# Year-end 2018 Analyst Conference

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**Dr. Michael Majerus, CFO**

Frankfurt am Main, 27 March 2019

# Agenda.

1. Review fiscal year 2018
2. Detailed financials fiscal year 2018
3. Outlook for fiscal year 2019
4. Confirmation of mid-term growth path and profitability targets
5. Summary

# 1 Review fiscal year 2018

# Review fiscal year 2018.
## Strong year operationally and financially

- **Sales**, **EBIT** and **Net Income** 2018 surpassed initial expectations
- “New” SGL Carbon exceeded **€1bn revenue** for the first time
- **Group sales** growth of 22% of which nearly half **organic**
- 61% increase in **Group EBIT**
- First time as “new” SGL Carbon positive **net profit** from continued operations
- Successful issue of €159m **convertible bond** 2018/2023 to refinance existing liabilities
- Successful prolongation and increase in **syndicated loan facility** to €175m – to be seen as a back up instrument and as such is currently undrawn

# Review fiscal year 2018.
## Strong year strategically

- Strategic realignment also visually emphasized with **new brand concept**
- Former JVs with BMW and Benteler now fully part of SGL Carbon – **swift and successful integration**
- **Operations Management System** (OMS) implemented at major production sites
- Selective expansion of **production capacities** and **technological competencies**
- Defined **digital strategy** and initiated transfer of processes, production and customer approach into the digital world

# 2 Detailed financials fiscal year 2018

# **CFM.** Positive developments in Automotive and Aerospace offset by decline in Textile Fibers, Wind Energy and Industrial Applications

| in € million | 2018 | 2017 |
| --- | --- | --- |
| Sales revenue | 422.5 | 331.9 |
| EBITDA[1] | 54.2 | 44.2 |
| EBIT[1] | 20.8 | 22.7 |
| EBIT-Margin[1] (in %) | 4.9 | 6.8 |
| $ROCE_{EBIT}$ (in %) | 3.2 | 5.8 |

- **Sales revenue** increased by 27% (currency adjusted by 28%)
  - Primarily due to structural effects in the market segment **Automotive** resulting from the full consolidation of former JVs with BMW and Benteler, which more than compensated for the sale of our share in SGL Kümpers in the market segment **Wind Energy**
  - Operationally,
    - Higher sales in the market segments **Automotive** and **Aerospace**
    - Sales in the market segments **Textile Fibers** and **Industrial Applications** on prior year level
    - Lower sales in the market segment **Wind Energy**
- Recurring **EBIT** decreased by 8%
  - Earnings in the market segment **Automotive** nearly doubled, particularly due to the full consolidation of SGL ACF and higher demand for our products. Earnings in the market segment **Aerospace** also increased slightly.
  - More than offset by significantly lower earnings contribution from **Wind Energy, Textile Fibers** and **Industrial Applications**

[1] before non-recurring items of €15.8 million in 2018 and €0.4 million in 2017

# GMS.
## Double-digit growth in nearly all market segments

| in € million | 2018 | 2017 |
|---|---|---|
| Sales revenue | 589.9 | 510.2 |
| EBITDA[1] | 98.9 | 70.8 |
| EBIT[1] | 76.0 | 47.8 |
| EBIT-Margin[1] (in %) | 12.9 | 9.4 |
| $ROCE_{EBIT}$ (in %) | 16.5 | 12.1 |

- **Sales revenue** (including IFRS 15 effects) up 16 % (currency adjusted by 17%)
  - Double digit growth in nearly all market segments, namely **Battery & other Energy, LED**, **Semiconductors**, **Automotive & Transport, Chemicals** and **Industrial Applications**
  - Only exception was the **Solar** market segment which we limited below the prior year level to prioritize sales to **Semiconductors** and **LED**
  - Adjusted for IFRS 15 and FX, sales in GMS grew by approx. 12%

- Recurring **EBIT** increased substantially more than proportionately to sales by 59%
  - Due to improvements in nearly all market segments
  - Successful implementation of price increase initiatives (reflected partly in IFRS 15 effects of €16.2 million)
  - Adjusted for IFRS 15 effects, recurring EBIT increased by 26%

[1] before non-recurring items of €0.6 million in 2018 and €2.3 million in 2017

# Corporate.

## Result slightly below prior year level as expected

| in € million | 2018 | 2017 |
|---|---|---|
| Sales revenue | 35.1 | 18.0 |
| EBITDA[1] | -25.9 | -24.3 |
| EBIT[1] | -32.2 | -30.4 |
| - of which for Central Innovation[2] | -8.0 | -9.4 |

- **Sales revenue** nearly doubled due to the disposal of our former PP activities. Services to PP now recorded as sales to third parties
- Recurring **EBIT** slightly below prior year level as planned
  - Earnings contributions of approx. €4 million from a land sale in Canada and slightly decreased **Central Innovation** expenses (due to higher subsidies for the Air Carbon III project)
  - Slightly more than offset by higher expenses related to the implementation of the Operations Management System (OMS) and other central projects, and the end of cost pass through to former PP activities, which were sold in 2017

[1]before non-recurring items of minus €0.1 million in 2018 and €6.2 million in 2017; [2]Groupwide R&D expense in 2018 amounted to €33 million

# Group.
## Income Statement

| in € million | 2018 | 2017 |
|---|---|---|
| Sales revenue | 1,047.5 | 860.1 |
| **EBITDA before non-recurring items** | **127.2** | **90.7** |
| **EBIT before non-recurring items** | **64.6** | **40.1** |
| $ROCE_{EBIT}$ (in %) | 5.4 | 4.6 |
| Non-recurring items | 16.3 | 8.9 |
| EBIT | 80.9 | 49.0 |
| Net financing result | -29.6 | -56.8 |
| **Results from continuing operations before income taxes** | **51.3** | **-7.8** |
| Income tax expense and non controlling interests | -1.0 | -8.4 |
| Result from discontinued operations, net of income taxes | -9.0 | 155.1 |
| **Consolidated net result attributable to shareholders of parent company** | **41.3** | **138.9** |

- **Sales revenue** exceeded the €1 bn mark for the first time as the “new SGL Carbon”
- **Recurring EBIT** increased by 61% mainly due to improved earnings in the business unit GMS; **non-recurring items** predominantly relate to accounting effects with regard to the purchase of remaining shares in former JVs
- Significant improvement in **net financing result** due to repayment of corporate bond and convertible bond 2012/2018
- Positive **net profit** from continued operations for the first time as the “new SGL”; consolidated net result in prior year included book profit from sale of former CFL/CE business

# Free cash flow.

| in € million (continuing operations) | 2018 | 2017 |
|---|---|---|
| Cash flow from operating activities | 23.6 | -82.3 |
| *Capital expenditures in property, plant, equipment and intangible assets* | *-78.1* | *-52.9* |
| *Cash flow from other investing activities[1]* | *-4.0* | *-9.5* |
| Cash flow from investing activities | -82.1 | -62.4 |
| Free cash flow | -58.5 | -144.7 |
| Free cash flow from discontinued operations | 58.0 | 458.7 |
| Total free cash flow | -0.5 | 314.0 |

- **Cash flow from operating activities** improved significantly mainly due to the improved result from continuing operations and lower build-up of working capital
- Higher **cash outflow from investing activities** due to
  - Higher capex compared to prior year
  - Cash outflow for the payment for the remaining interest in SGL ACF Germany of €23.1 million
  - Partially compensated by higher dividend from At-Equity accounted investment
- **Free cash flow from discontinued operations** contained cash inflow from the final outstanding payments for the sale of former PP activities; prior year contained the preliminary purchase price payments for the sale of former PP activities

[1] dividends received, payments for capital contributions in investments accounted for At-Equity and other financial assets, payments for acquiring remaining stakes in our joint ventures, proceeds from sale of intangible assets and property, plant and equipment

# Balance sheet.

| in € million | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Equity ratio (in %) | 33.5 | 29.6 |
| Total liquidity (incl. discontinued operations in 2017) | 181.6 | 382.9 |
| Net financial debt | 242.2 | 139.0 |
| *Net financial debt excluding SGL ACF* | *157.3* | *42.1* |
| Gearing (net debt/equity) | 0.46 | 0.30 |
| Leverage ratio (net debt/EBITDA) | 1.9 | 1.5 |

- **Equity ratio** improved by nearly 400bps mainly due to positive net result of the period of €41.3 million as well as the contribution from the IFRS equity component of the new convertible bond of €13.7 million
- **Total liquidity** decreased mainly as a result of the repayment of the convertible bond in January 2018 (€239.2 million) and the repayment of a portion of the debt of SGL Composites[1] (€111.8 million) which more than offset the cash inflow from the new convertible bond 2018/2023 (€159.3 million)
- Higher **net financial debt** reflects initial consolidation of the proportional debt relating to the full consolidation of SGL Composites amounting to €94.3 million

[1] former SGL ACF

# 3 Outlook for fiscal year 2019

# Reporting segment outlook 2019.
## CFM

- Mid single digit **increase** in **sales** expected
  - Mainly driven by higher volumes
  - Sales in market segment **Aerospace** expected on prior year level and **Automotive** close to prior year level
  - Slight increase in sales anticipated for **Industrial Applications** and **Textile Fibers,** with the latter also depending on the development of raw material costs
  - Substantial growth anticipated in the market segment **Wind Energy,** albeit from a very low base as the prior year was impacted by the sale of SGL Kümpers and very low customer demand
- **Note: in contrast to prior years, recurring EBIT in Q1/2019 may be the weakest in this fiscal year**
  - Mainly due to **rapid and strong price decline of acrylonitrile** (ACN, raw material for textile fibers) at the end of last year, which resulted in reduced selling prices. We already experienced temporary margin contraction in Q4/2018 based on higher priced inventory of ACN. This trend continued into January and February 2019. From March 2019 onwards, the inventory of higher prices ACN is worked through and we are starting to benefit from lower raw material prices. Therefore we expect Q1/2019 on the level of Q4/2018.
  - In the further course of the year we expect the lower raw material prices to have a **positive impact** on our earnings
  - **Project billing pattern** distributed differently in 2019 compared to 2018 – first quarter 2018 exceptionally strong due to high capacity utilization and high shipment levels related to particular projects – in 2019, we expect certain projects to be billed particularly in Q2 through to Q4
- **Therefore we confirm full year 2019 guidance for recurring EBIT to remain on prior year level**

# Reporting segment outlook 2019.
## GMS

- **Sales** expected on prior year level which was boosted by initial adoption of IFRS 15
  - Higher **price** and **volume** effects likely to be offset by negative **currency** effects
  - Despite a temporarily weaker industry outlook, we expect our sales in the market segments **LED** and **Semiconductors** to increase substantially as we anticipate to increase our market share based on our technology leadership
  - Double-digit increase in sales also expected in the market segment **Automotive**
  - Market segments **Chemicals**, and **Industrial Applications** expected on prior year level
  - Close to stable development in **Battery & other Energy** to be viewed in context of positive IFRS15 effects in prior year
  - As in the previous year, sales in the market segment **Solar** likely to be limited to below the prior year level to prioritize the **LED** and **Semiconductors** market segment
- **Note: in contrast to prior years, recurring EBIT in Q1/ 2019 may be the strongest in this fiscal year**
  - Approx. mid single digit €m positive IFRS 15 effect one-time in Q1/2019
  - High earnings level due mainly to an optimal combination of very good product mix, high utilization and low costs - unlikely to be sustainable at this very high level
  - Overall, shipment levels are skewed to H1/19, somewhat lower shipments planned for H2/19
- Therefore **FY 2019 recurring EBIT expected on prior year level** which was boosted by initial adoption of IFRS 15
- **$\text{ROCE}_{\text{EBIT}}$** target of 12% should again be exceeded in this business unit and thus **stability of GMS' business model** proven in a weaker overall economic environment

# Reporting segment outlook 2019.
## Corporate

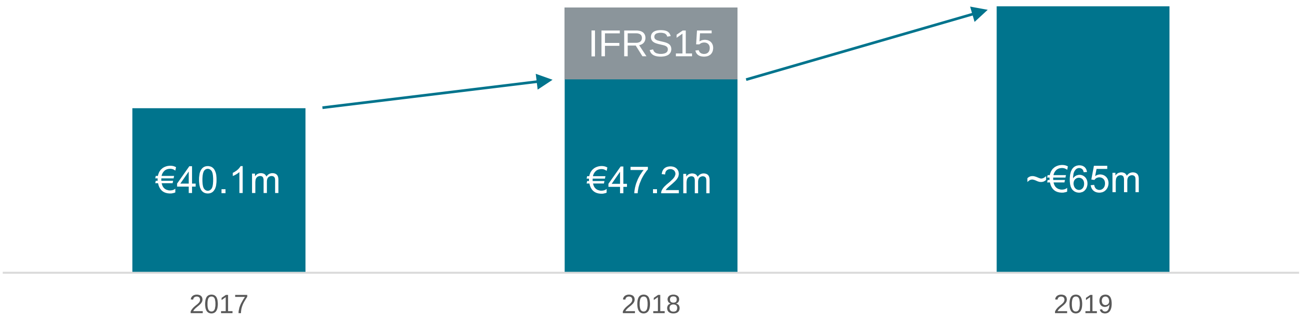
- **Recurring EBIT** anticipated close to prior year level
- Prior year included a €4 million **one-time impact** from a land sale in Q1/2018

# Sneak preview on Q1/2019.

- **Group sales** expected to increase mid single-digit above prior year level
  - **CFM** close to prior year level
  - **GMS** substantially above prior year level
- Adjusted for the positive one-time effect from a land sale (€4m) in the prior year, **Group recurring EBIT** expected on the prior year level
  - **CFM** substantially below prior year, approximately on the level of Q4/2018
    - ➢ Mainly due to **rapid and strong price decline of acrylonitrile** (ACN, raw material for textile fibers) at the end of 2018, resulting in reduced selling prices. We already experienced temporary margin contraction in Q4/2018 based on higher priced inventory of ACN. This trend continued into January and February 2019. From March 2019 onwards, the inventory of higher prices ACN is worked through and we are starting to benefit from lower raw material prices.
    - ➢ In the further course of the year we expect the lower raw material prices to have a **positive impact** on our earnings
    - ➢ **Project billing pattern** distributed differently in 2019 compared to 2018 – first quarter 2018 exceptionally strong due to high capacity utilization and high shipment levels related to particular projects – in 2019, we expect certain projects to be billed particularly in Q2 through to Q4
  - **GMS** expects a record quarter due mainly to optimal combination of very good product mix, high utilization and low costs
    - ➢ Approx. mid single digit €m positive IFRS 15 effect **one-time** in Q1/2019
    - ➢ High earnings level due mainly to an **optimal combination** of very good product mix, high utilization and low costs - unlikely to be sustainable at this very high level
    - ➢ Overall, **shipment levels are skewed to H1/19**, somewhat lower shipments planned for H2/19

# Group outlook 2019.

- Full year **Group sales** expected to increase mid single-digit mainly driven by volume increases
  - Despite weakening of overall economic environment
  - Prior year boosted by high effects from initial adoption of IFRS 15
- **Group recurring EBIT** expected around prior year level which was boosted by positive IFRS 15 effects
  - Adjusted for effects from initial adoption of IFRS 15, Group EBIT in 2019 is growing even faster than in 2018 and is approximately on the same level as previously expected

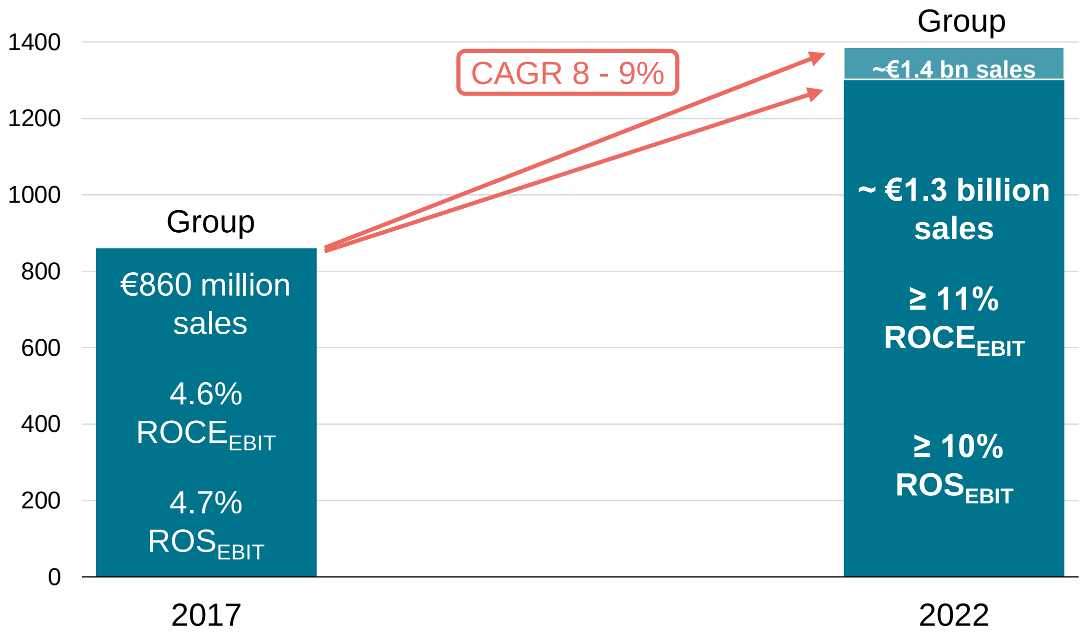


# Group outlook 2019.

- **Net result – continued operations** expected to break even (2018: €41m)
  - Prior year included a high positive one-time effect of €28m from the full consolidation of SGL ACF
  - In addition, we expect substantially higher interest cost in net financial results mainly from the planned issue of a corporate bond to refinance existing debt
- **Capex** 2019 to increase compared to prior year to approx. €100m resulting from the new 5-year plan to capture additional sales and earnings potential from 2022 onwards
  - Mainly driven by higher capex in **Automotive & Transport, LED, Semiconductors**, as well as **Battery & other Energy**
  - Note: our capex projects are **modular** in nature and could be stretched out or postponed if required
- Substantial improvement in negative **free cash flow** from continued operations expected to a low double-digit m€ amount mainly due to working capital improvement and despite higher capex and higher interest costs – i.e. we are already **free cash flow positive** on normalized capex levels
- **Net debt** at end 2019 to increase by a mid double-digit m€ amount
- **Balance sheet targets** expected to continue to be met - **equity ratio** at or above 30% and **leverage ratio** at or below 2.5; as previously communicated, **gearing** target at or below 0.5 could temporarily be exceeded due to additional capex in the years 2019-2021

# 4 Confirmation of mid term growth path and profitability targets

# **Growth & profitability targets.** We increased our mid-term targets in December 2018 to reflect additional growth opportunities




Driver for ROCE improvement: Top line growth, higher margin products, efficiency improvements

**Additional 2022 targets:**

| | |
|---|---|
| Net profit margin | ~ 6–7% |
| Free cash flow margin | ~ 5% |

**Business Unit 2022 targets:**

| | |
|---|---|
| $ROS_{EBIT}$ | ≥ 12% |

**Impact of new growth program on previous sales and EBIT targets for 2022:**

Higher sales and unchanged margin targets **add low double digit million €** amount to our **EBIT** target for 2022

**Over the entire guidance period:**

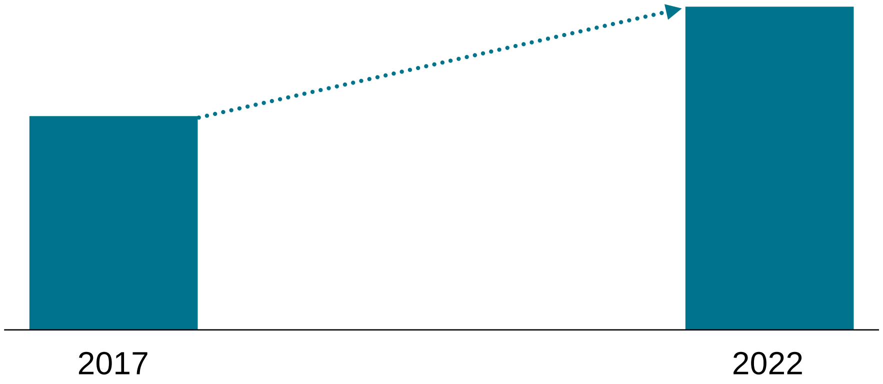
| | |
|---|---|
| Equity ratio | ≥30% |
| Leverage ratio | ≤2.5 |
| Gearing (except 2019-2021) | ≤0.5 |

Note: EBIT always refers to EBIT before non-recurring items

# SGL Carbon – our growth path.

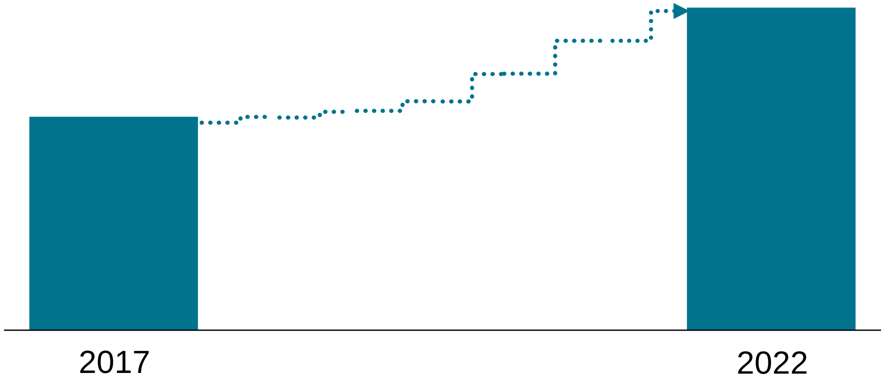
## Different mid-term growth patterns expected in GMS and CFM

### GMS




- **“Linear“ growth expected**

### CFM



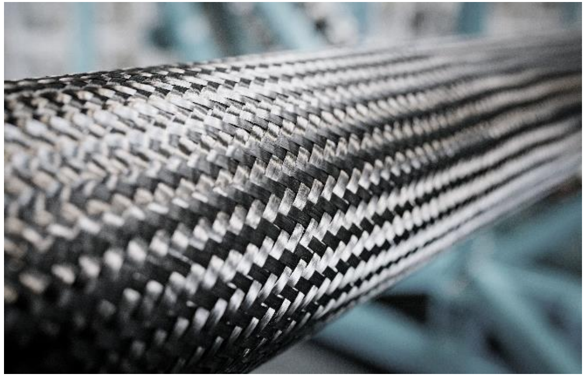

- **Project-driven growth expected, back-end loaded**

Graphs for illustrative purposes; not to scale

# Mid-term: Sales growth of 8-9% p.a.
## Growth dynamics vary in the business units

### Composites – Fibers & Materials

- Young material
- Breakthrough in composites today
- We have to develop our markets
- Numerous trendsetting projects won in the last twelve months
- Due to development times, sales and earnings will only be noticeable in the medium to long term



### Graphite Materials & Systems

- Well developed material with well established markets and businesses
- Sales growth and return targets already achieved
- Strong growth in recent years has pushed us to the limits of production capacity in individual market segments

# CFM: Current project pipeline in market segment Automotive.
## Since the beginning of 2018 nominated for 13 new serial products

| SOP* | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Newly awarded projects** | 3 | 8 | 1 | 1 |

*Start of production; **Status: March 27, 2019

- Leaf springs
- Trunk lids
- Stiffening elements
- Battery housings
- Preforms

# Controlling the entire value chain is a competitive advantage.
## Examples of current customer projects in Automotive

### BMW iNEXT

- Carbon fiber and different glass and carbon fiber fabrics; delivery expected to start in 2022

### Composite battery boxes for electric vehicles

- Concept for high-voltage battery housing presented at JEC World in Paris in mid-March; series supply to an European automobile manufacturer expected to start in 2020

### Leaf spring

- New projects with automotive manufacturers in Europe and North America

# Controlling the entire value chain is a competitive advantage.

## Examples of current customer projects in Aerospace

### Framework contract with Airbus Helicopters

- Delivery of fabrics for structural components, etc.

### Supply contract and cooperation with Onur Materials Services

- High-performance insulation components for the aircraft engines of Onur Air's Airbus A321 fleet
- Onur as sales partner for various countries in the Middle East

# **Recent weakness in market segment Wind energy.** Nevertheless sales to this market help with capacity utilization in carbon fiber plants

## Reasons:

- German wind energy customers showed particular weakness due to transition to auction system
- We addressed the wind market via SGL Kümpers who had a significant exposure to German wind energy customers; also technologically not state-of-the-art

## Strategy:

- We sold our SGL Kümpers share
- Mid-term, we aim to supply state-of the-art technology in the wind energy market (pultrusion)
- Already today we are supplying the largest wind energy customer with carbon fiber, this helps with capacity utilization

# Recent weakness in market segment Textile Fibers.
## Necessary for growth but not decisive for future earnings development

### Reasons:

- Our carbon fiber production is not yet large enough to absorb all textile fiber lines for PAN-precursor
- However, to avoid unabsorbed fixed costs, we operate all lines. Accordingly, we produce acrylic fibers for the textile industry on the remaining lines
- The acrylic fiber price is highly dependent on the price of acrylonitrile (ACN); when ACN/acrylic fiber prices are high, substitution effects (polyester, cotton, etc.) occur
- Note that this is not a core business and plays only a minor role in CFM's mid term earnings growth as this is driven by market segments **Automotive** and **Aerospace**

### Strategy:

- Further conversion of acrylic fiber lines to PAN-precursor
- Develop less price sensitive specialty applications for acrylic fibers (e.g. pigmented fibers, flame retardant fibers)
- Continue cost reduction

# Capex investments at a glance.

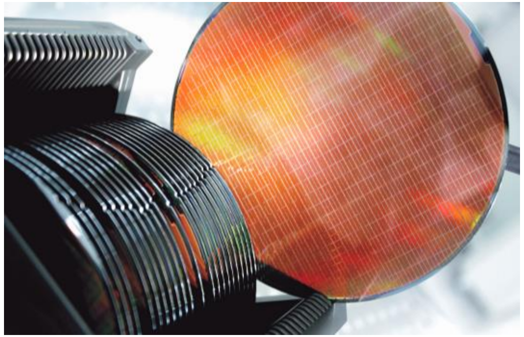
## Capex projects are modular and can be stretched/postponed if required

| Major investment projects | 2019 | 2020 | 2021 |
|---|---|---|---|
| • GMS | | | |
| – Battery & other Energy | Σ: Low double-digit €m | | |
| – LED/Semiconductors | Σ: Mid double-digit €m | | |
| – Automotive & Transport | Σ: Very low double-digit €m | | |
| • CFM | | | |
| – Automotive (components) | Σ: Low double-digit €m | | |
| – Conversion of acrylic fiber lines to precursor | Σ: Low double-digit €m | | |
| Other smaller investments | Σ: High double-digit €m | | |
| Maintenance capex | €30-40m | €30-40m | €30-40m |
| Total planned capex | Approx. €100m | | |

# Capex projects 2019-2021 in GMS.
## Fully modular in nature

### Battery and other Energy

- Capacity expansion for graphite anode materials for lithium-ion batteries
- Modular expansion strategy at low-cost location in Poland



### LED and Semiconductor

- Expansion of SiC coating capacities in the US
- Establishment of a 2nd production outside the USA to better serve Asian customers

### Automotive & Transport

- After investments in Bonn (Germany), expansion of our production site in Poland
- Solutions for brake assistant pumps, cooling water pumps, exhaust gas applications, etc.

# 5 Summary

# Summary.

- **Different growth dynamics** in the business segments
- The "new" SGL Carbon is well positioned, due to
  – higher degree of **diversification**
  – business model based on **structural growth markets** such as electric mobility, energy supply and digitization
- SGL Carbon **confirms Group outlook 2019** and **mid-term targets 2022**

# Q&A

# Appendix

# Financial calendar/contact details.

## Financial calendar 2019

| | |
|---|---|
| March 27, 2019 | Annual Report 2018 |
| May 7, 2019 | Report on the first quarter 2019 |
| May 10, 2019 | Annual General Meeting |
| August 6, 2019 | Report on the first half year 2019 |
| November 5, 2019 | Report on the first nine months 2019 |

## Contact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# Important note.

Important note:

This presentation contains statements relating to certain projections and business trends that are forward-looking, including statements with respect to SGL Carbon’s outlook and business development, including developments in SGL Carbon’s Composites - Fibers & Materials and Graphite Materials & Systems businesses, expected customer demand, expected industry trends and expected trends in the business environment, statements related to SGL Carbon’s cost savings programs. You can generally identify these statements by the use of words like "may", "will", "could", "should", "project", "believe", "anticipate", "expect", "plan", "estimate", "forecast", "potential", "intend", "continue" and variations of these words or comparable words. These statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about SGL Carbon’s businesses and future financial results, and readers should not place undue reliance on them. Forward-looking statements do not guarantee future performance and involve risks and uncertainties. These risks and uncertainties include, without limitation, changes in political, economic, legal and business conditions, particularly relating to SGL Carbon’s main customer industries, competitive products and pricing, the ability to achieve sustained growth and profitability in SGL Carbon’s Composites - Fibers & Materials and Graphite Materials & Systems businesses, the impact of any manufacturing efficiencies and capacity constraints, widespread adoption of carbon fiber products and components in key end-markets of the SGL Carbon, including the automotive and aviation industries, the inability to execute additional cost savings or restructuring measures, availability of raw materials and critical manufacturing equipment, trade environment, changes in interest rates, exchange rates, tax rates, and regulation, available cash and liquidity, SGL Carbon’s ability to refinance its indebtedness, development of the SGL Carbon’s pension obligations, share price fluctuation may have on SGL Carbon’s financial condition and results of operations and other risks identified in SGL Carbon’s financial reports. These forward-looking statements are made only as of the date of this document. SGL Carbon does not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.