

**LEONI**



# Analyst & Investor Conference

LEONI Group

Aldo Kamper, CEO

Ingrid Jägering, CFO

30 March 2020

---

**LEONI**

# Agenda

**1** › Highlights

**2** › Financial results 2019

**3** › Update on VALUE 21

**4** › IDW S6 Opinion

**5** › Outlook 2020

**6** › Summary

**7** › Appendix

# Agenda

**1** › Highlights

**2** › Financial results 2019

**3** › Update on VALUE 21

**4** › IDW S6 Opinion

**5** › Outlook 2020

**6** › Summary

**7** › Appendix

# Highlights

2019 in total very challenging, VALUE 21 well on track, but Covid-19 pandemic poses new threats

- › 2019 remained demanding for LEONI: Automotive industry did not recover and operational issues, particularly in H1 2019, resulted in significant losses in our Wire Harness Division.
- › Quick reaction and implementation of VALUE 21 to stabilise the business, address the operational challenges, and improve cashflow generation and future profitability.
- › Execution of VALUE 21 is well on track to achieve targeted gross savings of EUR500m. Already EUR300m of measures in execution.
- › Continued pressure on earnings, but significant improvement in FCF throughout course of 2019 and positive FCF in H2.
- › Expert opinion based on IDW S6 standards issued in March 2020 confirmed ability to restructure and that with VALUE 21 LEONI is on the right track.
- › WCS carve-out is prepared and ready to move forward. We therefore continue to closely monitor all options.
- › Covid-19 will have a significantly negative impact on LEONI in 2020 and as a result LEONI has decided to seek state aid to ensure the continuation of business.

# Agenda

1 › Highlights

**2 › Financial results 2019**

3 › Update on VALUE 21

4 › IDW S6 Opinion




5 › Outlook 2020

6 › Summary

7 › Appendix

# Financial results FY 2019

Unsatisfactory results underline the importance of stringent execution of the VALUE 21 programme

	FY 2018A	Guidance FY19	FY 2019A	
<b>Sales</b>	EUR 5.1bn	“moderately below FY 2018”	EUR 4.8bn	
<b>EBIT before exceptional items as well as before VALUE 21 costs</b>	EUR 157m	“up to a negative mid double-digit EURm figure”	EUR -66m	
<b>Free cash flow</b>	EUR -140m	“+/- a low double-digit EURm compared to H1/19”	EUR -308m	

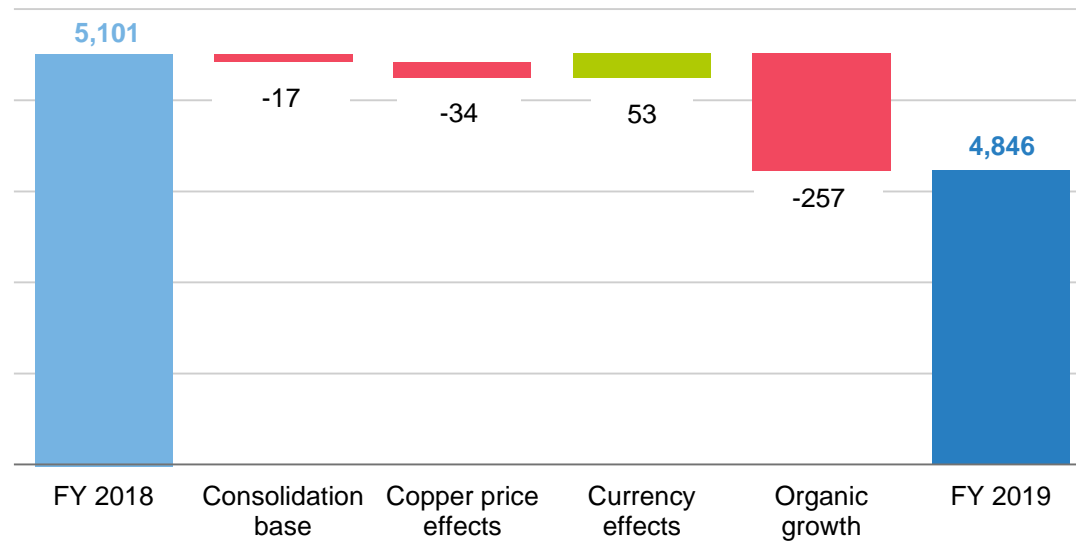
- › LEONI versus guidance on FY 2019:
  - › Sales and EBIT before exceptional items as well as before VALUE 21 costs in line with guidance.
  - › FCF better than guidance.
- › Significantly improved cash flow management reduced NWC and increased liquidity in H2.
- › Factoring and reverse factoring remained at the prior year’s level.

Restatement of FY 2018 figures

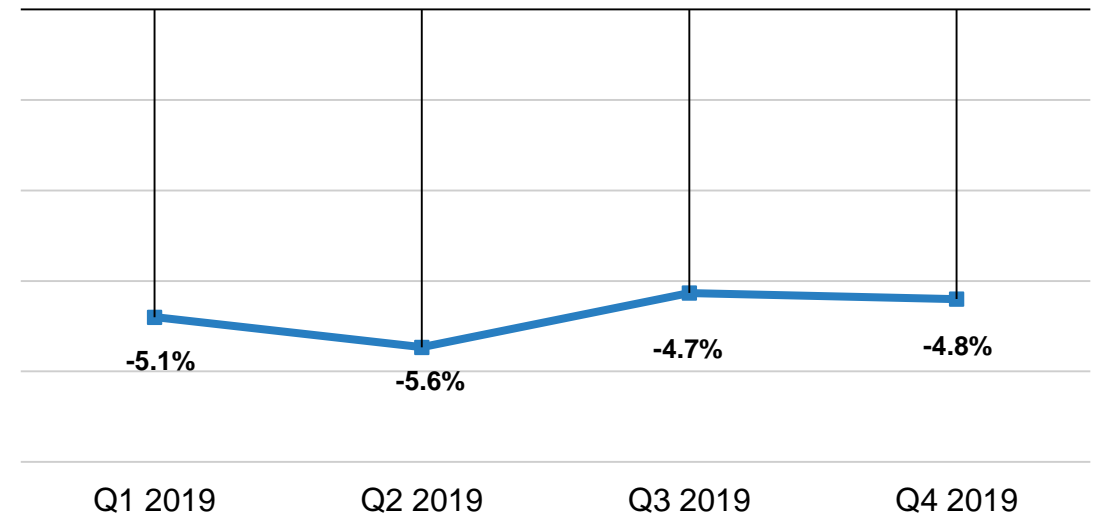
# FY 2019 sales characterised by continued weak market environment

## Sales year-on-year

€ million



Organic sales growth development (in % y/y)



- › Both divisions affected by challenging market environment.
- › Weaker demand in almost all end customer industries.

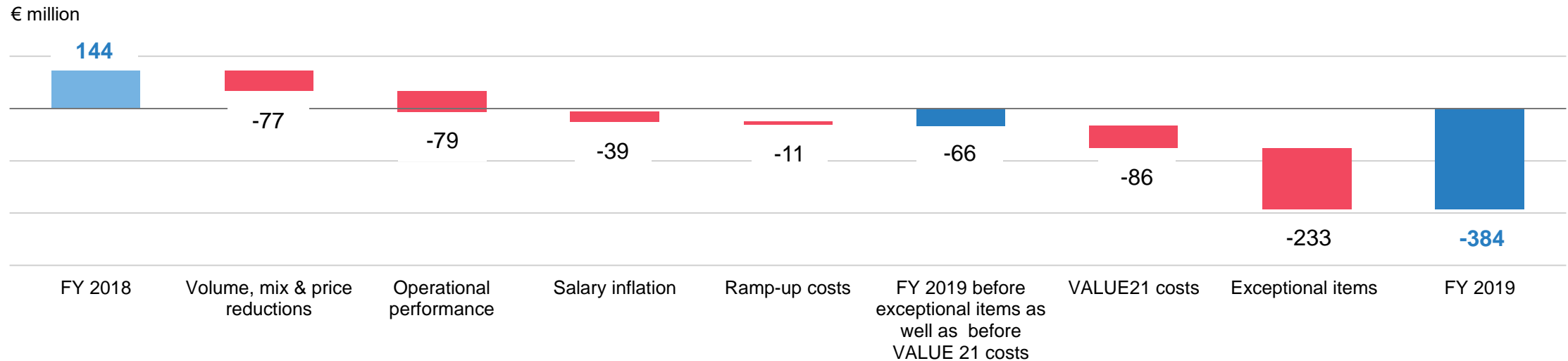
- › Top-line continued to decrease year-on-year, even though previous year's Q3 & Q4 were already weak.

Rounding differences may for arithmetical reasons occur versus the mathematically precise figures



# VALUE 21 related costs and exceptional items burdened EBIT

Operating income development year-on-year



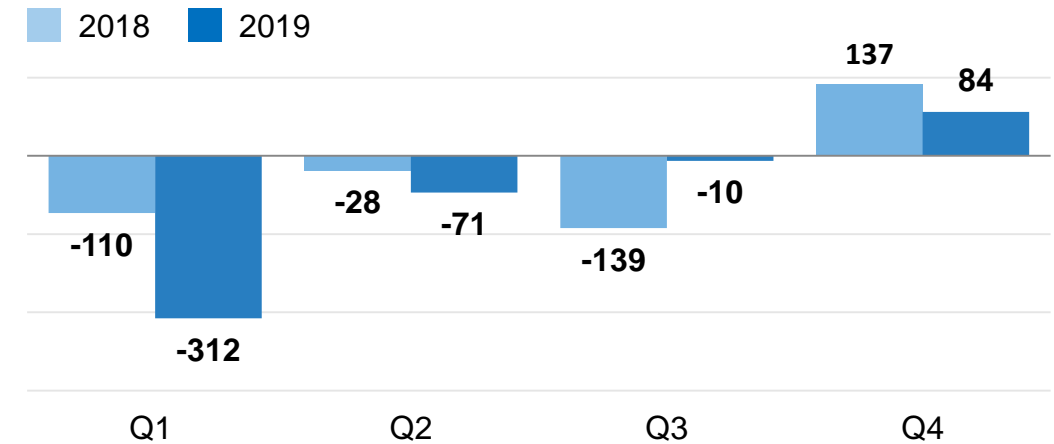
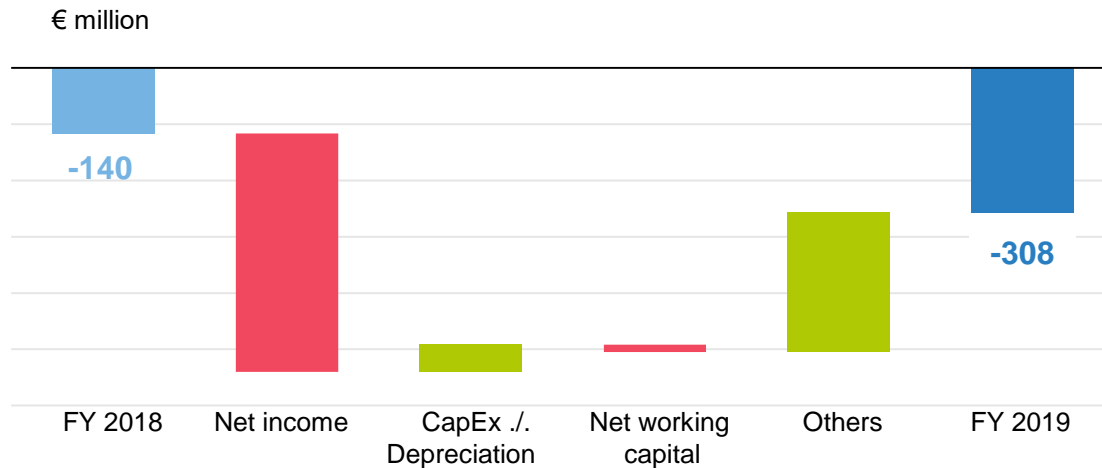
- › Volume reduction reflects weaker market environment, price reductions mainly out of existing long-term contracts.
- › Year-on-year, operational performance in WSD is burdened by comparably high share of less profitable early-stage projects and problems at Merida plant at the beginning of the year (impact 2019 of around EUR65m).

- › As anticipated, ramp-up costs increased year-on-year.
- › Progress of VALUE 21 implementation reflected in significant increase in programme related costs.
- › Exceptional items include impairments and provisions related to the shift towards strategic customers.

Rounding differences may for arithmetical reasons occur versus the mathematically precise figures

# Cash flow suffered from operational performance

Improved management of inventories and receivables supported sequential improvement Q/Q



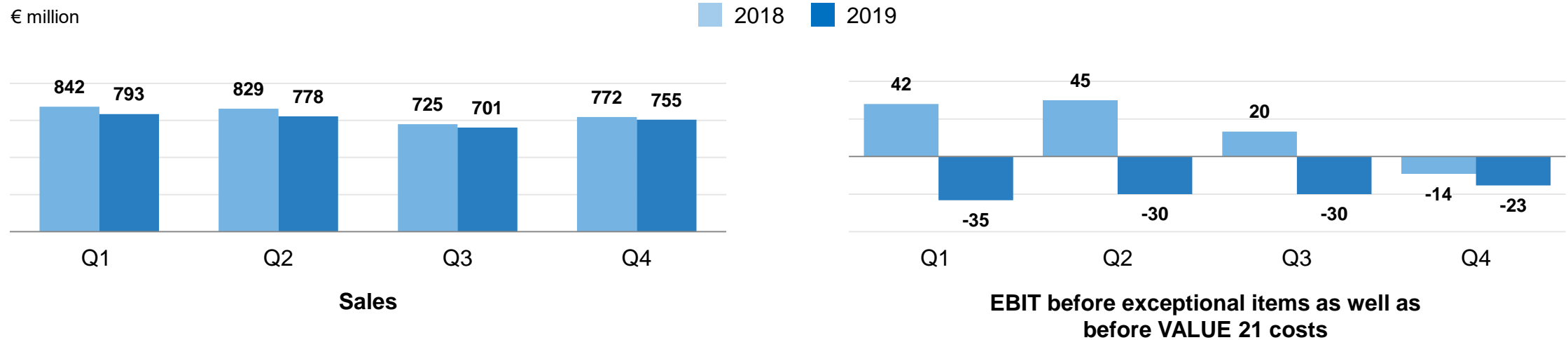
- › Bottom-line development suffers from operational performance as well as VALUE 21 costs and exceptional items.
- › To ensure proper execution of future ramp-ups, necessary capital expenditures remain at a high level. Excluding IFRS 16 related accounting changes, CapEx would have been down over 2018.
- › ‘Others’ includes adjustments for non-cash items related to VALUE 21 and exceptional items.

- › As anticipated, significantly improved cash flow in H2 2019 (FCF H1 2019: EUR-382m).

Rounding differences may for arithmetical reasons occur versus the mathematically precise figures

# WSD continues to suffer from declining demand

Sequential improvements in operational efficiency more than offset by declining volumes



- › Sales FY 2019: -4.4% to EUR3.0bn (2018: EUR3.2bn).
- › Organic sales: -1.9% y/y in Q4 2019.
- › Order intake FY 2019: EUR2.0bn (thereof related to electromobility: EUR0.4bn).
- › Order backlog end FY 2019: EUR22.9bn (thereof related to electromobility: EUR6.0bn or 26%).

- › Reported FY 2019 EBIT came in at EUR-370m (2018: EUR80m).
- › Division's reported FY 2019 EBIT included costs totalling EUR50m related to the VALUE 21 programme and exceptional items of EUR203m.

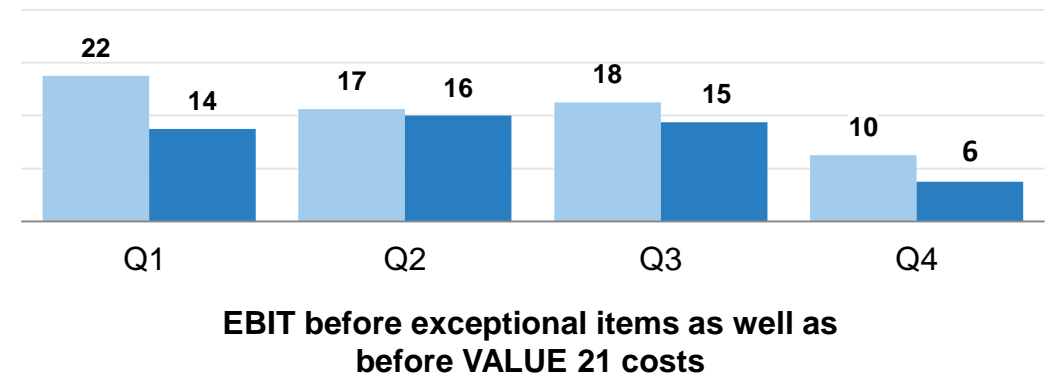
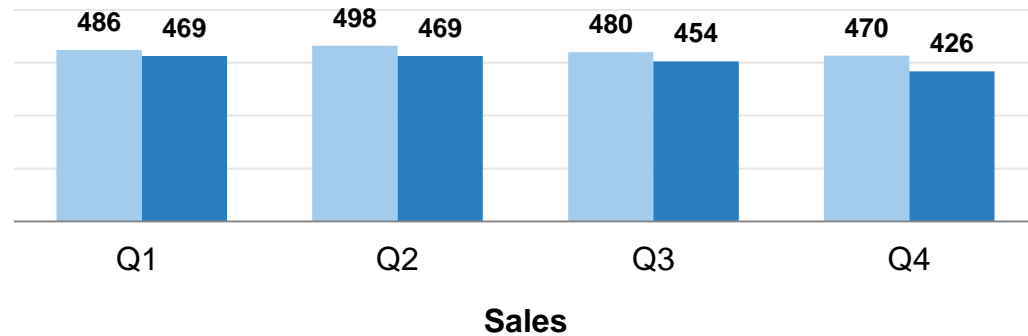
Rounding differences may for arithmetical reasons occur versus the mathematically precise figures

# WCS with weaker demand in almost all end customer industries

Sales down on the back of negative organic growth impacting operating development

€ million

2018 2019



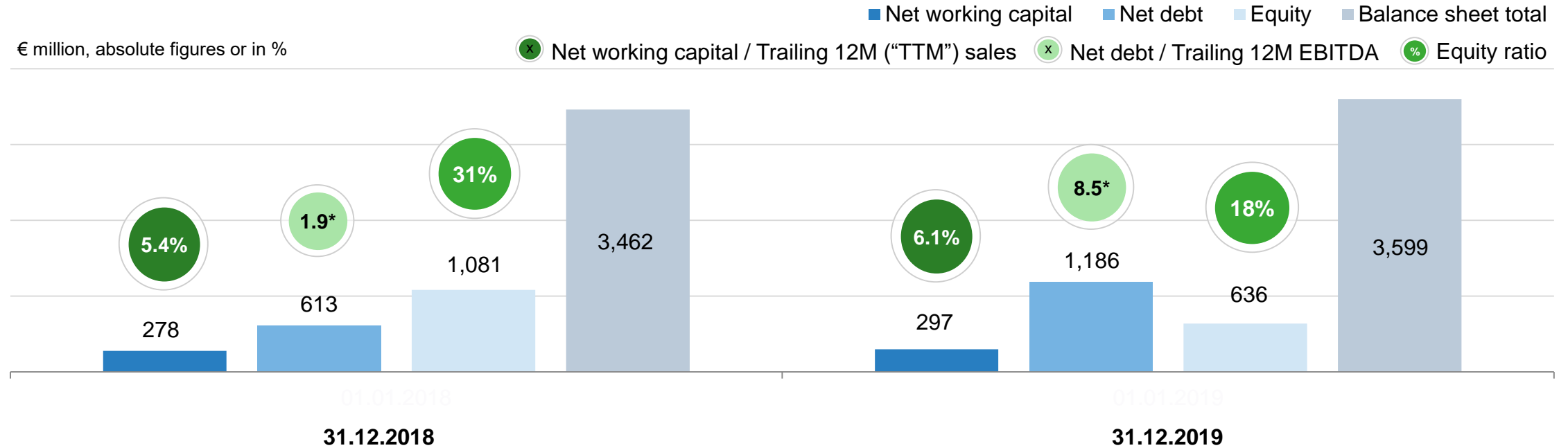
- › Sales FY 2019: -6.0% to EUR1.8bn (2018: EUR1.9bn).
- › Organic sales: -9.4% y/y in Q4 2019.

- › Reported FY 2019 EBIT of EUR-14m (2018: EUR66m)
- › Reported FY 2019 EBIT development was in particular burdened by costs related to VALUE 21 amounting to EUR36m and exceptional items of EUR29m.

Rounding differences may for arithmetical reasons occur versus the mathematically precise figures

# Balance sheet remains stretched

## Key balance sheet items

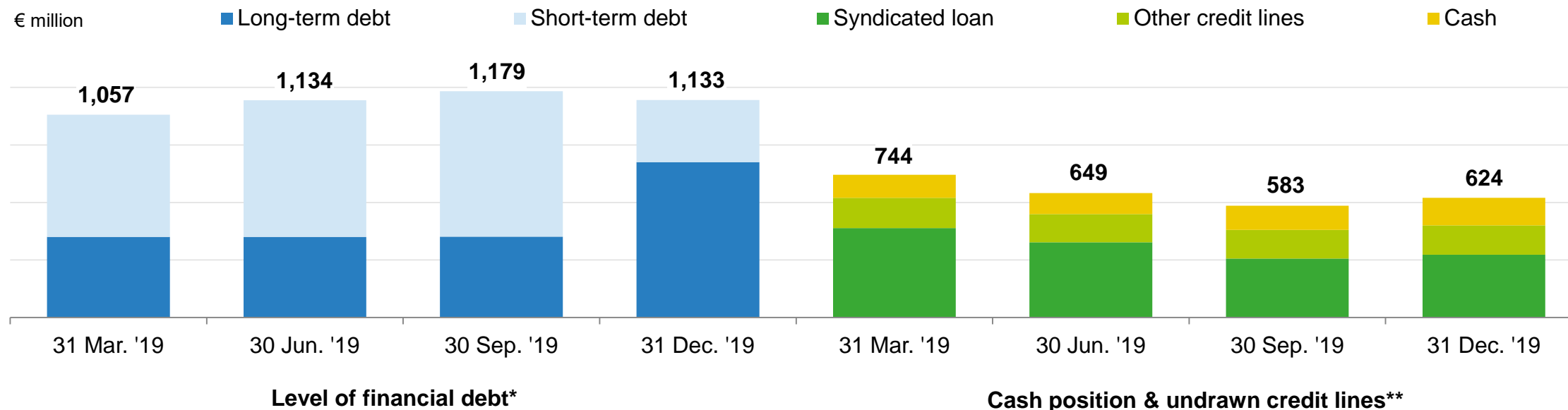


- › Gearing (net debt/equity) at the end of December of 186%
- › Equity ratio at 18% at the end of December due to negative FY result and an increase in total assets related to IFRS16 of EUR196m.

\* TTM EBITDA excluding exceptional items (2019: EUR233m; 2018: EUR11m) as well as VALUE 21 costs (2019: EUR86m; 2018: EUR2m)

# Financial position reflecting our operational challenges

Short-term debt significantly reduced



› Reclassification of funds related to the RCF as now all undrawn credit lines are firmly committed until at least the end of 2022.

› Increase in Q4 liquidity\*\* mainly due to usual seasonality and improved cash management.

› Total liquidity including cash position of EUR624m\*\* at the end of Q4.

\* Excluding leasing liabilities related to IFRS16: Q1/19: EUR153m; Q2/19: EUR182m; Q3/19: EUR184m; Q4/19: EUR196m

\*\* Bank guarantees amounting to EUR74m (FY 2018: EUR89m) must be deducted from freely available liquidity at year-end 2019

# Agenda

1 › Highlights

2 › Financial results 2019

**3** › **Update on VALUE 21**








4 › IDW S6 Opinion

5 › Outlook 2020

6 › Summary

7 › Appendix

# VALUE 21: Good progress during the first year of implementation

	 Core insights	 Implications	 Status
<b>1 Performance</b>	<ul style="list-style-type: none"> <li>› Comprehensive assessment &amp; bench-marking shows that LEONI has structural margin deficits</li> </ul>	<ul style="list-style-type: none"> <li>› Implement programme to structurally improve performance by € 500m annually in gross EBIT</li> <li>› Restructuring costs of € ~120m, ~1/2 of it related to HCs</li> </ul>	
<b>2 Portfolio profitability</b>	<ul style="list-style-type: none"> <li>› Profitability of LEONI's businesses differs widely: Units with high degree of differentiation and system orientation show best results</li> </ul>	<ul style="list-style-type: none"> <li>› Fix, sell or close underperforming / non-strategic businesses in WCS of up to € 500m in revenues</li> <li>› Phase out underperforming / non-strategic customers / programmes in WSD</li> <li>› Focus on businesses with differentiation &amp; system orientation</li> </ul>	
<b>3 Organization</b>	<ul style="list-style-type: none"> <li>› Beyond governance there is little synergy between the two divisions</li> </ul>	<ul style="list-style-type: none"> <li>› Lean financial and governance holding instead of large strategic holding</li> <li>› Two stand alone, independent divisions, set up for further strategic development</li> </ul>	
<b>4 Cash, not growth</b>	<ul style="list-style-type: none"> <li>› WSD reached relevant size, additional scale comes with limited benefits</li> <li>› Strong growth is highly cash consuming and operationally challenging</li> </ul>	<ul style="list-style-type: none"> <li>› Focus on cash &amp; profitability, not on growth</li> <li>› Future growth level in line with market and within infrastructure that exists in 2020</li> </ul>	
<b>∑ Improvements</b>	<b>Vs 2018: EBIT margin +2 to 3%-pts and FCF yield 4 to 5%-pts</b>		



# VALUE 21: Some examples of the operational aspects



Procurement

## Cost-cutting for non-production items, e.g. packaging:

Development of an own plastic spool for cables, improving technical properties and reducing scrap.  
→ Annual cost savings thanks to reduced scrap and price reductions.



Lean  
manufacturing



Commercial  
Excellence

## Stringent claim & portfolio management:

Claims for volume changes and altered economic conditions (e.g. rising salaries, material cost) executed  
→ Case-by-case: Compensations received, wage-escalator clause negotiated and price reduction cancelled



SG&A

## Resizing inventories:

Streamlined end-to-end supply chain process by eliminating waste, affecting all inventory categories.  
→ In 2019, especially towards the end of the year, inventory turnover was significantly improved when compared to 2018 levels.



NWC/Capex

# VALUE 21 fully in line with plan

Roughly 60% implemented by the end of 2019



Target picture



Status

Implemented initiatives

~60%

100%

Gross savings \*

~60%

EUR 500m

Costs

~70%

EUR 120m

FY 2019  
Update

- › VALUE 21 on track to deliver gross cost savings of EUR500m by 2022.
- › Roughly 60% of measures already in execution by the end of 2019.
- › Costs of EUR86m booked in 2019, remaining EUR35m to be booked in 2020.
- › WSD order intake intentionally limited to EUR2.0bn to support stabilization of operational & financial performance.
- › Implementation of VALUE 21 ensured by high acceptance in the organization and continued personal involvement of top management.

\* Gross full run-rate as of FY 2022

# Carve-out of WCS

Prepared to move forward - all options are closely monitored

- › Carve-out is prepared and ready to be executed.
- › Due to recent developments in the capital markets the strategic value of our assets can potentially not be realised in the short term but we will continue to closely monitor all options.
- › In the meantime we remain focused on delivering the operational improvements in WCS as part of VALUE 21.



# Agenda

**1** › Highlights

**2** › Financial results 2019

**3** › Update on VALUE 21

**4** › **IDW S6 Opinion**

**5** › Outlook 2020

**6** › Summary

**7** › Appendix

# LEONI's course confirmed by external experts

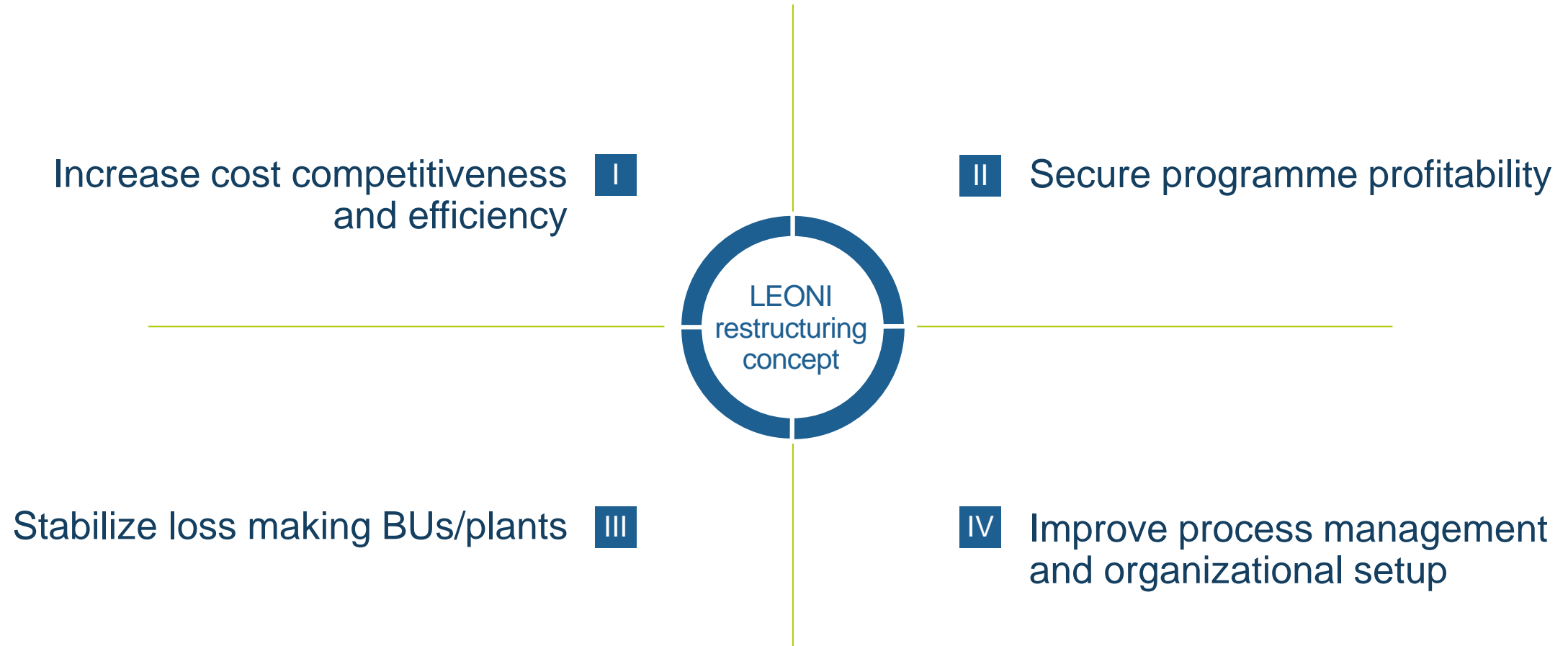
Expert opinion in accordance with IDW S6 confirms company's ability to restructure

- › In December 2019, LEONI commissioned an expert opinion in accordance with IDW S6 to confirm its course and that it is fully financed --> opinion issued on March 13, 2020.
- › Expert opinion is based on a restructuring concept for the years 2020-2022, which largely builds on the VALUE 21 programme.
- › It defines measures to increase available liquidity by at least EUR200m and confirms the company's ability to restructure and that it is fully financed – not taking any impact from Covid-19 into account.
- › Hans-Joachim Ziems to support the implementation and coordination of the measures as CRO on Board level.



# Restructuring concept expands on VALUE 21 approach

Cornerstones of our performance enhancement concept



# LEONI increases available liquidity by at least EUR200m

Agreement with financing partners on measures to cover liquidity requirements

- › Most important measures include:
  - › Substantial expansion of the existing factoring programmes (up to EUR230m additional liquidity at full run rate).
  - › Sale-and-Lease-Back of Assets in Germany and in China (EUR58m, most of which already realised in Q1/20).
  - › Restructuring of existing bilateral credit lines into an additional syndicated credit line, which will lead to an improvement in maturity profile as corresponding financing volume will be firmly committed until the end of 2022.
- › Larger promissory loan tranche of roughly EUR166m repaid on 18 March 2020 as planned.



# Additional challenges due to the spread of the Corona virus

Application for state financial aid is making good progress

- › Expert opinion based on IDW S6 standard in March was an import milestone to confirm that LEONI is on the right track.
- › However, due to the Covid-19 pandemic and its consequences, ensuring sufficient liquidity remains crucial for the continued operation as our financials will now be stretched further.
- › The management of LEONI therefore welcomes the recent initiatives of the German Federal Government to address the Covid-19 related challenges with a dedicated financial support programme.
- › LEONI is well advanced in the process of applying for state financial aid to ensure the continuation of business operations.





# Agenda

**1** › Highlights

**2** › Financial results 2019

**3** › Update on VALUE 21

**4** › IDW S6 Opinion

**5** › **Outlook 2020**

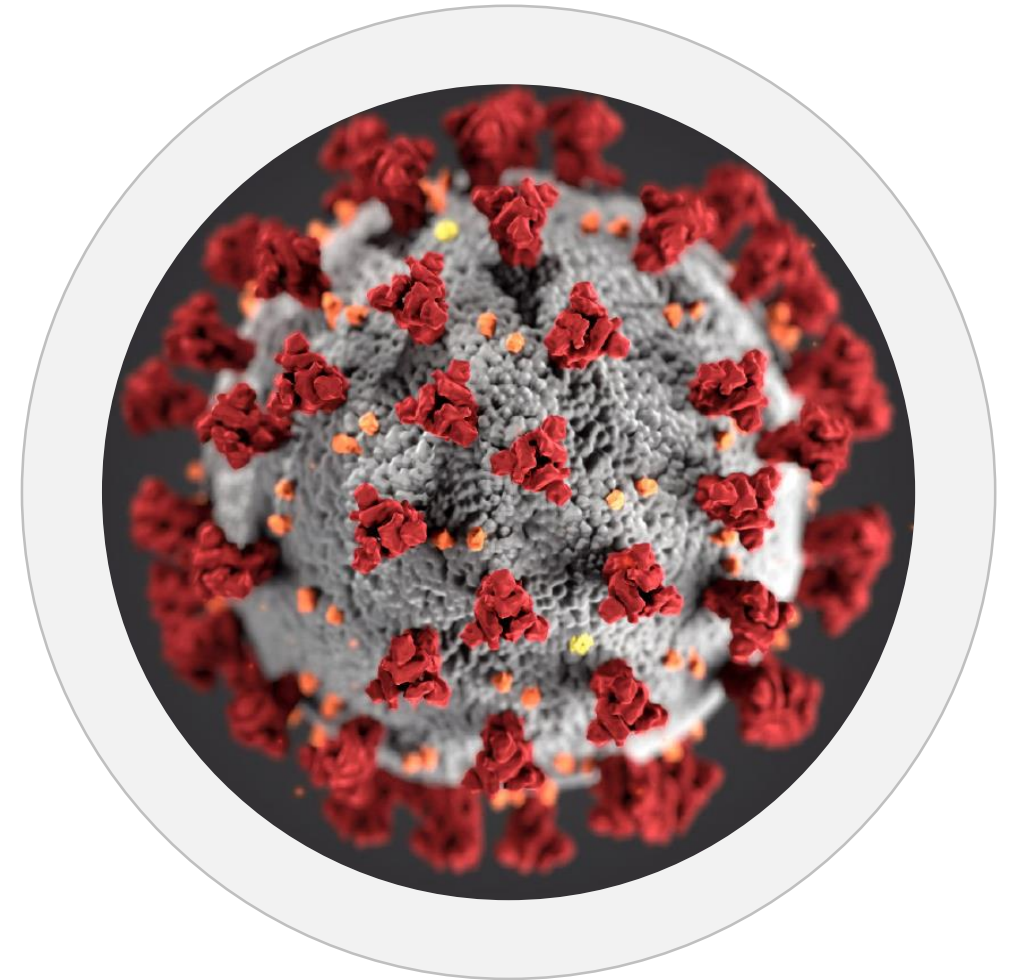
**6** › Summary

**7** › Appendix

# Outlook 2020 (I)

Covid-19 will have a significant impact on society and business

- › Almost all European and American OEM's have already announced a stop in production, China is resuming production step by step.
- › Uncertainty about the macroeconomic environment has increased and visibility is extremely limited.
- › Against the backdrop of the expected burdens, management has decided on a number of additional measures:
  - › plant closures in Europe, North Africa and the Americas,
  - › the introduction of short-time work in Germany as well as comparable measures at further European locations
  - › LEONI is well advanced in its application for state financial aid to ensure the continuation of business operations.



# Outlook 2020 (II)

Impossible to currently quantify Covid-19 impact on our business

- › Based on our previous planning and excluding a Covid-19 related impact, our financial planning for 2020 would have assumed:
  - › Sales: Moderate increase versus last year
  - › EBIT before exceptional items as well as before VALUE 21 costs: Positive, mid-sized double-digit million Euro amount
  - › FCF: Negative high double-digit to low triple-digit million Euro amount. \*
- › However, the Covid-19 related uncertainties are high and the level of this impact is not foreseeable at this stage.
- › Our current assessment is, that the Covid-19 impact on our earnings and financial position will be significantly below our previous planning and 2019.

\* Excluding the already announced proceeds from factoring expansion



# Agenda

1 › Highlights

2 › Financial results 2019

3 › Update on VALUE 21

4 › IDW S6 Opinion

5 › Outlook 2020

**6 › Summary**

7 › Appendix

# Summary

2020 a critical year for LEONI in a very challenging environment

- › Stringent execution of VALUE 21 / the restructuring concept key to return to financial health.
- › Good progress on Value 21 implementation shows our ability to deliver on this plan.
- › Additional executional power with Hans-Joachim Ziems as CRO on Board Level.
- › Based on our previous planning and excluding a Covid-19 related impact, our financial planning showed the accompanying improvements in our KPIs.
- › However, impact of Covid-19 Pandemic will be significant and requires additional action beyond VALUE 21 and the restructuring concept, both on the operational side as well on the financing side.
- › Cash preserving actions like idling of plants and broad based introduction of short work have been initiated.
- › Application for state financial aid to ensure the continuation of business operations is well advanced.

# Q & A session



# Agenda

**1** › Highlights

**2** › Financial results 2019

**3** › Update on VALUE 21

**4** › IDW S6 Opinion

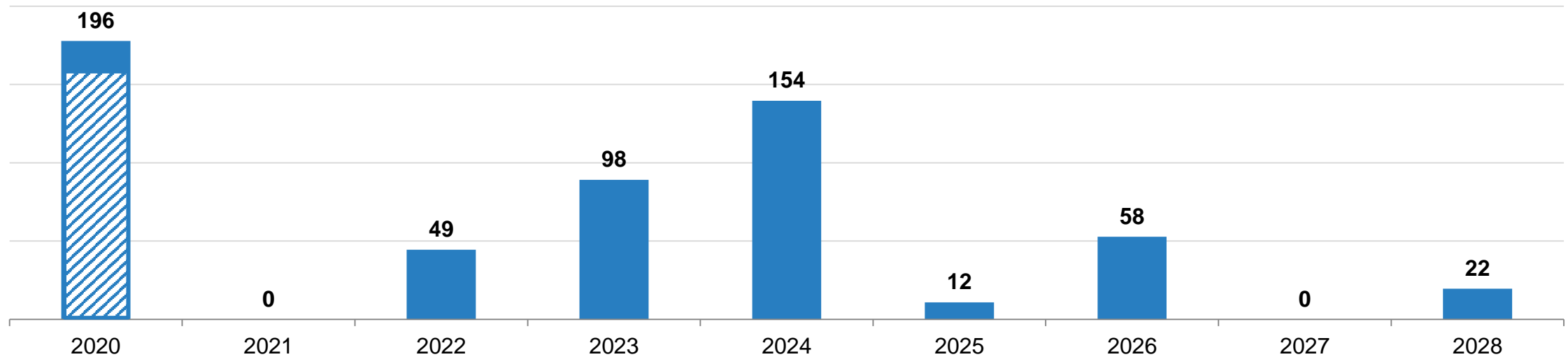
**5** › Outlook 2020

**6** › Summary

**7** › **Appendix**

# Appendix

## Financial debt\* maturity profile



- › Schuldschein tranche of roughly EUR166m paid back on 18 March 2020.
- › Additional EUR25m due in September 2020.

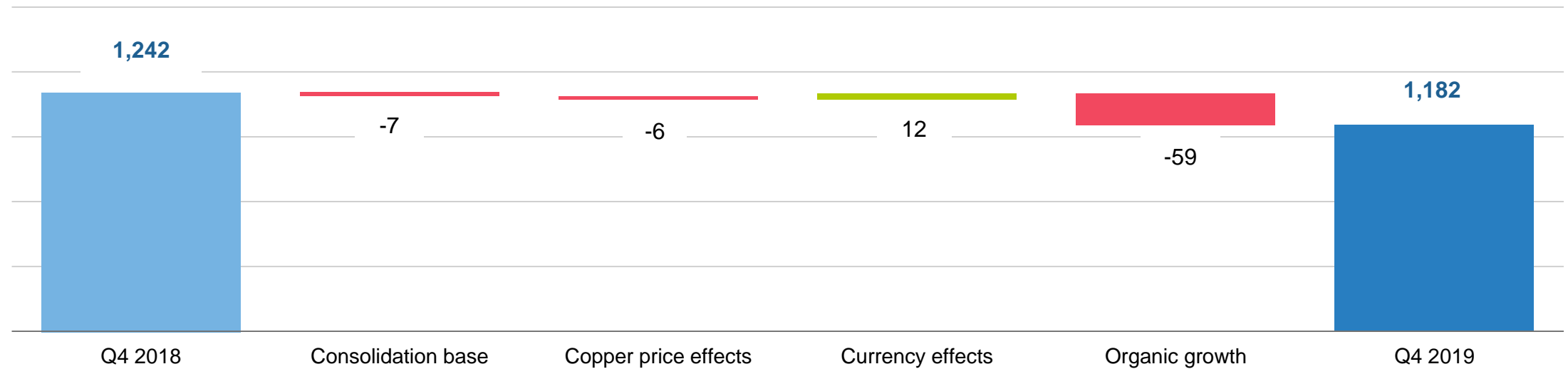
\* Maturity profile of outstanding "Schuldschein" loans



# Appendix

## Q4 sales development year-on-year

€ million



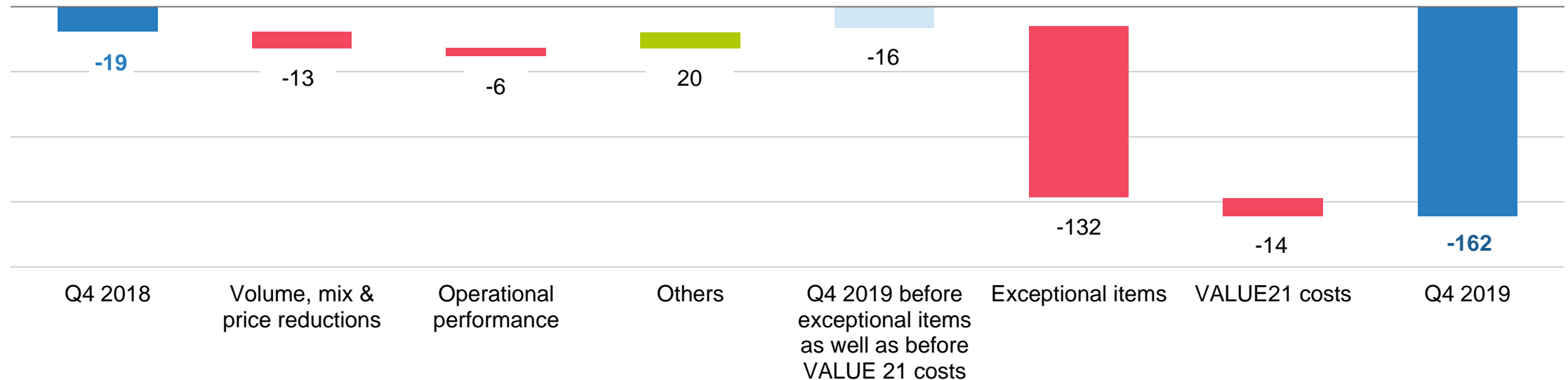
- › Both divisions affected by challenging market environment.
- › Weaker demand in almost all end customer industries.

Rounding differences may for arithmetical reasons occur versus the mathematically precise figures

# Appendix

## Q4 EBIT development year-on-year

€ million



- › Volume reduction reflects weaker market environment, price reductions mainly out of existing long-term contracts.
- › Progress of VALUE 21 implementation reflected in increase in programme related costs.

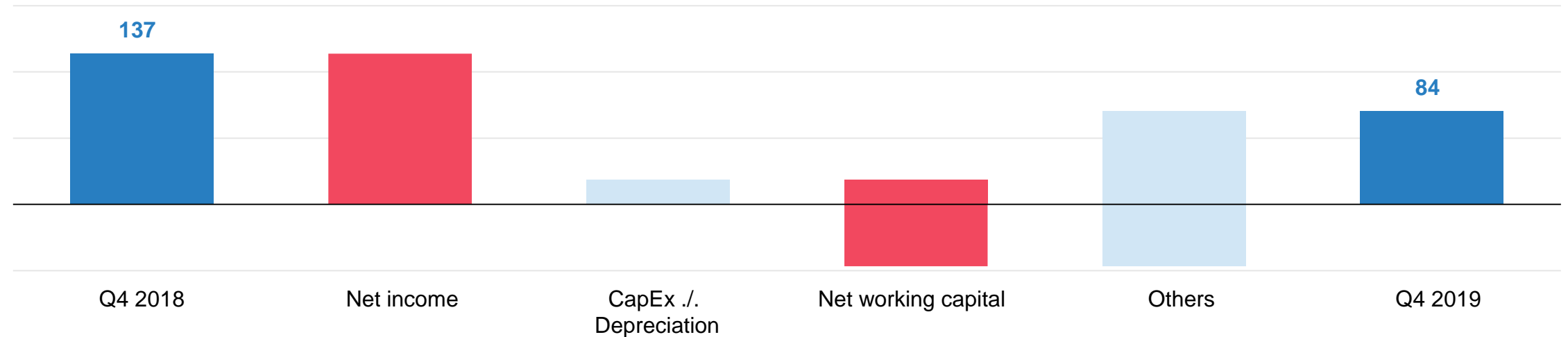
- › Exceptional items include impairments in WCS and project-related provisions in WSD.

Rounding differences may for arithmetical reasons occur versus the mathematically precise figures

# Appendix

## Q4 FCF development year-on-year

€ million



- › Bottom-line development suffers from operational performance as well as exceptional items and before VALUE 21 costs.

- › Others includes adjustments for non-cash exceptional items such as provisions as well as items related to VALUE 21.

Rounding differences may for arithmetical reasons occur versus the mathematically precise figures

# Contact

## Investor Relations



### Your Contact

#### **Jens von Seckendorff**

Phone +49 911 2023-134

Fax +49 911 2023-10134

E-Mail [invest@leoni.com](mailto:invest@leoni.com)

# Disclaimer

**This presentation includes forward-looking statements that are subject to risks and uncertainties, including those pertaining to the anticipated benefits to be realised from the proposals described herein. This presentation contains a number of forward-looking statements including, in particular, statements about future events, future financial performance, plans, strategies, expectations, prospects, competitive environment, regulation and supply and demand. LEONI has based these forward-looking statements on its views with respect to future events and financial performance. Actual financial performance of the entities described herein could differ materially from that projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections, and financial performance may be better or worse than anticipated. Given these uncertainties, readers should not put undue reliance on any forward-looking statements.**

**Forward-looking statements represent estimates and assumptions only as of the date that they were made. The information contained in this presentation is subject to change without notice and LEONI does not undertake any duty to update the forward-looking statements, and the estimates and assumptions associated with them, except to the extent required by applicable laws and regulations.**