

2020

Quarterly Statement Q1

SAF-HOLLAND

KEY FIGURES

Results of operations

in EUR thousands		
	Q1/2020	Q1/2019
Sales	283,411	345,968
Adjusted gross profit	52,261	62,091
Adjusted gross profit margin in %	18.4	17.9
Adjusted EBITDA	27,508	31,912
Adjusted EBITDA margin in %	9.7	9.2
Adjusted EBIT	18,441	24,775
Adjusted EBIT margin in %	6.5	7.2
Adjusted result for the period	11,288	16,374
Adjusted undiluted earnings per share in EUR	0.25	0.36
Diluted adjusted earnings per share in EUR	0.21	0.31

Net assets

in EUR thousands		
	03/31/2020	12/31/2019
Balance sheet total	1,181,276	979,244
Equity	318,554	318,007
Equity ratio in %	27.0	32.5
Net working capital	159,169	183,763
Net working capital in % of sales	13.0	14.3

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. Net working capital ratio for Q1 2019 retrospectively adjusted according to 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). Operating free cash flow for Q1 2019 retrospectively adjusted according to the new definition.

ROCE = Adjusted EBIT / (total equity + financial liabilities (excl. refinancing costs, incl. lease liabilities) + pension and other similar benefits - cash and cash equivalents). ROCE for Q1 2019 retrospectively adjusted according to the new definition.

Financial position

in EUR thousands		
	Q1/2020	Q1/2019
Cash flow from operating activities	32,014	8,559
Cash flow from investing activities (property, plant and equipment/ intangible assets)	-6,323	-14,252
Operating free cash flow	25,691	-5,693
Total free cash flow	4,056	-18,120
Cash and cash equivalents	319,393	135,307
Net debt	-256,225	-250,923

Employees

	Q1/2020	Q1/2019
Employees at the reporting date	3,428	3,899
Employees (on average)	3,491	3,900

Yield

in %		
	Q1/2020	Q1/2019
Return on capital employed (ROCE)*	12.1	15.2

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KEY EVENTS IN THE FIRST THREE MONTHS OF 2020

NEW SEGMENTATION IN CORPORATE MANAGEMENT

The regions of APAC and China were combined into one region effective January 1, 2020 which was named APAC. Commencing January 1, 2020 the geographic segmentation of SAF-HOLLAND therefore consists of EMEA, the Americas and APAC.

Mike Ginocchio, the President of the APAC region to date, assumed responsibility for the new APAC region on this date. He is a member of the Executive Committee and reports directly to Alexander Geis, CEO of SAF-HOLLAND.

CHANGES TO THE GROUP MANAGEMENT BOARD

Dr. Matthias Heiden, Chief Financial Officer (CFO) of the SAF-HOLLAND Group, has informed the Board of Directors that he would like to terminate his contract of service at the end of 2020 at the latest as he will pursue a new professional challenge. The Board of Directors has started a selection process to identify a suitable successor for Dr. Heiden. Until his departure – at the latest by the end of 2020 – Dr. Heiden will continue to fully perform his duties. It is possible that an earlier termination date will be agreed on by mutual consent.

ACQUISITION OF THE REMAINING SHARES IN V.ORLANDI S.P.A.

In January 2020, SAF-HOLLAND acquired the remaining 30 per cent of the shares in the coupling specialist, V.Orlandi S.p.A. for a purchase price of EUR 21.2 million. As a result, SAF-HOLLAND now holds all the shares in V.Orlandi S.p.A. after already acquiring a stake of 70 per cent in the first quarter of 2018.

EXTRAORDINARY GENERAL MEETING APPROVES RESOLUTION TO CONVERT THE LEGAL FORM INTO A EUROPEAN COMPANY (SE)

The extraordinary general meeting of SAF-HOLLAND S.A. held on February 14, 2020 in Luxembourg, passed a resolution to convert the legal form into a European Company (Societas Europaea, SE) under the name of SAF-HOLLAND SE.

In a second step, the company plans to transfer of the registered office of the company to Germany. An extraordinary general meeting, which will be held on May 20, 2020 immediately after the Annual General Meeting has been concluded, will vote on the required resolutions – a capital increase from company funds, the transfer plan and the restatement of the articles of association of SAF-HOLLAND SE with its future registered office in Germany.

CONVERSION INTO A EUROPEAN COMPANY CONCLUDED

SAF-HOLLAND S.A. completed its conversion into a European Company (Societas Europaea, SE) upon being entered into the Luxembourg business register on February 24, 2020 under the name of SAF-HOLLAND SE.

PROMISSORY NOTE LOAN SUCCESSFULLY PLACED – ORIGINAL TARGETED VOLUME OF AT LEAST EUR 100 MILLION OVERSUBSCRIBED MULTIPLE TIMES, STEPPED UP TO EUR 250 MILLION

On March 9, 2020 SAF-HOLLAND SE successfully placed a promissory note transaction with a volume of EUR 250 million via its subsidiary, SAF-HOLLAND GmbH. Because of the high demand and the resulting over-subscription, the final amount exceeded the target volume of EUR 100 million by EUR 150 million.

The tranches of the promissory note feature fixed as well as variable interest rates and maturities of three, three and a half, five, seven and ten years. All tranches were allocated at the lowest end of the respectively offered price range. The loan will be paid out to the company at the end of March and at the end of September 2020.

The proceeds will be used to finance the company generally and, in particular, to refinance the convertible bond that falls due on September 12, 2020 (volume: EUR 99.8 million) and the 5-year tranches of the promissory note issued in November 2015 that falls due on November 27, 2020 (volume: EUR 140.5 million).

The issue will contribute to smoothing out the maturity profile and will widen the investor base of the SAF-HOLLAND Group.

SITE-SPECIFIC ADJUSTMENT OF PRODUCTION TAKING INTO ACCOUNT THE RESPECTIVE REQUIREMENTS

On March 30, 2020, SAF-HOLLAND announced that it is adjusting the production in its global production network site specific, taking into account the respective requirements. This affects the two German plants in Bessenbach and Singen as well as the production and assembly plants in Turkey, Italy, Brazil, India and South Africa and some sales companies. The measures range from introduction of partial short time work in Germany to temporary site closures – largely by official order. The duration and extent of the production cutbacks will be adjusted flexibly to match the condition of the supply chain and the sales markets.

INDUSTRY ENVIRONMENT

SECTOR-SPECIFIC DEVELOPMENTS: TRUCK AND TRAILER MARKETS CONTRACT

The global commercial vehicle markets contracted in Q1 2020, also in response to the uncertainties about future economic prospects caused by the coronavirus. As a result, noticeably fewer units were produced in North America, Europe, China and India than in the previous year.

TRUCK REGISTRATIONS IN EUROPE BELOW THE LEVEL OF THE PREVIOUS YEAR

According to the European Automobile Manufacturers Association, ACEA, the number of new registrations for heavy-duty trucks (over 16 tons) in the European Union in the first quarter of 2020 was below the level of the previous year (-27 per cent).

For example, the high-volume markets of Germany (-26 per cent) and France (-28 per cent) both recorded a sharp contraction.

PRODUCTION ON THE NORTH AMERICAN TRUCK MARKET AT LOW LEVELS

After a sudden fall (-20 per cent) in the production of Class 8 trucks in the fourth quarter of 2019, production continued to decline in the first three months of 2020. In addition to the record level of production and also new registrations of heavy-duty trucks in 2019, a key driver of the 25 per cent decrease in production was uncertainty surrounding the future development of the economy on account of the coronavirus.

DECLINING PRODUCTION ON THE SOUTH AMERICAN TRUCK AND TRAILER MARKET

The South American market for trailers and heavy-duty trucks was not able to shield itself from the general market trend and also posted falls in the production of trailers (-7 per cent) and heavy-duty trucks (-6 per cent).

NEGATIVE DEVELOPMENT ON THE EUROPEAN TRAILER MARKET

Due to the uncertain macroeconomic situation, numerous trailer manufacturers closed down their production at the end of the first quarter of 2020. Correspondingly, the production of trailers fell by 15 per cent in the reporting period.

TRAILER MARKET IN NORTH AMERICA CONTRACTS SHARPLY

Due to the COVID-19 pandemic, according to industry experts, the decline in production expected at the beginning of the year for the first quarter increased from the low double-digit percentage range to minus 25 percent.

DECLINING DEMAND FOR TRAILERS IN CHINA

In light of the deteriorating trade conflict between China and the USA and the potential impact of the coronavirus on the future economic development of China, production of trailers dropped by roughly 45 per cent at the beginning of the year. The premium segment, which is relevant for the business development of SAF-HOLLAND (consisting of disc brake technology and air suspension systems to meet more stringent legal requirements), was unable to shield itself from the negative market trend and also recorded a significant drop in demand.

PRODUCTION DECREASES IN INDIA

The weakness in the truck and trailer sector that started in 2019 continued at the beginning of 2020. From January to March 2020, around 60 per cent fewer trailers and around 56 per cent fewer trucks were manufactured than in the same period last year.

SALES AND EARNINGS PERFORMANCE

KEUR								
	Q1/2020	Total Adjustments	Q1/2020 adjusted	in % of sales	Q1/2019	Total Adjustments	Q1 adjusted	in % of sales
Sales	283,411	–	283,411	100.0%	345,968	–	345,968	100.0%
Cost of sales	–232,454	1,304	–231,150	–81.6%	–285,716	1,839	–283,877	–82.1%
Gross profit	50,957	1,304	52,261	18.4%	60,252	1,839	62,091	17.9%
Other income	494	–	494	0.2%	365	–	365	0.1%
Other expenses	–	–	–	0.0%	–	–	–	0.0%
Selling expenses	–16,249	1,934	–14,315	–5.0%	–18,217	1,713	–16,504	–4.8%
Administrative expenses	–16,639	742	–15,897	–5.6%	–18,360	2,201	–16,159	–4.7%
Research and development costs	–4,567	88	–4,479	–1.6%	–5,590	86	–5,504	–1.6%
Operating profit	13,996	4,068	18,064	6.4%	18,450	5,839	24,289	7.0%
Share of net profit of investments accounted for using the equity method	377	–	377	0.1%	486	–	486	0.1%
EBIT	14,373	4,068	18,441	6.5%	18,936	5,839	24,775	7.2%
Finance income	1,222	–	1,222	0.4%	359	–	359	0.1%
Finance expenses	–4,048	–	–4,048	–1.4%	–2,765	–	–2,765	–0.8%
Finance result	–2,826	–	–2,826	–1.0%	–2,406	–	–2,406	–0.7%
Result before taxes	11,547	4,068	15,615	5.5%	16,530	5,839	22,369	6.5%
Income taxes	–2,890	–1,437	–4,327	–1.5%	–5,092	–903	–5,995	–1.7%
Group tax rate	25.0%		27.7%		30.8%		26.8%	
Result for the period	8,657	2,631	11,288	4.0%	11,438	4,936	16,374	4.7%

EXTRAORDINARY ITEMS

SAF-HOLLAND eliminates certain income and expense items to facilitate its operational management (see the notes on alternative performance measures on page 17). The adjusted earnings presented below correspond to the management perspective.

In the first quarter of 2020 net expenses totalling EUR 4.1 million (previous year: EUR 5.8 million) were eliminated from earnings before interest and taxes (EBIT). These consist of restructuring expenses of EUR 1.6 million (previous year: EUR 3.5 million) and depreciation and amortization of EUR 2.4 million (previous year: EUR 2.3 million) arising from purchase price allocations. The significant decrease in restructuring expenses can be primarily attributed to the EMEA and APAC regions (see the segment reporting, page 9).

Net expenses totalling EUR 1.3 million were eliminated from the cost of sales in the first quarter of 2020 (previous year: EUR 1.8 million). These consist of restructuring expenses of EUR 0.8 million (previous year: EUR 1.3 million) and depreciation and amortization of EUR 0.6 million (previous year: EUR 0.6 million) arising from purchase price allocations.

Net expenses totalling EUR 1.9 million were eliminated from selling expenses in the first quarter of 2020 (previous year: EUR 1.7 million). These consist of restructuring expenses of EUR 0.2 million (previous year: EUR 0.0 million) and depreciation and amortization of EUR 1.8 million (previous year: EUR 1.7 million) arising from purchase price allocations.

Moreover, eliminations from general administrative expenses came to EUR 0.7 million (previous year: EUR 2.2 million) and consist solely of restructuring expenses.

With regard to research and development costs, depreciation and amortization of EUR 0.1 million (previous year: EUR 0.1 million) arising from purchase price allocations were eliminated.

The uniform Group tax rate used to calculate the net result for the period increased slightly to 27.7 per cent (previous year: 26.8 per cent).

FINANCIAL PERFORMANCE

The development described below describes the changes in the most significant line items of the income statement in the reporting period after eliminating the extraordinary effects discussed above.

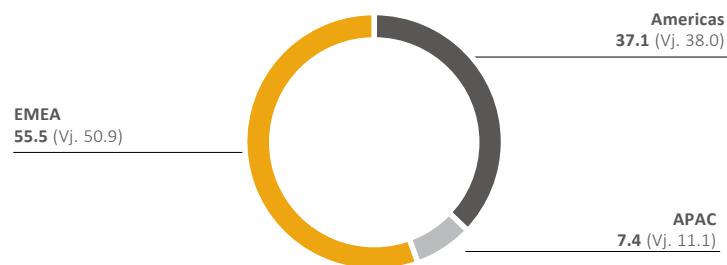
GROUP SALES BELOW THE PREVIOUS YEAR DUE TO MARKET CONDITIONS

Group sales in the first quarter of 2020 came to EUR 283.4 million, roughly 18.1 per cent down on the figure for the previous year of EUR 346.0 million. The additional sales contributed by the entities acquired since January 2019 amounted to EUR 1.6 million.

The exchange rate gains, most of which originate from the appreciation of the USD against the EUR, amounted to EUR 1.9 million. Consequently, after eliminating the effects of exchange rates and acquisitions, sales decreased by 19.1 per cent to EUR 279.9 million.

Group sales by segment Q1 2020

in %



SHARE OF SPARE PARTS BUSINESS IN TOTAL SALES INCREASES SIGNIFICANTLY

Sales in the OE business decreased by 20.7 per cent or EUR 54.5 million to EUR 209.2 million in the reporting period from January to March 2020. The share of total sales accounted for by the OE business decreased from 76.2 per cent to 73.8 per cent.

in EUR thousands

	Q1/2020	Q1/2019	Change absolute	Change in %
Original equipment business	209,228	263,776	-54,548	-20.7%
Spare parts business	74,183	82,192	-8,009	-9.7%
Group sales	283,411	345,968	-62,557	-18.1%
Original equipment business in % of Group sales	73.8%	76.2%		
Spare parts business in % of Group sales	26.2%	23.8%		

By contrast, sales in the spare parts business only decreased by EUR -8.0 million or 9.7 per cent to EUR 74.2 million. As a result, the share of total sales accounted for by the spare parts business increased from 23.8 per cent to 26.2 per cent.

ADJUSTED GROSS PROFIT MARGIN IMPROVES TO 18.4 PER CENT

Adjusted gross profit slipped to EUR 52.3 million in the first quarter of 2020 due to the sales situation (previous year: EUR 62.1 million). However, due to an increase in the share of the high-margin spare parts business, the adjusted gross profit margin of 18.4 per cent is 50 base points above the level of the first quarter of the previous year of 17.9 per cent.

ADJUSTED EBIT MARGIN AT 6.5 PER CENT

Adjusted EBIT amounted to EUR 18.4 million in the first quarter of 2020 (previous year: EUR 24.8 million). The adjusted EBIT margin came to 6.5 per cent (previous year: 7.2 per cent). A factor burdening the margin is the relatively small decrease of 7.6 per cent in adjusted selling and administrative expenses to EUR 30.2 million (previous year: EUR 32.7 million) as not all cost-savings measures that have been initiated in all regions have shown their full effect yet.

HEADCOUNT NOTICEABLY DECLINING

As of March 31, 2020 SAF-HOLLAND employed 3,428 people worldwide (previous year: 3,899). Compared to the previous year, the number of employees decreased by 12.1 per cent. The reduction in the headcount was spread over all regions in order to address the change in the market conditions.

Number of employees by region

	03/31/2020	03/31/2019
EMEA	1,429	1,467
Americas	1,680	1,761
APAC	319	671
Total	3,428	3,899

FINANCIAL RESULT BURDENED BY FOREIGN EXCHANGE EFFECTS

The financial result decreased slightly over the reporting period from January to March 2020 to EUR –2.8 million (previous year: EUR –2.4 million). Financial income improved by EUR 0.9 million to EUR 1.2 million chiefly on account of the realized exchange rate gains on loans denominated in foreign currency and dividends. Financial expenses rose by EUR 1.3 million to EUR 4.0 million, mainly on account of unrealized exchange rate losses on loans denominated in foreign currency and dividends.

ADJUSTED NET PROFIT FOR THE PERIOD SIGNIFICANTLY DOWN ON THE PREVIOUS YEAR

When calculating the adjusted net profit for the period, a uniform tax rate of 27.7 per cent (previous year: 26.8 per cent) was applied. The adjusted net profit for the first quarter of 2020 of EUR 112.9 million lies 31.1 per cent below the previous year's level (previous year: EUR 16.4 million).

Based on unchanged approximately 45.4 million ordinary shares outstanding, adjusted basic earnings per share for the reporting period from January to March 2020 amounted to EUR 0.25 (previous year: EUR 0.36) and adjusted diluted earnings per share amounted to EUR 0.21 (previous year: EUR 0.31).

SEGMENT REPORTING**EMEA REGION: ADJUSTED EBIT MARGIN RELATIVELY STABLE****EMEA**

in EUR thousands

	Q1/2020	Q1/2019	Change absolute	Change in %
Sales	157,226	176,115	–18,889	–10.7%
EBIT	14,019	14,649	–630	–4.3%
EBIT margin in %	8.9%	8.3%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	1,162	1,074	88	8.2%
PPA step-up from inventory measuring of acquisition	–	–	–	–
Valuation effects from call and put options	–	–	–	–
Restructuring and transaction costs	–347	1,342	–1,689	–125.9%
Adjusted EBIT	14,834	17,065	–2,231	–13.1%
Adjusted EBIT margin in %	9.4%	9.7%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	4,477	3,285	1,192	36.3%
in % of sales	2.8%	1.9%		
Adjusted EBITDA	19,311	20,350	–1,039	–5.1%
Adjusted EBITDA margin in %	12.3%	11.5%		

In the EMEA region, sales declined in the first quarter of 2020 by 10.7 per cent to EUR 157.2 million (previous year: EUR 176.1 million). The entities acquired since January 2019 contributed an additional EUR 1.6 million to sales. Organic sales fell by 11.7 per cent to EUR 155.6 million.

The EMEA region generated an adjusted EBIT of EUR 14.8 million in the reporting period from January to March 2020 (previous year: EUR 17.1 million) and an adjusted EBIT margin of 9.4 per cent (previous year: 9.7 per cent). The OEM business and the spare parts business both had a positive effect on the gross margin. On the other hand, the relatively low decrease in adjusted selling

and administrative expenses burdened the margin as not all cost-savings measures that have been initiated have shown their full effect yet.

AMERICAS REGION: EARNINGS SITUATION DIMMED DUE TO LOWER VOLUME

Americas

in EUR thousands

	Q1/2020	Q1/2019	Change absolute	Change in %
Sales	105,113	131,317	-26,204	-20.0%
EBIT	2,860	6,159	-3,299	-53.6%
EBIT margin in %	2.7%	4.7%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	619	629	-10	-1.6%
PPA step-up from inventory measuring of acquisition	-	-	-	-
Valuation effects from call and put options	-	-	-	-
Restructuring and transaction costs	641	-	641	-
Adjusted EBIT	4,120	6,788	-2,668	-39.3%
Adjusted EBIT margin in %	3.9%	5.2%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	3,880	2,814	1,066	37.9%
in % of sales	3.7%	2.1%		
Adjusted EBITDA	8,000	9,602	-1,602	-16.7%
Adjusted EBITDA margin in %	7.6%	7.3%		

In the Americas region, sales declined in the first quarter of 2020 by 20.0 per cent to EUR 105.1 million (previous year: EUR 131.3 million). After eliminating the effects of exchange rates, sales decreased by 21.5 per cent to EUR 103.1 million.

Adjusted EBIT of EUR 4.1 million is significantly down on the previous year of EUR 6.8 million. The adjusted EBIT margin comes to 3.9 per cent (previous year: 5.2 per cent). The spare parts business had a positive effect

and the OEM business a negative effect on the gross margin. Another burden was placed on the margin by the relatively low decrease in adjusted administrative expenses as not all cost-savings measures that have been initiated have shown their full effect yet.

APAC REGION: SUSTAINED SLUMP IN CUSTOMER DEMAND BURDENS RESULTS

APAC

in EUR thousands

	Q1/2020	Q1/2019	Change absolute	Change in %
Sales	21,072	38,536	-17,464	-45.3%
EBIT	-2,506	-1,872	-634	33.9%
EBIT margin in %	-11.9%	-4.9%		
Additional depreciation and amortization of property, plant and equipment and intangible assets from PPA	655	635	20	3.1%
Impairment	-	-	-	-
PPA step-up from inventory measuring of acquisition	-	-	-	-
Valuation effects from call and put options	-	-	-	-
Restructuring and transaction costs	1,338	2,159	-821	-38.0%
Adjusted EBIT	-513	922	-1,435	-155.6%
Adjusted EBIT margin in %	-2.4%	2.4%		
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	710	1,038	-328	-31.6%
in % of sales	3.4%	2.7%		
Adjusted EBITDA	197	1,960	-1,763	-89.9%
Adjusted EBITDA margin in %	0.9%	5.1%		

The APAC region generated sales of EUR 21.1 million in the first quarter of 2020 (previous year: EUR 38.5 million). After eliminating the effects of exchange rates, sales decreased by 44.8 per cent to EUR 21.3 million in a year-on-year comparison. The main reason for this sharp slump in sales was the ongoing weakness of demand from customers in India.

Adjusted EBIT of EUR –0.5 million was well down on the result of the previous year of EUR 0.9 million. The adjusted EBIT margin came to –2.4 per cent (previous year: 2.4 per cent). The OEM business had a particularly negative effect on the gross margin. Another burden was placed on the margin by the relatively low decrease in adjusted selling and administrative expenses as not all cost-savings measures that have been initiated have shown their full effect yet.

NET ASSETS

in EUR thousands				
	03/31/2020	12/31/2019	Change absolute	Change in %
Non-current assets	514,667	520,805	–6,138	–1.2%
of which intangible assets	256,377	257,926	–1,549	–0.6%
of which property, plant and equipment	213,248	216,736	–3,488	–1.6%
of which other (financial) assets	45,042	46,143	–1,101	–2.4%
Current assets	666,609	458,439	208,170	45.4%
of which inventories	166,767	168,129	–1,362	–0.8%
of which trade receivables	135,340	126,000	9,340	7.4%
of which liquid assets	319,393	131,166	188,227	143.5%
of which other (financial) assets	45,109	33,144	11,965	36.1%
Balance sheet total	1,181,276	979,244	202,032	20.6%

BALANCE SHEET TOTAL TEMPORARILY INCREASED DUE TO PROMISSORY NOTE LOAN

Total assets have increased EUR 202.0 million or 20.6 per cent compared to the end of the 2019 financial year and amount to EUR 1,181.3 million as of March 31, 2020. The main factor underlying the increase is the temporary rise in cash and cash equivalents of EUR 188.2 million to EUR 319.4 million following the very successful issue of a promissory note loan in March 2020. The balance of cash and cash equivalents will decrease again after it is used to repay the convertible bond that falls due on September 12, 2020 (volume: EUR 99.8 million) and the 5-year tranche of a promissory note loan issued in November 2015 that falls due on November 27, 2020 (volume: EUR 140.5 million).

EQUITY RATIO TEMPORARILY LOWER DUE TO PROMISSORY NOTE LOAN

in EUR thousands				
	03/31/2020	12/31/2019	Change absolute	Change in %
Equity	318,554	318,007	547	0.2%
Non-current liabilities	517,148	326,081	191,067	58.6%
of which interest-bearing loans and bonds	389,761	195,793	193,968	99.1%
Finance lease liabilities	24,465	25,521	–1,056	–4.1%
of which other non-current liabilities	102,922	104,767	–1,845	–1.8%
Current liabilities	345,574	335,156	10,418	3.1%
of which interest-bearing loans and bonds	153,198	153,393	–195	–0.1%
Finance lease liabilities	8,194	8,126	68	0.8%
of which trade payables	142,938	110,366	32,572	29.5%
of which other current liabilities	41,244	63,271	–22,027	–34.8%
Balance sheet total	1,181,276	979,244	202,032	20.6%

In comparison to December 31, 2019, equity has remained nearly unchanged at EUR 318.6 million. The net profit for the period of EUR 8.7 million increased equity accordingly. Exchange differences arising from the translation of foreign operations of EUR –8.1 million had the contrary effect. The significant increase in the balance sheet total results in a temporary deterioration in the equity ratio to 27.0 per cent.

Non-current liabilities increased by EUR 191.1 million in comparison to December 31, 2019 to EUR 517.1 million. The main factor was the issue of a promissory note loan in March 2020.

The increase in current liabilities is mainly due to the significant increase in trade payables.

With the repayment of the convertible bond on September 12, 2020 and the repayment of the 5-year tranche of the promissory note loan issued in November 2015, which falls due on November 27, 2020, the liabilities side of the balance sheet will be reduced in step with total assets.

NET WORKING CAPITAL RATIO IMPROVED SIGNIFICANTLY

Net working capital

in EUR thousands

	03/31/2020	03/31/2019	Veränderung 31.03.19 zu	
			31.03.20	Change in %
Inventories	166,767	195,896	-29,129	-14.9%
Trade receivables	135,340	186,889	-51,549	-27.6%
Trade payables	-142,938	-168,445	25,507	-15.1%
Net working capital	159,169	214,340	-55,171	-25.7%
Sales (LTM)	1,221,598	1,351,653	-130,055	-9.6%
Net working capital ratio	13.0%	15.9%		

The net working capital ratio, measured as the ratio of net working capital to sales over the last 12 months, improved significantly in comparison to the same period of the previous year, falling from 15.9 per cent to 13.0 per cent. The reasons for the decline lie in much lower inventories and trade receivables that were only partially compensated by lower trade payables.

FINANCIAL POSITION

Financial position

in EUR thousands

	Q1/2020	Q1/2019
Cash flow from operating activities	32,014	8,559
Cash flow from investing activities (property, plant and equipment/ intangible assets)	-6,323	-14,252
Operating free cash flow	25,691	-5,693
Cash flow from investing activities (acquisition of subsidiaries)	-21,635	-12,427
Total free cash flow	4,056	-18,120
Other	-8,614	-1,229
Change in net financial liabilities	-4,558	-19,349

CLEARLY POSITIVE OPERATING FREE CASH FLOW

The cash flow from operating activities in the first quarter of 2020 came to EUR 32.0 million, significantly above the previous year's quarter of EUR 8.6 million. This improvement is largely due to the significant progress made in working capital management.

The cash flow from investing activities in property, plant and equipment and intangible assets of EUR -6.3 million lay EUR 7.9 million, or 55.6 per cent, below the comparable prior-year figure. The focus of investing activities was on the further automation of production processes at various locations in the Americas region and Germany.

The operating free cash flow improved markedly from EUR -5.7 million to EUR 25.7 million. The total free cash flow of EUR 4.1 million (previous year: EUR -18.1 million) was affected by the cash outflow associated with the purchase of the remaining shares in V.Orlandi of EUR 21.6 million.

NET FINANCIAL DEBT VIRTUALLY UNCHANGED

Net financial debt (including the liabilities from finance leases) increased by EUR 4.5 million to EUR 256.2 million as of March 31, 2019 compared to the reporting date of December 31, 2019. As of March 31, 2019 SAF-HOLLAND carries cash and cash equivalents of EUR 319.4 million (December 31, 2019: EUR 131.2 million).

OPPORTUNITIES AND RISK REPORT

With regard to an assessment of the opportunities and risks for the SAF-HOLLAND Group, there have not been any significant changes to the statements made on risks and opportunities in the Annual Report 2019 (pages 74 to 83), with the following exception:

The extent of impairment risks presented under operative risks has increased in light of the spread of COVID-19 from “low” to “medium”.

OUTLOOK

SECTOR-SPECIFIC DEVELOPMENT: CORONAVIRUS DAMPENING GLOBAL COMMERCIAL VEHICLE MARKETS

The prospects for 2020 remain challenging in the commercial vehicle markets that are relevant for SAF-HOLLAND. Due to declining incoming orders and lower stocks of Class 8 trucks and trailers in North America, a significant downturn in production is expected. In China, the premium segment that is of relevance to SAF-HOLLAND will not be able to fully shield itself from the sustained market downturn. After several years of growth, the production of trailers in the core market of Europe is expected to fall, as already assumed in 2019.

RELEVANCE OF THE MARKETS FOR SAF-HOLLAND

Due to the breakdown by customer segment into the OE (truck, trailer) and the aftermarket business, the regions relevant to SAF-HOLLAND vary in their importance.

While the EMEA region (approximately 3 per cent of Group sales) and the Americas region (approximately 10 per cent of Group sales) are the most relevant for the OE truck segment, the OE trailer and aftermarket segments serve all markets worldwide.

EUROPEAN TRUCK MARKET DOWN ON THE PREVIOUS YEAR

European truck production will decrease significantly in 2020. Leading manufacturers of commercial vehicles expect a decline in production of 35 to 40 per cent. It should be noted, however, that the Western European truck market is only of minor importance for SAF-HOLLAND.

DECLINING DEMAND FOR TRAILERS IN EUROPE IN 2020

After sustained growth in the years 2012 to 2018 market researchers forecast a fall in production of trailers in the year 2020, as already seen in the year 2019 (production down by 7 per cent). Aside from the dampening effect of the coronavirus, the experts base their assessment on the fact that catch-up effects had given an additional boost to demand for trailers and that many European fleet operators have modernized and expanded their vehicle fleets in recent years. Industry experts predict a decline in production of 20 per cent.

TRUCK MARKET IN NORTH AMERICA CONTRACTS SHARPLY

After record levels of production and new registrations of heavy-duty trucks, market researchers project a contraction of 40 to 50 per cent in the production of Class 8 trucks in North America compared to 2019.

NORTH AMERICAN TRAILER MARKET AT A LOWER LEVEL

In spite of the sustained trend towards disc brakes, a sharp downturn is expected on the North American trailer market for 2020. It is expected to see 40 to 50 per cent fewer trailers rolling off the production belts in 2020 than in the strong previous year.

DECLINING SALES IN SOUTH AMERICA FOR TRUCKS AND TRAILERS

After projecting rising production for heavy-duty trucks and trailers at the beginning of the year, market researchers now project a sharp fall of 30 per cent in the production of heavy-duty trucks and 35 per cent in trailers.

DECLINING DEMAND FOR TRAILERS IN CHINA

After high growth rates in recent years, a contraction of truck and trailer demand in China, which many market observers expected, will continue in 2020. Due to the potential impact of the coronavirus and the uncertainties relating to the outcome of the trade war between China and the USA, a 30 per cent fall in the production of heavy-duty trucks is projected for the current year. Still, it is important to keep in mind that the Chinese truck market has no significance for SAF-HOLLAND. According to industry experts, the production of trailers will fall by 40 per cent on the previous year due to the adverse market environment. It is expected that the premium segment, which is relevant to SAF-HOLLAND, will not be able to fully shield itself from the market downturn, despite the new loading limits and safety requirements for trailers.

With regard to the truck and trailer market in India, a further decline in production of 25 per cent respectively 30 per cent is anticipated in each of the two segments.

BUSINESS OUTLOOK

In light of the 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 Group Management Board of SAF-HOLLAND anticipates a decrease in Group sales of 20 to 30 per cent for the 2020 financial year compared to 2019.

Under this assumption, SAF-HOLLAND is projecting an adjusted EBIT margin of between 3 per cent and 5 per cent for the 2020 financial year. The higher shares of sales accounted for by the spare parts business is helping to stabilize the margin. On the other hand, factors burdening the margin are the OEM business and the relatively slow decline in selling and administrative expenses as the savings measures that have been initiated will develop their full effect until the remaining course of the year.

In order to support the strategic objectives, SAF-HOLLAND is planning investments of approximately 3 per cent of Group sales in the 2020 financial year (previous year: 4.1 per cent). These will focus primarily on continuing the introduction of a Global Manufacturing Platform, further automation and program FORWARD.

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

EVENTS AFTER THE BALANCE SHEET DATE

INKA KOLJONEN WILL BE THE NEW CHIEF FINANCIAL OFFICER (CFO) EFFECTIVE SEPTEMBER 1, 2020

On May 5, 2020 SAF-HOLLAND announced that Inka Koljonen will be responsible as the new Chief Financial Officer for Finance, Accounting and Controlling, IT, Legal and Compliance, Internal Audit as well as Investor Relations and Corporate Communications in the SAF-HOLLAND Group effective September 1, 2020.

Inka Koljonen succeeds Dr. Matthias Heiden at SAF-HOLLAND, who will leave the company on June 30, 2020.

During the transition period, CEO Alexander Geis will provisionally assume responsibility for the CFO division. He will be supported by the Financial Experts on the Board of Directors, Ingrid Jägering and Dr. Martin Kleinschmitt.

ALTERNATIVE PERFORMANCE MEASURES

In addition to the key figures defined or specified in the IFRS financial reporting framework, SAF-HOLLAND also reports key financial ratios derived from or based on the prepared financial statements. These are known as Alternative Performance Measures (APM).

SAF-HOLLAND considers these key financial ratios as important supplemental information for investors and other readers of the financial reports and press releases. These financial ratios should therefore be seen in addition to rather than as a substitute for the information prepared in accordance with IFRS.

In complying with the requirements of the European Securities and Markets Authority (ESMA) Guidelines on Alternative Performance Measures (APM), SAF-HOLLAND provides an overview of the Alternative Performance Measures used, as well as their definition and compilation, on the SAF-HOLLAND website at <https://corporate.safholland.com/en/investor-relations/alternative-performance-measures>.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

KEUR	Q1/2020	Q1/2019
Sales	283,411	345,968
Cost of sales	-232,454	-285,716
Gross profit	50,957	60,252
Other income	494	365
Selling expenses	-16,249	-18,217
Administrative expenses	-16,639	-18,360
Research and development expenses	-4,567	-5,590
Operating result	13,996	18,450
Share of net profit of investments accounted for using the equity method	377	486
Earnings before interest and taxes	14,373	18,936
Finance income	1,222	359
Finance expenses	-4,048	-2,765
Finance result	-2,826	-2,406
Result before income tax	11,547	16,530
Income tax	-2,890	-5,092
Result for the period	8,657	11,438
Attributable to:		
Equity holders of the parent	8,857	11,307
Shares of non-controlling interests	-200	131
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	-8,110	8,430
Other comprehensive income	-8,110	8,430
Comprehensive income for the period	547	19,868
Attributable to:		
Equity holders of the parent	1,280	19,298
Shares of non-controlling interests	-733	570
Basic earnings per share in EUR	0.20	0.25
Diluted earnings per share in EUR	0.17	0.22

CONSOLIDATED BALANCE SHEET

KEUR	31.03.2020	31.12.2019
Assets		
Non-current assets	514,667	520,805
Goodwill	79,110	78,826
Other intangible assets	177,267	179,100
Property, plant and equipment	213,248	216,736
Investments accounted for using the equity method	17,089	16,522
Financial assets	848	1,147
Other non-current assets	2,754	2,868
Deferred tax assets	24,351	25,606
Current assets	666,609	458,439
Inventories	166,767	168,129
Trade receivables	135,340	126,000
Income tax receivables	7,058	4,066
Other current assets	33,925	25,741
Financial assets	4,126	3,337
Cash and cash equivalents	319,393	131,166
Balance sheet total	1,181,276	979,244

KEUR	31.03.2020	31.12.2019
Equity and liabilities		
Total equity	318,554	318,007
Equity attributable to equity holders of the parent	315,055	304,981
Subscribed share capital	454	454
Share premium	269,044	269,044
Legal reserve	45	45
Other reserve	720	720
Retained earnings	77,646	59,903
Accumulated other comprehensive income	-32,854	-25,185
Shares of non-controlling interests	3,499	13,026
Non-current liabilities	517,148	326,081
Pensions and other similar benefits	31,233	30,894
Other provisions	7,740	7,637
Interest bearing loans and bonds	389,761	195,793
Lease liabilities	24,465	25,521
Other financial liabilities	10,796	13,031
Other liabilities	708	691
Deferred tax liabilities	52,445	52,514
Current liabilities	345,574	335,156
Other provisions	9,984	12,552
Interest bearing loans and bonds	153,198	153,393
Lease liabilities	8,194	8,126
Trade payables	142,938	110,366
Income tax liabilities	704	244
Other financial liabilities	411	21,719
Other liabilities	30,145	28,756
Balance sheet total	1,181,276	979,244

CONSOLIDATED STATEMENT OF CASH FLOWS

KEUR	Q1/2020	Q1/2019
Cash flow from operating activities		
Result before income tax	11,547	16,530
- Finance income	-1,222	-359
+ Finance expenses	4,048	2,765
+/- Share of net profit of investments accounted for using the equity method	-377	-486
+/- Other non-cash transactions	898	-
+ Amortization and depreciation of intangible assets and property, plant and equipment	11,503	9,475
+ Allowance of current assets	2,430	1,238
+/- Loss/Gain on disposal of property, plant and equipment	8	34
+ Dividends from investments accounted for using the equity method	21	20
Cash flow before change of net working capital	28,856	29,217
+/- Change in other provisions and pensions	-2,054	1,780
+/- Change in inventories	-5,916	-8,846
+/- Change in trade receivables and other assets	-46,865 ¹	-46,874 ¹
+/- Change in trade payables and other liabilities	62,853	38,592
Change of net working capital	8,018	-15,348
Cash flow from operating activities before income tax paid	36,874	13,869
- Income tax paid	-4,860	-5,310
Net cash flow from operating activities	32,014	8,559
Cash flow from investing activities		
- Purchase of other short term investments	-	-976
- Purchase of property, plant and equipment	-5,446	-13,304
- Purchase of intangible assets	-1,295	-1,112

KEUR	Q1/2020	Q1/2019
+ Proceeds from sales of property, plant and equipment	418	164
+ Payment for the acquisition of the outstanding shares in V.Orlandi S.p.A.	-21,635	-
- Payments for acquisition of subsidiaries net of cash	-	-12,427
+ Interest received	212	56
Net cash flow from investing activities	-27,746	-27,599
Cash flow from financing activities		
+ Proceeds from promissory note loan	230,000	-
- Repayments of current and non-current financial liabilities	-35,259	-
- paid transaction costs relating to the issuance of the promissory note loan	-1,627	-
- Payments for lease liabilities	-2,383	-2,010
- Interest paid	-1,610	-1,292
+/- Change in drawings on the credit line and other financing activities	-2,341	85
Net cash flow from financing activities	186,780	-3,217
Net increase/decrease in cash and cash equivalents	191,048	-22,257
Effect of changes in exchange rates on cash and cash equivalents	-2,821	2,555
Cash and cash equivalents at the beginning of the period	131,166	155,009
Cash and cash equivalents at the end of the period	319,393	135,307

¹ As of March 31, 2020, trade receivables in the amount of € 40.1 million (previous year: € 42.9 million) were sold in the context of a factoring contract. Assuming the legal validity of receivables, no further rights of recourse to SAF-HOLLAND exist from the receivables sold.

SEGMENT INFORMATION

in EUR thousands	EMEA ¹		Americas ²		APAC ³		Total	
	Q1/2020	Q1/2019	Q1/2020	Q1/2019	Q1/2020	Q1/2019	Q1/2020	Q1/2019
Sales	157,226	176,115	105,113	131,317	21,072	38,536	283,411	345,968
Adjusted EBIT	14,834	17,065	4,120	6,788	-513	922	18,441	24,775
Adjusted EBIT margin in %	9.4	9.7	3.9	5.2	-2.4	2.4	6.5	7.2
Depreciation and amortization of property, plant and equipment and intangible assets (excluding PPA)	4,477	3,285	3,880	2,814	710	1,038	9,067	7,137
in % of sales	2.8	1.9	3.7	2.1	3.4	2.7	3.2	2.1
Adjusted EBITDA	19,311	20,350	8,000	9,602	197	1,960	27,508	31,912
Adjusted EBITDA margin in %	12.3	11.5	7.6	7.3	0.9	5.1	9.7	9.2
Purchase of property, plant and equipment and intangible assets	2,103	4,681	3,830	6,571	808	3,165	6,740	14,416
in % of sales	1.3	2.7	3.6	5.0	3.8	8.2	2.4	4.2
Employees core workforce (at the reporting date)	1,429	1,467	1,680	1,761	319	671	3,428	3,899

¹ Includes Europe, Middle East and Africa.

² Includes Canada, the USA as well as Central and South America.

³ Includes Asia/Pacific, India and China.

FINANCIAL CALENDAR AND CONTACT INFORMATION

FINANCIAL CALENDAR

May 20, 2020

Annual General Meeting
Extraordinary General Meeting

August 13, 2020

Half-Year Financial Report 2020

November 18, 2020

Quarterly Statement Q1–Q3 2020

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Date of publication: May 13, 2020

Editors: Michael Schickling, SAF-HOLLAND Group;
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Produced inhouse using www.firesys.de.

The Quarterly Statement is also available in German.
In cases of doubt, the German version shall prevail.

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