Corporate News

SAF-HOLLAND: Focus on operational excellence and structural cost savings

- Group sales and adjusted EBIT margin in line with adjusted forecast figures
- Comprehensive programme initiated to reduce selling and administrative expenses at all locations
- Americas region: Realization of programme FORWARD has been accelerated
- China region: Extensive reorganization measures successfully implemented – significant earnings improvement expected in 2020
- Positive development in operating free cash flow

Luxembourg, November 7, 2019. The SAF-HOLLAND Group ("SAF-HOLLAND"), one of the world's leading suppliers of truck and trailer components, today published its quarterly statement for the first nine months of 2019.

Alexander Geis, CEO of SAF-HOLLAND, says: "We have responded immediately to the decline in the market environment for trailers and heavy trucks and have initiated a comprehensive programme to cut selling and administrative costs at all locations. We have intensified our efforts in the USA under our programme FORWARD and will continue to drive ahead the expansion in our high-margin aftermarket business. Upon the successful completion of the comprehensive reorganization in China towards the end of the year, we will have laid the foundation for a significant improvement in the China region's operating result in the year ahead. Now is the time for us to focus on winning new orders for the domestic Chinese market and expanding our strategic customer relationships."

Group sales and adjusted EBIT margin in line with adjusted forecast figures

Group sales in the first nine months of 2019 reached a level of EUR 1,008.6 million and were 2.8 per cent higher than the level of EUR 980.9 million reported in the prior year. The additional contribution to sales from the companies acquired since January 2018 amounted to EUR 38.1 million. The positive currency effects, resulting primarily from the appreciation of the US dollar versus the euro, amounted to EUR 22.0 million. Sales adjusted for currency and acquisition effects, therefore, declined by 3.3 per cent to EUR 948.6 million.

Adjusted Group earnings before interest and taxes (EBIT) declined by 5.9 per cent from EUR 71.1 million in the same prior-year period to EUR 66.9 million in the first nine months of 2019. The significant earnings improvement in the Americas region was not enough to compensate for lower earnings contributions from the remaining three regions. The adjusted EBIT margin in the first nine months of 2019 equalled 6.6 per cent (previous year 7.2 per cent).

The adjusted result for the period before minority interests was EUR 42.9 million (previous year EUR 46.1 million) based on a slightly improved 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 0.94 (previous year EUR 1.01), and adjusted diluted earnings per share amounted to EUR 0.80 (previous year EUR 0.87).

Investments concentrated on optimizing processes and procedures

Additions to property, plant and equipment and intangible assets amounted to EUR 36.9 million in the first nine months of 2019 (previous year EUR 25.3 million) and included capitalized development costs of EUR 3.4 million (previous year EUR 2.4 million). Investments came to EUR 14.1 million in the EMEA region (previous year EUR

9.6 million), EUR 15.6 million in the Americas region (previous year EUR 12.9 million), EUR 0.4 million in the APAC region (previous year EUR 0.5 million) and EUR 6.7 million in the China region (previous year EUR 2.2 million). Key areas of investment included the Chinese Greenfield project, rationalization and expansion investments in the US under the programme FORWARD, and a new office building in Germany.

Positive development in operating free cash flow

At EUR 44.7 million, cash flow from operating activities in the first nine months of 2019 was significantly above the previous year's level of EUR –33.0 million. This improvement is attributable, above all, to a significantly lower change in net working capital – despite continued sales growth – and mainly a result of the steep decline in the change in inventories and receivables. Net of cash flow from investing activities in property, plant and equipment and intangible assets amounting to EUR 36.9 million (previous year EUR 25.3 million), operating free cash flow improved substantially to a positive EUR 7.9 million (previous year EUR –58.3 million). Including cash flow from acquisitions, total free cash flow amounted to EUR –3.0 million (previous year EUR –116.5 million).

Net financial liabilities (including lease liabilities) rose by EUR 61.1 million compared to their level as of December 31, 2018 and amounted to EUR 274.7 million as of September 30, 2019. This increase resulted not only from total free cash flow in the amount of EUR –3.0 million but also from the dividend payment of EUR 20.4 million and especially the effect from the first-time application of the new IFRS 16 leasing standard of EUR 33.3 million. As of September 30, 2019, the SAF-HOLLAND Group had liquid assets of EUR 126.1 million (December 31, 2018: EUR 155.0 million).

"Over the next few quarters, we will continue to work intensely on managing our net working capital to achieve a sustained, positive operating free cash flow," explained Dr. Matthias Heiden, CFO of SAF-HOLLAND. "This will also be the basis for continuing to comply with our financial covenants."

Equity ratio is a solid 33.3 per cent

Equity in comparison to December 31, 2018, increased by EUR 12.6 million, or 3.8 per cent, to EUR 345.2 million. The main drivers of this increase were the net result for the period of EUR 17.3 million in the first nine months of 2019 and positive exchange differences from the translation of foreign operations recognized directly in equity. The rise in total assets of EUR 58.3 million, or 6.0 per cent, to EUR 1,035.7 million was mainly a result of the new IFRS 16 leasing standard, which led to a slight decline in the equity ratio from 34.0 per cent to 33.3 per cent.

EMEA region: Sales slightly below prior-year level

In the EMEA region, sales in the first nine months of 2019 declined by 1.6 per cent to EUR 492.5 million (previous year EUR 500.6 million). The companies acquired since January 2018 contributed additional sales of EUR 17.3 million. As a result of volume effects, organic sales declined by 4.9 per cent to EUR 476.1 million and outperformed the European sales markets.

In the first nine months of 2019, the EMEA region generated an adjusted EBIT of EUR 46.7 million (previous year EUR 57.1 million) and an adjusted EBIT margin of 9.5 per cent (previous year 11.4 per cent). The above-mentioned volume effects and higher personnel expenses resulting from the collective wage agreement currently in effect in Germany had a negative impact in the first nine months of 2019. A positive effect on earnings in the reporting period came from the companies acquired since January 2018, while the earnings in the first nine months of 2018 benefited from the reversal of warranty provisions and foreign currency effects (Turkish lira versus the euro).

Americas region: Earnings situation stabilises

Sales in the Americas region in the first nine months of 2019 increased by 17.6 per cent to EUR 416.1 million (previous year EUR 353.9 million). Sales adjusted for currency and acquisition effects improved by 11.3 per cent to EUR 393.8 million.

At EUR 26.1 million, adjusted EBIT was significantly above the prior-year level of EUR 6.5 million. The adjusted EBIT margin was 6.3 per cent (previous year 1.8 per cent). Key contributors to this performance were the improvement in processes and procedures, the contractual passing on of last year's steel price increases, lower purchasing prices for steel and other materials and a significantly more profitable aftermarket business.

APAC region: Under pressure from persistent market weakness in India – cost-cutting programme shows initial positive effects

In the first nine months of 2019, the APAC region increased sales by EUR 3.9 million to EUR 69.2 million. The additional sales contribution from the companies acquired since January 2018 amounted to a total of EUR 20.4 million. Currency- and acquisition-adjusted sales declined 26.2 per cent year-on-year to EUR 48.2 million, primarily as a result of the persistently weak market environment in India.

In contrast, adjusted EBIT amounted to EUR 4.1 million and fell short of the previous year's figure of EUR 5.4 million. Restructuring income of EUR 2.2 million from the sale of a building as part of the merger of SAF-HOLLAND Australia and York Transport Equipment Pty. Ltd. (Australia) was eliminated. The adjusted EBIT margin fell from 8.3 per cent to 5.9 per cent. The decline in the margin is also attributable to the persistent market weakness in India. A cost-cutting programme was launched and is showing first positive effects.

China region: Extensive reorganization measures implemented in a challenging market environment

The China region generated sales of EUR 30.8 million in the first nine months of 2019 (previous year EUR 61.2 million). This decline was the result of the shrinking export business stemming from the trade dispute between China and the US, as well as from short-notice cyclical cancellations and delays in orders and temporary strikes following the announcement of plant closures.

The China region achieved an adjusted EBIT of EUR –9.9 million in the first nine months of 2019 (previous year EUR +2.2 million). No adjustment was made for non-recurring expenses totalling EUR 6.6 million, which were fairly evenly spread over the second and third quarters. These expenses are related to impairments on inventories and receivables of EUR 3.9 million and EUR 1.2 million, losses on disposals of assets of EUR 0.8 million and strike-related costs of EUR 0.8 million.

The integration of the other Chinese locations into the new plant in Yangzhou is at an advanced stage. The plant in Qingdao ceased operations as of July 31, 2019. The two warehouses in Beijing were also closed as of July 31, 2019. Business activities at the plant in Xiamen and the office in Beijing are scheduled to be discontinued by the end of 2019. The commencement of pre-series production at the new Yangzhou plant took take in 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 to achieve Group sales in the range of EUR 1,260 million to EUR 1,300 million, corresponding to a rate of change of 0 to minus 3 per cent. According to the Group Management Board’s assessment, the adjusted EBIT margin is expected to range from 6.0 to 6.5 per cent for the full year.

Financial KPs for the first nine month and third quarter 2019

Results of operations

in EUR thousands

	Q1-Q3/2019	Q1-Q3/2018	Q3/2019	Q3/2018
Sales	1,008,626	980,853	313,160	340,545
Gross profit	164,241	155,382	45,516	50,795
Gross profit margin in %	16.3	15.8	14.5	14.9
Earnings before interest and tax (EBIT)	38,895	59,299	2,151	22,522
EBIT margin in %	3.9	6.0	0.7	6.6
Adjusted EBIT	66,916	71,146	16,973	27,030
Adjusted EBIT margin in %	6.6	7.2	5.4	8.0
Result for the period	17,280	37,027	-3,488	15,254
Adjusted result for the period	42,871	46,069	9,841	17,859
Undiluted earnings per share	0.36	0.82	-0.09	0.34
Adjusted undiluted earnings per share	0.94	1.01	0.21	0.39

Net assets

in EUR thousands

	09/30/2019	12/31/2018
Balance sheet total	1,035,745	977,416
Equity	345,196	332,550
Equity ratio in %	33.3	34.0
Cash and cash equivalents	126,107	155,009
Net debt	274,695	213,615
Net working capital	195,124	172,468
Net working capital in % of sales	15.6	13.5

Financial position

in EUR thousands

	Q1-Q3/2019	Q1-Q3/2018	Q3/2019	Q3/2018
Cash flow from operating activities before income tax paid	58,342	-12,700	21,845	4,250
Cash conversion rate in %	87.2	-17.9	128.7	15.5
Net cash flow from operating activities	44,721	-33,048	17,116	-2,192
Cash flow from investing activities	-42,794	-26,092	-7,695	-15,029
Purchase of property, plant and equipment and intangible assets	-36,861	-25,262	-12,625	-10,024
Operating free cash flow	7,860	-58,310	4,491	-12,216

Employees

	Q1-Q3/2019	Q1-Q3/2018
Employees (on average)	4,316	4,234
Sales per employee (in EUR thousands)	233.7	231.7

Yield

in %

	Q1-Q3/2019	Q1-Q3/2018
Return on capital employed (ROCE)	7.0	7.5

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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