Media release

SCHMOLZ + BICKENBACH reports strong results in the first quarter

- **Sales volume rose to 489 kilotons, 6.1% higher compared to Q1 2016, driven by improving demand in a broad range of product groups, customer industries and regions**
- **Continued recovery of average sales prices to EUR 1 447 per ton from EUR 1 309 per ton in Q1 2016**
- **Adjusted EBITDA at EUR 66.6 million compared to EUR 25.0 million in Q1 2016; adjusted EBITDA margin improved to 9.4% from 4.1% in Q1 2016**
- **Normal seasonal pattern resulted in free cash flow of EUR –31.4 million and a higher net debt of EUR 469.8 million after EUR 420.0 million at year-end 2016; however, lower compared to EUR 488.5 million at the end of Q1 2016**
- **Outlook 2017:**
  Normalization of markets expected to continue until mid-year; low visibility on second half-year

CEO Clemens Iller commented: „The start into the financial year 2017 was successful. Today, we are pleased to report good first quarter results on the back of a broad-based uptrend in all product groups, customer industries and regions. However, the more favorable market conditions which are best described as a return to normal demand levels were not the only driver for the better financial performance. An important contribution came from the successful implementation of the internal performance improvement measures during the last two years. This resulted in a company that is now leaner, more flexible and has a stronger focus on markets and customers. Looking forward, the current strong order backlog leaves us confident that the positive trend with a normalization of demand in the first quarter will continue until mid-year. In contrast, the outlook on the second half-year remains largely uncertain as political and macroeconomic risks remain. Therefore, the focus remains on a stringent execution of the adopted restructuring and improvement measures in 2017 to build a Group that is even better positioned than today.

Financial key figures

	unit	Q1 2017	Q1 2016	+/– (%)
Sales volume	kilotons	489	461	6.1
Average sales prices	EUR/ton	1 447	1 309	10.5
Revenue	million EUR	707.6	603.6	17.2
Adjusted EBITDA	million EUR	66.6	25.0	166.4
EBITDA	million EUR	66.3	21.9	202.7
Adjusted EBITDA margin	%	9.4	4.1	5.3
EBITDA margin	%	9.4	3.6	5.8
Operating profit (EBIT)	million EUR	34.6	–8.3	nm
Earnings before taxes (EBT)	million EUR	27.4	–19.6	nm
Net income (loss) (EAT)	million EUR	16.5	–24.4	nm
Free cash flow	million EUR	–31.4	–13.3	nm
Earnings per share[1)]	EUR/CHF	0.02/0.02	–0.03/–0.03	–

		31/03/17	31/12/16	31/03/16
Net debt	million EUR	469.8	420.0	488.5
Employees as at balance sheet date	positions	8 889	8 877	8 928

[1)] Earnings per share are based on the net income (loss) of the Group after deduction of the portions attributable to non-controlling interests

Lucerne, May 3, 2017 – SCHMOLZ + BICKENBACH, a global leader in special long steel, today reported a growth of 6.1% in sales volumes, to 489 kilotons from 461 kilotons in the previous-year period. Higher volumes and significantly higher average sales prices resulted in revenues of EUR 707.6 million, an increase of 17.2% compared to EUR 603.6 million in the first quarter of 2016. Amplified by the positive effects of the performance enhancement measures, adjusted EBITDA increased to EUR 66.6 million from EUR 25.0 million. The corresponding margin improved to 9.4% from 4.1% in the prior-year period. The EBITDA was only slightly lower at EUR 66.3 million as one-time expenses were significantly lower than one year ago.

The year 2017 started on a positive note as the better market environment observed in late 2016 continued to develop favorably in the first three months. After a steep decline in the last two years, demand returned to normal levels. In parallel with higher demand and raw material prices, sales prices continued to recover. Compared to the first quarter of the previous year, average sales prices rose by 10.5% to EUR 1 447 per ton from EUR 1 309 per ton. In comparison with EUR 1 392 per ton recorded in the fourth quarter of 2016, this is equal to a plus of 4%, reflecting the successful implementation of selective base price increases and higher surcharges.

The demand recovery was observed in a broad range of product groups, customer industries and regions. Ongoing good demand came in particular from the automotive industry. A mild uptrend materialized in the oil and gas industry. However, it is too early to speak of a sustained recovery as oil prices remain volatile and customers from the industry are hesitant to order. While rig counts moved significantly higher from mid-2016 to January 2017, the number of active international rotary rigs stagnated since then, signaling at least a temporarily more cautious view in the industry.

All regions contributed to revenue growth in the first three months. Europe recorded an increase in revenues of 17.3% while sales in the Americas rose 15.1%. Again, the strongest increase was achieved in the region Africa/Asia/Australia with a plus of 21.7%. Drivers for the above-average growth in the region were China, which added around 60% in revenue, and India with an increase of around 37%. Those strong growth rates – although coming from a low base – validate our efforts to increase the presence in the region as executed for example with the inauguration of a joint venture in China late last year or the expanded local presence with Sales & Services locations.

Revenue rose in all three product groups. Similar to the last few quarters, growth was strongest in stainless steel. Driven by ongoing good demand from the automotive industry, revenue with stainless steel rose 23.4% to EUR 284.0 million. While revenue growth with quality & engineering steel was also healthy with a plus of 18.8% to EUR 296.0 million, tool steel did not make too much progress with growth of only 0.6% to EUR 108.8 million compared to the same quarter of the previous year.

Adjusted EBITDA reached EUR 66.6 million compared to EUR 25.0 million in the first quarter 2016. The corresponding margin improved to 9.4% from 4.1% in the prior-year period. The increase was mainly due to an improved gross profit which was positively influenced by a more favorable product mix. Furthermore, the increased production volume led to overtime-related higher personnel costs. Other operating expenses were up around EUR 4 million. Of the EUR 28 million permanent cost savings from the performance improvement program targeted for 2017, EUR 10.6 million were realized in the first quarter. The one-time charges in the first quarter were basically negligible, bringing the EBITDA to EUR 66.3 million and therefore close to the adjusted EBITDA level. This compares to EUR 21.9 million in the previous year. The resulting margin was 9.4% versus 3.6%.

The financial result improved to EUR –7.2 million from EUR –11.3 million in the first quarter of the previous year. With successful issue of a new bond in April 2017, it is planned to prematurely repay the outstanding bond in May 2017. The financial result includes the effects of this redemption: in financial income, a valuation gain on the repayment option; in the financial expenses costs for the early repayment. Income taxes stood at EUR 10.9 million compared to EUR 4.4 million last year. The increase of EUR 6.5 million is driven by the improved result of the Group. Below the line, SCHMOLZ + BICKENBACH recorded a net result of EUR 16.5 million compared to a net loss of EUR –24.4 million reported in the first quarter 2016.

Following the normal seasonal pattern, free cash flow was lower in the first quarter of the year. Compared to the previous-year period, free cash flow was lower at EUR –31.4 million (first quarter 2016: –13.3 million). The decrease is explained by higher sales volumes and therefore the impact of a higher net working capital as inventories and trade receivables increased, parts of which are seasonal.

As a result of a negative free cash flow, net debt also increased for seasonal reasons to EUR 469.8 million, compared to EUR 420.0 million at year-end 2016. However, compared to net debt of EUR 488.5 million on March 31, 2016, the debt level was roughly EUR 20 million lower. Gearing – i.e. the ratio of net debt to equity – therefore increased to 68.5% (end of 2016: 62.9%).

Outlook 2017

In the first quarter, order backlog grew significantly. Order backlog stood at 620 kilotons versus 558 kilotons at year-end 2016 (end Q1 2016: 444 kilotons). Looking forward, the robust order backlog leaves us confident that the positive trend of the first quarter with a normalization of demand will continue until mid-year. In contrast, the outlook for the second half of the year remains largely uncertain as political and macroeconomic risks remain.

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For further information:

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