Media release

SCHMOLZ + BICKENBACH reached higher sales volume and good profitability in the second quarter; debt levels were further reduced

- **Sales volume slightly increased in Q2 2016, from 469 kilotonnes in Q2 2015 to 471 kilotonnes; sales volume reached 461 kilotonnes in Q1 2016**
- **Revenues of EUR 618.7 million in Q2 2016 down by 14.4% from EUR 723.2 million achieved in Q2 2015 but higher than the EUR 603.6 million recorded in Q1 2016**
- **Adjusted EBITDA of EUR 52.5 million, lower than EUR 61.1 million in Q2 2015 but considerably higher than the EUR 25.0 million in Q1 2016**
- **Adjusted EBITDA margin rose to 8.5% from 8.4% in the same quarter of last year**
- **Net debt reduced to EUR 454 million from EUR 471 million at year end 2015; a considerable improvement compared to EUR 638 million at the end of Q2 2015**
- **Outlook for the financial year 2016 confirmed:
Unchanged sales volumes compared with 2015 and adjusted EBITDA of between EUR 150 million and EUR 190 million**

CEO Clemens Iller commented: "In the second quarter of 2016 we recorded a solid result, and significantly improved earnings compared to the first three months of the year. Our focus on internal measures aimed at increasing profitability is paying off. Their successful implementation was helped by the mood in the market, which improved in the course of the quarter. Notwithstanding these encouraging developments, we remain no more than cautiously optimistic in the light of the still fragile market environment, the tense geopolitical situation, volatile commodity prices and currency developments that are difficult to forecast. We therefore continue to concentrate on the resolute implementation of our cost reduction measures in the second half of this year. Regardless of the external factors, these cost reduction measures will make a significant contribution to our results for 2016 and 2017."

Financial key figures

	Unit	H1 2016	H1 2015	+/- (%)	Q2 2016	Q2 2015	+/- (%)
Sales volume	kilotonnes	932	952	–2.1	471	469	0.4
Revenue	million EUR	1 222.3	1 488.9	–17.9	618.7	723.2	–14.4
Adjusted EBITDA	million EUR	77.5	117.5	–34.0	52.5	61.1	–14.1
EBITDA	million EUR	71.5	112.5	–36.4	49.6	58.0	–14.5
Adjusted EBITDA margin	%	6.3	7.9	–	8.5	8.4	–
EBITDA margin	%	5.8	7.6	–	8.0	8.0	–
Earnings b. interest&tax (EBIT)	million EUR	11.1	49.1	–77.4	19.4	27.6	–29.7
Earnings before tax (EBT)	million EUR	–11.7	26.4	–	7.9	17.4	–54.6
Consolidated earnings (EAT)	million EUR	–22.0	–117.6	–	2.4	4.8	–50.0
Free Cash Flow	million EUR	25.6	–7.9	–	38.9	–10.2	–
Earnings per share[1]	EUR/CHF	–0.02/–0.02	0.01/0.01	–	0.01/0.01	0.01/0.01	–

		30/06/16	31/12/15	30/06/15
Net financial liabilities	million EUR	454.0	471.1	637.9
Employees at closing date	positions	8 946	8 910	8 900

[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, 11 August 2016 – SCHMOLZ + BICKENBACH, a global leader in special long steel, increased sales volume by 0.4% to 471 kilotonnes in Q2 2016 from 469 kilotonnes in the prior-year period. Nevertheless, revenues decreased due to lower prices to EUR 618.7 million from EUR 723.2 million. This represents a reduction of 14.4% compared to the corresponding strong quarter of the previous year. Despite lower revenues, adjusted EBITDA margin increased to 8.5% from 8.4% in Q2 2015.

The market environment has improved slightly in comparison with Q1 2016: compared to the first three months of the year sales volume and revenues increased from 461 to 471 kilotonnes and from EUR 603.6 million to EUR 618.7 million respectively. In the course of rising scrap and alloy metal prices, selling prices recovered slightly in Q2 and increased towards the end of the quarter. In addition, certain important customer industries have experienced positive development. The automotive industry, in particular, remains as before in good health. The mechanical engineering sector also remained stable, even if it is not very dynamic. These pleasing tendencies are in contrast with the continuing crisis in the oil and gas industry. Stock levels of steel products held by customers are largely depleted, which has contributed to a stabilisation in this industry. Nonetheless, in view of continuing low and volatile oil and gas prices, the trigger for a sustainable upturn in this sector is still missing.

Except in North America, where revenues slightly declined, all regions achieved growth in comparison to Q1 2016. This underlines that the bottom in our business has been reached as expected in the first three months of the year. Compared to the same quarter of last year, revenues decreased in all regions. In Europe revenues fell by 11.7%, primarily due to lower prices. In North America revenues fell by 32.7% as a result of the continuing weak state of the oil and gas industry. The share of revenue recorded in North America out of Group revenue fell accordingly from 15.7% in the same quarter of the previous year to 12.4%. In 2015 the company has already reacted to the crisis in North America by reducing the workforce in the Finkl Steel Business Unit. Additionally, initiatives were taken with the aim of reducing dependence on the oil and gas industry. These measures will bear fruit in the medium-term and will lead to better utilisation of North American production capacities.

Sales volume for stainless steels as well as for engineering steel developed slightly positive in the second quarter, primarily due to the robust automotive industry: it rose by 3.8% in stainless steel and by 1.7% in engineering steel compared to the previous year period. In contrast, sales volume in tool steel decreased by 14.7% due to general weakness in demand and import pressure in Europe. The continuing price pressure led to lower revenues in all product groups between 8.6% (engineering steel) and 21.0% (tool steel). However, the selected price increases that were implemented at the end of the quarter allow us to look towards the coming months with cautious optimism, although it would be premature to talk about any kind of a sustainable trend reversal.

Gross profit fell due to lower revenues from last year's figure of EUR 276.6 million to EUR 245.1 million. Despite that, gross profit margin could be increased to 38.9% from 37.7% in the same quarter of last year.

The measures to increase profitability through cost reductions bore fruit in the second quarter. These resulted in a reduction in personnel costs of almost EUR 12 million, which decreased from EUR 146.4 million in Q2 2015 to EUR 134.9 million. Other operating expenses were reduced by 12% from last year's figure of EUR 78.8 million to EUR 69.3 million. Thanks to these measures it has been possible to increase the adjusted EBITDA margin from 8.4% in the corresponding period last year to 8.5%. Adjusted EBITDA fell from EUR 61.1 million in the corresponding period last year to EUR 52.5 million, representing a decline of 14.1%. The implementation of the cost reduction and efficiency enhancing measures caused one-off expenses of EUR 3.1 million. Including these non-recurring expenses, SCHMOLZ + BICKENBACH achieved an EBITDA of EUR 49.6 million compared with EUR 58.0 million; this equates to a 14.5% reduction. The corresponding EBITDA margin remained unchanged at 8.0%.

The financial result was with EUR –11.5 million slightly lower than the EUR –10.2 million in the preceding period. This increase was mainly due to higher interest expenses which counteracted the reduced level of borrowing. Tax expenditure fell from EUR 7.1 million in the corresponding period of last year to EUR 2.0 million. This was due to a reduced result and changes in deferred taxes.

Thanks to reduced costs and lower tax expenses, SCHMOLZ + BICKENBACH Group came back to record a net income in Q2 after recording a net loss in Q1 2016. Consolidated earnings were with EUR 2.4 million lower than the EUR 4.8 million achieved in the same quarter last year.

Free cash flow once again developed strongly and reached EUR 38.9 million. Therewith free cash flow was significantly above the previous year's negative figure of EUR –10.2 million, which was influenced by a land purchase.

The Group's focus on reducing its net debt paid off again. Net debt was reduced by EUR 184 million to EUR 454.0 million from its level of Q2 2015 and from EUR 471.1 million at year-end 2015. The gearing – i.e. the ratio of net debt to equity – was 67.1% (year end 2015: 62.8%), and the 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 the second half of 2016 to continue to be challenging. The automotive industry will most likely develop robust and the mechanical and plant engineering sector stable. Even though the oil and gas industry has stabilised at a low level and is showing some initial signs of a slight recovery, we are not expecting any significant momentum from that direction. The price environment will continue to be marked by a high degree of uncertainty. While base price increases in selected product groups are possible, competitive pressure in other product groups remains high. Price developments for raw materials determining the scrap and alloy surcharges continue to be difficult to forecast. In the baseline scenario we are anticipating a sideways movement along with a high level of volatility for the prices of these commodities. 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 trend reversal.

We will address external challenges with the determined implementation of our strategy and with strict cost management. 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 anticipate 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 amount to around EUR 100 million.

As part of our medium-term goals 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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Forward-looking statements
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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 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.