Corporate News

SAF-HOLLAND intensifies its focus on operational excellence

- 2018 Group sales up 14.2 per cent to EUR 1,301 million (previous year: EUR 1,139 million), adjusted EBIT of EUR 89.6 million slightly below previous year (previous year: EUR 91.2 million)
- Dividend proposal unchanged at EUR 0.45 per share
- Program launched to accelerate the reorganization of the North American business
- Focused implementation of strategy in China
- Actions taken to improve operating free cash flow

Luxembourg, March 22, 2019. The SAF-HOLLAND Group ("SAF-HOLLAND"), one of the leading suppliers of truck and trailer components, today published its 2018 Annual Report containing the final financial figures for the 2018 financial year, as well as the operational and tactical priorities for the current 2019 financial year.

"We have significantly exceeded our Group sales target, which was last adjusted in October," says Alexander Geis, CEO of SAF-HOLLAND. "In contrast, we have not entirely achieved our EBIT margin target. We are specifically not satisfied with the earnings trend of the Americas region. After completing an initial in-depth analysis and holding intense discussions with my colleagues from the Group Management Board, we have decided to take immediate actions to ensure the earnings quality and sustainable free cash flow generation of the Group. At the same time, we will significantly accelerate the speed of implementation."

Given the inefficiencies that continue to exist in the North American plant network, SAF-HOLLAND is accelerating the reorganization of the business in that region with a project called "FORWARD". The focal points of this project include the immediate review of the entire product portfolio and pricing, as well as a sustainable reduction in costs throughout the entire supply chain. In order to position itself successfully for further growth opportunities in the Chinese market, SAF-HOLLAND has set up an experienced team of experts to support local management during the start-up of the new plant in Yangzhou and its integration into the Chinese plant network. In a third series of measures, SAF-HOLLAND intends to look at the more efficient use of its net working capital across the Group, particularly through the stricter management of inventories and receivables. After years of recording strong sales growth, SAF-HOLLAND's priority in the current financial year will be on achieving operational excellence to support its long-term growth strategy.

Strong organic sales growth

At EUR 1,301 million, Group sales in the 2018 financial year were 14.2 per cent higher than the previous year's figure of EUR 1,139 million. Organic growth reached 12.2 per cent for a total of EUR 1,278 million. V.ORLANDI S.p.A., York Transport Equipment Ltd. and Axscend Ltd., which were consolidated for the first time in the reporting year, contributed sales of EUR 70.9 million. Currency effects had a negative impact of EUR 40.8 million.

The Group's adjusted earnings before interest and taxes (adjusted EBIT) amounted to EUR 89.6 million (previous year: EUR 91.2 million). This decline was mainly due to the significantly lower result of the Americas region. As a result, the adjusted EBIT margin was 6.9 per cent, which was below the previous year's figure of 8.0 per cent.

The adjusted result for the period increased by 5.3 per cent to EUR 55.5 million (previous year: EUR 52.7 million) due to an improvement in the finance result and a lower tax rate. Adjusted basic earnings per share amounted to EUR 1.22 (previous year: EUR 1.16), and diluted adjusted earnings per share equaled EUR 1.05 (previous year: EUR 1.00).

Unchanged dividend of EUR 0.45 per share

In light of the steady development in earnings, the Board of Directors of SAF-HOLLAND S.A. will propose an unchanged dividend per share of EUR 0.45 at the Annual General Meeting on April 25, 2019. This corresponds to a payout ratio of 42.9 per cent based on the Group's reported result for the period of EUR 48.1 million. "This ratio is in line with our stated dividend policy, which provides for a payout ratio between 40 per cent and 50 per cent of the Group's reported result for the period after taking statutory restrictions and the financing needs of the SAF-HOLLAND Group into account," says Dr. Matthias Heiden, CFO of SAF-HOLLAND.

Investments 50.4 per cent higher than last year

Additions to property, plant and equipment and intangible assets totaled EUR 40.8 million in the 2018 financial year (previous year: EUR 27.1 million). This figure includes capitalized development costs of EUR 4.3 million (previous year: EUR 4.2 million). Investments came to EUR 18.0 million in the EMEA region (previous year: EUR 10.8 million), EUR 16.8 million in the Americas region (previous year: EUR 15.0 million) and EUR 6.0 million in the APAC/China region (previous year: EUR 1.3 million). Key areas of investment included the construction of the new production center in China, replacement and expansion investments in the EMEA and America regions, as well as investments in a variety of digitization projects.

Net cash flow from operating activities reached EUR 40.8 million in the 2018 financial year (previous year: EUR 56.8 million). This decline can primarily be attributed to the significantly higher build-up in net working capital compared to the prior year, which was consciously accepted to ensure the timely delivery of the customers in North America amid a tense market environment. As a result, the working capital ratio increased to 13.5 per cent of sales (previous year: 11.0 per cent).

After a strong fourth quarter, operating free cash flow was break-even in the 2018 financial year as a whole (previous year: EUR +29.7 million).

Equity ratio increases to 34.0 per cent

Group equity as of December 31, 2018 increased year-on-year by the reported Group result for the period of EUR 48.1 million and the rise in shares of non-controlling interests of EUR 8.9 million. This was partially offset by the dividend distribution for the 2017 financial year, which amounted to EUR 20.4 million. Based on a slight decline in total assets, the equity ratio increased from 30.2 per cent to 34.0 per cent.

EMEA region: solid sales and earnings growth

In the 2018 financial year, the EMEA region increased sales by 7.7 per cent to EUR 658.9 million (previous year: EUR 611.6 million). Sales include a contribution of EUR 18.8 million from V.ORLANDI and Axscend, which were included in the scope of consolidation for the first time. The strongest boost to growth came from the southern European countries of Spain, Italy and France. Business in Eastern Europe – especially in Poland and Russia – also continued to grow.

The EMEA region generated an adjusted EBIT of EUR 71.4 million (previous year: EUR 67.8 million) and an adjusted EBIT margin of 10.8 per cent (previous year: 11.1 per cent). Steady process improvements, along with economies of scale as a result of the higher business volumes, largely offset the negative effects of steel prices, which had also seen a noticeable rise in Europe. The inclusion of V.ORLANDI also had a positive effect on earnings and margins.

Americas region: profitability improves gradually over the course of the year

Sales in the Americas region increased by 9.8 per cent to EUR 471.6 million in 2018 (previous year: EUR 429.4 million). The market environment was characterized by extremely strong customer demand for truck and trailer components, leading to industry-wide capacity bottlenecks along the entire supply chain. This forced SAF-HOLLAND's capacity utilization beyond the economically optimum level. The additional operating expenses of EUR 9.6 million (previous year: EUR 10.3 million), together with higher costs of EUR 11.3 million from the increase in steel prices, had a significant adverse impact on the adjusted EBIT in the Americas region. As a result, earnings amounted to EUR 8.5 million, which was significantly below the previous year's figure of EUR 16.1 million, while the adjusted EBIT margin equaled 1.8 per cent (previous year: 3.7 per cent).

The additional operating expenses were successively reduced as the year progressed, which led to a gradual improvement in the Americas region's profitability during the calendar year.

APAC/China region: York acquisition drives sales to a new record

Sales in the APAC region grew 73.7 per cent in the 2018 financial year to EUR 170.2 million (previous year: EUR 97.9 million). This was mainly driven by the first-time consolidation of York Transport Equipment (Asia) Pte. Ltd. contributing sales of EUR 52.1 million in the period from May to December. Organic growth was substantially effected by strong demand for trailer components in the Chinese premium segment. The introduction of statutory load limits for commercial vehicles, as well as tightened safety regulations for the transportation of dangerous goods and automobiles, continued to prompt fleet operators to invest heavily in new trailers. SAF-HOLLAND is well positioned for this demand given its weight-saving components and range of air suspension and axle systems with high-performance disc brake technology.

The adjusted EBIT of the APAC/China region came to EUR 9.7 million in 2018 (previous year: EUR 7.3 million), while the adjusted EBIT margin reached 5.7 per cent (previous year: 7.5 per cent). The lower margin compared to the previous year was mainly the result of up-front costs related to the construction of the new production center in China and the creation of the corresponding administrative structures. As expected, the first-time inclusion of York initially resulted in margin dilution for the year as a whole; the EBIT margin in the fourth quarter, however, had already surpassed the margin of the overall Group.

Outlook

Based on the expected macroeconomic and industry environment and weighing the potential risks and opportunities for the 2019 financial year, the Group Management Board of SAF-HOLLAND expects sales at the Group level to grow in a range of 4 to 5 per cent.

From today's perspective, SAF-HOLLAND expects an adjusted EBIT margin around the midpoint of the range of 7 to 8 per cent for full-year 2019 (previous year: 6.9 per cent). This assumption is based, in part, on the expectation of continued solid earnings performance in the EMEA, China and APAC regions. It is also based on the Company's anticipation of further reductions in start-up costs for the restructured plant network in the Americas region in 2019, as well as a simultaneous optimization in the process chains and integration of capacity planning and logistics processes.

SAF-HOLLAND will publish its report for the first quarter of 2019 on May 9, 2019.

Key figures for Q4 and FY 2018

EUR millions	Q4/2018	Q4/2017	% chg.	FY 2018	FY 2017	% chg.
Sales	319.7	274.2	+16.6	1,300.6	1,138.9	+14.2
Adjusted EBIT	18.4	18.5	-0.5	89.6	91.2	-1.8
Adjusted EBIT margin in %	5.8	6.7	-190 bps	6.9	8.0	-110 bps
Result for the period	11,0	10.5	+4.8	48.1	41.0	+17.3
Undiluted earnings per share (EUR)	0.24	0.26	-7.7	1.06	0.95	+11.6
Adjusted undiluted earnings per share (EUR)	0.21	0.24	-12.5	1.22	1.16	+5.2
Free cash flow	58.3	26.8	+117.5	0.0	29.7	-
Equity Ratio in %	-	-	-	34.0	30.2	+380 bps
Investments	15.5	6.4	+142.2	40.8	27.1	+50.6
Investments as % of sales	4.8	2.3	+250 bps	3.1	2.4	+70 bps
Net Working Capital	-	-	-	172.5	120.6	+43.0
Net Working Capital as % of sales	-	-	-	13.5	11.0	+2.5 pp

Note: Adjusted EBIT is adjusted for extraordinary effects occurring outside of the operating business; namely, amortization from purchase price allocation and non-recurring restructuring and transaction costs. SAF-HOLLAND S.A.'s 2018 Annual Report is available at https://corporate.safholland.com/en/investor-relations/publications/financial-reports/current-reports.

About SAF-HOLLAND

SAF-HOLLAND S.A., located in Luxembourg, is the largest independent listed supplier to the commercial vehicle market in Europe delivering mainly to the trailer markets. With sales of approximately EUR 1,301 million in 2018, the Company is one of the world's leading manufacturers and suppliers of chassis-related systems and components primarily for trailers, trucks, buses, and recreational vehicles. The product range comprises axle and suspension systems, fifth wheels, kingpins, and landing gear marketed under the brands SAF, Holland, Neway, KLL, V.Orlandi and York. SAF-HOLLAND sells its products to Original Equipment Manufacturers (OEM) on six continents. The Group's Aftermarket business supplies spare parts to the service networks of Original Equipment Suppliers (OES), as well as to end customers and service centers through its extensive global distribution network. SAF-HOLLAND is one of the few suppliers in the truck and trailer industry that is internationally positioned in almost all markets worldwide. With the innovation campaign "SMART STEEL – ENGINEER BUILD CONNECT" SAF-HOLLAND combines mechanics with sensors and electronics and drives the digital networking of commercial vehicles and logistics chains. More than 4,400 committed employees worldwide are already today working on the future of the transportation industry.

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Future-oriented statements

This press release contains certain future-oriented statements that are based on current assumptions and forecasts made by the management of SAF-HOLLAND S.A. Various known and unknown risks, uncertainties and other factors may lead to the actual results, financial position, development or performance of the company deviating considerably from the appraisals specified here. The company assumes no obligation to update future-oriented statements of this nature or adapt them to future events or developments.

Notes

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