KENDRION N.V.

PRESS RELEASE

7 May 2019

Investments in key opportunities continue despite difficult market conditions in Q1 2019

- **Revenue of EUR 108.3 million 10% lower than in Q1 2018 (EUR 120.6 million)**
- **EBITDA of EUR 12.7 million or 11.8% (Q1 2018 normalised: EUR 17.7 million or 14.6%), a decrease of 28%, fully attributable to revenue decline**
- **Staff cost levels 3.5% lower than normalised costs of Q1 2018**
- **Revenue in China up by more than 20% with multiple new programmes ramping up**
- **Investments in key opportunities continue, with a focus on passenger cars, electromagnetic brakes for robotics and China**
- **Continued strong balance sheet and financial position**

Key figures

Reported (in EUR million)	Q1 2019	Q1 2018	delta
Revenue	108.3	120.6	-10%
EBITDA	12.7	16.6	-23%
EBITA	6.7	10.8	-38%
Net profit	4.3	7.3	-41%
EBITDA as a % of revenue	11.8%	13.7%	
EBITA as a % of revenue	6.2%	9.0%	
Return on invested capital (12 months rolling)	7.7%	12.2%	

Normalised (in EUR million)	Q1 2019	Q1 2018	delta
Revenue	108.3	120.6	-10%
EBITDA	12.7	17.7	-28%
EBITA	6.7	11.9	-44%
Net profit	4.3	8.1	-46%
EBITDA as a % of revenue	11.8%	14.6%	
EBITA as a % of revenue	6.2%	9.9%	
Return on invested capital (12 months rolling)	10.4%	14.0%	

Joep van Beurden, Kendrion CEO:

"We have had a difficult quarter, as the global automotive market continues to be under pressure. Car sales declined in Europe (4%), the US (3%) and China (13%). This has had a significant impact on our Automotive revenue, which declined by 13% compared with Q1 2018. Industrial was somewhat weaker as well, but at a healthy overall level.

We continue to focus our resources and investments in passenger cars, specifically in the areas of electrification, autonomous driving, safety and comfort, in permanent magnet brakes for robotics and in China where we see healthy growth opportunities.

We have significantly simplified and streamlined our organisation over the past few years. The current slowdown provides evidence of just how important that is as we continue to invest in the longer-term opportunities in front of us. In that context, it is gratifying to see that in China, despite a weak local trading environment, we have grown our year-on-year revenue by more than 20% as we ramp up multiple new production lines.

We take a long-term view of the opportunities for both our Automotive and Industrial activities; these opportunities remain intact and we reiterate our long-term financial targets of ROIC of at least 20% and an EBITDA margin of more than 15% by 2023. Despite the difficult market conditions and short-term economic uncertainty, we face the future with confidence."

Progress on strategy

After completing the first pillar of our "Simplify, Focus and Grow" strategy, resulting in cumulative savings of almost EUR 20 million in three years, we have significantly improved organisational resilience to market uncertainties. We will continue to focus on further improving operational effectiveness and containing cost levels. At the same time, the investments in our three focus areas, passenger cars, robotics and China will continue. We expect this will position us to benefit from important long-term trends such as electrification, autonomous driving and developments enhancing car safety and comfort. In China, our pipeline shows significant growth for the coming years and we continue to invest in production equipment, in additional staff, and in training to accelerate local engineering know-how capabilities.

Financial review

Revenue

In the first quarter of 2019, revenue decreased by 10% compared with the strong first quarter of 2018 (11% at constant exchange rates). In Automotive, revenue decreased by 13% compared with Q1 2018, continuing the trend of the second half of 2018, while revenue also decreased in Industrial, by 5%, compared with a strong Q1 2018.

In Automotive, demand in the global light vehicle markets continued to be weak, affecting our major end customers. Our commercial project pipeline development was satisfactory. In Industrial, demand has started to soften a bit, leading to lower revenues in our business units, although in general activity levels continue to be high. In China, revenue growth continues to be strong at over 20%, and we invest in production capacity and additional staff according to plan.

Results

The operating result before depreciation and amortisation (EBITDA) decreased by 28% to EUR 12.7 million (Q1 2018 normalised: EUR 17.7 million). In Automotive, lower costs did not offset the lower production volumes and the revenue decrease in Industrial also meant that profitability decreased in all three business units. Total staff and other operating expenses were slightly below the level of the first quarter of 2018. Staff costs decreased by EUR 1.1 million, driven by cost measures taken in Automotive, while other operating expenses increased compared with the same quarter in 2018 mainly due to a different phasing of costs incurred for promotional and other activities. The EBITDA margin decreased to 11.8%, from 14.6% a year earlier. The effective tax rate in Q1 2019 was 25.1% (Q1 2018: 23.7%). Net profit in the first quarter of 2019 was EUR 4.3 million, compared with EUR 8.1 million in Q1 2018.

Financial position

The net debt position at the end of the first quarter was EUR 87.6 million compared with EUR 80.5 million at year-end 2018. The increase is in line with the first quarter free cash flow, which is traditionally impacted by seasonal effects with a lower activity, and therefore working capital level, at year-end. Free cash flow was further impacted by increased inventory levels, which are somewhat higher due to reduced demand. We will maintain our focus on reducing working capital in general, and inventory levels in particular over the next quarters.

Investments amounted to EUR 5.0 million in the first quarter, at a depreciation level of EUR 6.0 million. We continue to expect investments for the full year to exceed depreciation levels, largely due to new Automotive projects.

Kendrion's financial position remains strong, with a solvency ratio of 48.5% at the end of March 2019, compared with 50.2% at the same time last year.

Number of employees

The total number of employees (FTEs) decreased from 2,465 at the end of 2018 to 2,450 (including 94 temporary employees) at the end of the first quarter 2019. The number of indirect FTEs decreased by 30, as a result of the restructuring measures in Malente. Compared with Q1 2018, headcount is reduced with 165 FTEs.

Outlook

The short-term outlook for the automotive industry remains unchanged, and we see modest softening of the industrial markets as well. We expect our activities in China to continue to grow strongly. Our balance sheet remains strong, enabling us to continue investing for the long-term opportunities that remain intact. We remain confident about our business model, our activities and our market positioning for the longer term.

For the medium term, we remain positive about our business fundamentals, with our main objective being to deliver sustainable profitable growth for our business in the medium to long term. We reiterate our medium-term targets of a Return on Investment of at least 20% and an EBITDA margin of more than 15% by 2023.

Share buyback programme

Kendrion will repurchase 161,684 ordinary shares to neutralise the dilutive effect of the 2018 final stock dividend and share-based incentive plans. These shares will be held as treasury shares and will be used to pay future stock dividends and share-based incentive plans. Kendrion is committed to the repurchase of the ordinary shares by engaging a third party to execute the transactions on its behalf.

These transactions will commence on 13 May 2019 and will run until no later than 27 December 2019. Kendrion will provide weekly updates on the transactions on www.kendrion.com.

The first progress report will be published on Monday, 20 May 2019.

Extraordinary General Meeting of Shareholders

On 7 June 2019, Kendrion will hold an Extraordinary General Meeting of Shareholders (EGM) to propose the appointment of Jeroen Hemmen as a member of the Executive Board and CFO of the Company for a four-year term commencing on 1 July 2019 and ending 1 July 2023. Jeroen has held various finance positions within Kendrion over the last fourteen years and is currently Finance Director Automotive and interim CFO. The EGM has been convened in the customary manner.

Analysts' conference call Q1 2019

Kendrion CEO Joep van Beurden and interim CFO Jeroen Hemmen will host a conference call for analysts on Tuesday, 7 May 2019, at 11:00 a.m. CET to discuss the first quarter results. A playback of the conference call will be available via the company website www.kendrion.com.

Profile of Kendrion N.V.

Kendrion develops, manufactures and markets high-quality electromagnetic systems and components for industrial and automotive applications. For over a century, we have been engineering precision parts for the world's leading innovators in passenger cars, commercial vehicles and industrial applications. As a leading technology pioneer, Kendrion invents, designs and manufactures complex components and customised systems as well as local solutions on demand.

We are committed to the engineering challenges of tomorrow, and taking responsibility for how we source, manufacture and conduct business is embedded into our culture of innovation. Rooted in Germany, headquartered in the Netherlands and listed on the Amsterdam stock exchange, Kendrion's expertise extends across Europe to the Americas and Asia. Created with passion and engineered with precision. Kendrion – we magnetise the world.

Zeist, 7 May 2019

The Executive Board

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Annexes

1. Consolidated statement of comprehensive income
2. Consolidated statement of financial position
3. Financial calendar 2019 - 2020

Annex 1 – Consolidated statement of comprehensive income

(EUR million)	Q1 2019	Q1 2018	full year 2018
Revenue	108.3	120.6	448.6
Other income	-	0.0	0.1
Total revenue and other income	**108.3**	**120.6**	**448.7**
Changes in inventories of finished goods and work in progress	(1.6)	0.6	(0.2)
Raw materials and subcontracted work	58.2	63.0	237.0
Staff costs	31.9	34.1	134.3
Depreciation and amortisation	6.5	6.4	25.4
Other operating expenses	7.1	6.3	27.9
Result before net finance costs	**6.2**	**10.2**	**24.3**
Finance income	0.0	0.0	0.2
Finance expense	(0.4)	(0.7)	(3.3)
Share profit or loss of an associate	-	-	(0.1)
Profit before income tax	**5.8**	**9.5**	**21.1**
Income tax expense	(1.5)	(2.2)	(7.3)
Profit for the period	**4.3**	**7.3**	**13.8**
Basic earnings per share (EUR), based on weighted average	0.32	0.54	1.03
Basic earnings per share (EUR), based on weighted average (diluted)	0.32	0.54	1.03

Annex 2 – Consolidated statement of financial position

(EUR million)	31 March 2019	31 March 2018	31 Dec. 2018
Assets			
Non-current assets			
Property, plant and equipment	112.9	106.0	113.6
Intangible assets	116.1	116.0	116.1
Other investments	3.1	0.2	3.1
Deferred tax assets	13.0	11.9	13.2
Contract costs	0.4	0.4	0.4
Total non-current assets	**245.5**	**234.5**	**246.4**
Current assets			
Inventories	67.4	57.5	63.5
Current tax assets	0.9	1.1	1.0
Trade and other receivables	63.1	67.7	54.2
Cash and cash equivalents	10.5	8.4	10.2
Total current assets	**141.9**	**134.7**	**128.9**
Total assets	**387.4**	**369.2**	**375.3**
Equity and liabilities			
Equity			
Share capital	27.1	27.0	27.1
Share premium	39.8	49.6	39.8
Reserves	116.8	101.5	101.4
Retained earnings	4.3	7.3	13.8
Total equity	**188.0**	**185.4**	**182.1**
Liabilities			
Loans and borrowings	87.9	73.5	78.5
Employee benefits	19.0	19.1	19.2
Deferred tax liabilities	10.1	8.7	10.2
Total non-current liabilities	**117.0**	**101.3**	**107.9**
Bank overdraft	5.3	5.4	9.3
Loans and borrowings	4.9	2.9	2.9
Provisions	3.5	0.7	4.1
Current tax liabilities	1.8	2.0	1.6
Contract costs	6.9	7.8	8.2
Trade and other payables	60.0	63.7	59.2
Total current liabilities	**82.4**	**82.5**	**85.3**
Total liabilities	**199.4**	**183.8**	**193.2**
Total equity and liabilities	**387.4**	**369.2**	**375.3**

Annex 3 – Financial calendar 2019 - 2020

2019

Analysts' call	Tuesday, 7 May 2019	11.00 a.m.
Extraordinary General Meeting of Shareholders	Friday, 7 June 2019	10.00 a.m.
Publication of HY1 2019 results	Tuesday, 13 August 2019	07.30 a.m.
Analysts' meeting	Tuesday, 13 August 2019	01.00 p.m.
Publication of Q3 2019 results	Tuesday, 5 November 2019	07.30 a.m.
Analysts' call	Tuesday, 5 November 2019	11.00 a.m.

2020

Publication of FY 2019 results	Tuesday, 18 February 2020	07.30 a.m.
Analysts' meeting	Tuesday, 18 February 2020	11.00 a.m.
General Meeting of Shareholders	Monday, 6 April 2020	02.30 p.m.
Publication of Q1 2020 results	Tuesday, 5 May 2020	07.30 a.m.
Analysts' call	Tuesday, 5 May 2020	11.00 a.m.
Publication of HY1 2020 results	Tuesday, 18 August 2020	07.30 a.m.
Analysts' meeting	Tuesday, 18 August 2020	11.00 a.m.
Publication of Q3 2020 results	Tuesday, 3 November 2020	07.30 a.m.
Analysts' call	Tuesday, 3 November 2020	11.00 a.m.