



Media release

SCHMOLZ + BICKENBACH with good progress in a challenging 2016 – more optimistic for 2017

- **Efficiency improvement and cost reduction measures taking effect**
- **Adjusted EBITDA margin improved to 6.6%, compared to 6.3% in FY 2015**
- **Strong free cash flow of EUR 92 million, net debt reduced to EUR 420 million after EUR 471 million at year end 2015**
- **Sales volume in FY 2016 at 1 724 kilotonnes, 2.2% lower compared to FY 2015 with 1 763 kilotonnes, largely due to production stops in the third quarter**
- **Revenues of EUR 2 314.7 million, 13.6% lower compared to EUR 2 679.9 million in the previous year**
- **Adjusted EBITDA decreased by 9.7% to EUR 153.2 million from EUR 169.6 million in FY 2015; increase of 8.1% in the fourth quarter, to EUR 43.9 million from EUR 40.6 million**
- **Outlook for the financial year 2017:**
Sales volumes at comparable levels to 2016 and an adjusted EBITDA in a range between EUR 160 million and EUR 200 million

CEO Clemens Iller commented: „In 2016, we focused on mitigating the effects of the unfavorable market development that weighed on our results especially in the first half-year. In addition, we implemented structural changes to strengthen our competitiveness, increase our resilience in a changing market environment and therefore improve our financial performance. We made good progress, as is partly reflected in our figures already: although sales volumes and revenues were lower compared to the previous year, we managed to increase the adjusted EBITDA margin, generated a strong cash flow and therefore improved the financial position of the Group by significantly reducing net debt. Going into 2017, we are optimistic for two reasons: firstly, we are making good progress in the execution of our efficiency enhancement and cost reduction measures, and secondly, we are operating in a better business environment than in 2016. While uncertainties remain high, we expect to substantially improve the financial performance of the Group compared to last year.”



Financial key figures

	Unit	FY 2016	FY 2015	+/- (%)	Q4 2016	Q4 2015	+/- (%)
Sales volume	kilotonnes	1 724	1 763	-2.2	401	401	0.0
Revenue	million EUR	2 314.7	2 679.9	-13.6	558.3	571.3	-2.3
Adjusted EBITDA	million EUR	153.2	169.6	-9.7	43.9	40.6	8.1
EBITDA	million EUR	108.0	159.0	-32.1	8.9	36.2	-75.4
Adjusted EBITDA margin	%	6.6	6.3	0.3	7.9	7.1	0.8
EBITDA margin	%	4.7	5.9	-1.2	1.6	6.3	-4.7
Operating profit (loss) (EBIT)	million EUR	-18.5	34.9	nm	-25.2	5.4	nm
Earning before taxes (EBT)	million EUR	-59.6	-11.0	nm	-33.6	-5.0	nm
Net income (loss) (EAT)	million EUR	-80.0	-166.8	nm	-44.1	-15.1	nm
Free cash flow ¹⁾	million EUR	92.0	179.0	-48.6	9.6	76.2	-87.4
Earnings per share ^{1) 2)}	EUR/CHF	-0.08/-0.09	-0.04/-0.04	-	-0.05/-0.05	-0.02/-0.02	-
		31/12/16	31/12/15				
Net debt	million EUR	420.0	471.1				
Employees as at closing date	positions	8 877	8 910				

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, 9 March 2017 – SCHMOLZ + BICKENBACH, a global leader in special long steel, reported a drop in sales volumes of 2.2% in full-year 2016, to 1 724 kilotonnes from 1 763 kilotonnes in full-year 2015. Combined with lower average sales prices compared to the previous year this resulted in revenues of EUR 2 314.7 million, a decline of 13.6% compared to EUR 2 679.9 achieved in 2015. While adjusted EBITDA was also lower, the corresponding margin improved to 6.6% from 6.3% compared to the previous year. The higher profitability at the adjusted EBITDA level reflects the successful execution of the structural, operational and cost improvements in 2016.

2016 was a year with two faces. The already subdued market environment in late 2015 turned out to become even more challenging in the first few months of 2016. Demand remained depressed and raw material prices eroded further. For example, the price for nickel fell to levels that were even below the ones seen during the financial crisis in 2008/9. Towards the end of the first half-year, raw material prices started to recover and the market sentiment became slightly better. In the second half-year, business conditions have markedly improved. The results for the full-year 2016 as well as the development of sales prices reflect these dynamics. Average sales prices remained stable in the first two quarters, with EUR 1 309 per tonne and EUR 1 314 per tonne in the first respectively second quarter, and rose to EUR 1 366 per tonne in the third and to EUR 1 392 tonne in the fourth quarter. However, the average sales price for the full-year 2016 was EUR 1 342 per tonne, -11.7% lower compared to the EUR 1 520 per tonne recorded in full-year 2015. We expect the improving market dynamics and the recovery in sales prices to continue in the first few months of 2017. Our optimism is based on several factors. We recorded a substantially higher order intake of 477 kilotonnes (Q4/2015: 415 kilotonnes) and an improved order backlog of 462 kilotonnes (Q4/2015: 395 kilotonnes) at year-end. In addition, higher raw material prices, – mainly for nickel but also for scrap and ferrochrome –, and a positive outlook for the global economy reinforce our view. Besides this,



first signs of a recovery from the crisis in the oil and gas industry were confirmed. Those factors coupled with our internal improvements make us confident that we can substantially improve the financial performance of the company.

The automotive industry had a good year with global automotive production reaching a strong growth of 4.4% in 2016. In contrast, the mechanical and plant engineering industry stagnated without any signs of momentum. The oil and gas industry mainly suffered in the first five months from the ongoing erosion in oil prices. This was reflected in a further reduction of rig counts in this period. In sync with the trend reversal in oil prices, the industry started to recover slightly during the year and rig counts moved up again.

All regions were impacted by the subdued first half-year. The region Africa/Asia/Australia developed relatively well with a small decline in revenues of only 1.9%. This is the result of strong double-digit revenue growth in China and in India, compensating for weaker growth in other countries. Europe also recorded a minus in revenues of 11.1% while the decline of 29.9% in the Americas reflected the weakness in the oil and gas industry in the United States. The focus on the expansion into new markets in the United States delivered first positive results whereby it will take a few quarters for a noticeable effect on our results.

Compared to the previous year, full-year 2016 revenue fell in all three product groups engineering steel, stainless steel and tool steel. This was mainly the result of significantly lower average sales prices. In a year-on-year comparison, revenues fell between 15.2% for engineering steel and 9.5% for tool steel. Stainless steel revenues were 13.2% lower.

Adjusted EBITDA declined to EUR 153.2 million compared to EUR 169.9 million in full-year 2015. The related margin improved to 6.6% from 6.3% in the prior-year period. This underpins the effectiveness of the performance improvement program in 2016 which delivered EUR 42 million cost savings as planned. Further cost savings from this program of around EUR 28 million are expected to be realized in 2017. Despite the good progress made in the execution of the program, it has been decided to extend the restructuring measures to 2017 and 2018 in light of the structural market changes. The related one-time charges including provisions for personnel measures amounted to EUR 45.2 million. Those measures concerning mainly the Business Units Deutsche Edelstahlwerke and Steeltec were already initiated and will be implemented until year-end 2017. The resulting annually recurring cost savings of EUR 20 million will largely become effective for the first time in 2018. As a result from the additional one-time charges, the EBITDA declined to EUR 108.0 million compared to EUR 159.0 million in the previous year. The corresponding EBITDA margin was 4.7% compared to 5.9% in the previous year.

The financial result improved to EUR –41.1 million from EUR –45.9 million in 2015. Income taxes stood at EUR 15.9 million in 2016 compared to EUR 24.4 million in 2015. The reduction of EUR 8.5 million is explained by a lower EBT. Below the line, SCHMOLZ + BICKENBACH recorded a net loss of EUR –80.0 million compared to a net loss of EUR –166.8 million reported in the previous year.

Free cash flow was positive again and reached EUR 92.0 million. Continuous progress in net working capital management, an increase in operating cash flow and a lower investing cash flow led to the good result. However, free cash flow was below the previous year's EUR 179.0 million as the positive impact from the reduction of inventories was significantly higher in 2015. In addition, the sale of the mainly German distribution activities had a positive effect on free cash flow in the prior-year period.



Due to the solid free cash flow development in 2016, net debt could be further reduced. Compared to year-end 2015, net debt was EUR 51.1 million lower at EUR 420 million. Despite a lower equity, gearing – i.e. the ratio of net debt to equity – remained almost constant at 62.9% (2015: 62.8%). Leverage calculated as net debt to adjusted EBITDA was 2.7 and therefore slightly below the 2.8 recorded at year-end 2015.

Fourth quarter 2016 – further price increases in an improving market environment

In the fourth quarter 2016, business conditions gradually improved. While the automotive industry continued on its robust growth path, the mechanical and plant engineering business remained stable. Positive signs from a recovery in the oil and gas industry did not result in additional shipments so far. With 401 kilotonnes, sales volumes matched the previous year's figure in the fourth quarter. Although sales prices rose to EUR 1 392 per tonne and therefore by another EUR 26 per tonne compared to the third quarter of 2016, they were still EUR 34 per tonne below the level achieved in the fourth quarter of 2015. As a result, revenue decreased by –2.3% to EUR 558.3 million from EUR 571.3 million in the year-ago period. Adjusted EBITDA increased by 8.1% to EUR 43.9 million (margin: 7.9%) from EUR 40.6 million (margin: 7.1%) in the previous-year period. EBITDA was markedly lower at EUR 8.9 million (margin: 1.6%) compared to the year-ago period with EUR 36.2 million (margin: 6.3%). As a result, net income fell to EUR –44.1 million from EUR –15.1 million in the same period one year ago. In spite of significantly higher raw material prices, an increasingly challenging level for further inventory reduction and a build-up of safety stocks in connection with the transfer of Steeltec's production in Sweden to Germany, the Group managed to achieve a positive free cash flow of EUR 9.6 million (–87.4%, Q4/2015: EUR 76.2 million).

Outlook 2017

SCHMOLZ + BICKENBACH expect a stable macroeconomic environment despite significant political uncertainties. The automotive industry should continue on its robust growth path while the mechanical and plant engineering industry is expected to continue its sideways movement. In the oil and gas industry, we expect customers to restart ordering as inventories are largely depleted. However, it remains to be seen if demand will improve throughout the year. Prices for scrap, nickel and ferrochrome are expected to remain at higher levels compared to the average prices of the previous year.

For 2017, we are optimistic to significantly improve our results. This optimism is based on both order intake and backlog at the beginning of the year, an upward trend in sales prices on the back of higher raw material prices, the ongoing positive impact from the rigorous implementation of the performance improvement program and the robust macroeconomic and customer industries fundamentals. Based on those assumptions, we forecast sales volumes comparable to 2016 and an adjusted EBITDA between EUR 160 million and EUR 200 million. Investments (capex) will amount to around EUR 100 million.

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Forward-looking statements

This press release contains forward-looking statements about developments, plans, intentions, assumptions, expectations, convictions, possible impacts or the description of future events, outlooks, revenues, results or situations, for example. These are based upon the company's current expectations, convictions and assumptions, but could materially differ from any future results, performance or achievements. We are providing this communication as of the date hereof and do not undertake to update any forward-looking statements contained herein as a result of new information, future events or otherwise.

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 8 900 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.