Corporate News

SAF-HOLLAND: Solid first half of 2019

- Group sales at record level: +8.6 per cent to EUR 695.5 million
- Adjusted EBIT margin improves to 7.2 per cent
- Continued high level of investments
- Very positive development in operating free cash flow

Luxembourg, August 8, 2019. The SAF-HOLLAND Group ("SAF-HOLLAND"), one of the leading suppliers of truck and trailer components, today published its 2019 half-year financial report.

"Outside of the Americas region, the market environment for heavy trucks and trailers was challenging. Despite this, our performance in the first half of 2019 has been satisfactory overall," says Alexander Geis, CEO of SAF-HOLLAND. "Based on the expected industry-specific conditions, we are confident that we will meet the market expectations for the full year. The consistent implementation of the Group-wide operational excellence programs and our ability to promptly and flexibly respond to fluctuations in demand are also essential prerequisites for reaching our targets."

Group sales at record level, adjusted EBIT margin advances to 7.2 per cent

Group sales in the first half of 2019 reached EUR 695.5 million, or 8.6 per cent higher than the level of EUR 640.3 million generated in the first half of the prior year. The additional contribution to sales from the companies acquired since January 2018 amounted to EUR 34.5 million. Organic sales growth, which stemmed exclusively from the Americas region, contributed EUR 4.2 million (net). Positive currency effects resulting primarily from the appreciation of the US dollar against the Euro amounted to EUR 16.4 million (previous year EUR –36.2 million).

Adjusted Group earnings before interest and taxes (EBIT) in the first half of 2019 improved year-on-year by 13.2 per cent, reaching EUR 49.9 million (previous year EUR 44.1 million). The sharp rise in earnings achieved in the Americas region was able to compensate for the lower earnings contributions from the other regions. The adjusted EBIT margin for the first half-year of 2019 equalled 7.2 per cent (previous year 6.9 per cent).

The adjusted result for the period before minority interests amounted to EUR 33.0 million (previous year EUR 28.2 million) and was impacted by a significantly better net finance result and a higher tax rate. Based on the approximately 45.4 million ordinary shares issued, adjusted basic earnings per share amounted to EUR 0.73 (previous year EUR 0.62), and adjusted diluted earnings per share amounted to EUR 0.61 (previous year EUR 0.53).

Continued high level of investments

Additions to property, plant and equipment and intangible assets amounted to EUR 24.2 million in the first half of 2019 (previous year EUR 15.2 million) and included capitalized development costs of EUR 2.4 million (previous year EUR 1.8 million). Investments came to EUR 8.0 million in the EMEA region (previous year EUR 6.2 million), EUR 11.2 million in the Americas region (previous year EUR 8.2 million), EUR 4.7 million in the China region (previous year EUR 0.6 million) and EUR 0.4 million in the APAC region (previous year EUR 0.3 million). Key areas of investment included the construction of the Chinese Greenfield plant, rationalization and expansion investments in the US and a new office building in Germany.

Very positive development in operating free cash flow

At EUR 27.6 million, cash flow from operating activities in the first six months of 2019 was significantly above the previous year's level of EUR –30.9 million. This improvement stemmed, above all, from a sharply lower increase in net working capital – despite a further expansion of sales. Net of the cash flow from investing activities in property, plant and equipment and intangible assets amounting to EUR 24.2 million, the operating free cash flow improved substantially to EUR +3.4 million (previous year EUR –46.1 million). "We will continue to diligently manage our net working capital in the second half of the year in order to achieve sustained positive free cash flows," says Dr. Matthias Heiden, CFO of SAF-HOLLAND.

EMEA Region: Sales slightly exceed prior year's level

The EMEA region increased sales in the first half of 2019 by 0.9 per cent to EUR 348.0 million (previous year EUR 345.1 million). The companies acquired since January 2018 contributed additional sales of EUR 14.0 million. Organic sales declined by 3.2 per cent to EUR 334.0 million as a result of volume effects.

In the first half of 2019, the EMEA region achieved an adjusted EBIT of EUR 33.9 million (previous year EUR 39.6 million) and an adjusted EBIT margin of 9.7 per cent (previous year 11.5 per cent). The aforementioned volume effects and higher personnel expenses had a negative effect in the first half of 2019. Earnings were positively affected by the companies acquired since January 2018. In addition the first half of 2018 was positively impacted by the reversal of warranty provisions.

Americas Region: Earnings stabilize

Sales in the Americas region increased by 21.2 per cent in the first half of 2019 to EUR 272.6 million (previous year EUR 224.9 million). Sales adjusted for currency and portfolio effects improved by 14.0 per cent to EUR 256.4 million.

Business with axle systems with integrated disc brake technology developed very favourably. In addition to the company XTRA Lease, a second well-known major fleet customer was gained. In the first half of 2019, a total of approximately 21,000 axle systems equipped with disc brakes were delivered to customers, corresponding to a growth rate of just over 105 per cent. In order to meet the growing demand, additional capacity will be created at the Warrenton site. The aftermarket business will also be expanded accordingly.

The market environment continued to be driven by strong customer demand for truck and trailer components, which led to persistent capacity bottlenecks throughout the industry and along the entire supply chain.

At EUR 18.2 million, adjusted EBIT was well above the prior year's break-even level, as was the adjusted EBIT margin of 6.7 per cent (previous year 0.0 per cent). Contributing to this performance was a reduction in add-on operating expenses from EUR 6.2 million in the first half of 2018 to EUR 1.0 million in the first half of 2019. The contractual passing on of last year's steel price increases, lower steel purchase prices and lasting price increases in the US and Canadian aftermarket businesses also impacted earnings positively.

There was a continuous improvement in the overall situation in the North American plant network in the first half of 2019. SAF-HOLLAND launched the FORWARD project on March 1, 2019, in order to systematically realize the considerable optimization potential identified and drive forward the network's turnaround. The focus of this project is to optimize the production and supply chain, the product portfolio, the aftermarket business and the procurement of material.

APAC Region: Market weakness in India places burden on EBIT margin

During the first half of 2019, the APAC region increased sales by EUR 15.7 million to EUR 49.7 million. The additional sales contribution from the companies acquired since January 2018 was EUR 20.3 million. Sales adjusted for currency and portfolio effects declined by 14.0 per cent year-on-year to a total of EUR 29.2 million. The main reason for the sales decline was the continued weak market environment in India.

Despite the acquisitions in the previous year, adjusted EBIT, at EUR 3.0 million, was only slightly higher than the prior year's figure of EUR 2.9 million. The adjusted EBIT margin fell from 8.6 per cent to a level of 5.9 per cent. This decline in the margin was a result of the latest unsatisfactory sales and earnings development of the Indian subsidiary York.

China Region: Extensive reorganization measures underway in a challenging market environment

The China region generated sales of EUR 25.1 million in the first half of 2019 (previous year EUR 36.3 million). This decline was the result of a shrinking export business due to the trade dispute between China and the US, as well as from cyclically short notice cancellations and delays in orders and temporary strikes following the announcement of plant closures.

Earnings were burdened by a low level of capacity utilization at the Xiamen and Qingdao plants and temporary cost pressure from the existence of duplicate structures in the course of the integration of the other Chinese sites into the new Greenfield project. In addition, there were inventory impairments as a result of a significant decline in incoming orders and higher marketability discounts, as well as impairments on receivables as a result of the bankruptcy of one customer and pending legal proceedings against several other customers due to payment defaults. Altogether, this led to an adjusted EBIT of EUR –5.1 million (previous year EUR 1.6 million).

To position itself successfully for further growth opportunities in the Chinese market, SAF-HOLLAND sent an experienced team of experts to China to support the local management in starting up the new plant in Yangzhou, integrating the other Chinese sites into the Greenfield project, acquiring local customers and concluding long-term contracts. In this context, Jürgen Knott assumed the position of President for the China region as of June 1, 2019. Mr. Knott brings with him extensive management experience in the areas of operations, product development and sales of axles, brake systems and chassis components for commercial vehicles, in addition to several years of intercultural leadership experience, especially in China and Asia.

In light of the unsatisfactory sales and earnings development, the Group Management Board has decided to significantly accelerate the consolidation of the Chinese sites into the Greenfield project. The plant in Qingdao has ceased operations from July 31, 2019. The two Beijing warehouses have also been closed from July 31, 2019. Further footprint optimization efforts will follow during the second half of the year including a downsizing of the Xiamen plant while the Greenfield plant is ramping up. The commencement of production at the new Yangzhou plant will be brought forward to the beginning of the fourth quarter.

Outlook for the 2019 financial year

Based on the expected macroeconomic and industry-specific conditions and weighing the potential risks and opportunities for the 2019 financial year, the Group Management Board of SAF-HOLLAND continues to expect sales growth at the Group level of 4 to 5 per cent and an adjusted EBIT margin around the midpoint of the range of 7 to 8 per cent (previous year 6.9 per cent).

SAF-HOLLAND will publish its quarterly statement for the third quarter of 2019 on November 7, 2019.

Key financial figures for the first half year and second quarter 2019

Results of operations

in EUR thousands

	Q1 – Q2 / 2019	Q1 – Q2 / 2018	Q2 / 2019	Q2 / 2018
Sales	695,466	640,308	349,498	345,438
Gross profit	118,725	104,587	58,473	54,018
Gross profit margin in %	17.1	16.3	16.7	15.6
EBIT	36,744	36,777	17,808	19,606
EBIT margin in %	5.3	5.7	5.1	5.7
Adjusted EBIT	49,943	44,116	25,168	23,859
Adjusted EBIT margin in %	7.2	6.9	7.2	6.9
Result for the period	20,768	21,772	9,330	11,992
Adjusted result for the period	33,030	28,209	16,683	16,008
Undiluted earnings per share	0.45	0.48	0.20	0.26
Adjusted undiluted earnings per share	0.73	0.62	0.37	0.35

Net assets

in EUR thousands

	06 / 30 / 2019	12 / 31 / 2018
Balance sheet total	1,041,603	977,416
Equity	337,732	332,550
Equity ratio in %	32.4	34.0
Cash and cash equivalents	119,475	155,009
Net debt	247,613	213,386
Net working capital	195,066	172,468
Net working capital in % of sales	14.0	13.5

Financial position

in EUR thousands

	Q1 – Q2 / 2019	Q1 – Q2 / 2018	Q2 / 2019	Q2 / 2018
Cash flow from operating activities before income tax paid	36,497	–16,950	22,628	–4,692
Cash conversion rate in %	73.1	–38.5	89.9	–19.7
Net cash flow from operating activities	27,605	–30,856	19,046	–8,385
Cash flow from investing activities	–24,236	–15,238	–9,820	–8,246
Operating free cash flow	3,369	–46,094	9,226	–16,631

Employees

	Q1 – Q2 / 2019	Q1 – Q2 / 2018
Employees (on average)	4,330	4,101
Sales per employee (kEUR)	160.6	156.2

Yield

in %

	Q1 – Q2 / 2019	Q1 – Q2 / 2018
Return on capital employed (ROCE)*	8.8	9.2

* ROCE = EBIT (annualized)/ (total assets – current liabilities)

Due to rounding, the figures presented in this report may not add up precisely to the totals shown and per centages may not precisely reflect the absolute figures. Such differences are not of a material nature.

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 4,000 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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