Leoni sees favourable trend for future business performance

2017 forecast with significant sales and earnings growth – operating targets met in 2016

Nuremberg, 23 March 2017 – Leoni, the leading European provider of cables and cable systems to the automotive sector and other industries, fulfilled its operating targets for 2016 and takes an upbeat view of the medium-term trend for its own business activities. The sales of EUR 4.43 billion for the year under report (2015: EUR 4.5 billion) exceed the projected level of EUR 4.4 billion slightly. Both divisions generated more than 3 percent organic growth. However, the adverse effects of changes in the copper price and exchange rates ultimately led to a marginal sales decrease. In terms of earnings before interest and taxes (EBIT), Leoni beat its forecast of EUR 65 million with a figure of EUR 78.1 million (2015: EUR 151.3 million). Exceptional factors, particularly restructuring expenses of EUR 31.4 million as well as the losses due to the fraud case of approx. EUR 40 million, had a starkly defining effect on the achieved result. On an adjusted basis, EBIT improved by about 12 percent to EUR 160.2 million (2015: EUR 143.6 million). The bottom line was a figure of EUR 10.5 million, down from EUR 77.3 million in 2015. The Company intends to deviate from its payout policy by proposing to pay a dividend of EUR 0.50 per share, thereby expressing its confidence that the Group will perform successfully in the next few years.

“The year 2016 presented Leoni with all sorts of challenges, which incurred exceptional charges. However, we are satisfied with our operating performance and are also confident that we will be back on track to success in 2017,” said Dieter Bellé, President and CEO of Leoni AG, during the company’s balance sheet press conference.

WSD: Reorganisation implemented

The sales of the Wiring Systems Division (WSD) rose slightly to EUR 2.69 million in the year under report (2015: EUR 2.67 billion). The trend in demand for wiring systems for premium cars was especially favourable. Business with the international supply industry was also encouraging. The Electromobility unit generated the largest increase in percentage terms, while also booking orders worth approx. EUR 400 million. The acquisition of a 51 percent stake in the Chinese wiring systems manufacturer Wuhan Hengtong Automotive to supply its customer Dongfeng Peugeot Citroën Automobile constitutes a strategic success that will strengthen Leoni's position on the Asian market.

The reorganisation launched in 2016 was implemented. The division’s structures are now leaner, having thereby shortened decision-making channels and redefined responsibilities. The Wiring Systems Division furthermore succeeded in raising the performance of its critical projects and easing the pressure on its facility in Romania. The planned number of about 1,100 non-production redundancies worldwide incurred substantial restructuring expenses of EUR 27.8 million during the year under report. This can be expected to exert a sustained, positive effect on earnings, which will amount to approx. EUR 15 million in the current year. The segment's EBIT including the charges stemming from the restructuring programme dropped to EUR 34.7 million during the year under report (2015: EUR 87.4 million). The previous year’s figure included a beneficial item of EUR 19.6 million from the partial disposal of a subsidiary in China. Adjusted for non-operating factors, fiscal 2016 EBIT almost matched the 2015 level.

WCS: Significant margin improvement

The growth that the Wire & Cable Solutions (WCS) Division generated from its own resources in 2016 was more than cancelled out by the major, adverse effects of the lower copper price and the changes in exchange rates, because of which the division’s sales decreased to EUR 1.74 billion (2015: EUR 1.83 billion). Alongside the consistently good automotive cables business in Europe and the Americas, there was increased demand especially from the robotics, medical technology as well as automation and drive technology sectors. The division streamlined its portfolio in 2016 as part of its strategic realignment towards becoming a solution provider as well as a systems and development partner. To that end, it sold its Leoni Studer Hard GmbH subsidiary and initiated the disposal of its electrical appliance cables business, which is to be completed in the first half of 2017. Work began, furthermore, on developing intelligent cables – with the aim of being part of shaping industrial digitisation and enhancing customers’ competitiveness with corresponding solutions.

With the benefit of its positive operating performance as well as higher-margin products and solutions accounting for a larger proportion of its business, the division’s EBIT was up significantly, i.e. by about 31 percent, to EUR 83.7 million in the period under report (2015: EUR 63.9 million). This figure includes a book profit of EUR 3.3 million from the sale of the subsidiary as well as the opposing effect of restructuring expenses amounting to EUR 3.6 million.

Capital spending down from the previous year

In the 2016 financial year, Leoni again invested a substantial EUR 211 million in property, plant and equipment as well as intangible assets, although this was down by about 15 percent compared with the previous year (EUR 248 million). This investment related mainly to the expansion of wiring systems production capacity in China, North Africa and Eastern Europe and rebuilding work at the plant in Kitzingen, Germany. Among other things, the WCS Division enlarged its capacity to produce standard automotive cables, commissioned a PVC processing line in China and began its installation of an irradiation crosslinking line in India.

Financial and asset situation: free cash flow affected by one-offs

The fraud case and the restructuring programme weighed heavily on operating cash flow during the period under report. Free cash flow was down from negative EUR 5.2 million in fiscal 2015 to negative EUR 40.3 million in 2016. Adjusted for the outflow due to the fraud case and restructuring, free cash flow was positive. Due primarily to the significantly lower profit and negative valuation factors involving pensions and foreign exchange, equity decreased by about 8 percent to EUR 916 million during the period under report (2015: EUR 996 million); the equity ratio stood at 31 percent on the reporting date, down from 35 percent in the year before.

**Forecast: Short and medium-term increases in sales and EBIT**

For the current year, Leoni projects sales of about EUR 4.6 billion, equating to growth of approx. 5 percent, as well as significantly improved consolidated EBIT of between EUR 180 and 200 million. Alongside the additional profit contributions from increased sales, the absence of the fraud-case losses of about EUR 40 million as well as a return of restructuring expenses to a normal measure from last year’s EUR 31.4 million will exert a positive effect on income. Improvements in the Wiring Systems Division stemming from lower overheads as well as exceptional benefit from the sale of Business Group Electrical Appliance Assemblies and insurance compensation in connection with the fraud case with also contribute. The Company projects positive free cash flow despite higher capital expenditure of approximately EUR 250 million.

During the current anniversary year, 100 years after its establishment, the Leoni Group will further develop its strategy and systematically align it with new trends in technology and society. The Company’s medium-term target is to generate organic sales growth of 4 to 5 percent per year. The Group’s EBIT margin is projected to be in mid-single-digit territory in 2019, together with positive free cash flow (after dividend payout).

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Leoni performance overview

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| **Group key figures** | **2016** | **2015** | **Change** |
| Consolidated sales [€ million] | 4,431.3 | 4,502.9 | (1.6) % |
| EBIT [€ million] | 78.1 | 151.3 | (48.4) % |
| Adjusted EBIT (1) [€ million] | 160.2 | 143.6 | + 11.6 % |
| EBIT margin [%] | 1.8 | 3.4 | -- |
| Consolidated net income [€ million] | 10.5 | 77.3 | (86.3) % |
| Free cash flow [€ million] | (40.3) | (5.2) | (675) % |
| Return on capital employed [%] | 5.1 | 10.0 | -- |
| Capital expenditure on property, plant and equipment as well as intangible assets [€ million] | 210.8 | 247.5 | (14.8) % |
| Employees (as at 31 Dec.) | 79,037 | 74,018 | + 6.8 % |

1. *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives as well as the charges due to the fraud case*

☞ *Related illustration material and further information can be downloaded next to this release at* [*www.leoni.com/en/press/releases/details/leoni-sees-favourable-trend-for-future-business-performance/*](http://www.leoni.com/en/press/releases/details/leoni-sees-favourable-trend-for-future-business-performance/)☞ *The complete annual report can be downloaded from* [*www.leoni.com/en/financial-publications/*](http://www.leoni.com/en/financial-publications/)

About the Leoni Group

Leoni is a global supplier of wires, optical fibers, cables and cable systems as well as related services for the automotive sector and further industries. Leoni develops and produces technically sophisticated products from single-core automotive cables through to complete wiring systems. Leoni’s product range also comprises wires and strands, standardised cables, special cables and cable system assemblies for various industrial markets. The group of companies, which is listed on the German MDAX, employs more than 79,000 people in 32 countries and generated consolidated sales of EUR 4.4 billion in 2016. In 2017, Leoni celebrates its 100 years anniversary.

 

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