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Press Releases

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KLÖCKNER & CO SE REPORTS MARKED DROP IN EARNINGS BUT STRONG POSITIVE CASH FLOW IN FISCAL YEAR 2015

- Sales down – despite positive exchange rate effects – due to lower prices and volumes, falling 0.9% to €6.4 billion
- Gross profit margin narrowed on negative price trend to 19.2%, against 19.4% in prior-year period
- EBITDA before restructuring expenses at €86 million, versus €191 million in prior year; after restructuring expenses of €63 million, EBITDA was €24 million
- Net loss of €349 million under added impact of goodwill impairments in North America activities
- Strong positive free cash flow of €191 million, compared with negative €64 million in prior year
- Very solid balance sheet maintained with 39% equity ratio
- Implementation of digitalization strategy ramped up with major progress and positive response among suppliers, customers and competitorsSharp increase in EBITDA expected with net income marginally back in positive figures in 2016

Duisburg, Germany, March 1, 2016 – The escalating steel crisis tangibly impacted sales and earnings performance at Klöckner & Co last year. Despite positive exchange rate effects, lower prices and volumes pushed sales down by 0.9% to €6.4 billion. Global price decline also made for a fall in the gross profit margin from 19.4% in the prior year to 19.2%. In consequence, EBITDA before restructuring expenses dropped from €191 million to €86 million. After restructuring expenses of €63 million, EBITDA was €24 million. Under the extra impact of goodwill impairments in North America activities, earnings before taxes (EBT) was a negative

€399 million. Allowing for tax income of €50 million, the Group's net loss stood at €349 million. This meant that earnings per share came to a negative €3.48, compared with a positive €0.22 in the prior-year period.

The negative earnings performance contrasted with a positive free cash flow of €191 million, mainly driven by cuts in net working capital. Net debt was trimmed further as a result, from €472 million to €385 million. The equity ratio remains solid at 39%.

Gisbert Rühl, CEO of Klöckner & Co SE: "The quantities of cheap steel flooding the world steel markets, mostly due to overproduction in China, have had a marked impact also on our own sales and earnings performance. Even though this hampered progress made with modifications under our "Klöckner & Co 2020" strategy, we once again took direct action and generated a strong free cash flow by rigorously cutting net working capital."

Market-driven pressure on earnings in both segments Despite a positive exchange rate effect, sales in the Europe segment fell by 2.9% to €4.0 billion, mainly due to the price trend. The decrease in EBITDA before restructuring expenses to €69 million, compared with €109 million in the prior year, was mainly triggered by the squeeze on margins from falling prices in what was a highly competitive market.

Despite lower prices and volumes, on the other hand, sales in the Americas segment increased by 2.4% to €2.5 billion as a result of exchange rate changes. Mainly due to pressure on margins triggered by declining prices, as in the Europe segment, EBITDA before restructuring expenses went down to €37 million, as against €100 million in the prior-year period.

Further progress in digitalization Klöckner & Co made major strides in its digital transformation. A number of wholesalers and major steel producers have already linked up with Klöckner online for procurement purposes. The first Klöckner-developed tools, such as a contract portal, are being used successfully by customers. With its extensive digital know-how, Klöckner & Co is also the partner of choice from the steel industry when it comes to cross-sectoral digitalization projects. For instance, working in harness with Berlin-based startup Contorion, Klöckner & Co entered the segment comprising online sales to craftsmen and private customers. Klöckner & Co is also the exclusive partner of an Industry 4.0 project being conducted by machinery manufacturer Trumpf. Going forward, the partnership will enable production machines to order steel from Klöckner & Co autonomously. To this end, the Klöckner & Co contract portal has already been integrated into the Trumpf's "Axoom" customer platform. In Germany Klöckner & Co has additionally entered into a collaboration with Sage, one of the world's largest providers of business software. The two companies will jointly market an ERP solution specially preconfigured for steel and metal processors. The system will enable customers to professionally manage their business processes as well as automatically trigger online orders for steel and metal products in the Klöckner range.

The new Klöckner & Co web shop also went online today in Germany and is to be successively rolled out also in other countries. Developed using a radically customer-centric design thinking approach, the solution sets new industry standards in terms of user-friendliness and convenience in buying steel online. Over the course of fiscal year 2016, the new web shop and other tools will be integrated into the Klöckner service platform, which likewise went live today in a basic version. This gives customers and partners a central access point for data and all tools, which they can use much more efficiently than before. In another step, Klöckner & Co is planning to launch an industry platform from 2017 that will also be open to competitors. It will further enhance product diversity and price transparency for customers. At the same time, Klöckner & Co will gain extra earnings potential by charging transaction fees for sales made on the platform.

Gisbert Rühl: “The progress already made, coupled with the positive response from suppliers, customers and competitors shows us that we are on the right track with our digitalization drive. To further extend our digital lead in the industry, we aim to step up investment spending in this area and double the workforce at our digitalization subsidiary kloeckner.i this year to at least 40. Generating over 50% of sales online by 2019 remains our target.”

In the future, graduates from the ReDI School of Digital Integration in Berlin, which caters to refugees, will also be eligible for newly created positions at kloeckner.i. Klöckner & Co is main sponsor of the school’s educational program and networking events, which play an important role not only in integrating refugees into German society but also in overcoming the shortage of IT experts.

Further expansion in higher-margin business In addition, Klöckner & Co has made further headway in expanding its business with higher value-added products and processing services. The share of sales accounted for by such products and services was raised from 34% to 39% in 2015. Alongside organic growth, Klöckner & Co’s successful entry into the steel fabrication segment with the acquisition of American Fabricators in the USA also contributed to this increase. At the same time, construction of a service center to process aluminum flat products for the European automotive and manufacturing industries was initiated at the Bönen site in North Rhine-Westphalia, Germany. This means Klöckner & Co is right on target to generate 45% of sales with higher-margin business by 2017 – a share that is to be further boosted to over 50% by 2020.

Outlook Along with most economic research institutes, Klöckner & Co expects GDP growth of 2% and 3% this year for its key sales markets of Europe and the USA, respectively. This should also give a marginal boost to real steel demand in these two regions.

Despite the anticipated market growth, Klöckner & Co expects a slight dip in sales due to the restructuring measures.

Buoyed by a more favorable market environment coupled with initial thrust from the KCO WIN+ restructuring and optimization program, operating income is expected to be significantly above the €86 million EBITDA adjusted for restructuring expenses recorded in 2015. Earnings will likely only begin picking up significantly year-on-year in the second quarter. The sluggish market trend was initially sustained into the first few weeks of fiscal year 2016. There is an added negative impact on earnings in the opening quarter due to the requirement under International Financial Reporting Standards to recognize levies as expense for the full year. As a result, first-quarter EBITDA is only expected to be between €10 million and €15 million.

In contrast to the prior year, no further expense is anticipated for goodwill impairments in 2016. Additional alleviating factors will follow from lower interest expense due to reductions in financial liabilities. For this reason, too, net income is expected to be marginally back into positive figures in the current fiscal year following the loss in 2015.

About Klöckner & Co: Klöckner & Co is one of the largest producer-independent distributors of steel and metal products and one of the leading steel service center companies worldwide. Based on its distribution and service network of around 200 locations in 14 countries, the Group supplies around 140,000 customers. In addition to companies in the construction industry as well as machinery and mechanical engineering, Klöckner & Co serves customers in the automotive and chemical industry, in shipbuilding and in fields of household appliances, consumer goods and energy. Currently Klöckner & Co has around 9,600 employees. The Group had sales of around €6.4 billion in fiscal 2015.

The shares of Klöckner & Co SE are admitted to trading on the regulated market segment (Regulierter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) with further post-admission obligations (Prime Standard). Klöckner & Co shares are listed in the MDAX®-Index of Deutsche Börse.

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