SCHMOLZ + BICKENBACH AG

Media release

SCHMOLZ + BICKENBACH sustains its position in a difficult market environment and reduces debt in 2015

- **Full-year revenues decreased by 6.6% to EUR 2.68 billion from EUR 2.87 billion in 2014**
- **EBITDA of EUR 159.0 million, down from EUR 246.6 million one year ago**
- **EBITDA margin in full-year 2015 at 5.9% compared to 8.6% in full-year 2014**
- **Net debt reduced to EUR 471 million at year-end 2015, down from EUR 587 million one year ago**
- **Guidance for full-year 2016:**
  Stable sales volumes and an adjusted EBITDA between EUR 150 million to EUR 190 million

CEO Clemens Iller commented: "2015 was a challenging year for the company. We faced strong headwinds due to a sharp drop in commodity prices, significant investment cuts in the oil and gas sector and unfavourable currency developments. To mitigate the impact on our results, we decisively implemented measures to lower costs and achieve efficiency gains. As an example, we divested non-core distribution units and focused on net working capital optimization to generate cash and significantly reduce net debt. In addition, we progressed in positioning SCHMOLZ + BICKENBACH as an innovative, global and diversified producer of special long steel solutions with an integrated world-wide sales and services network. For 2016, we do not expect the business environment to significantly improve. As a consequence we will take further actions to improve our profitability, strengthen our balance sheet, develop our operational strengths and further improve our market position. The related measures including a stringent cost control will help us to successfully navigate through the demanding market conditions."

Key financial figures

	FY 2015	FY 2014	**+/- (%)**	Q4 2015	Q4 2014	**+/- (%)**
Sales[1)] (kilotonnes)	1 763	1 829	-3.6	401	418	-4.1
Revenue[1)]	2 679.9	2 869.0	-6.6	571.3	677.5	-15.7
Adjusted EBITDA[1)]	169.6	256.6	-33.9	40.6	64.6	-37.2
Reported EBITDA [1)]	159.0	246.6	-35.5	36.2	60.3	-40.0
Adjusted EBITDA margin[1)]	6.3%	8.9%		7.1%	9.5%	
Reported EBITDA margin[1)]	5.9%	8.6%		6.3%	8.9%	
Operating profit (EBIT) [1)]	34.9	130.2	-73.2	5.4	31.3	-82.7
Earnings before taxes (EBT) [1)]	-11.0	79.6	n.m.	-5.0	14.5	n.m.
Net income (EAT) [1)]	-35.4	52.0	n.m.	-14.9	7.9	n.m.
Net income (EAT), total	-166.8	50.0	n.m.	-15.1	4.2	n.m.
Free cash flow, continuing operations [1)]	179.0	65.2	174.5	76.2	54.7	39.3
Earnings per share, cont. operations [2)] (EUR/CHF)	-0.04/-0.04	0.05/0.06	–	–	–	–

		31 Dec 2015	**31 Dec 2014**
Net debt [3)]	EUR m	471.1	587.2
Employees as at reporting date [1)]	positions	8 910	9 001

1) Figures for the reporting period refer only to continuing operations. The prior-year figures were restated accordingly.
2) Earnings per share are based on net income (loss) of the Group after deduction of the portions allocable to the non-controlling interests
3) Figures for the reporting period now refer only to continuing operations. The prior-year figures were not restated and continue to include all operations.

Lucerne, 24 March 2016 – SCHMOLZ + BICKENBACH, a global leader in special long steel, reported revenue of EUR 2.68 billion in full-year 2015, a decrease of 6.6% compared to EUR 2.87 billion achieved in the previous year. The decline was a result of deteriorating market conditions mainly in the second half of the year. In this environment, sales volumes fell short of expectations, down 3.6% from 1 829 kilotonnes to 1 763 kilotonnes in a year-on-year comparison. In addition, pressure on scrap and base prices and an erosion of alloy element prices further reduced revenues. While sales volumes held up reasonably well in the first six months, a sudden and strong pressure on volumes and prices occurred in the second half-year.

From a geographical perspective, all regions with the exception of Asia/Africa/Australia recorded lower revenues compared to the previous year. Revenues in Asia/Africa/Australia grew 9% from a relatively low base, mainly driven by good growth in India and South Korea. In Europe, revenues declined 8.2% while America was 4.0% lower, the latter helped by favourable exchange rate developments that partly offset the volume decline observed in this market.

All product groups experienced lower sales volumes and revenues. However, SCHMOLZ + BICKENBACH achieved to increase the contribution from the higher margin businesses tool steel and stainless steel which accounted for 15.6% respectively 38.0% of Group revenue. The lower value-added products in Engineering Steel contributed for 43.5% of group revenues compared to 45.1% one year ago.

The development in the three main customer industries Automotive, Mechanical & Plant Engineering and Oil & Gas, revealed a mixed picture. Automotive exhibited robust growth while Mechanical & Plant Engineering remained basically stable. In contrast, the Oil & Gas sector was very weak on the back of eroding oil prices and the resulting investment cuts. Towards year-end 2015, deliveries into this sector continued to deteriorate along very low activity in general.

In spite of an improved product group mix and lower cost of materials, the increasing pressure on base price during the year led to a reduction in the percentage gross margin to 36.3% from 37.1%. Though management took additional strong and immediate actions to counter the adverse development, the sudden market weakness could only be partially compensated. These developments translated into an EBITDA of EUR 159.0 million, a decrease of 35.5% compared to EUR 246.6 million in the previous year. This corresponds to a decline in EBITDA margin to 5.9% from 8.6% in 2014. Adjusted for one-time effects related to restructuring and strategy implementation measures, the adjusted EBITDA stood at EUR 169.9 million compared to EUR 256.6 million one year earlier, with an adjusted EBITDA margin of 6.3% versus 8.9%.

Compared to the previous year, the financial result improved to EUR –45.9 million from EUR –50.6 million. This was due to lower interest rates for the refinancing in the course of 2014 and lower debt levels that overcompensated the negative mark-to-market valuations of financial instruments. Income taxes were also lower, declining to EUR –24.4 million from EUR –27.6 million. A different geographic mix and the non-recognition of deferred tax assets in Germany led to a tax expense although net income turned negative in 2015.

As a result of lower revenues and absolute gross margin and due to the impairment loss from the discontinued operations, the net income of the group amounted to EUR –166.8 million compared to a net income of 50.0 million one year ago. The net income of the continuing operations was EUR –35.4 versus EUR 52.0 million in full-year 2014.

Free Cash Flow from continuing operations rose to EUR 179.0 million from EUR 65.2 million in the prior-year period. The substantial improvement was due to a strong reduction in Net Working Capital (NWC). Reasons for this were lower sales volumes but also a positive impact of approximately EUR 50 million from the implementation of the NWC reduction program.

Net debt was significantly reduced to EUR 471.1 million compared to EUR 587.2 million at year-end 2014. The decrease was mainly attributable to a robust cash flow generation including proceeds from the disposal of selected distribution units of EUR 48.6 million in the reporting period. Gearing – i.e. net debt-to-equity – stood at 62.8% (year-end 2014: 65.2%), net debt-to-adjusted EBITDA at 2.8.

Fourth quarter results

During the fourth quarter, the macroeconomic environment continued to deteriorate and followed the trend already observed in the first nine months. Commodity prices further eroded and started to stabilize only towards year-end. The growing uncertainty about the future path of the global economy resulted in a general reluctance to invest, mainly in the oil and gas industry that was particularly affected by the collapsing oil price.

Therefore sales volumes declined to 401 kilotonnes from 418 kilotonnes or 4.1% in the previous-year period. Accordingly and due to increased pressure on base and alloy metal prices, revenues fell 15.7% to EUR 571.3 million from EUR 677.5 million. As a result, percentage gross margin was 2.3 percentage points lower, at 36.0% versus 38.3% in the fourth quarter 2014. Adjusted EBITDA declined to EUR 40.6 million from EUR 64.6 million (-37.2%) while EBITDA stood at EUR 36.2 million, down from EUR 60.3 million (-40.0%). Net income for the group was EUR –15.1 million and therefore significantly below the result from the fourth quarter of last year (EUR 4.2 million). Net income from continuing operations also fell to EUR –14.9 million from EUR 7.9 million in the same period of the prior year. Free Cash Flow increased to EUR 76.2 million from EUR 54.7 million in the fourth quarter 2014.

Outlook 2016

The outlook for global economic growth remains subdued. SCHMOLZ + BICKENBACH expects challenging market conditions to persist throughout 2016. While the Automotive and the Mechanical & Engineering sectors are expected to remain robust, we do not expect any positive impulses for our business from the Oil & Gas sector. The development of commodity prices – especially for scrap steel and the important alloy metals nickel, ferrochrome and molybdenum – are currently unpredictable. Our base case forecasts those metals to move sideways on high volatility.

We will respond to the external challenges by continuing to focus on the decisive implementation of our strategy, on strict cost containment and on cash preservation. A stronger integration of the Business Units, the optimization of procurement and logistics, restructuring measures and a further strengthening of our balance sheet through a structural and therefore sustainable net working capital reduction are the main topics in our agenda.

For 2016 we expect stable sales volumes compared to full-year 2015. Adjusted EBITDA is forecast in a range of EUR 150 million to EUR 190 million. In a year-on-year comparison, a stronger second half-year is expected to follow a weaker first half-year. Investments of approximately EUR 100 million are projected for the current year.

Our medium-term target is an adjusted EBITDA margin of > 8% on average over an economic cycle and a reduction of our adjusted EBITDA leverage to < 2.5.

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Link to annual report 2015:

http://www1.schmolz-bickenbach.com/en/investor-relations/reports/financial-reports/2015/

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About SCHMOLZ + BICKENBACH
The SCHMOLZ + BICKENBACH Group is today one of the world's leading providers of individual solutions in the special long steel products sector. The Group is one of the leading manufacturers of tool steel and non-corrosive long steel on the global market and one of the two largest companies in Europe for alloyed and high-alloyed constructional steel. With around 9,000 employees and in-house production and distribution companies in over 30 countries and on 5 continents, the company guarantees its customers a global supply and customer service, and offers them a complete production portfolio as well as sales and services around the world. They benefit from the company's technological expertise, the consistently high product quality around the world and detailed knowledge of local markets.