

Press release

Regulated information

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Press - Investors
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Third quarter trading update 2016

Bekaert lifts full-year REBIT margin estimate to top-end of 2016 target range

Sales¹

Bekaert achieved consolidated sales of € 2 759 million in the first nine months of 2016, slightly down (-1%) from the same period last year. The underlying organic volume growth of +4.5%² was more than offset by the lower wire rod prices (-3.2%) passed on to our customers, currency effects (-2.5%) and unfavorable price-mix effects (-1.3%). The net effect of mergers, acquisitions and divestments was +1.6%.

Firm demand from automotive markets has been a consistent driver of organic volume growth throughout the first nine months of the year. The third quarter of 2016 showed some trends and effects that were different from the first half of the year:

- Several currencies picked up strongly against the euro. This was particularly the case for the Brazilian real and the Chilean peso which were weak throughout the first half. The current evolutions tempered the year-on-year effect of unfavorable currency movements to less than 1% for the quarter.
- Wire rod price effects almost neutralized in the third quarter as opposed to a sharp decline in the first quarter (-7% year-on-year) and -2% in the second quarter of 2016. In North America, steel based raw materials were still 3% lower than in the same period last year while a reverse effect occurred in Asia Pacific.
- The net effect of mergers, acquisitions and divestments became more significant in the third quarter (+5.5%) as a result of the integration of the Bridon activities into the Bridon-Bekaert Ropes Group, and hence in Bekaert's consolidated statements since 28 June 2016.
- While Bekaert reported significant organic volume growth in the first two quarters of the year, it turned almost flat in the third quarter, compared with a relatively strong third quarter last year. As anticipated, demand slowed down in EMEA markets. Solar markets suddenly contracted as a result of reduced feed-in tariffs in China since July 2016. Sales related to oil & gas markets further slowed during the summer and significantly impacted the product-mix of Bekaert's specialty steel wires platform.
- The recently launched customer excellence program aimed at driving growth and margin performance has begun to show its effectiveness in several pilot programs. Better segmentation and successful efforts to improve the product mix have, for instance, boosted growth and margins in target markets in Asia Pacific.

Combined sales³ totaled € 3 232 million in the first nine months of 2016, down 4% from the same period last year. The strong devaluation of the Brazilian real (-25% year-on-year) drove the translation effect of exchange rate movements at the combined level (-4% year-to-date while positive (+0.7%) in the third quarter after a steep climb of the real in recent months). The impact of mergers, acquisitions and divestments was almost neutral (+0.2%).

¹ The figures in this press release are provisional and unaudited.

² 2.7% volume growth when including the -1.7% effect of the shutdown period of the Venezuelan operations due to raw material shortages.

³ Combined sales are sales of consolidated companies plus 100% of sales of joint ventures and associates after intercompany elimination.

Outlook

We project continued strong demand from automotive and construction markets in the last quarter of the year and anticipate a moderate pick-up in demand from solar markets after the Q3 decline. A reduction in feed-in tariffs is expected in China in April 2017 and demand is projected to strengthen ahead of that change. Oil and gas markets will remain weak.

As anticipated in our previous outlook, we are beginning to see adverse market conditions in several sectors: the uncertainty in the European market has been felt over the last couple of months in terms of order intake across many applications and, combined with normal seasonality, we believe this will continue into the first quarter of 2017. In Latin America, despite the success we have had in offsetting slow markets over the last few quarters, the impact of cost and pricing actions will become more limited, particularly as currencies strengthen. In North America, we expect normal seasonality impacts in Q4, and believe there will be more positive growth into 2017 as infrastructure spend and 'made in America' begin to impact. In Asia we anticipate the current strength to continue in Q4 and into 2017, particularly in the automotive sector.

We remain confident we will continue to outperform the market environment. Bekaert's actions to drive value creation are gaining impact in implementation scope and speed. The manufacturing excellence program aimed at gaining competitiveness by optimizing the company's safety, quality, delivery performance and productivity is accelerating globally. The recently launched customer excellence program aimed at driving growth and margin performance has begun to show its potential through successful pilot programs.

We believe that our transformational excellence programs will continue to underpin our move towards a sustainable higher level performance. Confident of their impact, we are revising our previous target range (between 7% and 8% REBIT) for full year 2016 and believe we will achieve between 7.5% and 8% REBIT margin on sales.

Consolidated sales by segment

First nine months - in millions of €

Consolidated sales	2015	2016	Variance ⁴	Share	FX impact ⁵
EMEA	899	876	-3%	32%	-4
North America	408	391	-4%	14%	-1
Latin America	538	504	-6%	18%	-27
Asia Pacific	767	778	+2%	28%	-31
BBRG	183	210	+14%	8%	-7
Total	2 795	2 759	-1%	100%	-70

2016 quarter-on-quarter progress - in millions of €

Consolidated sales	1 st Q	2 nd Q	3 rd Q	Q3 y-o-y ⁶	FX impact ⁷
EMEA	295	312	268	-6%	-1
North America	133	131	127	-3%	-1
Latin America	162	167	176	+5%	+3
Asia Pacific	244	273	261	+2%	-9
BBRG	50	52	108	+80%	-
Total	884	935	940	+5%	-8

Combined sales⁸ by segment

First nine months - in millions of €

Combined sales	2015	2016	Variance ⁴	Share	FX impact ⁵
EMEA	895	875	-2%	27%	-4
North America	408	391	-4%	12%	-1
Latin America	1 089	979	-10%	30%	-88
Asia Pacific	803	778	-3%	24%	-33
BBRG	182	209	+15%	7%	-7
Total	3 377	3 232	-4%	100%	-133

2016 quarter-on-quarter progress - in millions of €

Combined sales	1 st Q	2 nd Q	3 rd Q	Q3 y-o-y ⁶	FX impact ⁷
EMEA	295	312	268	-5%	-1
North America	133	131	127	-3%	-1
Latin America	308	327	344	+4%	+19
Asia Pacific	244	273	261	-3%	-10
BBRG	50	52	108	+80%	-
Total	1 030	1 095	1 107	+3%	+8

⁴ Comparisons are made relative to the figures for the first nine months of 2015, unless when otherwise indicated.

⁵ Foreign exchange impact on sales over the first nine months of 2016 – in millions of €.

⁶ Q3 year-on-year sales: 3rd quarter 2016 versus 3rd quarter 2015.

⁷ Foreign exchange impact on sales in the 3rd quarter of 2016, computed on the basis of ytd Q3 versus ytd Q2 – in millions of €.

⁸ Combined sales are sales of consolidated companies plus 100% of sales of joint ventures and associates after intercompany elimination.

Performance by segment

EMEA

Bekaert's activities in EMEA achieved 2.5% organic volume growth over the first nine months of 2016, compared with the same period last year. Following firm volume growth in the second quarter, third quarter sales were down due to low demand for profiled wires as a result of investment delays and cancellations in the oil and gas sector. Weaker demand from industrial steel wire and consumer goods related markets illustrated the projected slowdown from growing uncertainty in Europe, following Britain's choice to leave the European Union. Automotive markets remained strong throughout the first nine months of 2016.

While taking into account the usual seasonal effects at year-end, Bekaert anticipates continued good demand from automotive markets in the last quarter of the year. Oil and gas markets will remain depressed and we take into account some demand slowdown overall, due to increased economic uncertainty.

North America

Bekaert's activities in North America recorded an organic volume growth of almost 9% in the first nine months of 2016, compared with the same period last year. This growth, mainly driven by the volume increase from the plant reconstruction in Rome, Georgia (US), was largely offset in the sales number due to a 5% decrease in passed-on wire rod prices. Unfavorable mix effects from firm growth in lower priced product groups accounted for a price-mix impact of -6%. The effect of business divestments was -2% and currency movements were about neutral.

Automotive, construction and industrial wire markets performed well, while decreased demand from the oil and gas sector drove sales of profiled wires down.

We expect normal seasonality impacts in North America in Q4, and believe there will be more growth opportunities into 2017 as infrastructure spend and 'made in America' begin to impact.

Latin America

In Latin America, consolidated sales were down 6% for the first nine months of 2016 due to the translation effect of adverse exchange rate movements (-5%) and flat volume growth (excluding Venezuela, which had an effect of -1% on sales). Significant fluctuations of local currencies against the USD explain the counterbalancing effects of wire rod prices (-6%) and the price-mix from sales in local currency (+6%).

Third quarter sales were up 5% compared with last year as a result of positive currency effects (+2%) and 3% organic sales growth driven by positive mix effects (+5%) which more than offset the lower wire rod prices and a volume loss of 1% year-on-year.

Bekaert perceives increased instability in the whole region, with a weak business climate in most countries. While we expect to maintain the benefits of our strong market positions, improved business portfolio and the implementation of our manufacturing excellence program, the impact of cost and pricing actions will become more limited, particularly as currencies strengthen.

Asia Pacific

Compared with the first nine months of 2015, Bekaert achieved 10% organic volume growth in Asia Pacific. Strong demand from solar markets in the first half of 2016 and automotive markets throughout the first nine months, boosted the growth. The wire rod price impact was limited year-to-date (-1%) after a pick-up in the third quarter (+2% year-on-year). Price erosion accounted for almost -4% (while lower in the third quarter: -2%) and currency movements totaled -4%. The net effect of acquisitions and divestments was limited (+0.5%).

Excluding currency effects, sawing wire sales increased by more than 12% compared with the first nine months of 2015. The strong growth in the first half of 2016 was followed by a sudden drop in the third quarter. This was the result of changes in feed-in tariffs implemented in China in July 2016. The demand decline is projected to be temporary. We expect a moderate pick-up as of November onwards. The next change to feed-in tariffs in China is expected to be implemented in April 2017.

Bekaert's rubber reinforcement activities recorded robust growth across the region. In China, tire cord sales increased as a result of strong demand and positive quarter-on-quarter pricing trends throughout 2016. The successful pilot of Bekaert's customer excellence program in China led to a better prioritization of the capacity available to serve growth accounts with a higher value adding product portfolio. Bekaert's operations in Indonesia performed very strongly in all segments.

We expect the high run rate in our tire markets to continue into the final quarter of the year, and project solar markets to improve moderately from November onwards. We have implemented actions to turn around the low performance of the Malaysian activities (see investment update and other information below) and will add tire cord capacity in China, Indonesia and India to meet increased demand from automotive markets in the region.

Bridon-Bekaert Ropes Group

Compared with the first nine months of 2015, Bekaert achieved 14% sales growth in the ropes segment. The integration of the Bridon activities accounted for 22%. The segment reported an organic sales decline of 4% due to much lower volumes in steel ropes for oil & gas and mining markets, largely compensated by continued strong business in advanced cords markets. Unfavorable currency effects accounted for -4%.

We project continued difficult market circumstances in oil & gas markets in the near future. Sales and profit performance will therefore remain low. The management of Bridon-Bekaert Ropes Group is implementing actions to strengthen its market position and to gradually leverage the benefits of its increased scale through improvements in the manufacturing footprint and global business portfolio.

Investment update and other information

Net debt was € 1 079 million as at 30 September 2016, € 173 million up from 30 September 2015 and € 247 million up from year-end 2015. This was mainly the result of the debt increase related to the merger of the Bridon ropes business. Bekaert projects a year-end net debt closing balance at the current level.

In October 2016, Bekaert started to phase out the operations in Shah Alam, Malaysia. The decision to cease rope manufacturing was implemented with immediate effect. As a result, the Bridon-Bekaert site in Indonesia will have the opportunity to grow its business scope across South-East Asia. In a next phase, the rope wire and hard drawn spring wire activities will be moved to the Ipoh site, also in Malaysia. The final closure of the Shah Alam plant is scheduled by 1 July 2017.

The management of Bridon-Bekaert Ropes Group is consulting with the trade unions of Bridon-Bekaert ScanRope AS regarding the future of the manufacturing plant in Tønsberg, Norway. The plant's activity level has been heavily affected by the downturn in oil and gas markets which set in early 2015.

Since 29 July 2016, 6 600 treasury shares were disposed of in connection with the exercise of stock options. As a result, the company currently owns 3 859 061 treasury shares.

Financial calendar

2016 results (new date)

2016 annual report available on the Internet

1 March 2017

First quarter trading update 2017

10 May 2017

General Meeting of Shareholders

10 May 2017

2017 half year results

28 July 2017

Third quarter trading update 2017 (new date)

10 November 2017

Disclaimer

This press release may contain forward-looking statements. Such statements reflect the current views of management regarding future events, and involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Bekaert is providing the information in this press release as of this date and does not undertake any obligation to update any forward-looking statements contained in this press release in light of new information, future events or otherwise. Bekaert disclaims any liability for statements made or published by third parties and does not undertake any obligation to correct inaccurate data, information, conclusions or opinions published by third parties in relation to this or any other press release issued by Bekaert.

Profile

Bekaert (www.bekaert.com) is a world market and technology leader in steel wire transformation and coating technologies. We pursue to be the preferred supplier for our steel wire products and solutions by continuously delivering superior value to our customers worldwide. Bekaert (Euronext Brussels: BEKB) is a global company with approximately 30 000 employees worldwide, headquarters in Belgium and € 4 billion in annual revenue.