SCHMOLZ + BICKENBACH AG

Media release

SCHMOLZ + BICKENBACH with higher profitability in the third quarter, despite seasonally lower sales volume; net debt further reduced

- **Sales volume decreased in Q3 2016, due to seasonally lower activity and longer downtimes to 391 kilotonnes from 410 kilotonnes in Q3 2015**
- **Revenue with EUR 534.1 million lower by 13.8%, compared to EUR 619.7 million in the same period of last year**
- **Adjusted EBITDA rose to EUR 31.8 million from EUR 11.5 million in Q3 2015**
- **Adjusted EBITDA margin at 6.0%, compared to 1.9% in Q3 2015**
- **Net debt reduced to EUR 421 million after EUR 471 million at year end 2015; also lower compared to EUR 454 million at the end of Q2 2016**
- **Outlook for the financial year 2016 slightly adjusted: Unchanged sales volumes compared with 2015 and adjusted EBITDA at lower end of range between EUR 150 million and EUR 190 million**

CEO Clemens Iller commented: „The market environment did not change substantially in the third quarter. As usual, business activity slowed down considerably during the summer months. In addition, prolonged downtimes for maintenance and investments led to lower sales volumes and lower revenue compared to the previous year quarter. Nevertheless, we could increase profitability and reduce net debt significantly. This underlines the fact that we are on the right path to permanently make our company more efficient and therefore more profitable. For the remainder of the year we do not expect any significant impetus from the global economy. Under the impression of uncertain economic prospects investments in our customer industries are restrained. For us this means that we need to operate in a challenging however somewhat friendlier environment compared to the beginning of the year. We expect this trend to continue in the last three months of the current financial year. Our focus in the last quarter remains unchanged on the resolute implementation of cost reduction and efficiency measures which will contribute significantly to earnings in the years 2016 and 2017, regardless of external factors."

Financial key figures

	Unit	9M 2016	9M 2015	+/- (%)	Q3 2016	Q3 2015	+/- (%)
Sales volume	kilotonnes	1 323	1 362	–2.9	391	410	–4.6
Revenue	million EUR	1 756.4	2 108.6	–16.7	534.1	619.7	–13.8
Adjusted EBITDA	million EUR	109.3	129.0	–15.3	31.8	11.5	>100
EBITDA	million EUR	99.1	122.8	–19.3	27.6	10.3	>100
Adjusted EBITDA margin	%	6.2	6.1	0.1	6.0	1.9	4.1
EBITDA margin	%	5.6	5.8	–0.2	5.2	1.7	3.5
Operating profit (loss) (EBIT)	million EUR	6.7	29.5	–77.3	–4.4	–19.6	nm
Earning before taxes (EBT)	million EUR	–26.0	–6.0	nm	–14.3	–32.4	nm
Net income (loss) (EAT)	million EUR	–35.9	–151.7	nm	–13.9	–34.1	nm
Free cash flow[1)]	million EUR	82.4	102.8	–19.8	56.8	110.7	–48.7
Earnings per share[2)]	EUR/CHF	–0.04/–0.04	–0.02/–0.02	–	–0.02/–0.02	–0.03/–0.03	–

		30/09/16	31/12/15	30/09/15
Net debt	million EUR	421.4	471.1	543.7
Employees as at closing date	positions	8 982	8 910	8 927

1) Continuing operations
2) Earnings per share are based on the net income (loss) of the Group after deduction of the portions attributable to non-controlling interests

Lucerne, 15 November 2016 – SCHMOLZ + BICKENBACH, a global leader in special long steel, reported a drop in sales volumes of 4.6% in the third quarter 2016, to 391 kilotonnes from 410 kilotonnes in the year-ago period. Despite higher sales prices revenue declined to EUR 534.1 million from EUR 619.7 million. This corresponds to a decrease of 13.8% compared to the same quarter of the previous year. In spite of lower revenue, the company achieved a significantly higher adjusted EBITDA margin of 6.0% versus 1.9% in the third quarter 2015.

Compared to the second quarter 2016, the economic environment has barely changed. The decline in sales volume and revenue compared to the second quarter 2016 is attributable to the usual seasonal slowdown of business activity during the summer months. Longer than expected downtimes had an unfavorable effect on sales volume and revenue compared to the third quarter 2015. Delays in the ramp-up of the newly constructed hook conveyor at Swiss Steel and a production stop due to a fire incident at Deutsche Edelstahlwerke (DEW) led to a volume loss of 25 kilotonnes. Adjusted for this effect, sales volume increased slightly compared to the third quarter 2015. On the price side, higher sales prices confirmed the positive price trend observed towards the end of the second quarter 2016. Sales price per tonne rose to EUR 1 366 from EUR 1 312 in the second quarter. Higher prices for nickel and ferrochrome as well as an improved product mix due to the aforementioned one-off effects have contributed to this. Compared to the same quarter of the previous year, however, sales prices remained low with EUR 1 366 against EUR 1 511 per tonne which also negatively impacted revenue.

The main customer industries showed a differentiated picture similar to the second quarter. The automotive industry continued to grow moderately while the mechanical engineering segment moved sideways without any momentum. In the oil and gas industry the triggers for a sustainable recovery are absent despite higher oil prices.

On a regional level, revenue in all regions declined. The Africa/Asia/Australia region developed comparatively well with a decline of 9.4%. In the two growth markets China and India, revenue rose double-digit. The region Other Europe (excluding CH, DE, FR, IT) recorded a sales decline of 12.5%, while a drop of 20.0% in the Americas was recorded in the third quarter. The region continued to suffer from weak demand from the oil and gas industry. Although demand has stabilised with the oil price increase to around USD 50 per barrel the industry is still far from achieving sustainable growth. The focus on the expansion into new markets delivered first positive results whereby it will take a few quarters for a noticeable effect on the figures. A strong revenue decline of 14.5% was recorded in Germany. This was due to the persistently weak oil and gas industry but also a result of the unplanned production stop. In total there have been only minor shifts at the level of regional revenue distribution both compared to the previous year's period and the second quarter 2016.

The three product groups showed a mixed picture in the third quarter. Sales volumes of tool steel fell by 2.2% compared to the third quarter of the previous year. This is the result of a still weak demand from the oil and gas industry as well as of increased competitive pressure. Sales volumes of stainless steel remained stable at the level of the previous year quarter whereas engineering steel fell by 6.2%. The decline in engineering steel is attributable to the unplanned shutdown of operations that mainly concerned this product group. Due to the significantly lower prices and sales volume compared to the previous year, sales of all product groups fell between 14.9% for stainless steel and 11.1% for tool steel.

Gross profit increased to EUR 207.5 million in the third quarter compared to EUR 204.9 million in the previous year, despite lower revenue. As a result, the gross margin increased to 38.9% from 33.1% in the same quarter of the previous year.

Adjusted EBITDA rose to EUR 31.8 million from EUR 11.5 million in the third quarter of the previous year due to higher gross profit and cost discipline. The adjusted EBITDA margin improved 4.1 percentage points to 6.0%. (third quarter 2015: 1.9%). This result underscores the successful implementation of the restructuring measures, which resulted in around EUR 14 million of cost savings. Personnel expenses increased slightly and amounted to EUR 132.4 million which compares to EUR 131.1 million in the previous year. The decline in EBITDA following the business interruptions was more than offset by a further 8% reduction of operating expenses to EUR 66.9 million (third quarter 2015: EUR 73.1 million) and an increase of other operating income to EUR 19.4 million compared to EUR 9.6 million in the third quarter 2015. The latter included insurance payments related to the production stops at Swiss Steel and DEW. One-time expenses of EUR 4.2 million were due for the implementation of the cost reduction and efficiency measures. Including those one-off effects, SCHMOLZ + BICKENBACH achieved an EBITDA of EUR 27.6 million compared to EUR 10.3 million. The corresponding EBITDA margin was 5.2% compared to 1.7% in the previous-year period.

The financial result improved to EUR –9.9 million from EUR –12.8 million in the prior-year period. This is explained by higher financial income and lower financial expenses resulting from the market valuation of financial instruments. In the third quarter 2016, tax income of EUR 0.4 million was realized compared to a tax expense of EUR 0.3 million in the same quarter of the previous year, mainly driven by changes in deferred taxes.

Despite a marked increase in profitability SCHMOLZ + BICKENBACH recorded a net loss of EUR 13.9 million compared to a net loss of EUR –34.1 million reported in the prior-year quarter.

Free cash flow from continuing operations developed positively again and reached EUR 56.8 million. However, it was below the previous year's EUR 110.7 million as inventories were reduced from a significantly lower base. In addition, the positive effect of the sale of the discontinued operations boosted free cash flow in the prior-year period. Thanks to the robust free cash flow net debt could be further reduced. Compared to the end of the third quarter 2015 it was reduced by EUR 122 million compared to the end of 2015 by around EUR 50 million, from EUR 471.1 million to EUR 421.4 million. As a result of lower equity, gearing – i.e. the ratio of net debt to equity – slightly increased to 63.9% (year-end 2015: 62.8%). Net debt in relation to adjusted EBITDA was 2.8 and thus significantly lower than at the end of the second quarter 2016 with 3.5.

Outlook 2016

SCHMOLZ + BICKENBACH does not expect any momentum in the last quarter of the year, due to the fact that global economic growth will continue to be dampened and competitive pressure will remain high. Accordingly, the challenging market conditions will continue in the remaining months of 2016. Our customer industries will develop differently. The automotive industry is expected to exhibit robust growth and the mechanical and plant engineering industry should remain stable. Despite stabilisation at a low level we expect no short-term trend reversal in the oil and gas industry. The environment for sales prices is expected to stay more accommodating than in the first half of the year but given the economic environment and available capacities there is no positive impetus foreseeable. Competitive pressure remains high, which, however, does not exclude basis price increases, especially for innovative products. Price trends for raw materials determining scrap and alloy surcharges are hardly predictable: we assume a sideways movement under high volatility in our base case scenario. The higher prices of important raw materials that rose over the last few months and remained largely stable in summer are not yet seen as a trend reversal.

We will meet external challenges with the decisive implementation of our strategy and 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 is expected at the lower end of the range between EUR 150 million and EUR 190 million. 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.

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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.