klöckner & co

Interim Management Statement for 9M 2020

January 1, 2020 to September 30, 2020

- Operating income (EBITDA) before material special effects of €72 million in the first nine months of 2020, compared with €110 million in the prior-year period. Including the material special effects of the Surtsey transformation project measures, EBITDA amounted to €–2 million
- Third-quarter EBITDA before material special effects of €40 million, at upper end of the raised €30 million to €40 million guidance range
- Shipments of 3.7 million tons in the first nine months, down by 16.4% on the prior-year period due to impact of the COVID-19 pandemic
- Driven by prices, sales declined even more sharply, by 21.2% on the prior-year period to €3.9 billion
- Share of sales generated via digital channels further increased to 42% in the third quarter (Q3 2019: 30%), already exceeding the full-year target
- Full-year 2020 EBITDA expected to be between €75 million and €95 million before material special effects and expectation of a significantly positive cash flow from operating activities

GROUP SHIPMENTS, SALES AND EARNINGS CONSIDERABLY DOWN ON PRIOR YEAR DUE TO IMPACT OF COVID-19 PANDEMIC

Shipments totaled 3.7 million tons in the first nine months, representing a drop of 16.4% relative to the prior-year period. This decrease is primarily attributable to the impact of the COVID-19 pandemic and affected all operating segments, whereby the business in Switzerland was relatively less affected. In line with the decreased shipments, sales also fell more sharply due to lower price levels, down by 21.2% from €4.9 billion to €3.9 billion.

Adjusted for material special effects, Group operating income declined from €110 million in the prior-year period to €72 million in the first nine months of the 2020 fiscal year, also largely as a result of the pandemic. EBITDA was further negatively impacted by material special effects of €73 million, primarily related to personnel measures. Including these special effects, EBITDA amounted to €–2 million, compared with negative €136 million in the prior-year period.

Consequently, the net loss was considerably higher than the prior-year figure of €4 million at €136 million. Basic earnings per share therefore came to €–1.38, compared with €–0.05 in the prior-year period.

EARNINGS BY OPERATING SEGMENT

In the Kloeckner Metals US segment, EBITDA before material special effects declined to €26 million from €44 million in the prior year. This decrease was due in particular to lower volumes and prices. The countermeasures we immediately implemented – mainly in relation to personnel but also to volume-related costs – consistently reduced OPEX, which mitigated the decline in EBITDA. Including material special effects, EBITDA declined to €22 million (9M 2019: €47 million).

EBITDA in the Kloeckner Metals Switzerland segment rose, up from €44 million in the prior-year period to €51 million. This growth was driven by the reinforcing steel product line in particular. Earnings were also significantly bolstered by the lower OPEX.

In the Kloeckner Metals Services Europe segment, EBITDA before material special effects declined from €20 million to €10 million due to weak demand from the automotive industry. This decrease was partially offset by lower OPEX. Personnel restructuring measures reduced earnings by €8 million, resulting in overall EBITDA of €2 million.

At €1 million, EBITDA before material special effects in the Kloeckner Metals Distribution Europe segment was considerably down on the prior-year figure of €19 million. Including the restructuring expenses of €61 million, EBITDA was €–61 million, compared with €50 million in the prior-year period. However, the prior-year figure was pushed up by the proceeds from the sale of a site in London (€36 million).

VERY SOLID FINANCIAL POSITION SUSTAINED

Total assets amounted to €2,675 million as of September 30, 2020, down roughly 8% on the prior year-end figure due to strict working capital management and lower prices.

Equity decreased from €1,182 million to €1,022 million. This was attributable to the net loss (€136 million), adjustments to pension obligations recognized in equity (€–13 million) and the effects from the translation of our foreign business activities (€–13 million). The equity ratio remained solid at 38% (December 31, 2019: 41%).

Due to our extremely strict net working capital management, net working capital stood at €1.1 billion and – rather than experiencing the usual seasonal increase – was significantly below both the figure as of the 2019 year-end and the level as of September 30, 2019 (€1.4 billion). Net financial debt declined accordingly from €445 million as of December 31, 2019 to a remarkably low €427 million at the end of the third quarter of 2020.

The reduction in net working capital was also the main driver of the cash inflow from operating activities of €68 million in the first nine months of the fiscal year, compared with a cash outflow of €6 million in the prior-year period. Deducting the cash outflow from investing activities of €49 million gives a free cash flow of €19 million (9M 2019: €9 million).

STABLE FINANCING WITH IMPROVED MATURITY PROFILE

In October 2020, the extension of the European ABS program until October 2023 was agreed ahead of time at more favorable terms, despite the challenging business environment caused by the COVID-19 pandemic. Given the reduced need for working capital financing in the future as a result of the Surtsey transformation project, the volume was decreased from €300 million to €220 million. As of the reporting date, drawings under the program – which is a central component of our Group financing – totaled around €129 million. The extension as planned further improves our maturity profile and underpins our financial strength.

CONSISTENT IMPLEMENTATION OF THE DIGITAL TRANSFORMATION

The major negative economic impact of the COVID-19 pandemic on Klöckner & Co's core business was significantly cushioned by the digitalization and restructuring measures under the ongoing project Surtsey, in particular. As part of this transformation project, the total workforce is to be reduced by 1,200 and 19 sites will be closed. Since the beginning of the year, the workforce has been reduced by more than 580 full-time equivalents (FTEs) and four sites in the USA had been closed by the end of the third quarter.

The share of sales generated via digital channels rose at an accelerated pace, already reaching 42% in the third quarter (Q3 2019: 30%). In addition, the automation of Klöckner & Co's core processes was consistently driven forward through the AI-based applications Kloeckner Assistant and XOM eProcurement. The Kloeckner Assistant was successfully rolled out in all country organizations, contributing to the optimization of sales processes throughout the Group. Alongside pure orders, requests for quotes (RFQs) can now also be processed, further automating administrative sales tasks. Moreover, the new Match! feature has gone live in almost all of the European country organizations and the USA. This innovative function enables the Kloeckner Assistant to automatically link the customers' individual product descriptions to the Klöckner product catalog. A total sales volume of more than €180 million from more than 2,000 customers has already been processed through the Kloeckner Assistant. The XOM eProcurement solution for customers using the open industry platform XOM Materials was also enhanced. Opening up the application for procurement in the project business, customers can now automatically enter their project-related invitations to tender, compare quotes software-based and directly place orders. The aggregate gross merchandise value of XOM Materials has already risen to €64 million in the current fiscal year.

OUTLOOK FOR THE REMAINDER OF YEAR

Due to rising COVID-19 infection figures, uncertainty remains with regard to the further development of shipments in 2020. Due to seasonal patterns, we expect that shipments and sales in the fourth quarter will be down on the previous quarter. Based on our well-advanced digitalization and the consistent implementation of our Surtsey transformation project – along with the associated cost effects, which are already beginning to become visible – we anticipate EBITDA before material special effects of €75 million to €95 million for the 2020 fiscal year. We also expect a significantly positive cash flow from operating activities.

Klöckner & Co SE

Financial information

for the nine-month period ending September 30, 2020

Shipments and income statement		Q3 2020	Q3 2019	Variance	Jan. 1– Sep. 30, 2020	Jan. 1– Sep. 30, 2019	Variance
Shipments	Tto	1,242	1,420	– 178	3,677	4,398	– 721
Sales	€ million	1,279	1,565	– 286	3,898	4,950	– 1,052
Gross profit	€ million	262	284	– 22	774	890	– 116
Gross profit margin	%	20.5	18.1	+2.4%p	19.8	18.0	+1.8%p
Earnings before, interest, taxes, depreciation and amortization (EBITDA)	€ million	38	21	+17	– 2	136	– 138
EBITDA before material special effects	€ million	40	26	+14	72	110	– 38
EBITDA margin	%	3.0	1.3	+1.7%p	0.0	2.7	– 2.7%p
EBITDA margin before material special effects	%	3.1	1.6	+1.5%p	1.8	2.2	– 0.4%p
Earnings before interest and taxes (EBIT)	€ million	4	– 13	+17	– 118	37	– 155
Earnings before taxes (EBT)	€ million	– 3	– 24	+21	– 141	5	– 146
Net income	€ million	– 5	– 23	+18	– 136	– 4	– 132
Net income attributable to shareholders of Klöckner & Co SE	€ million	– 5	– 23	+18	– 137	– 5	– 132
Earnings per share (basic)	€	– 0.05	– 0.23	+0.18	– 1.38	– 0.05	– 1.33
Earnings per share (diluted)	€	– 0.05	– 0.23	+0.18	– 1.38	– 0.05	– 1.33

Cash flow statement		Q3 2020	Q3 2019	Variance	Jan. 1– Sep. 30, 2020	Jan. 1– Sep. 30, 2019	Variance
Cash flow from operating activities	€ million	68	82	– 14	68	– 6	+74
Cash flow from investing activities	€ million	– 27	– 12	– 15	– 49	15	– 64
Free cash flow*)	€ million	41	70	– 29	19	9	+10

Balance sheet		Sep. 30, 2020	Dec. 31, 2019	Variance	Sep. 30, 2020	Sep. 30, 2019	Variance
Net working capital**)	€ million	1,062	1,119	– 57	1,062	1,356	– 294
Net financial debt	€ million	427	445	– 18	427	634	– 207
Gearing***)	%	42	38	+4%p	42	52	– 10%p
Equity	€ million	1,022	1,182	– 160	1,022	1,225	– 203
Equity ratio	%	38.2	40.5	– 2.3%p	38.2	38.4	– 0.2%p
Total assets	€ million	2,675	2,916	– 241	2,675	3,193	– 518

Employees		Sep. 30, 2020	Dec. 31, 2019	Variance	Sep. 30, 2020	Sep. 30, 2019	Variance
Employees as of the end of the reporting period		7,732	8,253	– 521	7,732	8,370	– 638

*) Free cash flow = Cash flow from operating activities plus cash flow from investing activities.
**) Net Working Capital = Inventories plus trade receivables including contract assets and supplier bonus receivables less trade payables.
***) Gearing = Net financial debt / (Equity ./. non-controlling interests ./. goodwill resulting from acquisitions subsequent to May 23, 2019).

Klöckner & Co SE

Consolidated statement of income

for the nine-month period ending September 30, 2020

(€ thousand)	Q3 2020	Q3 2019	Jan. 1– Sep. 30, 2020	Jan. 1– Sep. 30, 2019
Sales	1,279,180	1,565,475	3,898,074	4,949,837
Changes in inventory	3,694	1,569	– 908	– 9,456
Own work capitalized	339	372	1,023	900
Other operating income	3,555	8,178	12,764	60,389
Cost of materials	– 1,020,425	– 1,283,525	– 3,123,504	– 4,051,080
Personnel expenses	– 129,435	– 155,757	– 471,820	– 459,470
Depreciation and amortization incl. impairment losses	– 33,929	– 34,172	– 116,157	– 98,724
Other operating expenses	– 97,569	– 115,282	– 315,699	– 356,134
Impairment gains/losses trade receivables	– 1,090	– 178	– 1,460	952
Operating result	**4,320**	**– 13,320**	**– 117,687**	**37,214**
Finance income	172	197	439	1,039
Finance expenses	– 7,270	– 10,893	– 23,416	– 33,508
Financial result	**– 7,098**	**– 10,696**	**– 22,977**	**– 32,469**
Income before taxes	**– 2,778**	**– 24,016**	**– 140,664**	**4,745**
Income taxes	– 1,904	1,121	4,365	– 8,937
Net income	**– 4,682**	**– 22,895**	**– 136,299**	**– 4,192**
thereof attributable to				
– shareholders of Klöckner & Co SE	*– 5,121*	*– 23,176*	*– 137,221*	*– 4,964*
– non-controlling interests	*439*	*281*	*922*	*772*
Earnings per share (€/share)				
– basic	**– 0.05**	**– 0.23**	**– 1.38**	**– 0.05**
– diluted	**– 0.05**	**– 0.23**	**– 1.38**	**– 0.05**

Statement of comprehensive income

for the nine-month period ending September 30, 2020

(€ thousand)	Q3 2020	Q3 2019	Jan. 1– Sep. 30, 2020	Jan. 1– Sep. 30, 2019
Net income	**– 4,682**	**– 22,895**	**– 136,299**	**– 4,192**
Other comprehensive income not reclassifiable				
Actuarial gains and losses (IAS 19)	1,298	– 25,411	– 12,542	– 56,644
Related income tax	– 1,322	3,179	1,057	2,503
Total	**– 24**	**– 22,232**	**– 11,485**	**– 54,141**
Other comprehensive income reclassifiable				
Foreign currency translation	– 21,205	25,615	– 12,673	33,591
Gain/loss from equity instruments	– 490	-	– 490	– 2,502
Gain/loss from cash flow hedges	-	24	-	5
Total	**– 21,695**	**25,639**	**– 13,163**	**31,094**
Other comprehensive income	**– 21,719**	**3,407**	**– 24,648**	**– 23,047**
Total comprehensive income	**– 26,401**	**– 19,488**	**– 160,947**	**– 27,239**
thereof attributable to				
– shareholders of Klöckner & Co SE	*– 26,831*	*– 19,761*	*– 161,860*	*– 27,996*
– non-controlling interests	***430***	***273***	***913***	***757***

Consolidated statement of financial position

as of September 30, 2020

Assets

(€ thousand)	September 30, 2020	December 31, 2019
Non-current assets		
Intangible assets	112,304	130,507
Property, plant and equipment	751,412	801,861
Other financial assets	17,867	14,987
Other non-financial assets	13,938	9,523
Current income tax receivable	4,131	4,150
Deferred tax assets	9,562	6,534
Total non-current assets	**909,214**	**967,562**
Current assets		
Inventories	860,302	1,042,651
Trade receivables	651,227	579,825
Contract assets	26,109	31,607
Supplier bonus receivables	41,731	63,827
Current income tax receivable	18,762	10,583
Other financial assets	14,566	11,935
Other non-financial assets	29,355	25,730
Cash and cash equivalents	123,935	182,520
Total current assets	**1,765,987**	**1,948,678**
Total assets	**2,675,201**	**2,916,240**

Equity and liabilities

(€ thousand)	September 30, 2020	December 31, 2019
Equity		
Subscribed capital	249,375	249,375
Capital reserves	575,060	575,060
Retained earnings	208,556	345,569
Accumulated other comprehensive income	– 19,219	5,550
Equity attributable to shareholders of Klöckner & Co SE	**1,013,772**	**1,175,554**
Non-controlling interests	7,737	6,912
Total equity	**1,021,509**	**1,182,466**
Non-current liabilities		
Provisions for pensions and similar obligations	278,818	284,558
Other provisions and accrued liabilities	17,121	17,313
Financial liabilities	314,696	563,961
Other financial liabilities	137	144
Deferred tax liabilities	43,205	42,163
Total non-current liabilities	**653,977**	**908,139**
Current liabilities		
Other provisions and accrued liabilities	175,539	96,954
Income tax liabilities	9,632	10,400
Financial liabilities	233,971	60,742
Trade payables	517,778	599,248
Other financial liabilities	20,093	24,431
Other non-financial liabilities	42,702	33,860
Total current liabilities	**999,715**	**825,635**
Total liabilities	**1,653,692**	**1,733,774**
Total equity and liabilities	**2,675,201**	**2,916,240**

Consolidated statement of cash flows

for the nine-month period ending September 30, 2020

(€ thousand)	Q3 2020	Q3 2019	Jan. 1– Sep. 30, 2020	Jan. 1– Sep. 30, 2019
Net income	– 4,682	– 22,895	– 136,299	– 4,192
Income taxes	1,904	– 1,121	– 4,365	8,937
Financial result	7,098	10,696	22,977	32,469
Depreciation and amortization	33,929	34,172	116,157	98,724
Other non-cash income/expenses	– 331	472	– 177	178
Gain on disposal of non-current assets	– 1,127	– 218	– 2,079	– 39,677
Change in net working capital				
Inventories	65,824	66,626	168,281	127,651
Trade receivables, contract assets, supplier bonuses	– 73,172	78,020	– 61,120	– 45,171
Trade payables	60,612	– 65,629	– 68,299	– 127,037
Change in other operating assets and liabilities	– 12,876	– 2,652	57,442	– 11,740
Interest paid	– 6,002	– 8,984	– 18,309	– 26,841
Interest received	121	195	467	617
Income taxes paid	– 3,733	– 6,484	– 6,272	– 20,290
Cash flow from operating activities	**67,565**	**82,198**	**68,404**	**– 6,372**
Proceeds from the sale of non-current assets and assets held for sale	2,189	938	3,939	44,196
Payments for intangible assets, property, plant and equipment (incl. financial assets)	– 28,436	– 12,697	– 53,302	– 28,634
Cash flow from investing activities	**– 26,247**	**– 11,759**	**– 49,363**	**15,562**
Dividend payments to shareholders of Klöckner & Co SE	-	-	-	– 29,925
Net change of other financial liabilities	– 28,700	– 105,078	– 83,707	12,472
Proceeds from derivates	8,084	– 6,719	10,752	– 7,878
Cash flow from financing activities	**– 20,616**	**– 111,797**	**– 72,955**	**– 25,331**
Changes in cash and cash equivalents	**20,702**	**– 41,358**	**– 53,914**	**– 16,141**
Effect of foreign exchange rates on cash and cash equivalents	– 2,090	2,734	– 4,671	2,487
Cash and cash equivalents at the beginning of the period	105,323	166,314	182,520	141,344
Cash and cash equivalents at the end of the reporting period as per statement of financial position	**123,935**	**127,690**	**123,935**	**127,690**

Segment reporting

(€ million)	Kloeckner Metals US		Kloeckner Metals Switzerland		Kloeckner Metals Services Europe		Kloeckner Metals Distribution Europe		Holding and other Group companies*)		Total	
	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019
Shipments (Tto)	1,775	2,056	417	438	597	735	888	1,169	-	-	3,677	4,398
External sales	1,593	2,100	702	739	443	584	1,160	1,527	-	-	3,898	4,950
Gross Profit	273	323	204	203	58	77	239	287	-	-	774	890
Gross profit margin (%)	17.1	15.4	29.0	27.4	13.1	13.2	20.6	18.8	-	-	19.8	18.0
Segment result (EBITDA)**)	22	47	51	44	2	20	– 61	50	– 16	– 25	– 2	136
EBITDA before material special effects	26	44	51	44	10	20	1	19	– 16	– 17	72	110
Earnings before interest and taxes (EBIT)	– 25	9	27	21	– 3	15	– 96	23	– 21	– 31	– 118	37
Cashflow from operating activities	76	13	19	7	23	2	– 30	– 17	– 20	– 11	68	– 6

(€ million)	Kloeckner Metals US		Kloeckner Metals Switzerland		Kloeckner Metals Services Europe		Kloeckner Metals Distribution Europe		Holding and other Group companies*)		Total	
	9M 2020	FY 2019	9M 2020	FY 2019	9M 2020	FY 2019	9M 2020	FY 2019	9M 2020	FY 2019	9M 2020	FY 2019
Net working capital as of closing date***)	344	429	248	219	148	161	330	323	– 8	– 13	1,062	1,119
Employees as of closing date	2,145	2,452	1,590	1,626	547	588	3,226	3,373	224	214	7,732	8,253

*) Including consolidations.
**) EBITDA = Earnings before interest, taxes, depreciation and amortization and reversals of impairments on intangible assets and property, plant and equipment.
***) Net Working Capital = Inventories plus trade receivables including contract assets and supplier bonus receivables less trade payables.

Financial Calendar

March 10, 2021	Annual Financial Statement 2020 Financial statement press conference Conference call with analysts
April 29, 2021	Q1 quarterly statement 2021 Conference call with journalists Conference call with analysts
May 12, 2021	Annual General Meeting 2021, Düsseldorf, Germany
August 13, 2021	Half-yearly financial report 2021 Conference call with journalists Conference call with analysts
November 3, 2021	Q3 quarterly statement 2021 Conference call with journalists Conference call with analysts

Subject to subsequent changes.

Klöckner & Co SE

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Disclaimer

This statement contains forward-looking statements that are based on the current estimates of the Klöckner & Co SE management with respect to future events. They are generally identified by the words "expect", "anticipate", "assume", "intend", "estimate", "target", "aim", "plan", "will", "endeavor", "outlook" and comparable expressions, and generally contain information that relates to expectations or targets for economic conditions, sales or other performance measures. Forward-looking statements are based on currently valid plans, estimates and projections and are therefore only valid on the day on which they are made. You should consider them with caution. Such statements are subject to numerous risks and uncertainties (e.g. those described in publications), most of which are difficult to predict and are generally beyond the control of Klöckner & Co SE. The relevant factors include the effects of significant strategic and operational initiatives, including the acquisition or disposal of companies or other assets. If these or other risks or uncertainties materialize or if the assumptions underlying any of the statements turn out to be incorrect, the actual results of Klöckner & Co SE may be materially different from those stated or implied by such statements. Klöckner & Co SE can offer no assurance that its expectations or targets will be achieved. Without prejudice to existing legal obligations, Klöckner & Co SE does not assume any obligation to update forward-looking statements to take information or future events into account or otherwise. In addition to the figures prepared in line with IFRS or HGB (Handelsgesetzbuch – German Commercial Code), Klöckner & Co SE presents non-GAAP financial performance measures, e.g. EBITDA, EBIT, net working capital and net financial debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS or HGB. Non-GAAP key figures are not subject to IFRS or HGB, or to other generally applicable accounting regulations. In assessing the net assets, financial position and results of operations of Klöckner & Co SE, these supplementary figures should not be used in isolation or as an alternative to the key figures presented in the consolidated financial statements and interim management statement and calculated in accordance with the relevant accounting principles. Other companies may define these terms in different ways. Please refer to the definitions in the annual report.

Rounding

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

Variances to the German version

Variances may arise for technical reasons (e.g., conversion of electronic formats) between the accounting documents contained in this Annual Report and the format submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette shall be binding.

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%
stable	slight	considerable