Corporate News

SAF-HOLLAND achieves a good operating result in a difficult market environment and confirms its forecast

- Group sales decreased by 31.5 per cent to EUR 476.3 million due to market conditions and corona
- Adjusted EBIT margin of 5.0 per cent at the upper end of the range for the full year 2020
- Positive operating free cash flow
- “Cash is King” project to improve performance of inventory and receivables management is making good progress
- Comprehensive programme to reduce selling and administrative expenses at all locations pursued rigorously
- Capital expenditure focused on long-term strategic initiatives in the field of operational excellence

Bessenbach, 13 August 2020. SAF-HOLLAND SE (“SAF-HOLLAND”), one of the world’s leading suppliers of trailer and truck components today published its financial figures for the first half of 2020.

Alexander Geis, Chairman of the Management Board of SAF-HOLLAND SE says: “In a market environment that is dominated by the global spread of the COVID-19 pandemic, we managed to generate a positive adjusted EBIT margin of 2.7 per cent in the second quarter of 2020 despite a 44.8 per cent fall in sales. With an adjusted EBIT margin of 5.0 per cent at the end of the first six months of 2020, we are lying at the upper end of the guidance range for the full year 2020 of between 3 per cent and 5 per cent.”

“In addition to the high-margin spare parts business, which is resistant to economic cycles, the global programme to reduce our selling and administrative costs initiated at the end of September 2019 already and the supplemental collective agreement for the Bessenbach location that came into force on March 1, 2020 contributed to the good development in earnings from operations. Our investments in property, plant and equipment and intangible assets consistently focus on the long-term strategic initiatives in the field of operational excellence, which will lead to a decline in the capex ratio to a level of around 2.5 per cent both in the current financial year and the following years,” adds Alexander Geis.

Group sales significantly down on the previous year due to market conditions and corona; adjusted EBIT margin of 5.0 per cent

Due to market conditions and corona Group sales in the first half of 2020 came to EUR 476.3 million, 31.5 per cent below the previous year’s level of EUR 695.5 million. The additional sales contributed by the entities acquired since January 2019 amount to EUR 1.6 million. Currency effects amounted to EUR –0.8 million and resulted primarily from currency changes of the US dollar against the Euro as well as of the Brazilian real against the Euro. Consequently, after eliminating the effects of exchange rates and acquisitions, sales decreased by 31.6 per cent to EUR 475.5 million.

Despite the sharp decrease in sales, SAF-HOLLAND generated an adjusted EBIT of EUR 23.7 million in the first half of 2020 (previous year: EUR 49.9 million). This corresponds to an adjusted EBIT margin of 5.0 per cent (previous year: 7.2 per cent). The deterioration of the margin is attributable to the cost stickiness effect and impairment losses of EUR 5.6 million recorded on inventories. The cost-savings realised in selling and administrative expenses had a positive effect.

The adjusted net profit for the first half of 2020 of EUR 12.7 million (previous year: EUR 33.0 million) lies 61.6 per cent below the previous year's level. Based on unchanged approximately 45.4 million ordinary shares outstanding, adjusted basic earnings per share for the reporting period from January to June 2020 amounted to EUR 0.28 (previous year: EUR 0.73) and adjusted diluted earnings per share amounted to EUR 0.25 (previous year: EUR 0.61).

Capex ratio reduced to 2.5 per cent

Additions to property, plant and equipment and intangible assets, including capitalized development costs of EUR 1.9 million (previous year: EUR 2.4 million), totalled EUR 11.8 million in the first half of 2020 (previous year: EUR 24.2 million). This breaks down into EUR 4.2 million (previous year: EUR 8.0 million) for the EMEA region, EUR 5.0 million (previous year: EUR 11.2 million) for the Americas region and EUR 2.6 million (previous year: EUR 5.0 million) for the APAC region. The focus of investing activities was on the further automation of production processes at various locations in the Americas region and Germany. The capex ratio fell from 3.5 per cent to 2.5 per cent.

Number of employees adjusted to the market environment

As of June 30, 2020 SAF-HOLLAND employed 3,042 people worldwide (previous year: 3,925 employees). Compared to the previous year, the number of employees has therefore decreased by 22.5 per cent. The reduction in the headcount was spread over all regions in order to address the changed market conditions.

Positive operating free cash flow

The net cash flow from operating activities in the first half of 2020 came to EUR 22.5 million, falling below the level of the comparable period of the previous year of EUR 27.6 million. The decrease is mainly due to the sharp deterioration in earnings before tax. The positive contribution from working capital management of EUR 13.0 million could only compensate this effect to some extent. It should be noted that the volume of factoring decreased from EUR 39.3 million in the previous year to EUR 26.9 million in the reporting period from January to June 2020.

The net cash flow from investing activities in property, plant and equipment and intangible assets of EUR –11.4 million lay EUR 11.4 million, or 50.2 per cent, below the comparable figure for the previous year.

The operating free cash flow improved from EUR 4.8 million to EUR 11.2 million. The total free cash flow of EUR – 10.0 million (previous year: EUR –7.6 million) was affected by the cash outflow associated with the purchase of the remaining shares in V.Orlandi of EUR 21.2 million.

Net financial debt (including lease liabilities) increased by EUR 27.2 million to EUR 278.9 million as of June 30, 2020 compared to the reporting date of December 31, 2019. As of June 30, 2020 SAF-HOLLAND carries cash and cash equivalents of EUR 209.4 million (December 31, 2019: EUR 131.2 million).

“We have total liquidity – measured as the sum of freely available lines of credit on the closing date and cash on hand – of EUR 412.0 million (December 31, 2019: EUR 242.7 million) and therefore stand on a very robust financial cushion,” says Alexander Geis. “With our Cash-is-King project, that primarily addresses past-due receivables and the management of inventories, we are on track. As a result, we will free up additional liquidity by the end of the year, which will enable us to keep the Company on a stable course, even through these troubled times.”

EMEA region: Adjusted EBIT margin remains robust despite COVID-19

In the EMEA region, sales declined in the first half of 2020 by 23.0 per cent to EUR 267.9 million (previous year: EUR 348.0 million) due to market conditions and corona. The entities acquired since January 2019 contributed an additional EUR 1.6 million to sales. Organic sales fell by 22.9 per cent to EUR 268.2 million.

Despite the significant sales decline, the EMEA region generated an adjusted EBIT of EUR 21.5 million in the reporting period from January to June 2020 (previous year: EUR 33.9 million) and an adjusted EBIT margin of 8.0 per cent (previous year: 9.7 per cent). The spare parts business had a strongly positive impact on the gross margin whereas the OE business had a slightly negative impact. The deterioration of the margin is attributable to the cost stickiness effect and impairment losses of EUR 2.5 million recorded on inventories in response to the decrease in inventory turnover because of the COVID-19 pandemic. The cost-savings realised in selling and administrative expenses had a positive effect.

Americas region: EBIT margin positive despite massive slump in sales

In the Americas region, sales declined in the first half of 2020 by 36.1 per cent to EUR 174.1 million (previous year: EUR 272.6 million) due to market conditions and corona. After eliminating the effects of exchange rates, sales decreased by 36.8 per cent to EUR 172.3 million.

Despite the significant fall in sales, the Americas region generated a positive adjusted EBIT of EUR 4.5 million in the first half of 2020 (previous year: EUR 18.2 million) and an adjusted EBIT margin of 2.6 per cent (previous year: 6.7 per cent). The spare parts business had a positive impact on the gross margin whereas the OE business had a significantly negative impact.

The deterioration of the margin is attributable to the cost stickiness effect and impairment losses of EUR 3.3 million recorded on inventories due to streamlining the product portfolio as well as the decrease in inventory turnover as a result of the COVID-19 pandemic. The cost-savings realised in selling and administrative expenses had a positive effect.

In addition it should be noted that the figure in the previous year of EUR 18.2 million significantly benefited from the contractually agreed passing on of the rise in the price of steel in 2018 coupled with lower purchase prices for steel.

APAC region: Lockdown represents a great burden

The APAC region generated sales of EUR 34.2 million in the first half of 2020 (previous year: EUR 74.9 million) due to market conditions and corona. After eliminating the effects of exchange rates, sales decreased by 53.3 per cent to EUR 35.0 million in a year-on-year comparison. The reason for this sharp contraction in sales was mainly the lockdown in India and Singapore, which lasted a number of weeks, the ceased export business as a result of the trade dispute between China and the USA and the delay in ramping-up the new Chinese plant in Yangzhou due to COVID-19.

Adjusted EBIT of EUR –2.4 million is down slightly on the result of the previous year of EUR –2.2 million. The adjusted EBIT margin amounted to –6.9 per cent (previous year: –2.9 per cent). The spare parts business had a positive impact on the gross margin whereas the OE business had a significantly negative impact. The cost-savings realised in selling and administrative expenses had a positive effect.

Outlook for the 2020 financial year confirmed

In light of the expected macroeconomic environment and the sector-specific framework conditions and after weighing up the risk and opportunity potentials (including the currently foreseeable impact on business from the corona pandemic) the Management Board of SAF-HOLLAND SE continues to expect a decrease in Group sales on 2019 of 20 to 30 per cent for the 2020 financial year compared to 2019.

Under this assumption, SAF-HOLLAND is still expecting an adjusted EBIT margin of between 3 per cent and 5 per cent for the 2020 financial year. The higher shares of sales of the spare parts business is helping to stabilize the margin. On the other hand, factors burdening the margin are the OE business and the relatively below-average decline in selling and administrative expenses as the savings measures that have been initiated will be fully effective in the further course of the year.

In order to support the strategic objectives, SAF-HOLLAND is planning investments of around 2.5 per cent of Group sales in the 2020 financial year (previously around 3.0 per cent). These will focus primarily on continuing the introduction of a Global Manufacturing Platform, further automation and the programme FORWARD 2.0.

The exact commercial impact of the current COVID-19 pandemic on SAF-HOLLAND however can still not be precisely identified or reliably quantified.

SAF-HOLLAND will publish its third quarter results as of September 30, 2020 on November 18, 2020.

Key financials for the first half of 2020

Results of operations

in EUR thousands

	Q1–Q2/2020	Q1–Q2/2019
Sales	476,253	695,466
Adjusted gross profit	84,227	123,612
Adjusted gross profit margin in %	17.7	17.8
Adjusted EBITDA	41,795	66,110
Adjusted EBITDA margin in %	8.8	9.5
Adjusted EBIT	23,655	49,943
Adjusted EBIT margin in %	5.0	7.2
Adjusted result for the period	12,681	33,030
Adjusted undiluted earnings per share in EUR	0.28	0.73
Diluted adjusted earnings per share in EUR	0.25	0.61

Net assets

in EUR thousands

	06/30/2020	12/31/2019
Balance sheet total	1,018,360	979,244
Equity	310,343	318,007
Equity ratio in %	30.5	32.5
Net working capital	176,100	183,763
Net working capital in % of sales (LTM)	16.5	14.3

Financial position

in EUR thousands

	Q1–Q2/2020	Q1–Q2/2019
Cash flow from operating activities	22,527	27,605
Cash flow from investing activities (property, plant and equipment/ intangible assets)	–11,353	–22,780
Operating free cash flow	11,174	4,825
Total free cash flow	–10,019	–7,600
Cash and cash equivalents	209,362	119,475
Net debt	278,851	282,762

Employees

	Q1–Q2/2020	Q1–Q2/2019
Employees at the reporting date	3,042	3,925
Employees (on average)	3,393	3,912

Note:

All figures shown are rounded. Minor discrepancies may arise from additions of these amounts.

Net working capital ratio = Ratio of inventories and trade receivables less trade payables to sales of last twelve months. The net working capital ratio for Q1-Q2 2019 has been adjusted retrospectively to match the new definition.

Operating free cash flow = Net cash flow from operating activities less net cash flow from investing activities (purchase of PP&E and intangible assets less proceeds from sales of PP&E). The operating free cash flow for Q1-Q2 2019 has been adjusted retrospectively to match the new definition.

About SAF-HOLLAND

SAF-HOLLAND SE, located in Bessenbach, is the largest independent listed commercial vehicle supplier in Europe and primarily supplies the trailer markets. With sales of around EUR 1,284 million in 2019, the Company is one of the leading international manufacturers of chassis-related assemblies and components, primarily for trailers and trucks. In addition to axle and suspension systems, the product range includes fifth wheels, coupling systems, kingpins and landing legs, which are sold under the SAF, Holland, Neway, KLL, V.Orlandi and York brands. SAF-HOLLAND supplies original equipment manufacturers (OEM) on six continents. In the Aftermarket business, the Group supplies replacement parts to manufacturers' service networks (OES) and, with the help of distribution centers, to end customers and service centers via an extensive global sales network. SAF-HOLLAND has a broad international base and is present in almost all markets worldwide. With the innovation offensive "SMART STEEL - ENGINEER BUILD CONNECT", SAF-HOLLAND combines mechanics with sensors and electronics and is driving forward the digital networking of commercial vehicles and logistics chains. Around 3,000 committed employees worldwide are already working on the future of the transport industry today.

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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 SE. 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.

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