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KLÖCKNER & CO SE SEES EARNINGS DROP IN FIRST HALF OF 2015 DESPITE SIGNIFICANTLY BETTER SECOND QUARTER

- Sales currency related up by 4.3% to €3.4 billion, despite market driven lower prices and volumes
- Gross profit margin down from 19.3% to 18.6% due deteriorating steel prices in the US and Switzerland; EBITDA before restructuring expenses accordingly down from €97 million in the prior-year period to €46 million
- EBITDA of minus €7 million includes restructuring expenses of €52 million
- Upward trend quarter-on-quarter, with EBITDA before restructuring expenses at €36 million in the second quarter compared with €10 million in the prior quarter
- Cash flow from operating activities improved by €127 million year-on-year
- Balance sheet ratios remain stable with very sound 38% equity ratio and gearing low at 41%
- Positive trend expected to continue in third quarter, with EBITDA before restructuring expenses rising quarter-on-quarter to €45-55 million
- €30 million additional contribution to EBITDA from extended KCO WIN+ program (restructuring in France and further structural optimizations)

Figures relate to the first half of 2015 relative to the prior-year period.

Duisburg, Germany, August 6, 2015 – The first half of 2015 brought a slight, 1.4% drop in shipments compared with the prior-year period, to 3.3 million tons. In contrast, sales increased due to exchange rate changes by 4.3% to €3.4 billion. The gross profit margin went down from 19.3% to 18.6% due to a drop in steel prices, most of all in the US and Switzerland. Similarly, EBITDA before restructuring expenses was down from €97 million in the prior-year period to €46 million.

While producers can absorb the downward pressure on product prices due to lower market prices for key inputs – iron ore, scrap and coking coal – falling prices hit steel distribution head on. As prices are unlikely to pick back up significantly in the near future and with demand trends in a number of countries likewise below expectations, the Group has revised and substantially extended its KCO WIN optimization program. Deducting the one-time expenses this incurred, EBITDA was a negative €7 million. The financial result improved thanks to the redemption of promissory notes and the convertible bond in the prior year, by €8 million to a negative €25 million. Correspondingly, the pretax result was a negative €84 million compared with a positive €19 million in the prior-year period. Adding in tax income of €7 million left a net loss of €76 million. Basic earnings per share came to a negative €0.75, compared with a positive €0.10 in the prior-year period.

Gisbert Rühl, CEO of Klöckner & Co SE: “We once again responded swiftly to the further deteriorating environment for steel distribution in Europe. In our extended KCO WIN+ program, we are planning additional restructuring measures in France and structural optimizations in other country organizations.”

Challenging market environment in both segments At €2.1 billion, Europe segment sales for the first half of the year were on a par with the prior-year period. The adverse impact of falling overall market demand was countered by positive exchange rate effects. EBITDA before restructuring expenses, at €36 million, was down €20 million on the €56 million prior-year figure. Earnings were notably impacted by exchange rate-induced price pressure in Switzerland and the ongoing crisis in the French construction industry.

The substantial, 12.7% rise in sales in the Americas segment to €1.3 billion was entirely exchange rate-driven. Growing import pressure and collapsing market prices for scrap led to a steep plunge in steel prices that not only slashed margins but also necessitated inventory write-downs. As a result, segment EBITDA fell from €50 million in the first half of 2014 to €20 million in the period under review.

Extended KCO WIN+ program with restructuring in France and additional structural optimization measures In light of the ongoing sluggish performance of the steel distribution markets in a number of European countries, the KCO WIN optimization program has been revised and extended. With the French construction industry in ongoing recession, KCO WIN+ intents additional restructuring measures in France, comprising the closure of eleven locations and a reduction in the workforce by 310 employees.

There are additional plans to downsize country headquarters and get out of unprofitable non-core activities in a number of European country organizations. In the course of these structural optimizations, a further five locations are to be closed and the headcount is to be reduced by 260.

In view of weak economic performance and the muted outlook for the local steel market, the Group also plans to close the service center in China with 35 employees.

In total, KCO WIN+ is planned to entail the closure of 17 sites and a reduction in the workforce by about 600 in 2015 and 2016.

The extended program is expected to have an additional annual impact on EBITDA of some €30 million from 2017, the majority of which will be realized as early as 2016. This boosts the annual contribution from the program to as much as €60 million from 2017.

Digitalization of supply and value chain stepped up further The drive to digitalize Klöckner & Co’s entire supply and value chain is visibly gaining momentum. Activities currently focus on the development and Group-wide rollout of digital solutions that offer further benefits for customers and will be gradually integrated into a service platform. The Group is also working hard on digital integration with customers and suppliers using a range of different interfaces. To further speed up implementation, the workforce at our Berlin-based digitalization subsidiary kloeckner.i is to be boosted from 15 to as many as 20 by the year-end.

Gisbert Rühl: “We determined early on that our classic business model of stockholding steel distribution is no longer viable due to the global overcapacities in steel markets and, in response, we continue to forge ahead on digital integration with our customers and suppliers.”

Outlook

Klöckner & Co anticipates that steel demand will tangibly increase in the second half of the year in both Europe and the US. For both markets, however, due to the weak trend in the first half of the year, only moderate growth of less than 1% is expected for the year as a whole.

For the third quarter, Klöckner & Co predicts a further quarter-on-quarter rise in operating EBITDA before restructuring expenses to €45-55 million in parallel with constant Group sales. The anticipated improvement in profitability compared with the prior quarter is mainly the result of steel prices leveling out in the US and the recovery in Switzerland following the appreciation of the Swiss franc.

Even with the expected tangible recovery in the second half of the year, this will not be enough to offset the significantly weaker performance year-on-year in the first six months. Klöckner & Co therefore expects a substantial decline in operating earnings (EBITDA) before restructuring expenses for the year as a whole. Net income will decrease even more substantially due to restructuring expenses and will thus be significantly below the prior year.

Gisbert Rühl: “Despite the market-driven setback in the first half year, we are confident that with the extended KCO WIN+ measures we will soon be back in the black.”