

Q1 Quarterly Statement 2019

January 1, 2019 - March 31, 2019

- Operating income (EBITDA) of €34 million, above guidance range of between €20 million and €30 million
- Sales up due to higher average prices by 4.6% to €1.7 billion
- Proportion of Group sales generated via digital channels further raised to 27% (Q1 2018: 19%)
- EBITDA guidance of €50 million to €60 million for second quarter

EBITDA ABOVE GUIDANCE RANGE BUT SIGNIFICANTLY DOWN ON PRIOR YEAR

First-quarter operating income (EBITDA), at €34 million, was above the guidance range of between €20 million and €30 million but significantly down on the prior-year quarter. While we benefited disproportionately from a very positive price environment in the first quarter of the prior year, earnings in the first three months of 2019 were impacted by negative price effects. Demand was also down, primarily due to the weakness of the European automotive sector. EBITDA consequently decreased, despite the (€12 million) positive effect from the introduction of the new IFRS 16 leasing standard, from €56 million in the prior-year quarter to €34 million.

Net income was a negative €10 million, compared with a positive €21 million in the first three months of 2018. As a result, earnings per share came to -€0.10 (Q1 2018: €0.21).

SHIPMENTS DOWN; SUBSTANTIAL SALES GROWTH

At 1.5 million tons, shipments were below the 1.6 million tons recorded in the prior-year quarter, with varied segmental performance. While volumes were more or less constant in the Kloeckner Metals Switzerland and Kloeckner Metals US segments, shipments were significantly down in the Kloeckner Metals Services Europe segment (by 12.7%) and the Kloeckner Metals Distribution Europe segment (by 11.5%). The Kloeckner Metals Services Europe segment was impacted here by the weakness of the automotive sector and Kloeckner Metals Distribution Europe by the economic slowdown in Germany as well as by portfolio changes in France.

Higher average prices made for an increase in sales from €1.6 billion to €1.7 billion, mainly driven by the US segment with sales growth of 22.0%. Sales also rose in Switzerland (by 4.3%), while sales in the Kloeckner Metals Services Europe and Kloeckner Metals Distribution Europe segments decreased by 10.8% and 6.7% respectively despite the higher average prices.

EARNINGS BY OPERATING SEGMENT

Due to negative price effects, operating income in the Kloeckner Metals US segment was €14 million, compared with €32 million a year earlier. Introduction of the new leasing standard (IFRS 16) and the efficiency programs had a positive impact on EBITDA of €3 million and €2 million respectively.

EBITDA in the Kloeckner Metals Switzerland segment went up from €5 million in the prior-year quarter to €10 million, €2 million of which relates to the introduction of IFRS 16. Earnings were also positively affected by continuous improvement measures (€1 million) and slightly lower OPEX.

In the Kloeckner Metals Services Europe segment, EBITDA decreased from €16 million to €9 million due to the weak demand in the automotive sector.

The operating environment for Kloeckner Metals Distribution Europe remains challenging. That segment's EBITDA, at €6 million, was €5 million down on the prior-year figure, despite the positive impact of IFRS 16. This was mainly due to negative volume and price effects in Germany and impacts of portfolio streamlining in France. The efficiency programs made a positive contribution of €2 million in the first quarter.

VERY SOLID FINANCIAL POSITION SUSTAINED

In line with the seasonal trend and given higher average input prices, net working capital went up relative to the year-end 2018 by €0.3 billion to €1.5 billion. Due to this increase and the €0.2 billion rise in financial liabilities resulting from IFRS 16, net debt went up from €383 million as of December 31, 2018 to €820 million at the end of the quarter.

Equity stood at approximately €1.3 billion and was thus only slightly down on December 31, 2018. The equity ratio decreased due to the higher net debt but was still a solid 37.5% (December 31, 2018: 41.9%).

The increase in net working capital led to a cash outflow from operating activities of €229 million in the first quarter of 2019. Deducting cash outflow from investing activities (€5 million) resulted in a free cash flow of -€234 million (Q1 2018: -€155 million without IFRS 16).

STABLE FINANCING

In April, our syndicated loan was prolonged ahead of term by one year to May 2022 in an "amend & extend" process. This further improves the maturity profile of Klöckner's Group financing. An option to extend the term in two steps up to May 2024 with prior approval of the banks was also once again incorporated in the credit documentation. The volume of the facility remained unchanged at €300 million.

Adjustments were also made to the loan terms in order to neutralize the effects of first-time application of IFRS 16. This notably included an adjustment to the gearing ratio, which is of key importance as a "financial covenant". The newly negotiated contractual documentation now stipulates that gearing, calculated as net financial debt divided by equity attributable to shareholders of Klöckner & Co SE less goodwill resulting from acquisitions subsequent to May 23, 2019, may not exceed 165% (previously 150%).

FURTHER PROGRESS IN DIGITALIZATION

Digitalization of the supply and value chain as well as expansion of the XOM Materials independent industry platform are core components of the "Klöckner & Co 2022" strategy. The proportion of sales generated via digital channels further increased to 27% in the first quarter of 2019 (Q1 2018: 19%). Drawing on the excellent progress achieved in digitalizing Klöckner & Co, the Group's digital unit kloeckner.i began providing consulting services to external companies during the reporting period. An initial consulting project is already underway with a DAX 30 company. XOM Materials, the independent industry platform, has likewise continued to grow dynamically, with 17 distributors and 230 customers under contract on the platform in April. Additionally, XOM Materials was launched in the USA in the first quarter.

OUTLOOK FOR REMAINDER OF YEAR

Against the background of unexpected high negative price effects and declining demand development – especially in the automotive business – we expect an operating income (EBITDA) of €50 million to €60 million for the second quarter and – contrary to previous guidance – an EBITDA of €180 million to €200 million before material special effects for the full year.

With regard to the EBITDA including material special effects these negative impacts will be mainly compensated by the sale of one site in the United Kingdom with an expected effect of €30 million.

Klöckner & Co SE

Financial information

for the three-month period ending March 31, 2019

Shipments and income statement		Q1 2019	Q1 2018	Variance
Shipments	Tto	1,499	1,584	-85
Sales	€ million	1,703	1,628	+75
Gross profit	€ million	303	331	-28
Gross profit margin	%	17.8	20.4	-2.6%p
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	34	56	-22
EBITDA margin	%	2.0	3.4	-1.4%p
Earnings before interest and taxes (EBIT)	€ million	2	35	-33
Earnings before taxes (EBT)	€ million	-9	28	-37
Net income	€ million	-10	21	-31
Net income attributable to shareholders of Klöckner & Co SE	€ million	-10	21	-31
Earnings per share (basic)	€	-0.10	0.21	-0.31
Earnings per share (diluted)	€	-0.10	0.20	-0.30

Cash flow statement		Q1 2019	Q1 2018	Variance
Cash flow from operating activities	€ million	-229	-143	-86
Cash flow from investing activities	€ million	-5	-12	+7
Free cash flow ^{*)}	€ million	-234	-155	-79

Balance sheet		March 31, 2019	December 31, 2018	Variance
Net Working Capital ^{**)}	€ million	1,501	1,229	+272
Net financial debt	€ million	820	383	+437
Gearing ^{***)}	%	65.4	30.5	+34.9%p
Equity	€ million	1,259	1,282	-23
Equity ratio	%	37.5	41.9	-4.4%p
Total assets	€ million	3,355	3,061	+294

Employees		March 31, 2019	December 31, 2018	Variance
Employees as of the end of the reporting period		8,529	8,579	-50

^{*)} Free cash flow = Cash flow from operating activities plus cash flow from investing activities.

^{**)} Net working capital = Inventories plus trade receivables less trade liabilities.

^{***)} Gearing (syndicated loan) = Net financial debt / (Equity / non-controlling interests / goodwill resulting from acquisitions subsequent to May 23, 2013 (March 31, 2019: goodwill resulting from acquisitions subsequent to May 23, 2019)).

Consolidated statement of income

for the three-month period ending March 31, 2019

<i>(€ thousand)</i>	Q1 2019	Q1 2018
Sales	1,702,692	1,628,139
Other operating income	6,249	6,857
Changes in inventory	-7,344	99
Own work capitalized	291	-
Cost of materials	-1,393,134	-1,296,835
Personnel expenses	-152,408	-147,283
Depreciation and amortization	-31,697	-20,487
Impairments	-	-238
Other operating expenses	-122,836	-133,905
Impairment losses trade receivables	-7	-1,477
Operating result	1,806	34,870
Finance income	766	757
Finance expenses	-11,156	-7,731
Financial result	-10,390	-6,974
Income before taxes	-8,584	27,896
Income taxes	-1,177	-6,730
Net income	-9,761	21,166
<i>thereof attributable to</i>		
– shareholders of Klöckner & Co SE	-10,022	20,853
– non-controlling interests	261	313
Earnings per share (€/share)		
– basic	-0.10	0.21
– diluted	-0.10	0.20

Statement of comprehensive income

for the three-month period ending March 31, 2019

<i>(€ thousand)</i>	Q1 2019	Q1 2018
Net income	-9,761	21,166
Other comprehensive income not reclassifiable		
Actuarial gains and losses (IAS 19)	-23,156	18,651
Related income tax	228	-3,956
Total	-22,928	14,695
Other comprehensive income reclassifiable		
Foreign currency translation	9,887	-10,717
Gain/loss from cash flow hedges	-16	-139
Total	9,871	-10,856
Other comprehensive income	-13,057	3,839
Total comprehensive income	-22,818	25,005
<i>thereof attributable to</i>		
– shareholders of Klöckner & Co SE	-23,095	24,692
– non-controlling interests	277	313

Consolidated statement of financial position

as of March 31, 2019

Assets

<i>(€ thousand)</i>	March 31, 2019	December 31, 2018
Non-current assets		
Intangible assets	144,244	147,945
Property, plant and equipment	817,939	638,914
Non-current investments	8,704	8,574
Other financial assets	8,684	7,961
Other non-financial assets	5,179	5,215
Current income tax receivable	6,155	6,156
Deferred tax assets	16,260	17,502
Total non-current assets	1,007,165	832,267
Current assets		
Inventories	1,270,058	1,242,209
Trade receivables	906,828	716,492
Contract assets	28,523	23,453
Current income tax receivable	10,324	6,327
Other financial assets	57,008	78,195
Other non-financial assets	24,288	21,068
Cash and cash equivalents	50,805	141,344
Total current assets	2,347,834	2,229,088
Total assets	3,354,999	3,061,355

Liabilities

<i>(€ thousand)</i>	March 31, 2019	December 31, 2018
Equity		
Subscribed capital	249,375	249,375
Capital reserves	682,412	682,412
Retained earnings	314,661	324,638
Accumulated other comprehensive income	5,738	18,935
Equity attributable to shareholders of Klöckner & Co SE	1,252,186	1,275,360
Non-controlling interests	6,638	6,282
Total equity	1,258,824	1,281,642
Non-current liabilities		
Provisions for pensions and similar obligations	280,825	260,180
Other provisions and accrued liabilities	16,865	16,422
Financial liabilities	809,670	500,845
Other financial liabilities	140	156
Other non-financial liabilities	-	3
Deferred tax liabilities	46,577	45,876
Total non-current liabilities	1,154,077	823,482
Current liabilities		
Other provisions and accrued liabilities	103,911	114,444
Income tax liabilities	8,504	12,156
Financial liabilities	57,240	19,740
Trade payables	703,982	752,770
Other financial liabilities	23,126	21,118
Other non-financial liabilities	45,335	36,003
Total current liabilities	942,098	956,231
Total liabilities	2,096,175	1,779,713
Total equity and liabilities	3,354,999	3,061,355

Consolidated statement of cash flows

for the three-month period ending March 31, 2019

<i>(€ thousand)</i>	Q1 2019	Q1 2018
Net income	-9,761	21,166
Income taxes	1,177	6,730
Financial result	10,390	6,974
Depreciation and amortization	31,697	20,725
Other non-cash income/expenses	-505	-1,274
Gain on disposal of non-current assets	-661	-1,246
Change in net working capital		
Inventories	-15,484	-70,299
Trade receivables	-184,470	-183,644
Trade payables	-57,859	60,933
Change in other operating assets and liabilities	13,050	11,601
Interest paid	-9,653	-6,918
Interest received	297	192
Income taxes paid	-7,012	-7,935
Cash flow from operating activities	-228,794	-142,995
Proceeds from the sale of non-current assets and assets held for sale	1,288	1,789
Payments for intangible assets, property, plant and equipment (incl. financial assets)	-6,650	-13,880
Cash flow from investing activities	-5,362	-12,091
Net change of financial liabilities	142,561	85,170
Cash flow from financing activities	142,561	85,170
Changes in cash and cash equivalents	-91,595	-69,916
Effect of foreign exchange rates on cash and cash equivalents	1,056	-1,078
Cash and cash equivalents at the beginning of the period	141,344	153,561
Cash and cash equivalents at the end of the reporting period as per statement of financial position	50,805	82,567

Segment reporting

(€ million)	KloECKner Metals US		KloECKner Metals Switzerland		KloECKner Metals Services Europe		KloECKner Metals Distribution Europe	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018
	Shipments (Tto)	674	672	134	133	265	304	412
External sales	717	588	221	212	211	237	540	578
Gross profit	111	123	61	58	30	38	97	108
Gross profit margin (%)	15.5	21.0	27.4	27.5	14.2	16.1	18.0	18.7
Segment result (EBITDA)	14	32	10	5	9	16	6	11
Earnings before interest and taxes (EBIT)	2	23	2	-1	8	14	-2	7
Cash flow from operating activities	-93	-10	-24	-40	-40	-5	-71	-68

(€ million)	KloECKner Metals US		KloECKner Metals Switzerland		KloECKner Metals Services Europe		KloECKner Metals Distribution Europe	
	Q1 2019	FY 2018	Q1 2019	FY 2018	Q1 2019	FY 2018	Q1 2019	FY 2018
Net working capital as of closing date	568	453	264	217	239	192	425	345
Net debt as of closing date	482	321	102	43	191	149	398	239
Employees as of closing date	2,383	2,382	1,667	1,707	596	597	3,446	3,500

(€ million)	Holding and other group companies ^{*)}		Total	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018
Shipments (Tto)	14	11	1,499	1,584
External sales	14	13	1,703	1,628
Gross profit	4	4	303	331
Gross profit margin (%)	26.4	27.2	17.8	20.4
Segment result (EBITDA)	-5	-8	34	56
Earnings before interest and taxes (EBIT)	-8	-8	2	35
Cash flow from operating activities	-1	-20	-229	-143

^{*)} including consolidations.

<i>(€ million)</i>	Holding and other group companies		Total	
	Q1 2019	FY 2018	Q1 2019	FY 2018
Net working capital as of closing date	5	22	1,501	1,229
Net debt as of closing date	-353	-369	820	383
Employees as of closing date	437	393	8,529	8,579

Financial calendar

May 15, 2019 Annual General Meeting 2019, Düsseldorf, Germany

July 31, 2019 Half-yearly financial report 2019
Conference call with journalists
Conference call with analysts

October 30, 2019 Q3 quarterly statement 2019
Conference call with journalists
Conference call with analysts

Subject to subsequent changes.

Klöckner & Co SE

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Disclaimer

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There may be rounding differences with respect to the percentages and figures in this report.

This English version of the interim management statement is a courtesy translation of the original German version; in the event of variances, the German version shall prevail over the English translation.

Evaluating statements are unified and are presented as follows:

+/- 0-1%	+/- >1-5%	+/- >5%
constant	slight	considerable

