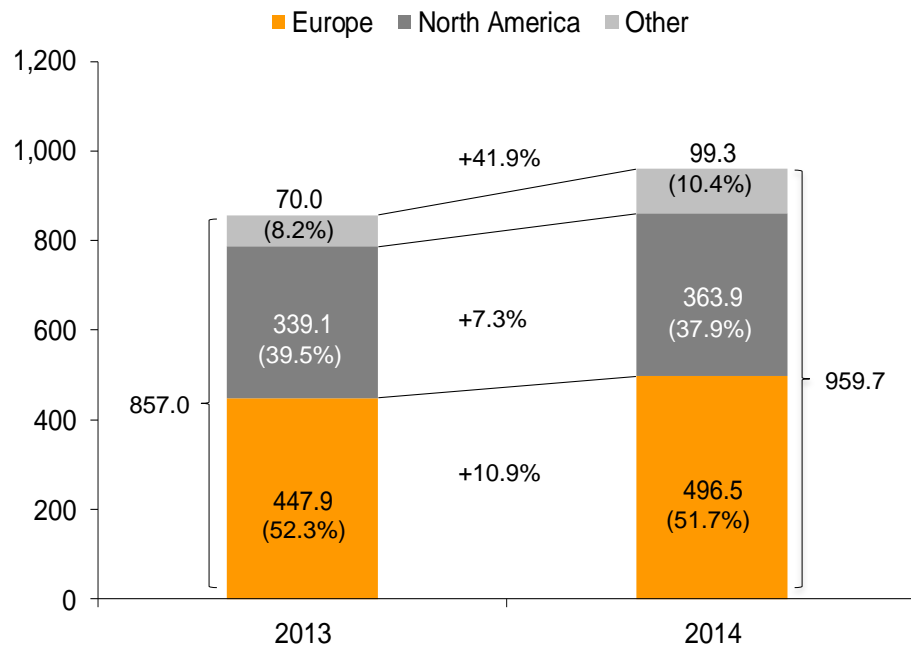


## Adjusted EBIT in €mn

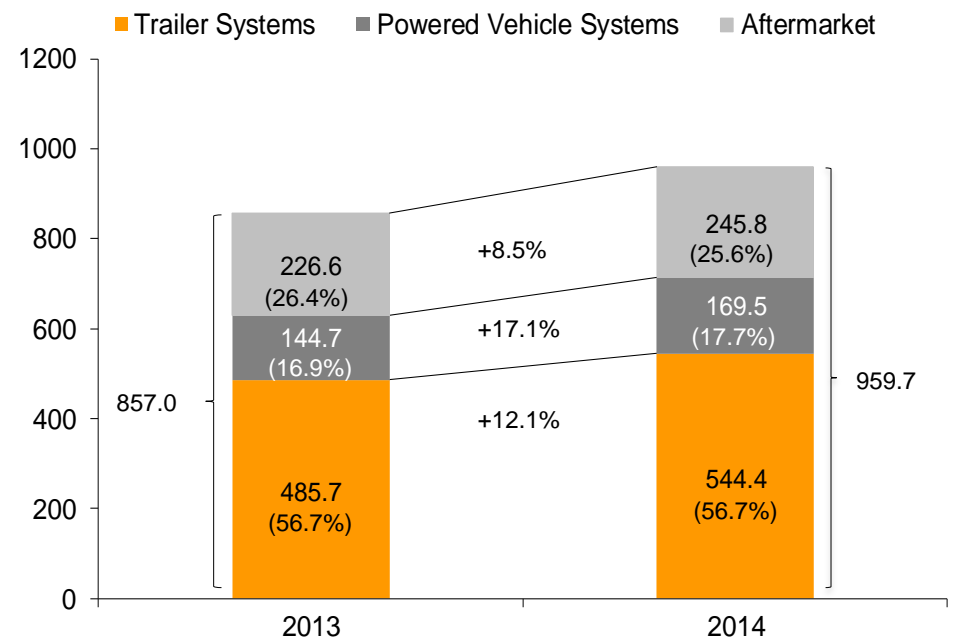


# Business performance – sales by region and business unit

## Sales in €mn by region

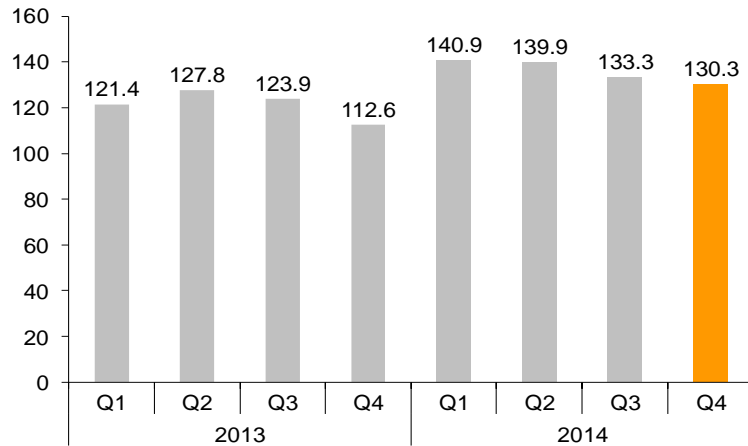


## Sales in €mn by business unit



# Business performance – Trailer Systems

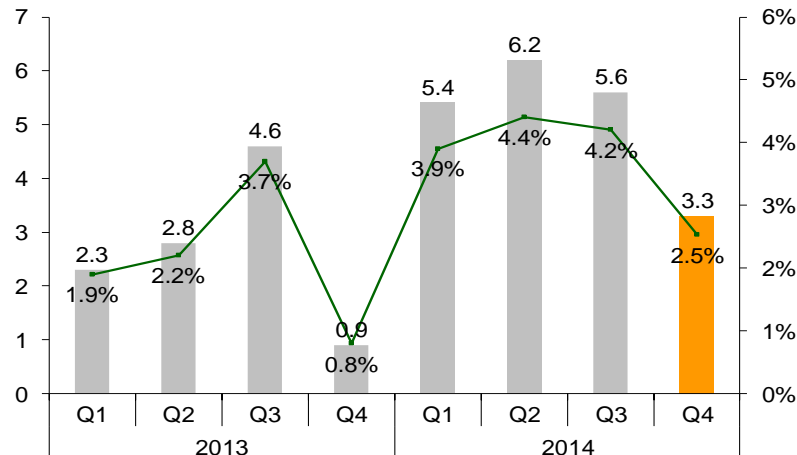
Sales in €mn



## Summary

- Sales increase of 12.1% to €544.4mn in 2014 (2013: 485.7).
- Good market development in Europe as trailer orders in Q4/2013 were postponed to Q1/2014 due to new Euro 6 standard; increasing influence of Russia-Ukraine conflict in 2<sup>nd</sup> half-year 2014.
- Positive market development in North America with further utilization of production capacities in Warrenton, Missouri.

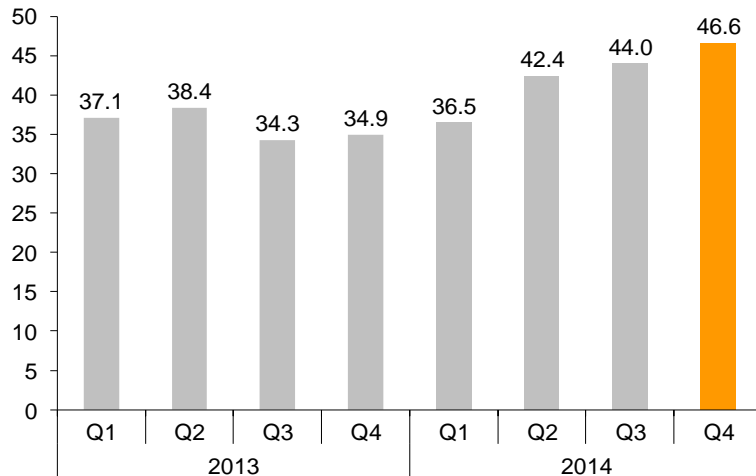
Adjusted EBIT in €mn and margin in %



- Adj. EBIT of €20.5mn in 2014 (2013: 10.6) nearly doubled.
- Adj. EBIT margin of 3.8% in 2014 (2013: 2.2%).
- Strong improvement in profitability YoY due to increased business volume, positive results of measures to improve the earnings situation of Trailer Systems BU and strict cost discipline.
- Q4/2014 burdened by impacts from impairment test Brazil.

# Business performance – Powered Vehicle Systems

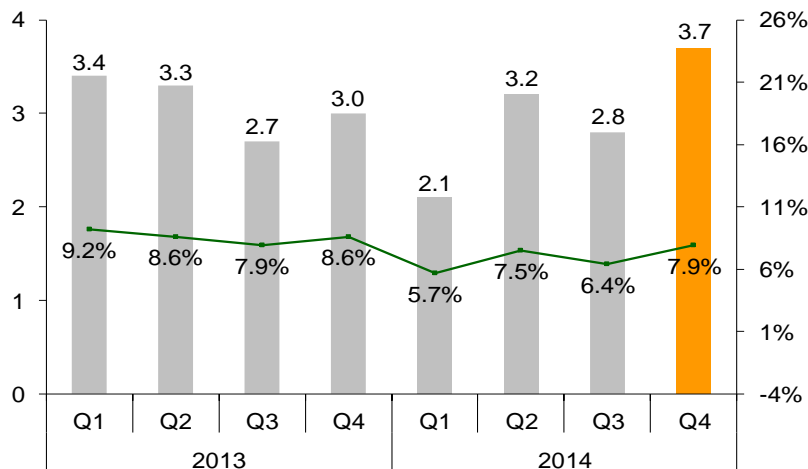
## Sales in €mn



## Summary

- Sales increase of 17.1% to €169.5mn in 2014 (2013: 144.7).
- Remarkable sales development in Europe despite pre-buy of trucks in Q4/2013 due to new Euro 6 standard and weaker market in 2<sup>nd</sup> half of the year due to Russia-Ukraine conflict.
- North American PVS business influenced by strong market growth for class 8 trucks and overproportionally weak public orders.
- Sales from China showed positive momentum due to Corpco consolidation.

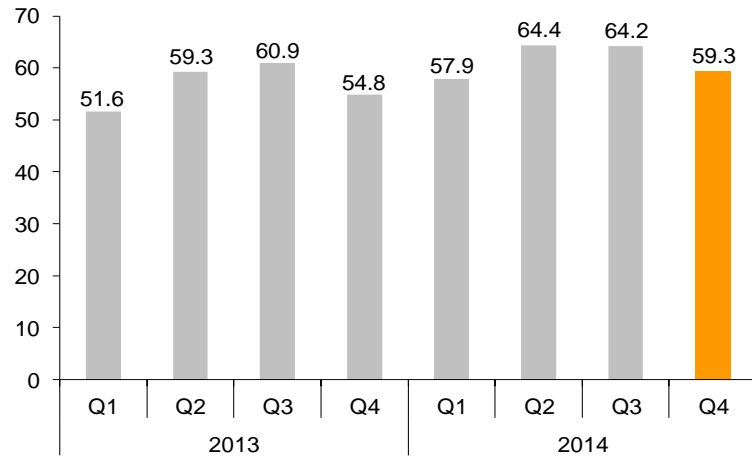
## Adjusted EBIT in €mn and margin in %



- Adj. EBIT of €11.8mn in 2014 (2013: 12.4).
- Adj. EBIT margin of 7.0% in 2014 (2013: 8.6%).
- Profitability influenced by unfavorable customer and product mix and weaker earnings contribution from Corpco in 2<sup>nd</sup> and 3<sup>rd</sup> quarter.

# Business performance – Aftermarket

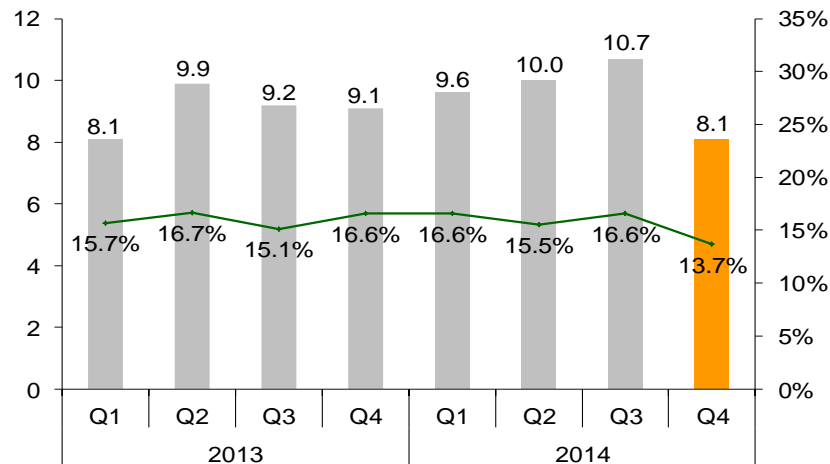
## Sales in €mn



## Summary

- Sales increase of 8.5% to €245.8mn in 2014 (2013: 226.6)
- Positive sales impacts from brand SAUER GERMANY QUALITY PARTS and Parts Distribution Centers.
- Expansion of Aftermarket activities with enlargement of capacities of the subsidiary in Dubai.
- Effects from weak Ruble and Russia-Ukraine crisis in Q4.

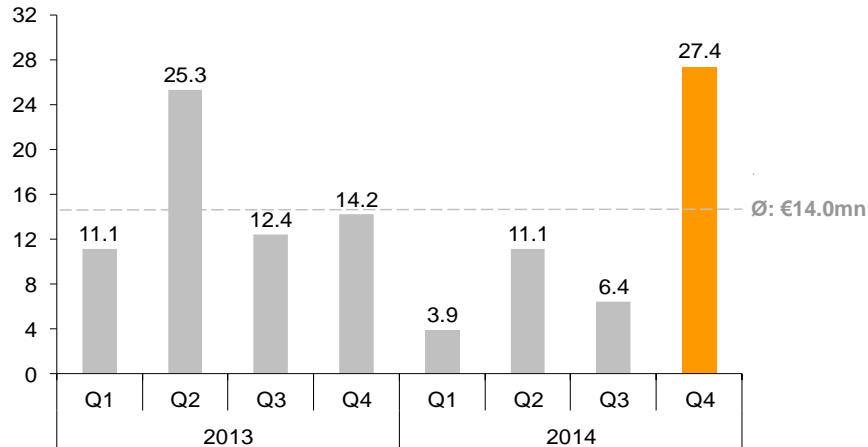
## Adjusted EBIT in €mn and margin in %



- Adj. EBIT of €38.4mn in 2014 (2013: 36.3)
- Adj. EBIT margin of 15.6% YTD 2014 (YTD 2013: 16.0%)
- Full-year earnings development in line with guidance of 15-16% adj. EBIT margin.
- Q4/2014 especially hit by FX effects Ruble-Euro and lower business volume in Russia.

# Business performance – operating cash flow

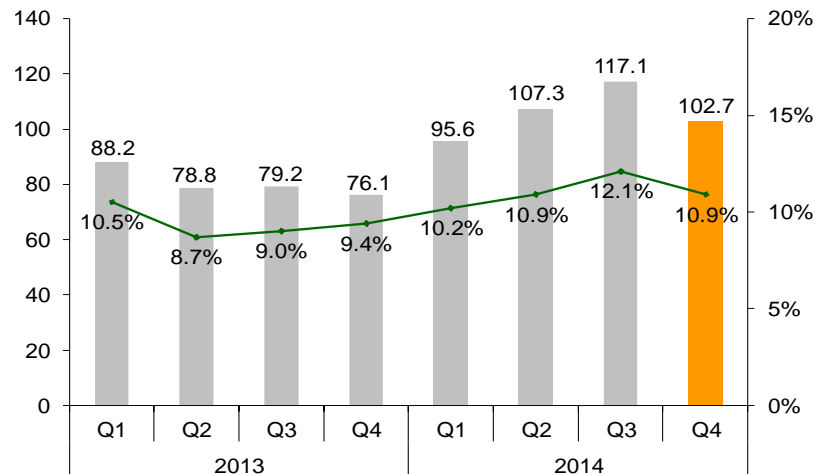
Operating cash flow before income tax in €mn



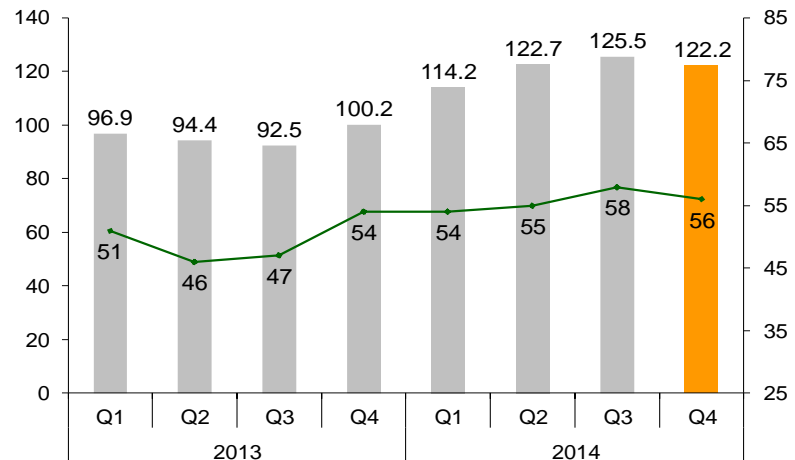
## Summary

- Operating cash flow of €48.8mn in 2014 (2013: 63.0); Q4/2014 operating cash flow positive with €27.4mn (previous year: 14.2) due to lower NWC (- €14.4mn compared to Q3/2014) whereas the prior quarterly cash flows were impacted by increasing NWC.
- Net working capital reached €102.7mn (2013: 76.1); development esp. influenced by higher inventories (plant consolidation, building up of PDC's, new business in China, preparation for potential import difficulties due to Russia-Ukraine conflict).
- Effects led to 56 days of inventory.

Net working capital in €mn and as % of sales



Inventories in €mn and days of inventories





## Financials – balance sheet

| in €mn                                | 12/31/2014   | %             | 12/31/2013   | %             |
|---------------------------------------|--------------|---------------|--------------|---------------|
| Non-current assets                    | 363.9        | 56.4%         | 329.1        | 61.3%         |
| Inventories                           | 122.2        | 18.9%         | 100.2        | 18.7%         |
| Other current assets                  | 114.9        | 17.8%         | 83.2         | 15.5%         |
| Cash and cash equivalents             | 44.2         | 6.9%          | 23.9         | 4.5%          |
| <b>Total assets</b>                   | <b>645.2</b> | <b>100.0%</b> | <b>536.4</b> | <b>100.0%</b> |
| Equity                                | 248.6        | 38.5%         | 222.2        | 41.4%         |
| Other non-current liabilities         | 87.3         | 13.5%         | 65.9         | 12.3%         |
| Interest bearing loans and borrowings | 181.3        | 28.1%         | 146.9        | 27.4%         |
| Other current liabilities             | 128.0        | 19.9%         | 101.4        | 18.9%         |

Net debt as of December 31, 2014: €137.2mn (12/31/13: €123.0mn)

## Financials – profit and loss statement

| in €mn                       | Q1-Q4/2014   | %            | Q1-Q4/2013   | %            |
|------------------------------|--------------|--------------|--------------|--------------|
| Sales                        | 959.7        | 100%         | 857.0        | 100%         |
| Cost of sales                | -785.1       | -81.8%       | -701.4       | -81.8%       |
| <b>Gross profit</b>          | <b>174.6</b> | <b>18.2%</b> | <b>155.6</b> | <b>18.2%</b> |
| Selling expenses             | -57.7        | -6.0%        | -53.3        | -6.2%        |
| Administrative expenses      | -44.6        | -4.6%        | -38.0        | -4.4%        |
| R&D                          | -19.6        | -2.1%        | -18.0        | -2.1%        |
| other                        | 2.0          | 0.2%         | 3.1          | 0.3%         |
| <b>Operating result</b>      | <b>54.7</b>  | <b>5.7%</b>  | <b>49.4</b>  | <b>5.8%</b>  |
| Financial Result             | -5.7         | -0.6%        | -17.9        | -2.1%        |
| <b>Earnings before tax</b>   | <b>49.0</b>  | <b>5.1%</b>  | <b>31.5</b>  | <b>3.7%</b>  |
| Income Tax                   | -16.3        | -1.4%        | -7.1         | -0.9%        |
| <b>Result for the period</b> | <b>32.7</b>  | <b>3.7%</b>  | <b>24.4</b>  | <b>2.8%</b>  |

### Comments

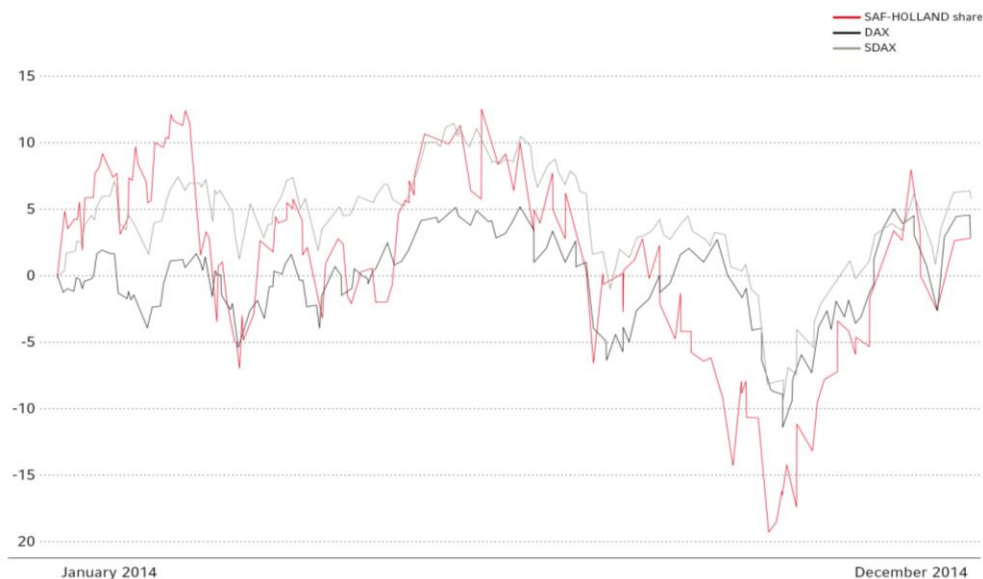
- Selling expenses include costs for IAA Commercial Vehicles which takes place every two years.
- Constant share of R&D expenses to sales of 2.1% despite intensive activities in this area.
- Reasons for increase in admin expenses to €44.6mn:
  - set up of provisions of €2.3mn for phantom share program from 2010.
  - previous year figure relieved by higher capitalized expenses of €2.1mn related to harmonization of SAP systems in 2013.
- Financial result influenced by:
  - Unrealized foreign exchange gains (€8.4mn) in 2014 vs. unrealized foreign exchange losses (€4.3mn) in 2013.
  - Earlier repayment of capitalized transaction costs of €2.0mn (prev. year: €0.0mn) and earlier repayment of interest rate swaps of €2.2mn (prev. year: 2.2) in the course of the refinancing.

## Financials – cash flow statement

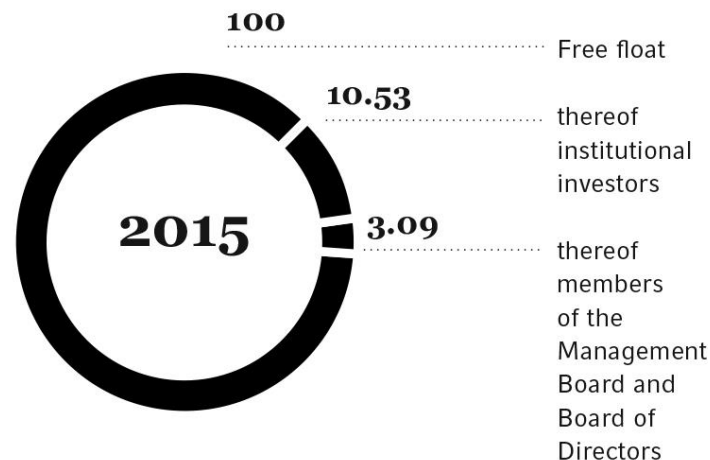
| in €mn                                       | Q1-Q4/2014   | Q1-Q4/2013   |
|--|--------------|--------------|
| Result before tax                            | 49.0         | 31.4         |
| Finance result                               | 7.7          | 17.9         |
| Amortisation/depreciation                    | 19.7         | 17.9         |
| Changes in Net Working Capital               | -27.9        | -7.2         |
| Other items cash flow                        | 0.3          | 3.0          |
| <b>Operating cash flow before income tax</b> | <b>48.8</b>  | <b>63.0</b>  |
| Income tax paid                              | -12.8        | -9.0         |
| <b>Operating cash flow</b>                   | <b>36.0</b>  | <b>54.0</b>  |
| <b>Cash flow from Investing</b>              | <b>-29.4</b> | <b>-23.5</b> |
| <b>Cash flow from financing</b>              | <b>12.6</b>  | <b>-24.9</b> |
| Effect of f/X changes                        | 1.1          | -0.3         |
| <b>Net change in cash</b>                    | <b>20.3</b>  | <b>5.3</b>   |

# Share price and shareholder structure

## Development of SAF-HOLLAND share price vs. indices (in %)



## Shareholder Structure (in %)



As of February 3, 2015

## Basic data for share as of December 31, 2014

|                  |              |
|------------------|--------------|
| ISIN             | LU0307018795 |
| Number of shares | 45,361,112   |
| Closing price    | €11.10       |
| Adjusted EPS     | €0.96        |

## SAF-HOLLAND share price development in 2014

- Profit takings and general slowdown of the stock market since the beginning of September 2014 burdened share price development until mid of October 2014.
- Recovery of share price at the end of the year.

# Targets and outlook: Increase in sales and earnings expected for 2015

## Targets 2015

- Sales: €980mn to €1.035bn
  - Earnings: 9 to 10% adj. EBIT margin
  - Net Working Capital: <10% of sales
  - Capex: < 2% of sales
- Assumption: no deterioration of political, overall economic and industry-specific conditions.

## Growth potential

### Trailer Systems

- Full product range of suspension systems in N.A. with own axle
- Increase of N.A. market share of up to 30% in medium term
- Participation in potentially growing US disc brake market

### Aftermarket

- Increase of installed product base driving the Aftermarket business (...automatically)
- Enlarged product portfolio (A2 brand and 3rd party products)
- Regional expansion of distribution & sales channels

### BRIC Countries

- Custom-made products for China and Brazil
- Localized operations
- Increase of market share in strong growing market environments (e.g. China 5%)

**9 to 10% adj. EBIT Margin**

Overproportional increase of A.M. share, economies of scale and underproportional increase of overheads.



**Strategy 2020 to be presented together with the results of Q1/2015 on May 13, 2015**

**Thank you for your attention.**

# Appendix

## Reconciliation statement for adjusted EBIT

| in €mn                                 | 2014        | 2013        |
|--|-------------|-------------|
| <b>Result of the period</b>            | <b>32.7</b> | <b>24.4</b> |
| Income tax                             | 16.3        | 7.1         |
| Financial Result                       | 7.7         | 17.8        |
| Depreciation and amortization from PPA | 6.1         | 6.1         |
| Restructuring and integration costs    | 7.9         | 3.9         |
| <b>Adjusted EBIT</b>                   | <b>70.7</b> | <b>59.3</b> |
| in % of Sales                          | 7.4%        | 6.9%        |

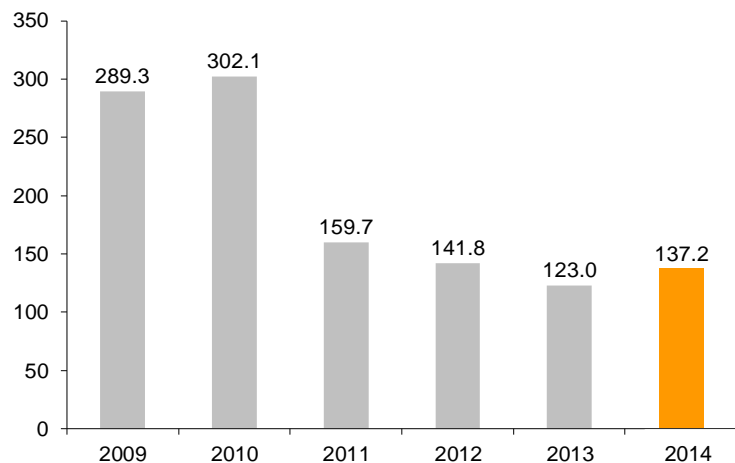


## Key financials

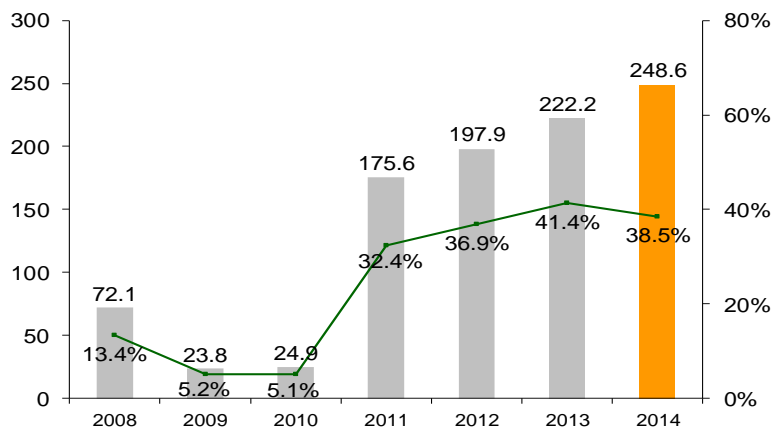
| in €mn                                       | Q1-Q4/2014   | Q1-Q4/2013   |
|--|--------------|--------------|
| <b>Sales</b>                                 | <b>959.7</b> | <b>857.0</b> |
| Cost of sales                                | -785.1       | -701.4       |
| <b>Gross profit</b>                          | <b>174.6</b> | <b>155.6</b> |
| Margin                                       | 18.2%        | 18.2%        |
| <b>Adjusted result</b>                       | <b>43.7</b>  | <b>28.8</b>  |
| Margin                                       | 4.6%         | 3.4%         |
| <b>Adjusted EPS in €</b>                     | <b>0.96</b>  | <b>0.63</b>  |
| <b>Adjusted EBITDA</b>                       | <b>84.3</b>  | <b>71.1</b>  |
| Margin                                       | 8.8%         | 8.3%         |
| <b>Adjusted EBIT*</b>                        | <b>70.7</b>  | <b>59.3</b>  |
| Margin                                       | 7.4%         | 6.9%         |
| <b>Operating cash flow before income tax</b> | <b>48.8</b>  | <b>63.0</b>  |

# Key financial ratios and figures

Net financial debt (€mn)



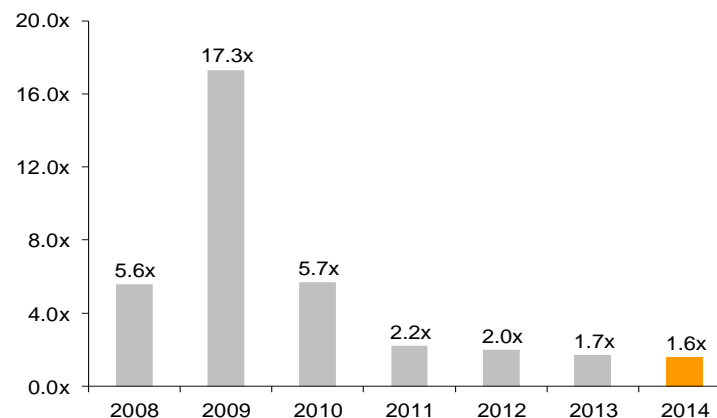
Equity (€mn)\*



## Summary

- Significantly improved financial profile through capital increases
- Reduction of interest costs
- Further improvement of the equity ratio
- Further reduction of net debt
- Long-term safeguarding of liquidity
- Proven access to capital markets (equity and bond market)

Net financial debt/ adjusted EBITDA (x)



# Gap between BU TS target margin for 2015 and current adj. EBIT margin needs to be closed by implementation of measures

## Targets 2015

- Sales: €980mn to €1.035bn
- Earnings: 9 to 10% adj. EBIT margin
- Net Working Capital: <10% of sales
- Capex: < 2% of sales

## Growth potential for 2015

### Trailer Systems

- Full product range of suspension systems in N.A. with own axle
- Increase of N.A. market share of up to 30% in medium term
- Participation in potentially growing US disc brake market

Current adj. EBIT margin not sufficient to reach 9 to 10% adj. EBIT target for the Group until 2015



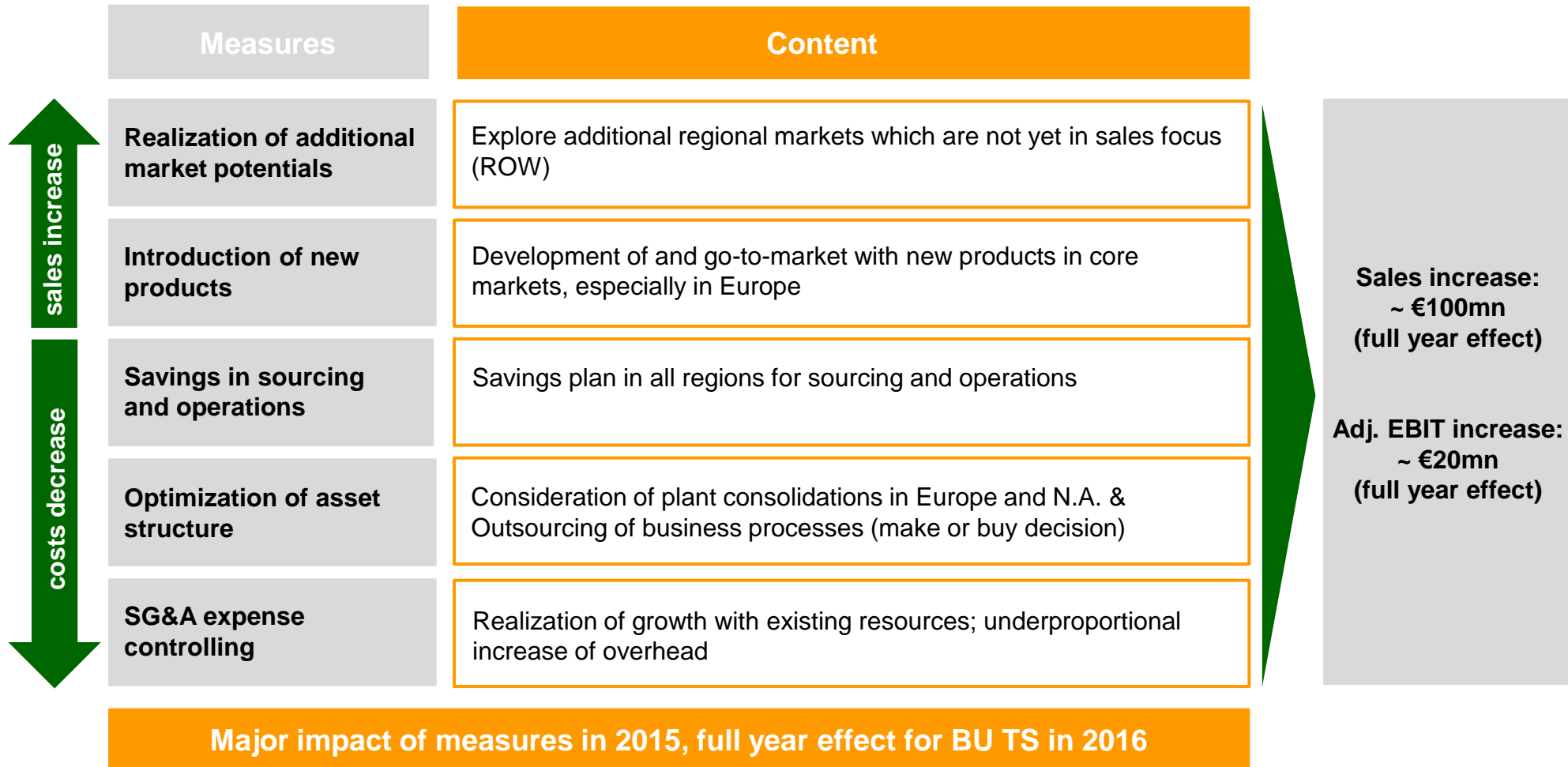
**Development of bundle of measures for margin improvement**

|                                     |              |
|-------------------------------------|--------------|
| Adj. EBIT FY 2012:                  | 2.5%         |
| <u>./. Required adj. EBIT: 5-6%</u> |              |
| <b>= Gap adj. EBIT:</b>             | <b>~3.0%</b> |

### 9 to 10% adj. EBIT margin for the Group - Assumptions -

- Stable profits in BU Powered Vehicles Systems
- Overproportional increase of BU Aftermarket share
- Economies of scale and underproportional increase of overhead costs

# Implementation of measures to increase sales and adj. EBIT margin of BU TS until 2015 started in Q3/2013



# New financing agreement of SAF-HOLLAND

| Former financing structure |               |                   | New financing structure |                   |                  |
|----------------------------|---------------|-------------------|-------------------------|-------------------|------------------|
| Corporate Bond             | Term Loan A   | Rev. Credit Lines | Corporate Bond          | Rev. Credit Lines | Convertible Bond |
| 75mn<br>EUR                | 64.2mn<br>EUR | 121.4mn<br>EUR    | 75mn<br>EUR             | 110.9mn<br>EUR    | 100.2mn<br>EUR   |
| 04 / 2018                  | 10 / 2017     | 10 / 2017         | 04 / 2018               | 10 / 2019         | 09 / 2020        |

## New financing agreement

- Maturity: Oct. 2019
- Currently unsecured financing
- Reduction of interest costs: €2mn p.a. (as if 2014)
- Improved interest margin of 1.30%
- Increased financial headroom (+€23mn) and flexibility (€261.6mn -> €285mn)
- Reduction of covenants with more headroom and flexibility
- Reduction of bank consortium from nine to five banks

## Covenants

### Leverage Ratio (r) = Total Net Debt / EBITDA

- (i)  $r \leq 3.5 : 1$ ; and
- (ii)  $3.0 : 1 \leq r \leq 3.5 : 1$   
with free liquidity of at least EUR 30,000,000 for next twelve months and securities;
- (iii) during a negotiation period of 180 days  $r \leq 5.0 : 1$   
with free liquidity of at least EUR 45,000,000

+

### Interest Cover (c) = EBITDA / net interest expenses

$c \geq 4.00 : 1$