

KENDRION N.V.
P R E S S R E L E A S E
3 N o v e m b e r 2 0 2 0
Kendrion reports Q3 EBITDA and cash flow growth despite COVID-19 impact

- **Strict operating procedures remain in place to continue safe and responsible production in all factories around the world**
- **Q3 revenue of EUR 98.6 million, 4% lower than Q3 2019 and 16% lower excluding INTORQ**
- **Normalised EBITDA of EUR 11.4 million, 6% higher than Q3 2019 (EUR 10.8 million) due to contribution INTORQ and growth in China**
- **Normalised net profit before amortisation of EUR 3.0 million in Q3 2020 identical to Q3 2019**
- **Strong cash conversion with EUR 8.8 million free cash flow in Q3 2020, 42% higher than the EUR 6.2 million of Q3 2019**
- **Intention to build a 28.000 m² production facility in Suzhou to facilitate further growth in China**
- **Continued focus on cost measures to preserve solid financial position**
- **Strong liquidity position with EUR 61 million available in cash and undrawn credit facilities**

Key figures

Reported (in EUR million)	Q3 2020	Q3 2019	delta	YTD 2020	YTD 2019	delta
Revenue	98.6	102.8	-4%	293.3	320.1	-8%
EBITDA	10.9	10.1	8%	31.1	33.9	-8%
EBITA	4.5	4.1	10%	11.9	15.9	-25%
Net profit	1.6	2.1	-24%	4.6	10.9	-58%
EBITDA as a % of revenue	11.1%	9.8%		10.6%	10.6%	
EBITA as a % of revenue	4.6%	4.0%		4.1%	5.0%	
Return on invested capital (12 months rolling)				2.8%	6.2%	

Normalised (in EUR million)	Q3 2020	Q3 2019	delta	YTD 2020	YTD 2019	delta
Revenue	98.6	102.8	-4%	293.3	320.1	-8%
EBITDA	11.4	10.8	6%	33.2	36.2	-8%
EBITA	5.0	4.8	5%	14.0	18.2	-23%
Net profit before amortisation	3.0	3.0	0%	8.8	12.1	-27%
EBITDA as a % of revenue	11.6%	10.5%		11.3%	11.3%	
EBITA as a % of revenue	5.1%	4.6%		4.8%	5.7%	
Return on invested capital (12 months rolling)				4.6%	7.7%	

Normalised in Q3 2020: EUR 0.5 million (EUR 0.4 million after tax) restructuring costs and EUR 0.4 million interest expense related to tax audit.
Normalised in Q3 2019: EUR 0.7 million (EUR 0.5 million after tax) restructuring costs.

Normalised in YTD 2020: EUR 1.6 million (EUR 1.2 million after tax) restructuring costs, EUR 0.5 million (EUR 0.4 million after tax) acquisition costs and EUR 0.4 million interest expense related to tax audit.

Normalised in YTD 2019: EUR 1.6 million (EUR 1.2 million after tax) claim settlement, EUR 2.0 million positive release currency translation reserve, EUR 0.3 million income tax expense related to tax audit and EUR 0.7 million (EUR 0.5 million after tax) restructuring costs.

Normalised Return on invested capital (12 months rolling) includes 12 months profitability of INTORQ on a pro forma basis.

Joep van Beurden, Kendrion CEO:

"I am proud of our employees who have delivered solid results in the third quarter of this year amidst the COVID-19 pandemic which is putting pressure on all aspects of our business. Protecting the health and safety of our employees and their families remained a key priority, so we extended the strict operating measures already in place.

The upward trend in automotive which started in June 2020 continued in the third quarter. Although still significantly below Q3 2019, the activity levels in Automotive and Industrial are now roughly on par. China has recovered strongly and the contribution of former INTORQ – part of our Industrial Brakes business unit – is well ahead of expectations. We maintained our strict cost control measures and doubled down on our efforts to manage cash. As a result, our profitability and cash flow have increased compared to last year, leading to a further improvement of our financial position.

For the medium- to long-term, our Automotive product and project pipeline is healthy, and we continue to see good growth opportunities in Industrial Brakes. In China, we intend to build a 28.000 m² factory to enable further growth over the coming years.

Kendrion has transformed into a global, centralised group, with a clear, unified strategy and a matching, collaborative culture. With the successful addition of INTORQ, our Automotive and Industrial activities each represent approximately 50% of our revenue and growth potential. The balance between these two will provide a natural hedge against cyclicity going forward.

We expect the difficult market circumstances to continue for the upcoming period. We remain positive about our underlying business fundamentals and are working hard with our teams across the world to ensure that, beyond COVID-19, our prospects are better than ever. "

COVID-19 update

We are extending the strict operating procedures active in all Kendrion's factories to protect the health and safety of our employees and their families. We will keep these measures in place for as long as required.

The COVID-19 impact on our revenue was less intense than in Q2, especially for the Automotive segment. We extended the short-time work arrangements in our European facilities, although at a lower level than in Q2. Discretionary spending and non-urgent capital expenditures have been reduced or suspended where feasible.

Kendrion's supply chain is currently fully operational. We continuously monitor suppliers that are critical to our supply chain and are committed to reducing our cash contained in working capital during periods of reduced revenue levels.

Liquidity remains strong with around EUR 61 million available in cash and undrawn credit facilities. The leverage ratio was 2.9 and 2.5 excluding lease liabilities, which was significantly lower than the new financial covenant level of 4.5 agreed on as per 30 September 2020.

Progress on strategy

Kendrion announced its strategic priorities and new targets for 2025 during the Capital Markets Day in September 2020. The primary objective remains unchanged as the new targets are aimed at delivering sustainable profitable growth for the business in the medium- to long-term.

Kendrion operates in three business units: Automotive Group (AG), Industrial Brakes (IB) and Industrial Actuators and Controls (IAC). Despite the challenging market circumstances, the longer-term prospects

for AG, IB and China continue to be favourable and our investments are therefore focussed on these segments. We are extending our strict cost control measures and our focus on operational excellence.

Within AG, we are evaluating our European manufacturing footprint and have decided to close our facility in Eibiswald, Austria, per mid-2022. Eibiswald currently employs 93 FTE of which around half in production. All production lines will be transferred to other Kendrion facilities over the next year and a half. In IB, we expect to fully realise the targeted EUR 2.0 million run rate for cost synergies in the fourth quarter of this year. Kendrion intends to increase its manufacturing footprint in China. By building a new 28.000 m² facility in Suzhou we will be able to accommodate strong anticipated growth.

Financial review

Revenue

Third quarter of 2020

Revenue in the third quarter of 2020 came in at EUR 98.6 million, a decrease of 4% compared with the third quarter of 2019 (EUR 102.8 million). Excluding the revenue contribution of INTORQ, revenue decreased by 16% as the pandemic continued to affect our end markets. This is a step up from the organic revenue decrease of 34% we experienced in Q2 2020. In Automotive, the upward trend that started in June 2020 continued in the third quarter with year-over-year revenue decreasing by 17%, a significant improvement over the 44% revenue decrease in the second quarter of 2020. The general and niche markets in the US – such as the global bus and coach market – remained weak, while the passenger car segment in Europe showed a steeper than expected recovery. Automotive in China continued its strong performance with revenue exceeding pre-COVID-19 levels.

Industrial revenue increased by 17% compared with Q3 2019. Excluding the contribution of INTORQ, revenue in the Industrial activities decreased by 18% compared with Q3 2019. The revenue development was stable compared to the second quarter of 2020. Organic revenue in IB decreased by 18% year-over-year. Here, the COVID-19 impact was higher in Q3 than in Q2, while orders in the wind power segment in China continued to be strong. Revenue from the former INTORQ activities was robust. IAC experienced an organic revenue decline at the same rate as IB (18%). Certain segments, such as medical and food processing equipment, performed well, while aerospace and textile machinery continue to be weak.

China had a strong third quarter as the economy experienced a 'V-shaped' recovery. China revenue increased 85% year-over-year including INTORQ and 7% organically with all business units contributing to the higher revenue.

First nine months of 2020

Compared to the first nine months of 2019, revenue decreased by 8% to EUR 293.3 million. Excluding the contribution of INTORQ, revenue decreased by 21%. Automotive revenue was 25% lower. While Industrial revenue increased by 18%, it came out 15% lower excluding INTORQ. Despite the COVID-19 impact in the first quarter, year to date China revenue is now 2% higher than during the same period last year.

Results

Third quarter of 2020

The normalised operating result before depreciation and amortisation (EBITDA) increased by 6% to EUR 11.4 million (Q3 2019: EUR 10.8 million) and the EBITDA margin rose to 11.6% (Q3 2019: 10.5%). The positive added value margin development and cost reductions more than offset the organic revenue decline. The added value margin increased by 1.6%, largely as a result of the higher revenue share of the Industrial activities. Total personnel costs and other operating expenses decreased on an organic basis by EUR 5.2 million or 14%, as a result of strict cost control and structural cost measures taken in the previous quarters and the extended use of short-time work arrangements. Profitability in both the Industrial and the Automotive activities developed favourably compared to the second quarter and profitability in the Industrial activities also improved year-over-year.

First nine months of 2020

Normalised EBITDA in the first nine months of 2020 decreased to EUR 33.2 million (first nine months of 2019: EUR 36.2 million). The normalised EBITDA margin remained stable at 11.3% compared to the first nine months of 2019 with a positive added value margin and EUR 17.3 million (15%) lower costs offsetting the profitability impact of the EUR 67.8 million lower organic revenue.

Normalised net finance costs in the first nine months of 2020 amounted to EUR 2.5 million (first nine months of 2019: EUR 1.9 million) due to the additional debt taken on to fund the acquisition of INTORQ and unfavourable exchange rate results.

Normalised income tax expenses for the first nine months of 2020 came out at EUR 2.0 million, well below the EUR 3.8 million in the first nine months of 2019, reflecting the lower profit before tax. The normalised effective tax rate in the first nine months of 2020 was 23.8% (2019: 25.8%).

Normalised net profit for the first nine months of 2020, before amortisation of intangibles arising on acquisitions, came to EUR 8.8 million (2019: EUR 12.1 million). Normalised earnings before amortisation per share in the first nine months amounted to EUR 0.60 (2019: EUR 0.90). Basic reported earnings per share in the first nine months amounted to EUR 0.31 (2019: EUR 0.82).

Financial position

Total net debt including IFRS 16 lease liabilities decreased from EUR 130.5 million at the end of Q2 2020 to EUR 122.6 million at the end of Q3 2020. The lower net debt was the result of a positive free cash flow of EUR 8.8 million in the third quarter (2019: EUR 6.2 million). The leverage ratio was 2.9, and 2.5 excluding lease liabilities, which means Kendrion was operating well within the financial covenant level of 4.5 agreed with its banks as per 30 September 2020.

Kendrion invested EUR 11.2 million in the first nine months of 2020, well below the depreciation of EUR 19.1 million. Investments in the third quarter were particularly low and impacted by the lower activity levels in the second quarter when we suspended non-essential investments in response to the COVID-19 crisis. While we expect investments to increase in the fourth quarter, we anticipate investments for the full year to end somewhat below the level of last year.

Kendrion's solvency ratio was 45.7% at the end of September 2020, compared with 47.3% at the same time last year.

Number of employees

The total number of employees (FTEs) - 2,428 at the end of the third quarter of 2020 - remained stable compared to the previous quarter. Compared to the same quarter last year, total FTE increased by 39. We experienced an organic decrease of 218 FTE, driven by cost measures taken at the end of 2019 and by adjusting capacity to revenue levels.

Outlook

In the short-term, we expect the global economy and the increasing COVID-19 infections worldwide to continue to negatively affect the market.

As the longer-term impact of the pandemic remains highly uncertain, we will continue to focus on the protection of our liquidity. Despite this dynamic, and the unprecedented economic situation, we see ample growth opportunities in our focus areas Automotive, Industrial Brakes and China for the medium- to longer-term. We remain positive about our business fundamentals and aim to deliver sustainable profitable organic growth of at least 5% over the next five years.

Analysts' call Q3 2020 results

Kendrion CEO Joep van Beurden and CFO Jeroen Hemmen will present the Q3 2020 results on Tuesday, 3 November 2020, at 11:00 a.m. CET via an analysts' conference call.

Profile of Kendrion N.V.

Kendrion develops, manufactures and markets high-quality electromagnetic systems and components for industrial and automotive applications. For more than 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.

Amsterdam, 3 November 2020

The Executive Board

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Annexes

- 1. Consolidated statement of comprehensive income**
- 2. Consolidated statement of financial position**
- 3. Financial calendar 2021**

Annex 1 – Consolidated statement of comprehensive income *

(EUR million)	Q3 2020	Q3 2019	period ended 30-9-2020	period ended 30-9-2019	full year 2019
Revenue	98.6	102.8	293.3	320.1	412.4
Other income	0.0	-	0.2	-	-
Total revenue and other income	98.6	102.8	293.5	320.1	412.4
Changes in inventories of finished goods and work in progress	1.3	1.0	1.5	1.1	4.8
Raw materials and subcontracted work	50.2	54.1	149.4	168.7	214.6
Staff costs	28.7	30.9	89.6	93.9	124.6
Depreciation and amortisation	7.2	6.5	22.1	19.6	26.2
Other operating expenses	7.5	6.7	21.9	22.5	30.7
Result before net finance costs	3.7	3.6	9.0	14.3	11.5
Finance income	0.0	0.0	0.0	2.1	2.2
Finance expense	(1.3)	(0.7)	(2.9)	(2.0)	(2.8)
Share profit or loss of an associate	-	-	-	-	(0.3)
Profit before income tax	2.4	2.9	6.1	14.4	10.6
Income tax expense	(0.8)	(0.8)	(1.5)	(3.5)	(2.7)
Profit for the period	1.6	2.1	4.6	10.9	7.9
Basic earnings per share (EUR), based on weighted average	0.11	0.16	0.31	0.82	0.59
Basic earnings per share (EUR), based on weighted average (diluted)	0.11	0.16	0.31	0.82	0.59

* Not adjusted for non-recurring items

Annex 2 – Consolidated statement of financial position

(EUR million)	30 Sept. 2020	30 Sept. 2019	31 Dec. 2019
Assets			
Non-current assets			
Property, plant and equipment	119.8	112.9	111.4
Intangible assets	167.3	117.2	115.5
Other investments, including derivatives	2.5	3.1	2.7
Deferred tax assets	14.5	12.8	14.5
Contract costs	0.7	0.3	0.7
Total non-current assets	304.8	246.3	244.8
Current assets			
Inventories	66.8	60.7	56.3
Current tax assets	1.3	1.7	2.7
Trade and other receivables	61.8	64.3	47.1
Cash and cash equivalents	12.9	8.1	7.1
Total current assets	142.8	134.8	113.2
Total assets	447.6	381.1	358.0
Equity and liabilities			
Equity			
Share capital	29.9	27.2	29.9
Share premium	51.7	28.1	51.7
Reserves	118.4	113.9	114.0
Retained earnings	4.6	10.9	7.9
Total equity	204.6	180.1	203.5
Liabilities			
Loans and borrowings	118.4	94.5	48.9
Employee benefits	18.6	17.9	19.8
Deferred tax liabilities	17.0	10.1	10.6
Provisions	0.4	-	-
Total non-current liabilities	154.4	122.5	79.3
Bank overdraft	13.8	2.5	2.5
Loans and borrowings	3.3	5.5	3.1
Provisions ¹	1.7	1.7	1.4
Current tax liabilities ¹	3.0	2.7	2.6
Contract liabilities	5.8	6.8	6.6
Trade and other payables	61.0	59.3	59.0
Total current liabilities	88.6	78.5	75.2
Total liabilities	243.0	201.0	154.5
Total equity and liabilities	447.6	381.1	358.0

¹Restated 30 September 2019 due to adoption of IFRIC 23.

Annex 3 – Financial calendar 2021

Publication Q4 and FY 2020 results	Friday, 19 February 2021	07.30 a.m.
Analysts' meeting	Friday, 19 February 2021	11.00 a.m.
General Meeting of Shareholders	Monday, 12 April 2021	02.30 p.m.
Publication Q1 2021 results	Tuesday, 4 May 2021	07.30 a.m.
Analysts' call	Tuesday, 4 May 2021	11.00 a.m.
Publication Q2 and HY1 2021 results	Wednesday, 25 August 2021	07.30 a.m.
Analysts' meeting	Wednesday, 25 August 2021	11.00 a.m.
Publication Q3 2021 results	Tuesday, 2 November 2021	07.30 a.m.
Analysts' call	Tuesday, 2 November 2021	11.00 a.m.