Leoni introduces measures to stabilise its business and presents details of its VALUE 21 performance and strategy programme

- Given persistently poor performance, guidance for 2019 will not be maintained
- Immediate measures to stabilise business implemented
- Headcount reduction of up to 2,000 indirect employees planned
- Annual savings of up to EUR 500 million on structural costs
- Increase of EBIT margin by 2 to 3 percentage points and of free cash flow by 4 to 5 percentage points over the course of the next three years

Nuremberg, 17 March 2019 – Given the significantly greater costs incurred due to ramp-up difficulties at the plant in Merida, Mexico, persistently poor performance in the Wiring Systems Division and a further downturn in the market, Leoni is no longer maintaining its guidance for 2019. Leoni has applied immediate measures and taken staffing decisions to stabilise its business. Leoni also presents the cornerstones of its VALUE 21 performance and strategy-enhancement programme. The objective is to sustainably improve both profitability and cash flow and at the same time align the Company to promising and profitable business areas.

Leoni's ongoing, difficult situation persisted to an unexpected extent in the first two months of 2019. In its Wiring Systems Division, this was above all due to persistently high personnel and freight costs related to the ramp-up difficulties in Merida as well as efficiency and cost issues at certain other locations. Based on these developments, major pressure on earnings is anticipated particularly in the first half of the year. For the full year 2019, Leoni now estimates an earnings impact of about EUR 50 million due to Merida. In addition, anticipated performance improvements at other plants have not materialised.

Overall, the company is facing continued challenging market environment, particularly in China. In addition, certain OEMs have significantly reduced their delivery expectations for the next months with respect to the Wiring Systems Division.

Taking these developments into account and based on current planning, the Board of Directors is no longer maintaining the guidance for fiscal 2019 presented on 7 February. The detailed guidance issued in the annual report for 2018 is therefore no longer valid. Against the backdrop of the current significant lack of transparency in the Wiring Systems Division at some locations with regard to cost variances and the future order situation as well as uncertainties in the automotive industry and the uncertain development of demand, the Management Board considers it not prudent to issue a revised guidance for the full year 2019 at this time.

"The developments at the end of fiscal 2018 and especially in the first two months of 2019 have made it clear that we must act even faster and more decisively to bring Leoni back on track. We have identified inefficiencies, applied specific measures and have a clear roadmap to address these problems. My colleagues on the Board of Directors and I are convinced that thanks to its technological expertise and its market position, Leoni will return to sustainable profitability once these measures are implemented," said Aldo Kamper, CEO of Leoni AG.

Aldo Kamper added: "An important corner stone is also to develop Leoni into a systems provider and to align its range of products and services in line with viable and profitable markets as well as technologies involving a high degree of integration. An indispensable prerequisite for this is that we now vigorously initiate all necessary measures to stabilize our business and strengthen our operating performance."

Immediate measures

As a consequence of the ramp-up difficulties in Merida, the Board of Directors put the most important project ramp ups under scrutiny with the help of outside experts. This analysis showed that no critical risks are to be expected for new project launches. Furthermore, a central and independent Project Risk Office an acting as early warning system for potential project risks has been set up reporting directly to the CEO. A central point for supporting project ramp ups has been established. In the future, there will also be clearer responsibilities and improvement in project management.

In this context and by agreement with the Company, Karl Gadesmann resigned his mandate as Chief Financial Officer with immediate effect. The search for a replacement will be immediately started. Aldo Kamper will take over the responsibilities on an interim basis. From 1 April 2019, Aldo Kamper will additionally head the Wiring Systems Division and thereby devote significantly more attention to this segment, in keeping with its complexity and importance. Martin Stüttem will assume responsibilities as the Wiring Systems Division's Chief Operating Officer (COO) and concentrate primarily on improving the operating performance at the plants. The division's current CFO will be leaving his function and the Head of Operations will be leaving the company shortly. There have also already be staffing changes in the management functions of the plant in Merida, Mexico.

Other immediate measures include the planned headcount reductions of about 2,000 employees worldwide, of which 500 are in high-wage countries, particularly in indirect functions, and other personnel-related measures such as a group-wide hiring freeze, as well as a delay of salary increases for non-tariff employees and managers. The employee representatives will be consulted regarding all personnel relevant measures.

Presentation of VALUE 21

VALUE 21 is set up as a group-wide programme covering a period of three years. The objective is to achieve a sustained improvement in cash generation and profitability as well as to establish the conditions for further development towards a systems provider.

(1) Performance programme

The Board of Directors intends to significantly reduce the cost base for a sustained increase in profitability. As of 2022, VALUE 21 is expected to deliver full run rate structural savings of around EUR 500 million annually compared with

2018. To some extent, the savings will be offset by factors such as wage cost increases and price reductions. The programme entails restructuring costs amounting to about EUR 120 million, half of it related to headcount and most of which will incur in the 2019 and 2020 financial years. Measures include an improvement of direct procurement, efficiency enhancements in production, logistics and indirect procurement as well as reductions of selling expenses, spending on research and development and IT costs. Implementation of the first measures is scheduled for the third quarter of 2019.

(2) Active portfolio management

As another measure, Leoni has initiated a portfolio analysis with respect to the strategic importance and profitability of individual business and product areas. To date, businesses have been identified with annual sales of up to EUR 500 million for which the Company will consider all options.

(3) Organisational realignment

Leoni intends to change its corporate structure into a financial holding company that is lean and geared to functions relevant to the capital market with two divisions that operate entrepreneurially and are managed on a stand-alone basis. This will increase transparency and will provide scope for a rapidly implementation of steps that are strategically prudent or operationally necessary.

The divisions will take on full direct cost responsibility for their own businesses. This will enable structures and processes to be developed more independently from one another, as required. Total costs are thereby to be lowered further while raising the flexibility to be able to respond quickly to possible market developments.

Furthermore, the CEO and the new CFO of the holding company will going forward take on the same role in the Wiring Systems Division to devote significantly more attention to this segment given its importance.

(4) Focus on cash rather than growth

Leoni will focus more on cash generation as well as profitability and intends to restrict organic growth in its Wiring System Division to the level of market growth. These measures will have a substantially positive effect on cash and earnings in the medium term. Reduced capital investment, lower working capital and reduced project launch costs will have a beneficial effect on cash flow.

A smaller number of project ramp-ups will lead to reduced complexity. Leoni will be more selective in accepting projects and focus on strategic customer relationships. The principal factors to accepting new projects will be profitability and capacity utilisation of existing capacities.

In a stable market environment, the net benefit of VALUE 21 should lead to an EBIT margin improvement of 2 to 3 percentage points compared with 2018 over the course of the next three years. Similarly, free cash flow should increase by 4 to 5 percentage points.

Instead of the balance sheet press conference with the subsequent capital market day originally planned for Tuesday, a conference call for investors, analysts and journalists will take place on Monday, 18 March at 10 am.

About the Leoni Group

Leoni is a global provider of products, solutions and services for energy and data management in the automotive sector and other industries. The value chain encompasses wires, optical fibers, standardised cables, special cables and assembled systems as well as intelligent products and smart services. As an innovation partner and solutions provider, Leoni supports its customers with pronounced development and systems expertise. The market-listed group of companies employs more than 92,000 people in 31 countries and generated consolidated sales of EUR 5.1 billion in 2018.

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