



SCHMOLZ + BICKENBACH

Q3 2019 Results – Investors' & Analysts' Conference Call

Lucerne, November 12, 2019



SCHMOLZ + BICKENBACH
Group



Disclaimer

Forward-looking statements

This presentation contains forward-looking statements about developments, plans, intentions, assumptions, expectations, convictions, possible impacts or the description of future events, outlooks, revenues, results or situations, for example. These are based upon the company's current expectations, convictions and assumptions, but could materially differ from any future results, performance or achievements. We are providing this communication as of the date hereof and do not undertake to update any forward-looking statements contained herein as a result of new information, future events or otherwise.



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01 Business Review Q3/19



Seasonal Slowdown Amplified by Further Market Deterioration

- ▶ Trade conflicts and political uncertainties weighed heavily on steel markets
- ▶ Seasonal low of demand was pronounced by a slowdown of business activity in Q3
- ▶ Main European markets weak, with double-digit decline in sales
- ▶ No pronounced recovery of demand in September from the summer lows
- ▶ With the exception of nickel, raw material prices fell towards quarter-end
- ▶ Downtrend in order intake and order backlog continued, although at a slower pace as the quarter progressed
- ▶ Destocking at customers is advanced, normalization expected in 2020
- ▶ Free Cash Flow improved in 9M and in Q3 on reduction of inventories
- ▶ Refinancing announced – share capital increase planned to strengthen financial position

Market Weakness not Fully Compensated by Internal Measures

- ▶ Short-time work at several Business Units
- ▶ Downsizing of temporary third-party workforce
- ▶ Reduction of flex-time and holiday accounts
- ▶ Postponement of maintenance work, if not relevant to safety or indispensable for operations
- ▶ Reduction of discretionary spend, such as travel
- ▶ Net working capital reduction
 - Inventory reduction through production cuts
 - Renegotiation of contracts with graphite electrode suppliers / reduction of stocks

No Turnaround of Macro Indicators Yet, Further Reduction in Global GDP Growth Outlook

Commodity prices vs. Q2/19 (quarterly averages in USD per ton)	Nickel	+27%
	Scrap (FOB Rotterdam)	-12%
	Ferrochrome	-17%
Oil price per barrel (WTI)	USD 56 -6% vs. Q2/19 (quarterly averages)	
VDMA order entry	-8%	Q3/19 vs. Q3/18
New passenger car registrations (EU)	-1.6%	9M/19 vs. 9M/18
Total passenger car production:	Q3/19 vs. Q3/18:	
Germany	-1%	
USA	+/-0%	
China	-7%	

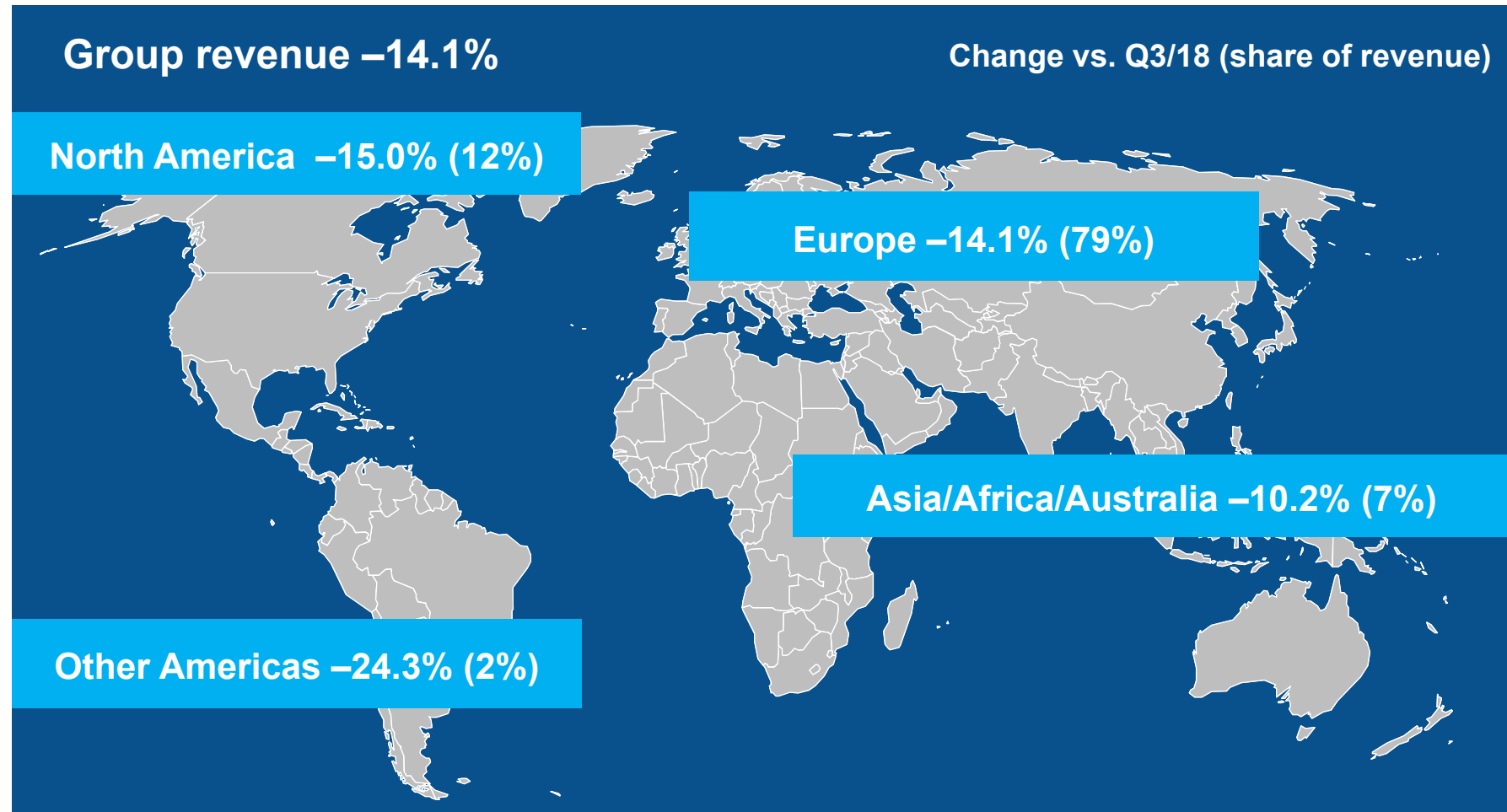
Sources: ACEA, WTI, VDMA, Platts, LME, ICDA (International Chromium Development Association), VDA, China Association of Automobile Manufacturers (CAAM) and U.S. Bureau of Economic Analysis

Perfect Storm is Slashing Results

Sales volume	405 kilotons	–13.8% vs. Q3/18 (470 kilotons)	
Revenue	EUR 670 million	–14.1% vs. Q3/18 (EUR 780 million)	
Adj. EBITDA	EUR –32.9 million	EUR 41.8 million	in Q3/18
Group result (EAT)	EUR –419.9 million	EUR –3.7 million	in Q3/18
Free cash flow	EUR 6.0 million	EUR –2.6 million	in Q3/18
Net debt	EUR 724 million	EUR 709 million	end Q2/19



Growth Reduction in All Market Regions



The Way Forward – Strategic / Operational Initiatives to Improve the Group's Financial Performance

- ▶ Independent Business Review confirmed strong market position that S+B has in the key markets Automotive, Mechanical & Plant Engineering and Oil & Gas
- ▶ While a recessive macro environment is seen probably until 2021, the longer-term outlook predicts a recovery
- ▶ Finkl turnaround under way with first benefits in 2019, but overall delayed due to market headwinds
- ▶ Case for Ascometal still valid – industrial integration, capacity reduction – but delayed by severe downturn in the automotive industry (60% of Ascometal sales)
- ▶ Productivity measures at DEW – EUR 10 million restructuring provision built in Q3/19

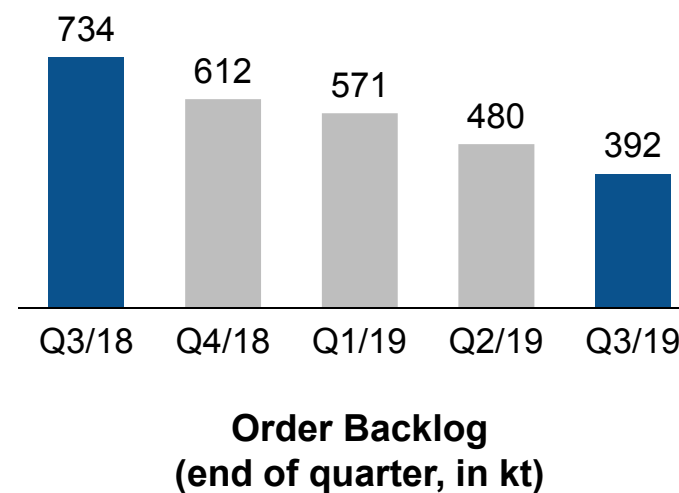
02 Financial Performance Q3/19



Order Book Continued its Downward Movement

Order Backlog	392 kilotons	–46.6% vs. end Q3/18 (734 kilotons)
Crude Steel Production	395 kilotons	–23.9% vs. Q3/18 (519 kilotons)
Sales Volume	405 kilotons	–13.8% vs. Q3/18 (470 kilotons)

- ▶ Sales volume down by 13.8%
 - Pronounced weakness in demand, especially from automotive and mechanical & plant engineering
 - Volumes down 17% in Q&E steel and 18% in Tool steel
 - Stainless steel volumes up 3% thanks to more diversified end-markets
 - September sales recovered from seasonal low point in August, but less pronounced than expected – no gain in momentum
- ▶ Reduced crude steel production to adjust to lower demand and decrease inventories



Average Sales Price Supported by Robust Demand in Stainless Steel and High Nickel Prices

Revenue

EUR 670.1 million

–14.1% vs. Q3/18 (EUR 780 million)

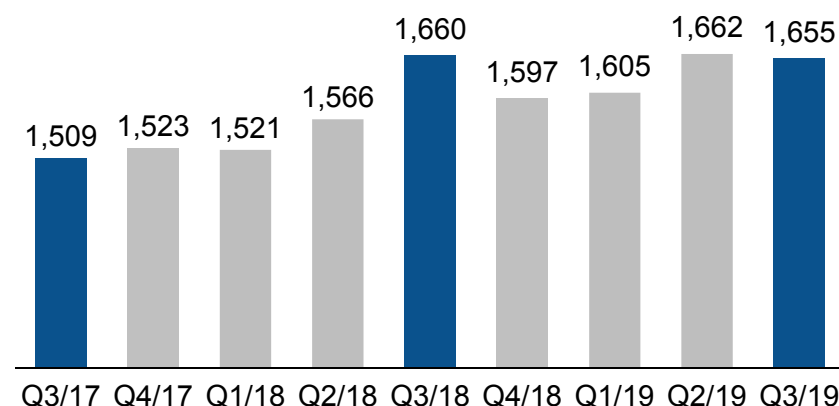
- ▶ Weak demand and slightly lower prices resulted in a decline in revenue

Average sales price (ASP)

EUR 1,655/t

–0.3% vs. Q3/18 (EUR 1,660/t)

- ▶ Average sales prices slightly declined
 - Base prices under pressure – soft demand and increasing competition especially in Quality & Engineering steel
 - Weakening price trend despite higher nickel prices
 - Average sales price supported by mathematical effect of higher share of Stainless steel



Average Sales Price (EUR/t)



Adjusted EBITDA Deteriorated Substantially on Low Volumes

Adjusted EBITDA

– EUR/t

– margin

EUR –32.9 million

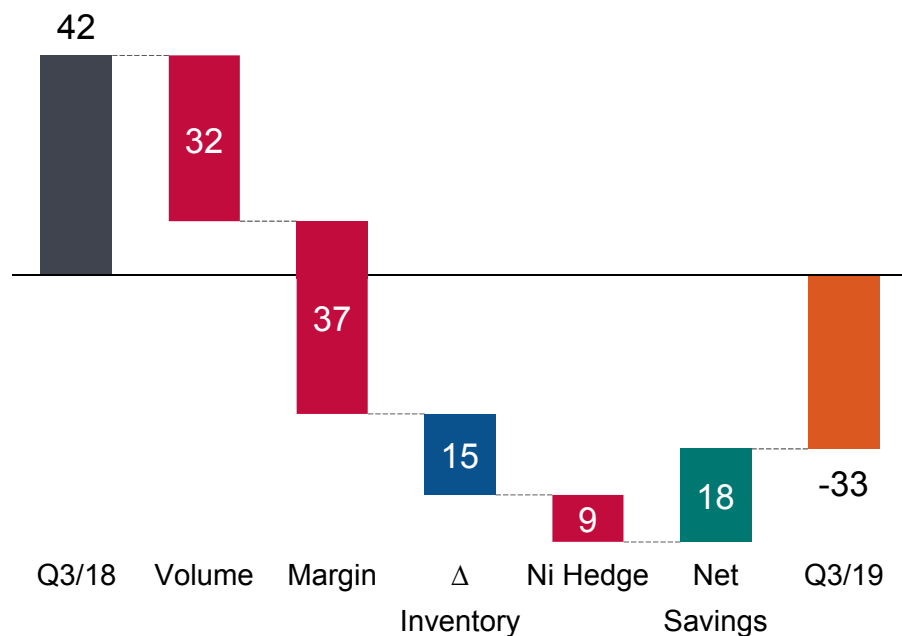
EUR –81/t

–4.9%

EUR 41.8 million in Q3/18

EUR 89/t in Q3/18

5.4% in Q3/18



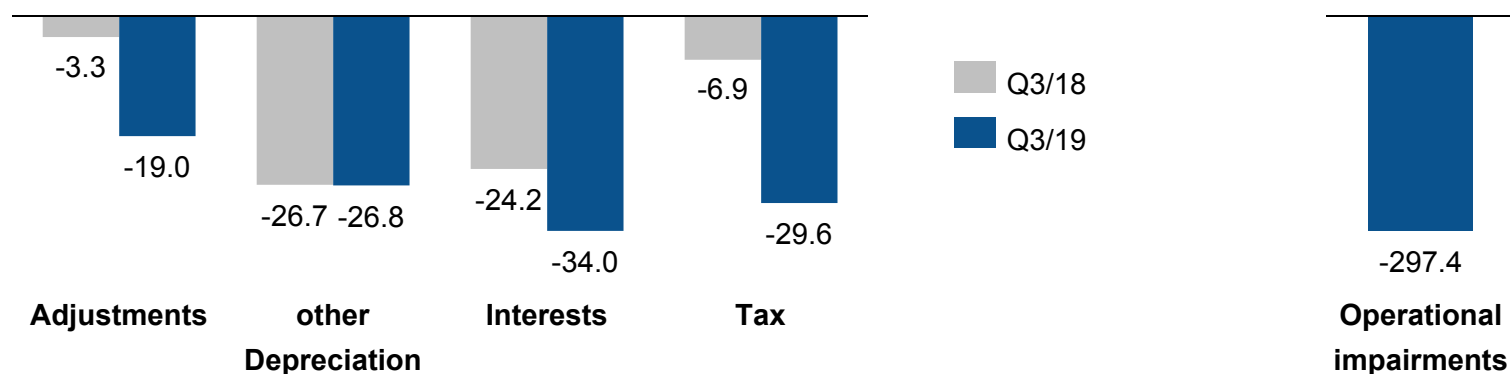
- ▶ Widespread short-term work, up to 20 days in Q3/19
- ▶ Maintenance expense down EUR 11.5 million in Q3/19 vs prior year
- ▶ Net fix cost savings (incl. inflation) of approx. EUR 18 million achieved in Q3/19 vs prior year
- ▶ Performance Improvement Program (“PIP”) on track to EUR 50 million (non-recurring) total savings in FY19



Impairments Weigh on the Group Result

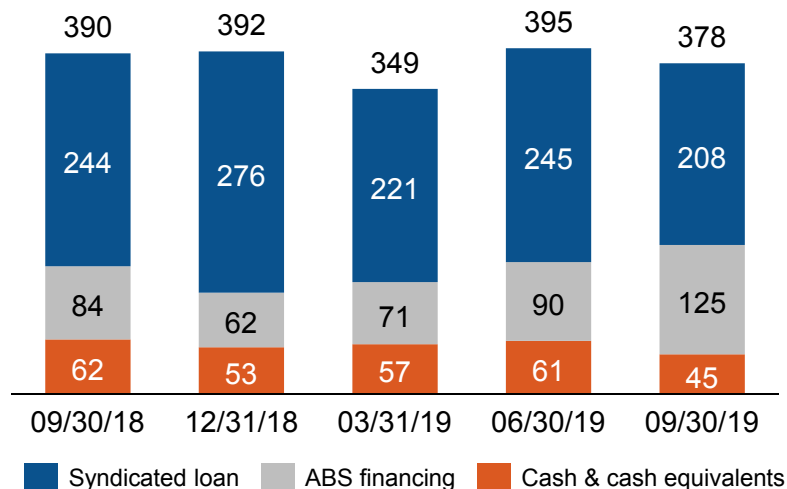
EBITDA	EUR –51.9 million	EUR 38.5 million in Q3/18
EBIT	EUR –376.0 million	EUR 11.7 million in Q3/18
Group Result	EUR –419.9 million	EUR –3.7 million in Q3/18

- ▶ One-time effects of EUR 19.0 million predominantly for restructuring measures at DEW and Ascometal
- ▶ Impairments driven by extended downturn, higher discount rates and therefrom resulting tax effects
- ▶ Adjustments and higher interest costs aggravating low operational results

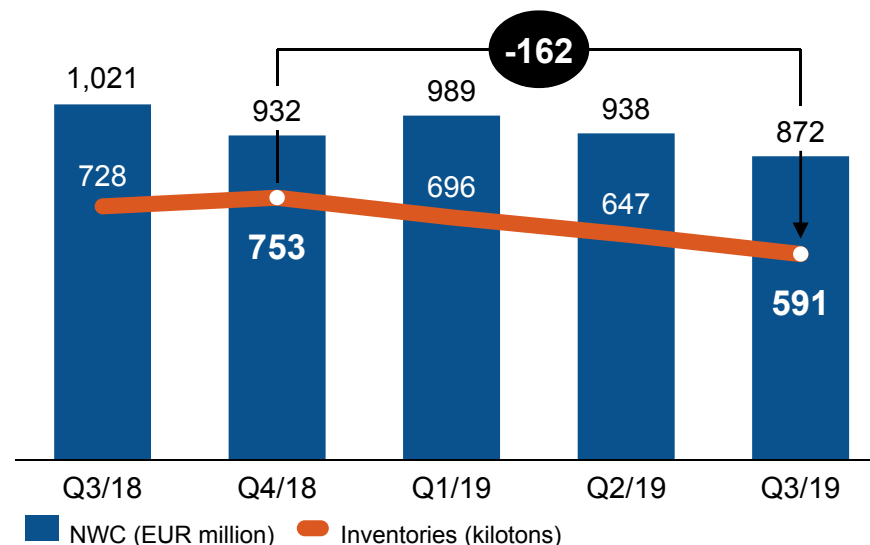


Successful NWC Management, but Leverage at Unsustainable Level – Issue Addressed with Proposed Share Capital Increase

Free Cash Flow	EUR 6.0 million	EUR –2.6 million	in Q3/18
Net debt	EUR 724 million	EUR 709 end Q2/19 / EUR 655 million YE18	
Leverage	8.2	2.8	year-end 2018



Financial Headroom (EUR million)



Net Working Capital Development



03 Outlook



Limited Visibility – no Recovery Expected in 2019

View on macroeconomic developments and steel industry

- ▶ (Long) Steel industry remains under intense pressure in a more severe and longer-than-usual cyclical downturn
- ▶ Visibility is still unusually low
- ▶ No significant recovery in order intake or in order backlog in the first weeks of the fourth quarter
- ▶ Ongoing political and economic uncertainty and the usual seasonal decline in demand toward the end of the year

Outlook and Priorities For Remainder of 2019

Priorities for the Group

- ▶ Strengthen Balance Sheet to safeguard execution of strategy – share capital increase
- ▶ Stringent focus on managing / reducing costs to counteract weak market
- ▶ Continue turnaround of Ascometal and Finkl
- ▶ Implement measures to improve productivity at DEW
- ▶ Execute continuous improvement measures to offset cost inflation (energy, salaries)
- ▶ Safeguard achieved working capital improvements

Guidance for full-year 2019

Adjusted EBITDA is expected to be **below EUR 70 million**





Q & A



Appendix



Nickel Price Development – 1 Year



Source: Bloomberg, LME Nickel USD/mt



Nickel Price Development – 10 Years



Source: Bloomberg, LME Nickel USD/mt



Financial Calendar and Contact

Date	Event
November 12, 2019	Interim Report Q3 2019, Media and Investor Conference Call
December 2, 2019	Extraordinary General Meeting, Emmenbrücke
March 11, 2020	Annual Report 2019, Media and Investor Conference, Zurich
April 28, 2020	Annual General Meeting 2020, Lucerne
May 6, 2020	Interim Report Q1 2020, Media and Investor Conference Call
August 12, 2020	Interim Report Q2 2020, Media and Investor Conference Call
November 11, 2020	Interim Report Q3 2020, Media and Investor Conference Call

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