Corporate News

SAF-HOLLAND: Measures to sustainably improve profitability rapidly realized

- Group sales and adjusted EBIT margin within guidance
- Significant positive operating free cash flow
- Solid financial profile has priority – no dividend for the 2019 financial year
- Rollout of the Operational Excellence Roadmaps over the course of the year
- Comprehensive programme to reduce selling and administrative expenses at all locations will be driven forward at greater speed
- Measures to secure regulated business operations initiated

Luxembourg, March 18, 2020. The SAF-HOLLAND Group ("SAF-HOLLAND"), one of the world's leading suppliers of truck and trailer components today published its key financials and dividend proposal for the 2019 financial year and presented its outlook for the current 2020 financial year.

Alexander Geis, CEO of SAF-HOLLAND says: "The 2019 financial year was a particularly challenging one for SAF-HOLLAND. A sudden slump in the market in the middle of the third quarter and high non-recurring expenses related to our plant consolidation in China culminated in a revised guidance being issued at the end of September. We reached the revised targets for both Group sales and the adjusted EBIT margin.

For a number of weeks the novel coronavirus SARS-CoV-2 (COVID-19) is a new special challenge for our company, the management team and all employees. We have used recent weeks since the outbreak in China to test our contingency plans and have initiated suitable measures to be able to keep operations running smoothly at our locations at all times. A global emergency response team is advising the Group Management Board on the current situation and prepares the materials needed for decision-making. It also coordinates and monitors communications and operative measures. The health of our staff, suppliers and customers as well as their families has top priority."

In addition, this year is all about the issue of "operational excellence". Over the course of the year, Dr. André Philipp, Chief Operating Officer of SAF-HOLLAND, will roll out in all production plants the SAF-HOLLAND Operational Excellence Roadmaps he drew up with his team. The objective is to leverage the operational success potentials that lie unexploited throughout the entire plant network.

Group sales and adjusted EBIT margin within guidance

Group sales in the 2019 financial year came to EUR 1,284.2 million, roughly 1.3 per cent down on the figure for the previous year of EUR 1,300.6 million and therefore within the targeted corridor of between EUR 1,260 million and EUR 1,300 million. The additional sales contributed by the entities acquired since January 2018 comes to EUR 41.4 million. The exchange rate gains, most of which originate from the appreciation of the USD against the EUR, amount to EUR 25.8 million. Consequently, after eliminating the effects of exchange rates and acquisitions, sales decreased by 6.4 per cent to EUR 1,216.9 million.

Adjusted EBIT amounted to EUR 79.8 million in the 2019 financial year (previous year: EUR 89.6 million). The increase of 18.0 per cent in adjusted selling and administrative expenses to EUR 121.3 million contributed particularly to this deterioration. Among other factors, this development was due to the expenses incurred by the entities acquired since January 2018, exacerbated by the fact that, in the previous year, extraordinary non-cash income of EUR 4.7 million was recorded from the partial liquidation of the US pension plan. Correspondingly, the adjusted EBIT margin of 6.2 per cent fell short of the 6.9 per cent recorded in the previous year.

The adjusted result for the period prior to non-controlling interests reached EUR 49.8 million (previous year: EUR 55.5 million) with a significant improvement in the financial result and applying a uniform tax rate of 27.7 per cent (previous year: 26.8 per cent). Based on approximately 45.4 million ordinary shares outstanding, unchanged on the previous year, adjusted undiluted earnings per share for the year as a whole amounted to EUR 1.10 (previous year: EUR 1.22) and adjusted diluted earnings per share amounted to EUR 0.95 (previous year: EUR 1.05).

Investments focus on optimizing processes and procedures

Additions to property, plant and equipment and intangible assets, including capitalized development costs of EUR 4.9 million (previous year: EUR 4.3 million) totalled EUR 53.0 million in the 2019 financial year (previous year: EUR 40.8 million). This breaks down into EUR 19.5 million (previous year: EUR 17.8 million) for the EMEA region, EUR 21.1 million (previous year: EUR 16.9 million) for the Americas region, EUR 0.8 million (previous year: EUR 0.9 million) for the APAC region and EUR 11.6 million for the China region (previous year: EUR 5.2 million). The main focus of investing activities was on the greenfield project in China, investments in rationalization and business expansion in the USA as part of program FORWARD and a new office building in Germany.

Significant positive operating free cash flow

The cash flow from operating activities in the 2019 financial year came to EUR 90.6 million, significantly above the level of the previous year of EUR 40.8 million. This improvement can be largely attributed to the progress made in working capital management, particularly with regard to inventories and receivables. After deducting the cash flow from investing activities in property, plant and equipment and intangible assets of EUR 53.0 million (previous year: EUR 40.8 million) operating free cash flow of EUR 37.6 million (previous year: EUR 0.0 million) marks a significant improvement on the previous year. Taking account of the cash outflow for the acquisitions of the Stara Group and PressureGuard, total free cash flow amounts to EUR 26.7 million (previous year: EUR -58.7 million).

“In the coming quarters we will intensify our efforts to generate even more free cash flow. We have established a special unit for this purpose that is solely dedicated to this issue at a global level,” says Dr. Matthias Heiden, CFO of SAF-HOLLAND.

Solid financial profile has priority – no dividend for the 2019 financial year

In comparison to December 31, 2018, equity of EUR 318.0 million is virtually unchanged. The comprehensive income for the period of EUR 20.1 million increased equity. This was offset by the payment of the dividend for the 2018 financial year of EUR 20.4 million. With a slight increase of EUR 1.8 million or 0.2 per cent in total assets to EUR 979.2 million, this leads to an unchanged solid equity ratio of 32.5 per cent.

Net financial liabilities (including lease liabilities) increased by EUR 38.1 million to EUR 251.7 million as of December 31, 2019 compared to the reporting date of December 31, 2018. In addition to the dividend payout of EUR 20.4 million, this was due to the first-time application of IFRS 16 on leases, which resulted in financial liabilities of EUR 33.6 million. As of December 31, 2019 SAF-HOLLAND carries cash and cash equivalents of EUR 131.2 million (December 31, 2018: EUR 155.0 million).

In order to secure this solid financial profile sustainably, the Group Management and the Board of Directors have decided to propose to the Annual General Meeting, currently scheduled for May 20, 2020, to pay no dividend for the 2019 financial year.

EMEA region: Sales down on the previous year

Sales in the EMEA region in the 2019 financial year were 5.0 per cent down on the previous year and came to EUR 626.2 million (previous year: EUR 658.9 million). The entities acquired since January 2018 contributed an additional EUR 20.5 million to sales. Organic sales decreased by 8.0 per cent to EUR 606.0 million.

The EMEA region generated an adjusted EBIT of EUR 60.1 million in the reporting period from January to December 2019 (previous year: EUR 71.4 million) and an adjusted EBIT margin of 9.6 per cent (previous year: 10.8 per cent). The lower sales volume referred to above and also higher personnel expenses arising from the collective agreement for the metals industry in 2018 had a negative impact on the margin. On the other hand, margin was positively affected by the entities acquired since January 2018. The result for the 2018 financial year was furthermore favoured by exchange rate gains (TRY to EUR).

Americas region: Earnings stabilize

Sales in the Americas region grew by 13.3 per cent in the 2019 financial year to EUR 534.5 million (previous year: EUR 471.6 million). After eliminating the effects of exchange rates and acquisitions, sales improved by 8.0 per cent to EUR 509.4 million.

Adjusted EBIT of EUR 29.2 million is significantly up on the previous year of EUR 8.5 million. The adjusted EBIT margin comes to 5.5 per cent (previous year: 1.8 per cent). The main factors in this regard were improved processes and procedures, the contractual passing on of last year's steel price increases, lower purchase prices for steel and other materials, as well as sustained price increases in the aftermarket. A negative factor was the fact that, in contrast to the previous year, no non-cash extraordinary income from the partial liquidation of the US pension plan was recorded, as in the third quarter 2018.

APAC region: Ongoing weakness of the Indian market burdens performance

The APAC region generated sales of EUR 88.6 million in the 2019 financial year (previous year: EUR 94.1 million). The additional sales contributed by the entities acquired since January 2018 amounted to EUR 20.4 million. After eliminating the effects of exchange rates and acquisitions, sales decreased by 28.6 per cent to EUR 67.2 million. The main reason for this sharp slump in sales was the ongoing weakness of the Indian market.

Adjusted EBIT of EUR 3.4 million is well down on the result of the previous year of EUR 8.4 million. This considers the elimination of restructuring income of EUR 2.2 million from the sale of a building in the course of the merger of SAF-HOLLAND Australia and York Transport Equipment Pty. Ltd. (Australia). The adjusted EBIT margin slipped from 8.9 per cent to 3.8 per cent. The main reason for this deterioration was also the ongoing weakness of the Indian market and a significant slow-down of the market in Australia in conjunction with unfavourable product mix and exchange rate effects.

China region: consolidation of locations concluded successfully

The China region generated sales of EUR 34.9 million in the 2019 financial year (previous year: EUR 76.0 million). This decrease in sales is largely a result of the slump in export business because of the trade war between the USA and China, and sudden cancellations/postponements of orders due to the state of the economy and also temporary strikes as a response to the announced plant closures.

The China region generated an adjusted EBIT of EUR -12.9 million in 2019 (previous year: EUR +1.3 million). This result was influenced by the extensive restructuring costs incurred in connection with the consolidation of the plants and the goodwill impairment of the China region of EUR 6.7 million.

The eliminations do not include non-recurring expenses totalling EUR 8.1 million, which were primarily incurred in the second and third quarters. These consist of impairment losses on inventories and receivables of EUR 4.9 million and EUR 1.7 million respectively, losses of EUR 0.7 million on the disposal of non-current assets and strike-related costs of EUR 0.8 million.

The integration of the five Chinese locations into the new plant in Yangzhou has been concluded. The plant in Qingdao shut down its operations on July 31, 2019. The two warehouses in Beijing were also closed down on July 31, 2019. The business activities of the plant in Xiamen and the office in Beijing were shut down at the end of 2019. Pilot production at the new plant in Yangzhou commenced in the fourth quarter. In the course of the plant consolidation, the headcount (including temporary workers) was reduced from 628 to 157.

Outlook for the 2020 financial year

In light of the macroeconomic environment and the sector-specific framework conditions and after weighing up the risk and opportunity potentials for the 2020 financial year (including the currently foreseeable impact on business from the coronavirus) the Group Management Board of SAF-HOLLAND anticipates a low-double-digit percentage decrease in Group sales (previous year: EUR 1,284.2 million).

Under the above assumptions, SAF-HOLLAND is projecting an adjusted EBIT margin for the 2020 financial year of between 4 per cent and 5 per cent. Besides the decline in sales, further effects from COVID-19 will burden the result. Factors expected helping to stabilize earnings are the significant reduction of operating losses from the Chinese operations, the consistent execution of program FORWARD in the USA, the Group-wide rollout of the SAF-HOLLAND Operational Excellence System and the high-margin aftermarket business.

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

Moreover, with a view to the current spread of COVID-19, the economic effects on SAF-HOLLAND cannot currently be adequately determined or reliably quantified.

SAF-HOLLAND will publish its first quarter results for 2020 on May 13, 2020.

Key financials for the 2019 financial year

Results of operations

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018
Sales	1,284,155	1,300,555
Gross profit	201,741	199,263
Gross profit margin in %	15.7	15.3
EBIT	35,199	77,970
EBIT margin in %	2.7	6.0
Adjusted EBIT	79,816	89,578
Adjusted EBIT margin in %	6.2	6.9
Result for the period	10,297	48,115
Adjusted result for the period	49,756	55,507
Adjusted undiluted earnings per share in EUR	1.10	1.22
Adjusted diluted earnings by share in EUR	0.95	1.05
Dividend per share in EUR	0.00[1]	0.45

[1] Proposal

Net assets

in EUR thousands

	31.12.2019	12/31/2018
Balance sheet total	979,244	977,416
Equity	318,007	318,072[1]
Equity ratio in %	32.5	32.5
Cash and cash equivalents	131,166	155,009
Net debt	251,667	213,615
Net working capital	164,381	172,468
Net working capital in % of sales	14.9	13.5

[1] Adjusted according to IAS 8.42 (cp. Section 2.4.2 in Notes to the Consoliated Financial Statements).

Financial position

in EUR thousands

	Q1-Q4/2019	Q1-Q4/2018
Cash flow from operating activities before income tax paid	109,108	66,519
Cash conversion rate in %	136.7	74.2
Cash flow from operating activities	90,546	40,780
Cash flow from investing activities	–59,692	–39,586
Purchase of property, plant and equipment and intangible assets	–52,981	–40,786
Operating free cash flow	37,565	–6

Employees

	Q1-Q4/2019	Q1-Q4/2018
Employees as of December 31	3,924	4,470
Employees (on average)	4,218	4,293
Sales per employee in kEUR	304.4	302.9

About SAF-HOLLAND

SAF-HOLLAND SE, 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. Approximately 4,000 committed employees worldwide are already today working on the future of the transportation industry.

Contact

Michael Schickling
Head of Investor Relations and Corporate Communications
Tel: +49 (0) 6095 301 617
michael.schickling@safholland.de

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.

Notes

This announcement is for information purposes only and does neither constitute an offer to sell, purchase, exchange or transfer any securities nor a solicitation of any offer to sell, purchase, exchange or transfer any securities. The securities referred to herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act. SAF-HOLLAND SE does not intend to register any securities referred to herein under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States in connection with this announcement.