Media release

SCHMOLZ + BICKENBACH experiences subdued start to 2016 as anticipated, slowed down by an even more challenging environment

- **Revenues of EUR 604 million in Q1 2016 down 21.2% from EUR 766 million in a strong Q1 2015**
- **Adjusted EBITDA of EUR 25 million compared with EUR 56.4 million in Q1 2015**
- **Adjusted EBITDA margin of 4.1%, compared with 7.4% in the previous year**
- **Net debt has risen slightly to EUR 489 million from EUR 471 million at year end 2015 due to seasonal fluctuations; a considerable improvement compared with EUR 626 million at the end of Q1 2015**
- **Guidance for the financial year 2016:**
  Unchanged sales volumes compared with 2015 and adjusted EBITDA of between EUR 150 million and EUR 190 million

CEO Clemens Iller commented: "As expected we had a subdued start from a very low base into the business year 2016. The market environment has turned out to be more challenging in the first quarter than in the final three months of last year. The rising prices of raw materials towards the end of the quarter have not yet been reflected in our books. As a result we recorded lower sales volumes and revenues as well as a decline in profitability compared with the previous year. This confirms to us that greater focus must be placed on implementing the introduced cost reduction and efficiency enhancing measures in order to achieve our financial targets for 2016. The initial successes to this end were observed in the reduced personnel costs and lower other operating expenses. We were also able to considerably reduce net debt compared with the quarter of the previous year. Over the next few quarters we will continue undeterred along the path we have embarked upon in order to increase profitability, strengthen the balance sheet, further develop our operational strengths and thus improve our position in the market. Based upon the implementation of the measures and the actual stabilisation of the market environment we expect that the first quarter has marked the low point of the year."

Financial key figures

	Unit	Q1 2016	Q1 2015	+/- (%)
Sales volume	kilotonnes	461	483	–4.6
Revenues	million EUR	603.6	765.7	–21.2
Adjusted EBITDA	million EUR	25.0	56.4	–55.7
Operating profit before depreciation and amortisation (EBITDA)	million EUR	21.9	54.5	–59.8
Adjusted EBITDA margin	%	4.1	7.4	–
EBITDA margin	%	3.6	7.1	–
Earnings before interest and tax (EBIT)	million EUR	–8.3	21.5	–
Earnings before tax (EBT)	million EUR	–19.6	9.0	–
Consolidated earnings (EAT)	million EUR	–24.4	–122.4	–
Free cash flow, continuing operations	million EUR	–13.3	2.3	–
Earnings per share from continuing operations[1)]	EUR/CHF	–0.03/–0.03	0.00/0.00	–
		31/03/16	**31/12/15**	**31/03/15**
Net financial liabilities	million EUR	488.5	471.1	625.9
Employees as at balance sheet date	positions	8 928	8 910	9 022

[1)] Earnings per share are based on the net income (loss) of the Group after deduction of the portions allocable to the non-controlling interests

Lucerne, 20 May 2016 – SCHMOLZ + BICKENBACH, a global leader in special long steel, recorded revenues of EUR 603.6 million in Q1 2016, representing a fall of 21.2% compared with the strong quarter in the previous year of EUR 765.7 million. The weak market environment during the last six months of 2015 persisted in the first few weeks of 2016 and was characterised by the lack of momentum in the global economy as well as persistently low raw material prices. The crisis in the oil and gas industry also intensified despite an increase in oil prices in the meantime. Sales volumes in this challenging environment fell respectively by 4.6% to 461 kilotonnes compared with 483 kilotonnes that were recorded in the previous year. The volume of crude steel produced fell disproportionately by 10.9% from 532 kilotonnes in Q1 of the previous year to 474 kilotonnes. Unabated pressure on scrap, alloy metals and base prices contributed towards significantly lower revenues. The prices of these raw materials that rose towards the end of Q1 and have a positive influence overall upon the business of SCHMOLZ + BICKENBACH have not yet impacted upon the result in Q1.

Sales and revenue development was below expectations in all regions and segments. Down by 15.9%, Europe performed the best while North America had to absorb a sharp decline in revenues as a result of the slump in the oil and gas industry. The share of revenue recorded in North America out of Group revenue fell accordingly from 18.4% in the prior year's quarter to 13.1%. The company had already responded to the crisis in North America in 2015 by adjusting its workforce. It is assumed that additional measures initiated will have a positive impact upon the earnings of the North American businesses over the upcoming quarters.

Sales volumes also experienced a decline in all three product groups at SCHMOLZ + BICKENBACH. The lowest reduction of –1,9% was reported for stainless steel, while sales volumes for tool steel and engineering steel declined by –3.7% and –5.4% respectively. At revenue level, relatively lower price pressure for tool steel resulted in a decline of –12.8%. Revenues for stainless steel on the other hand fell by –18.7% and by –25.5% for engineering steel.

As a result of the strategic focus upon products with greater added value, SCHMOLZ + BICKENBACH succeeded in increasing its contribution towards Group revenue for tool steel from 14.9% to 16.4% and for stainless steel from 36.9% to 38.1%. However, in the year-on-year comparison, the share of engineering steel fell from 45.3% to 42.8%.

When compared with the last few months of the previous year, no major changes were observed with regard to the development of the three key customer industries; automotive, mechanical and plant engineering, oil and gas. Solid growth was recorded as before in the automotive industry while growth in the mechanical and plant engineering sector remained fairly stable. Development in the oil and gas industry continued to be difficult despite rising oil prices during Q1.

The focus upon products with greater added value was apparent with the development of the gross margin, which – despite unfavourable developments – rose to 38.1%, marking an increase of one percentage point compared with Q1 2015 (37.1%). Gross profit was significantly lower due to lower revenues of EUR 230.2 million compared with EUR 284.4 million in the previous year.

In terms of costs, a reduction in the workforce led to a saving of around EUR 10 million in our major business units in France, the USA and Canada. Compared with Q1 of the previous year, personnel costs fell from EUR 152.5 million to EUR 142.7 million. However, in light of the sharp decline in revenue this was insufficient to compensate for the impact on EBITDA. The adjusted EBITDA fell from EUR 56.4 million to EUR 25 million during the previous-year period, representing a decline of 55.7%. The corresponding EBITDA margin fell from 7.4% to 4.1%. The non-recurring expenses were primarily related to the current measures implemented to improve profitability and efficiency. Including non-recurring expenses, SCHMOLZ + BICKENBACH achieved EBITDA of EUR 21.9 million compared with EUR 54.5 million, down by 59.8%. The corresponding EBITDA margin was 3.6% compared with 7.1% in the previous year.

The financial result improved from EUR –12.5 million to EUR –11.3 million in a previous-year comparison. This was primarily due a loss of EUR 1.4 million in the previous-year quarter as a result of the valuation of an interest rate derivative. The tax expenditure fell from the previous-year period level of EUR 7.1 million to EUR 4.4 million. A different geographic mix and the non-recognition of deferred tax assets at the level of German entities led to a tax expense although net income was negative in Q1 2016.

As a result of the negative operating profit in Q1, the Group earnings reached EUR –24.4 million. This represents an improvement compared with Q1 2015; at the time the Group earnings were heavily influenced by a provisional impairment loss of EUR –123.7 million for discontinued operations and were therefore clearly lower at EUR –122.4.

The free cash flow of EUR –13.3 million from continuing operations did not reach the previous year's level of EUR 2.3 million. Nevertheless, positive cash flow from operating activities of EUR 3.2 million was achieved. Net current assets changed only slightly as higher trade accounts receivable were virtually offset by a sharp reduction in inventories during the reporting period.

While net debt fell by EUR 137 million compared with the end of Q1 2015, it rose slightly from EUR 471.1 million to EUR 488.5 million due to seasonal factors compared with year end 2015. The gearing – i.e. the ratio of net debt to equity – was 71% (year end 2015: 62.8%), and net debt in relation to adjusted EBITDA was 3.5.

Outlook 2016

The outlook for global economic growth remains subdued. SCHMOLZ + BICKENBACH expects the market conditions throughout 2016 to continue to be challenging. While the automotive industry and the mechanical and plant engineering sector are expected to enjoy strong and stable development respectively, we do not anticipate any positive impulses from the oil and gas industry. The price developments for raw materials are marked by a significant uncertainty and are difficult to forecast – this is particularly true for the raw materials that are of greatest importance to the company; scrap, nickel, ferrochrome and molybdenum. In the baseline scenario we are anticipating a sideways movement along with a high level of volatility for the prices of these raw materials. Although the prices of important raw materials rose considerably in Q2 giving cause for cautious optimism, we do not expect this upward movement to represent a change in trend.

We will address the external challenges with the determined implementation of our strategy, with strict cost management and with focus upon cash preservation. The most important points on our agenda are the reinforced integration of the Business Units, the optimisation of procurement and logistics, restructuring measures and the further strengthening of our balance sheet through structural and sustainable measures to reduce working capital.

We expect sales volumes in 2016 to be on a par with the previous year. Adjusted EBITDA of between EUR 150 million and EUR 190 million is expected. In the year-on-year comparison, the first half of the year will be weaker, whereas the second half of the year will be stronger. Investments will be around EUR 100 million.

As part of our medium-term targets we are aiming for an adjusted EBITDA margin of > 8% on average over an economic cycle. We aim to reduce the adjusted EBITDA leverage to < 2.5.

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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 its own production and distribution companies in 30 countries on 5 continents, the company guarantees global support and supply for its customers and offers them a complete portfolio of production and sales & services around the world. Customers benefit from the company's technological expertise, consistently high product quality around the world as well as detailed knowledge of local markets.