LEONI

Financial results 2018
Current situation
Short term measures
VALUE 21

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LEONI

Agenda

- **Financial results 2018**
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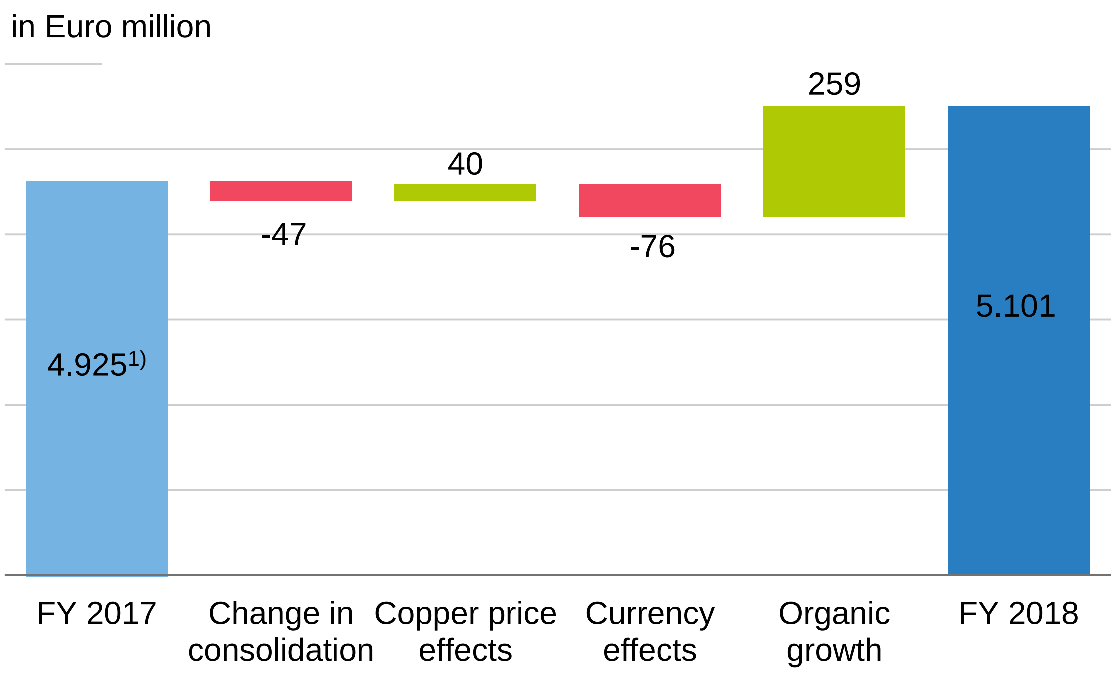
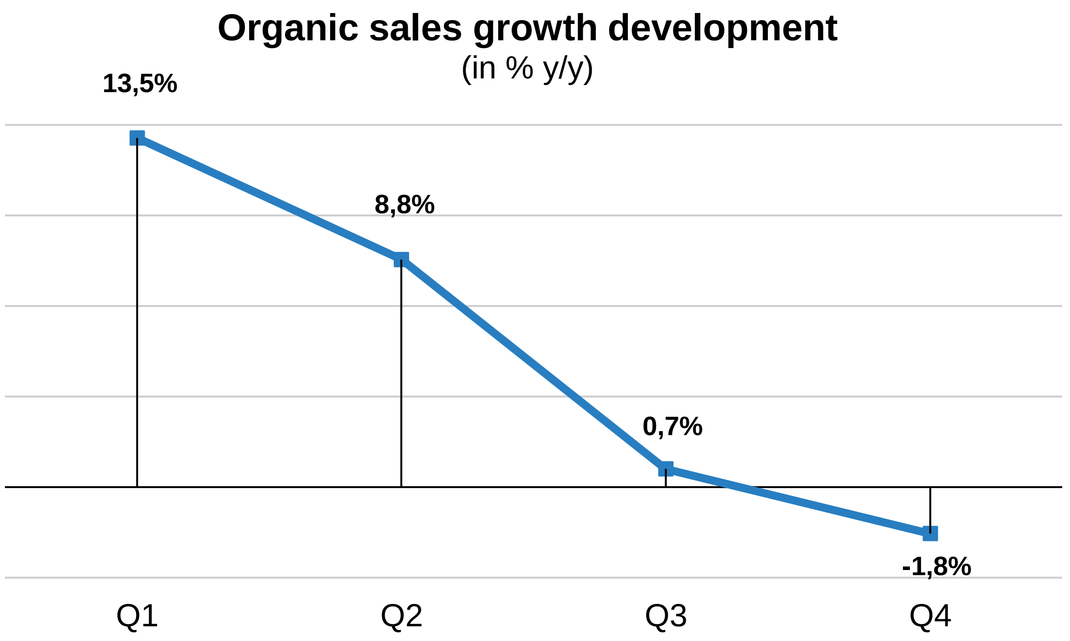
- Summary

LEONI

Organic sales growth slowed down during the year

Sales development year-on-year





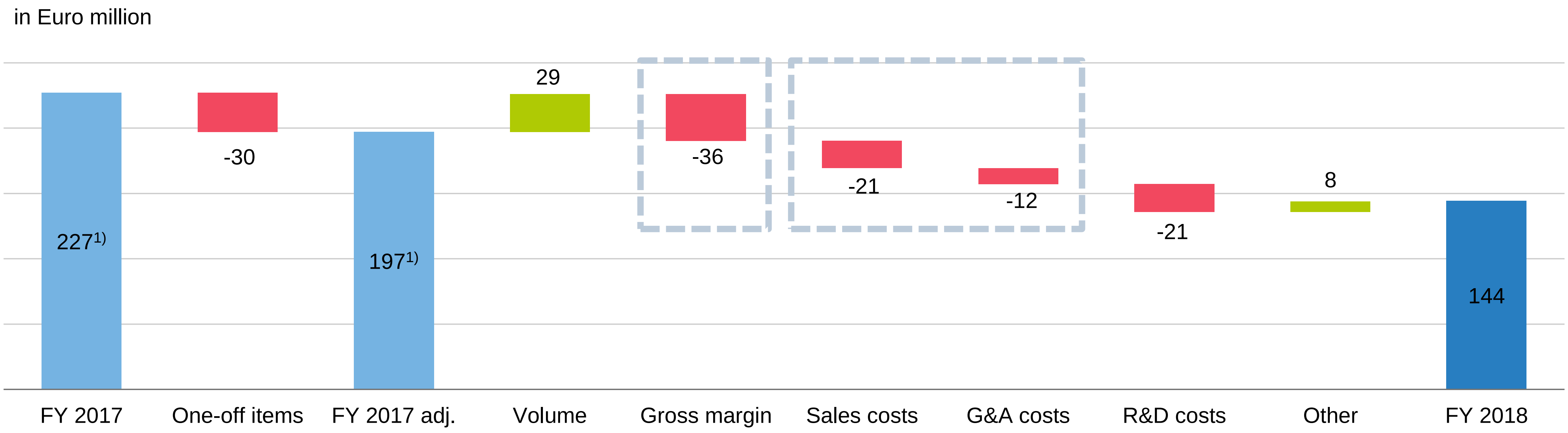
- Sales split by end customer industry: Automotive 83%; Non-automotive 17%
- Slowdown due to weaker demand in automotive and industrials businesses

[1)]Adjusted to IFRS 15

Extraordinary costs significantly burdened results

EBIT development year-on-year

Details next page

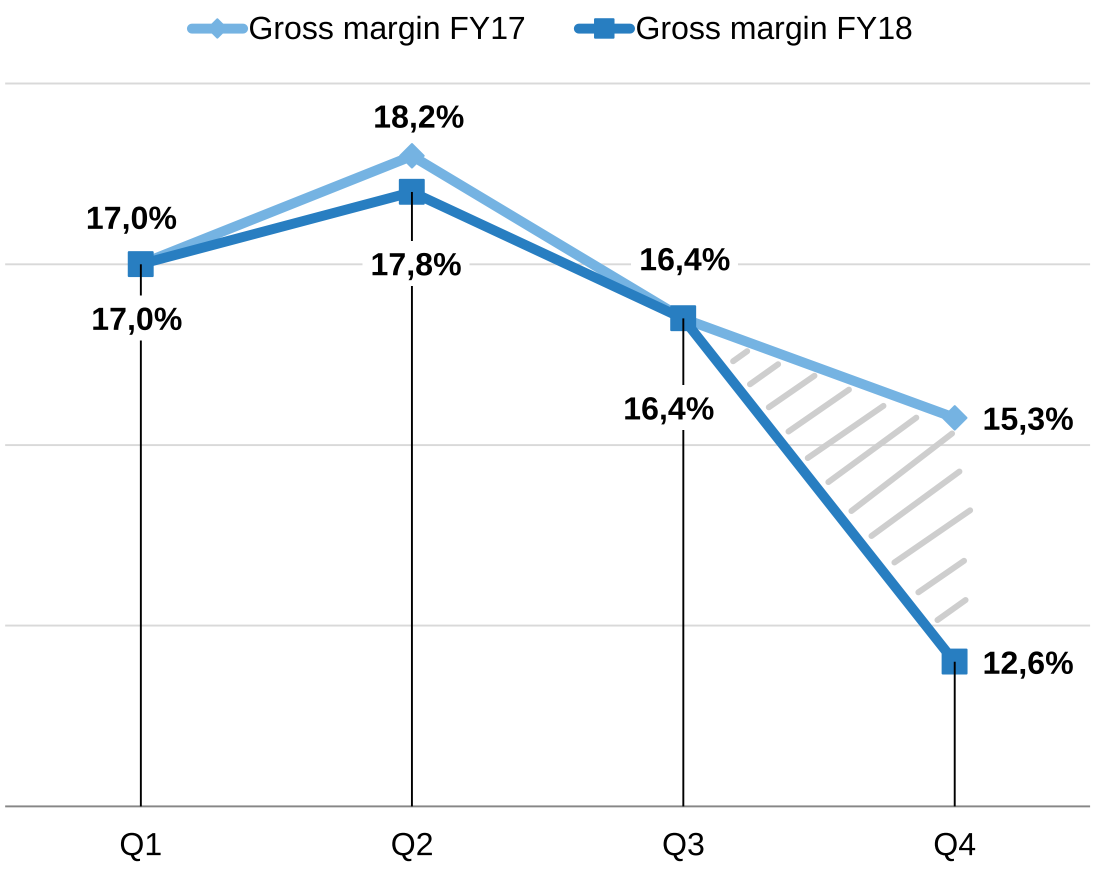


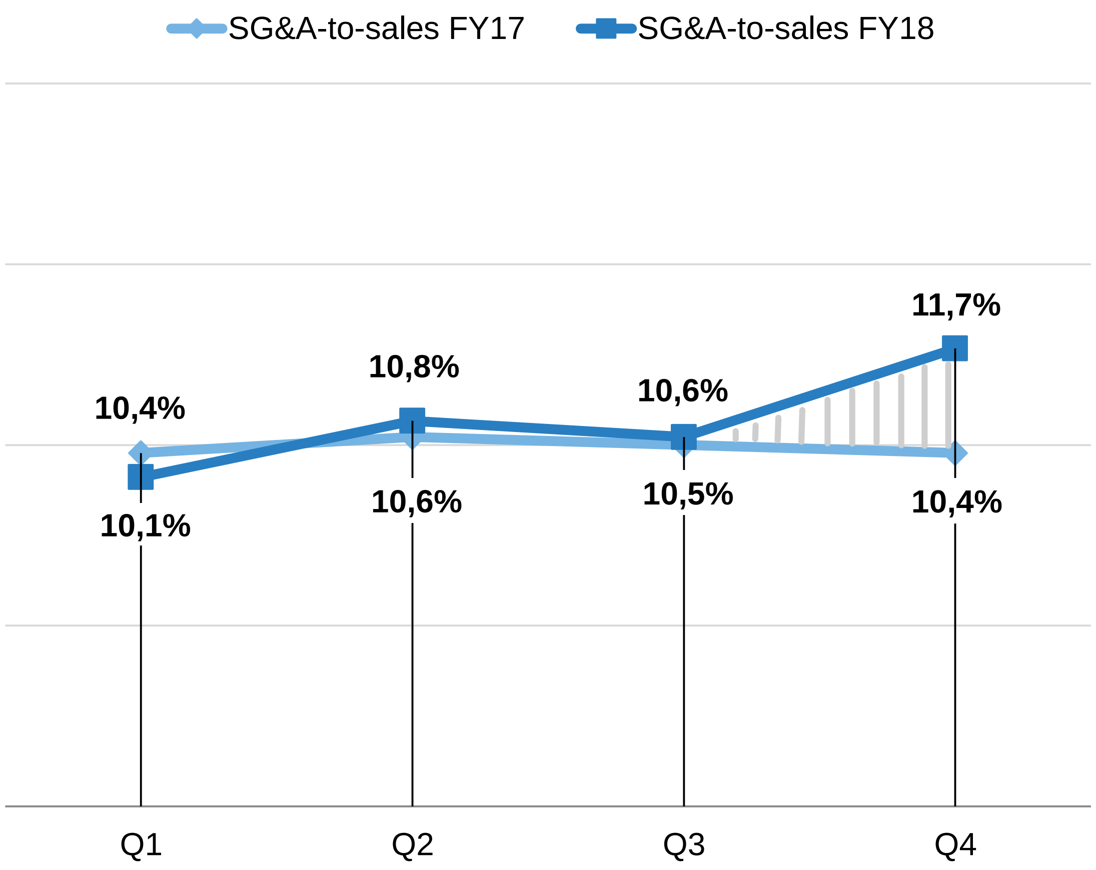
- Gross margin deterioration in Q4/18 due to the poor performance of WSD production sites
- € 20m ramp-up costs related to the Merida plant (€ 10m higher than expected)
- Unfavourable product-mix and write-downs on inventories
- EBIT also burdened by higher customer-related R&D costs as well as nominal increase in SG&A costs

[1)]Adjusted to IFRS 15

Unexpected deviation in Q4 versus previous year esp. in gross margin

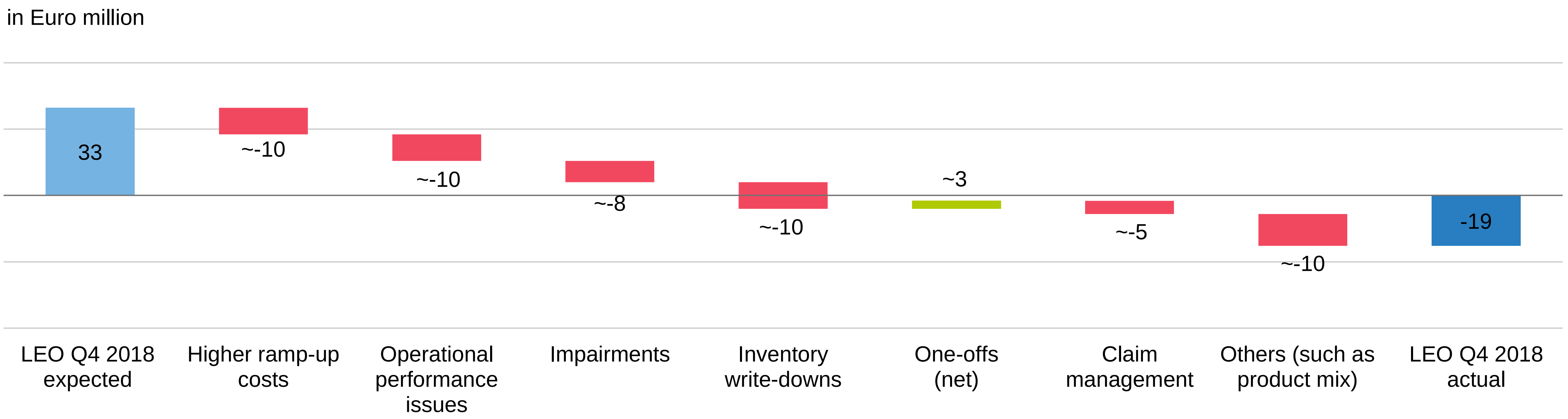
P&L ratios 2017 versus 2018





Q4 EBIT burdened by numerous items

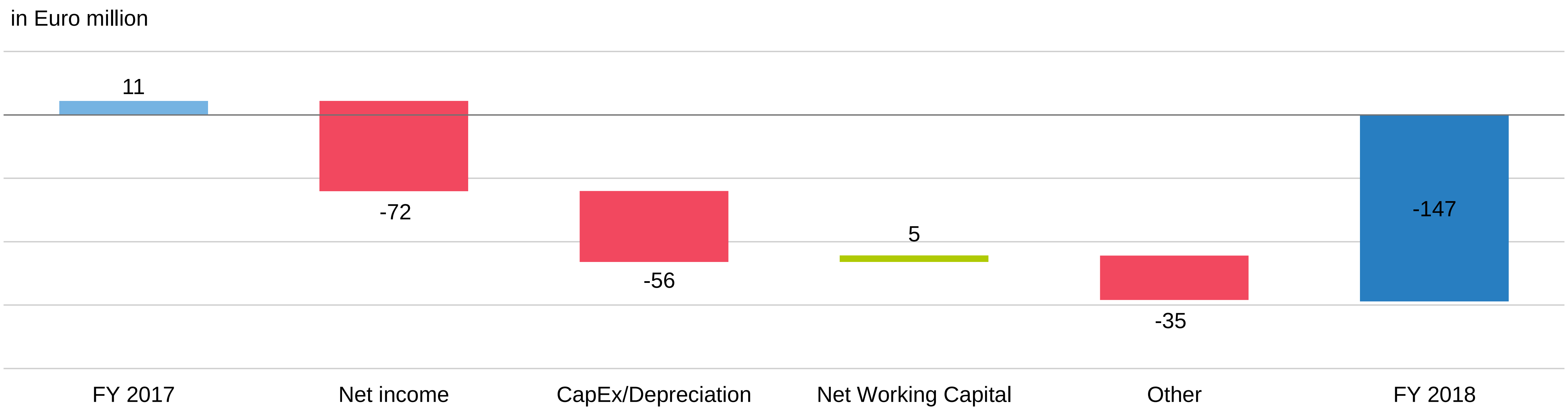
Deviation LEO Q4 2018 guidance versus actual Q4 2018 results



- Additional ramp-up costs related to the disappointing Merida performance
- Poor performance of other locations due to unplanned overtime, scrap materials and write-down of inventories
- Increase in freight costs following slower start of production at certain WSD production sites
- One-off items, net, positive due mainly to sale and lease back of Shanghai and Portugal assets

Full year free cash flow in line with adjusted guidance

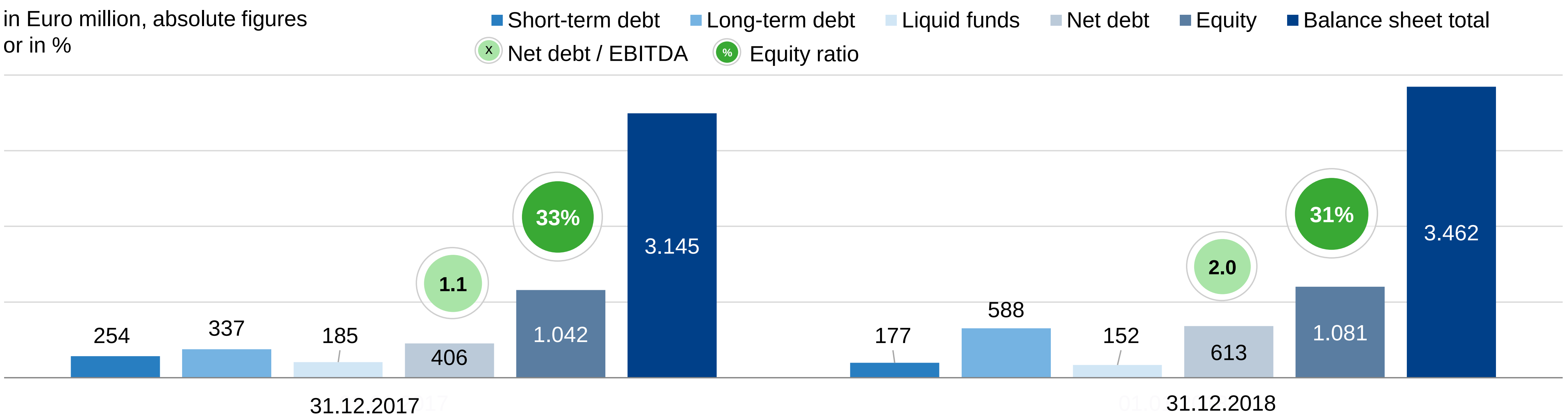
Key cash flow items



- Cash flow development burdened by lower profitability in 2018
- High capital expenditures related to record order intake of FY 2017
- Net working capital slightly positive despite negative business development at year end
- Positive year end trade payables effect expected to normalize in Q1 2019

Despite increased debt levels solid equity ratio maintained

Key balance sheet items



- (Net) gearing increased to 57% at year end 2018 (end of FY 2017: 39%)
- Improved debt maturity profile following issuance of “Schuldscheindarlehen” (borrower’s note loan)
- Credit facility of € 750m signed in June 2018 – slightly more than € 600m undrawn at year-end 2018
- LEO’s financial debt without any covenant

Previous year’s figures adjusted due to IFRS 15

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WSD is facing significant Merida ramp-up burdens

Critical ramp-up in Merida

- New production site in Merida, Mexico
- New product and complex product specifications
- New customer in the Americas and specific requirements/processes
- Lack of local qualified personnel, experience and routine

Actions taken to stabilize situation

- Direct workers from other LEONI plants to fill capacity & experience gaps
- Transfer of business from Merida plant to other sites
- Volumes covered temporarily by other facilities
- Highly experienced management task force on-site

Financial implications

- Burden EBIT 2018A: ~EUR 20m
- Burden EBIT 2019E: ~EUR 50m, mainly in Q1 and Q2

Demand related headwinds higher than expected

Additional Headwind

- WSD is seeing significant lower forecasts from several OEMs
- WCS business is facing stronger market headwinds than expected
- Both units suffer from weak demand from China and had a slow start into 2019
- Significant uncertainty regarding demand through 2019
- Continuation of the challenges faced in Q4 2018

Financial implications

- Reduced sales and profit expectations
- Further outlook with uncertainties

Implications for 2019 guidance

- Based on current financial figures, guidance for 2019 cannot be kept
- Due to the current uncertainties, the management believes it is not prudent to provide a revised guidance at this time for the full year 2019

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Lessons learned from Merida

Consequences from Merida

- Review of all top projects with external support: No major risks identified in upcoming larger launches
- Establishment of independent central project risk office, reporting directly to CEO, focusing on early warning about project risks including on-site assessments
- Sharpening of project governance and reporting
- Set-up of a central expert team to support critical and major launches
- Changes in key personnel

Short term measures to improve overall financial situation at LEONI

Measure to improve situation in the short term

- Hiring freeze
- Reduction of white collar leased personnel
- Reduction of travel expenses and discretionary costs
- Staff-related measures, e.g. postpone salary increases
- Restructuring part of VALUE 21 further sharpened: Planned reduction of up to ~2,000 white collar positions[1)] (thereof ~500 in high cost countries) targeted for 2019 / 2020

1) To be aligned with workers' council

A number of personnel changes

Karl Gadesmann, CFO LEONI AG, has agreed with the Supervisory Board not to extend his contract beyond the end of the year. He will be leaving the company with immediate effect
Search started, Aldo Kamper to take over for the time being

Aldo Kamper, CEO of LEONI AG, will also become the CEO of WSD and will devote a very material part of his time to ensuring that WSD successfully addresses the current issues and structurally strengthens the organization

Martin Stüttem, current CEO of WSD, will assume the role of Chief Operating Officer to fully focus on solving the operational performance issues

WSD Head of Operations has left the company
WSD CFO will leave his position

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VALUE 21 was started to lift LEONI to its real potential

VALUE 21

Performance	Strategy
Sustainable improvement of profitability and cash flow	Long-term success and profitable growth

Steps:

1. **Gain core insights:** Review of operational and strategic situation
2. **Derive implications:** Measures to improve

Focus of today

3. **Deliver Results:** Implement measures and gain benefits

In the future: Quarterly updates

LEONI

LEONI operates in a long-term robust market that benefits from trends in e-mobility

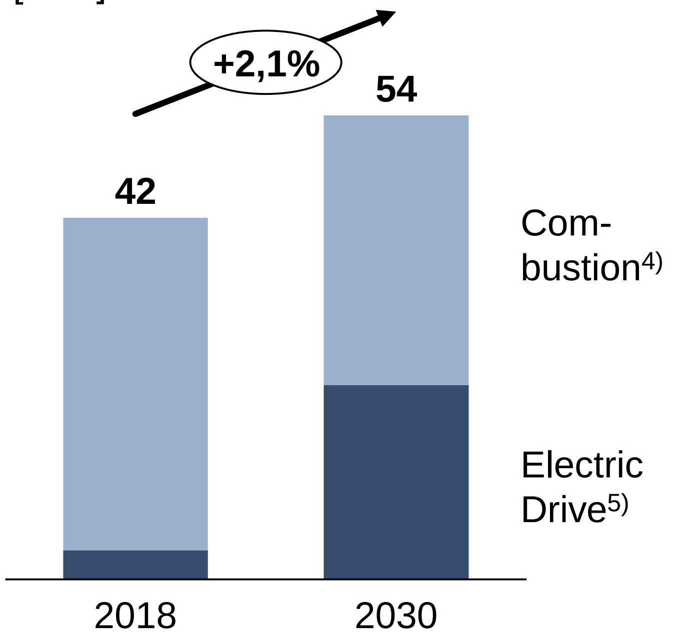
Key trends for harness content:

- + e-mobility
- + Autonomous driving
- + New functionalities
- 0 Simplified HV architecture
- − New E/E[1] architecture
- − Price decline

Harness content[3] per car:

	2018	CAGR	2030
Com-bustion[4]	~435 €	-0,7%	~400 €
Electric Drive[5]	~750 €	-2,4%	~560 €
ø[2]	**~450 €**	**+0,2%**	**~460 €**

Wiring harness market:
[bn €]



1) Electric/Electronic 2) Volume-weighted average 3) Content values are estimates and strongly depend on specifications 4) ICEs and Mild HEVs 5) Full HEVs and BEVs
Source: LEONI harness market model

LEONI

Competitors show that healthy profitability is achievable when operationally well executed and strategically well positioned

Competitors of WSD	Harnesses	Solutions	EBIT-Marge (2018)
Company A	✓	✓	12,3%
Company B	✓	✓	9,4%
Company C	✓		6,0%
Company D	✓	✓	3,4%
Company E	✓		3,4%
Company F	✓		3,1%
Leoni (WSD)	✓		2,5%

Competitors of WCS	Cables	Solutions	EBIT-Marge (2018)
Company G	✓	✓	20,6%
Company H		✓	16,1%
Company I	✓	✓	10,9%
Company J	✓	✓	8,3%
Leoni (WCS)	✓		3,5%
Company K	✓		3,0%
Company L	✓		1,7%

VALUE 21: Overview on core insights and implications

	Core insights	Implications
1 Performance	› Comprehensive assessment & bench-marking shows that LEONI has structural margin deficits	› Implement program to structurally improve performance by € 500m annually in gross EBIT › Restructuring costs of ~ € 120m, ~½ of it related to HCs
2 Portfolio profitability	› Profitability of LEONI's businesses differs widely: Units with high degree of differen-tiation and system orientation show best results	› Fix, sell or close underperforming / non-strategic businesses in WCS of up to € 500m in revenues › Phase out underperforming / non-strategic customers / programs in WSD › Focus on businesses with differentiation & system orientation
3 Organization	› Beyond governance there is little synergy between the two divisions	› Lean financial and governance holding instead of large strategic holding › Two stand alone, independent divisions, set up for further strategic development
4 Cash, not growth	› WSD reached relevant size, additional scale comes with limited benefits › Strong growth is highly cash consuming and operationally challenging	› Focus on cash & profitability, not on growth › Future growth level in line with market and within infrastructure that exists in 2020
∑ Improvements		**Vs 2018: EBIT +2 to 3%-pts and FCF 4 to 5%-pts by 2022**

1 To structurally improve profitability, LEONI runs a rigerous performance program

Performance program

Key parameters

- 3 years improvement program
- Base effect of € 500m cost reduction after completion in 2021
- Comprehensive across all entities

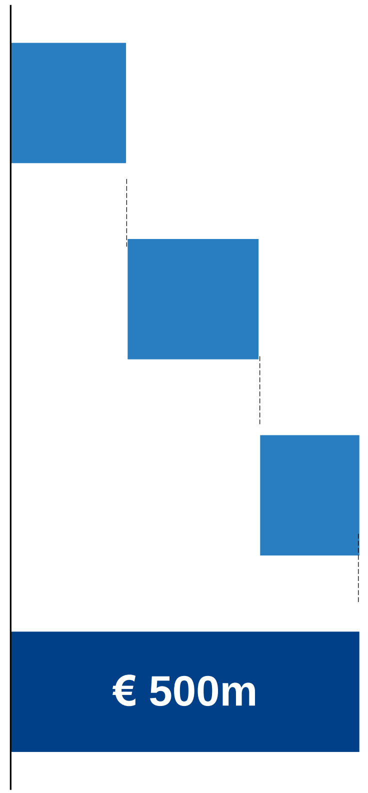
Costs

- Restructuring costs of ~ € 120m over 3 years
- Thereof ~½ of it related to headcounts

Phases

(1) Identification and detailed assessment of all performance levers	✓
(2) Bottom-up planning	ongoing
(3) Implementation & delivery from	Q3/19

Performance levers	Expected EBIT impact[1)]
Direct procurement	
Production, logistics and indirect procurement	
SG&A, R&D, IT, others	
Total impact (annual)	€ 500m



1) Annual gross EBIT; based on assessment phase

1 The program is designed to achieve successful delivery of results

Comprehensive

- Across both divisions & holding
- Across all functions & regions
- Across all P&L elements

Structured

- Clearly defined work streams
- Dedicated Trans-formation Office direct reporting to the LEONI CEO
- Driven personally by all board members

Stringent

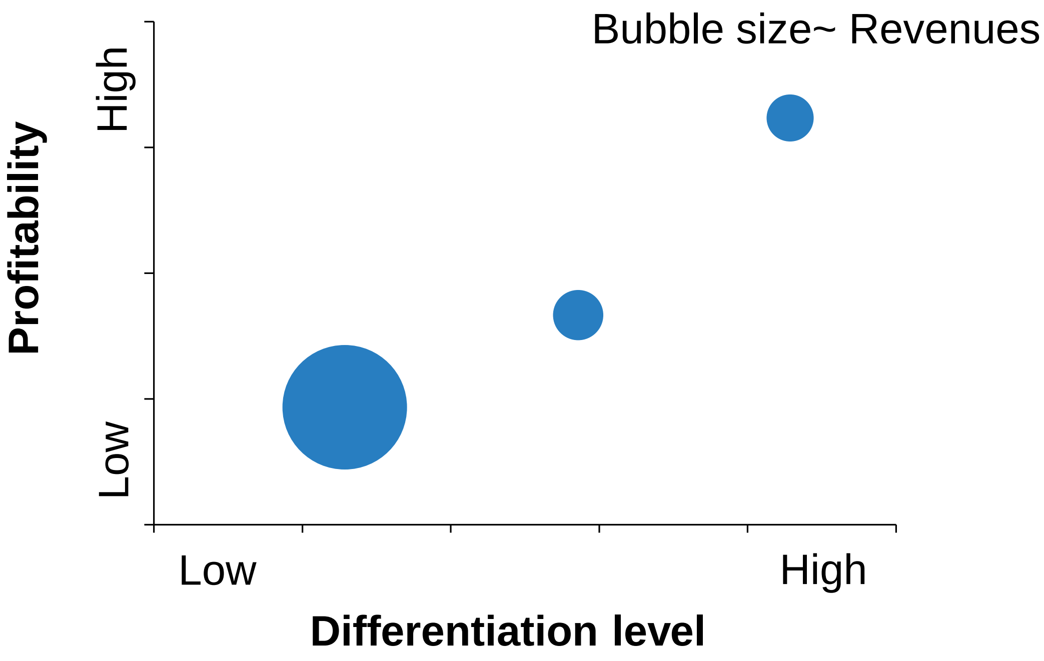
- Transparent & detailed tracking of all measures in a LEONI-wide tool
- Weekly cadence of progress review
- Quarterly reporting of the progress externally

Sustainable

- 3 year journey, not a quick fix
- Implementing a new way of driving performance
- Only bottom line impact counts

2 LEONI will actively manage its portfolio towards profitability

Profit vs differentiation of LEONI's 28 business units [categorized into 3 groups of similar differentiation level]



Implications for WCS

- Fix, sell or close underperforming WCS businesses with up to € 500m in revenues
- Focus on attractive segments with higher differentiation / solutions orientation
- Continue to drive towards data driven business models, e.g. with LEONiQ

Implications for WSD

- Replace or phase out underperforming / non-strategic customers / programs in WSD over time
- Continue to build up system expertise as pre-development partner for selected OEMs
- In the mid term, expand in relevant adjacencies, organically and / or inorganically

2 LEONI already today successful with differentiated offerings

Robot connectivity & calibration system

- Global market leader for industrial robot connectivity systems
- LEONiQ cable condition monitoring and predictive maintenance business model available soon

Intelligent HV[1)] charging cable

- Global market leader for HV charging cables and in-car HV cables
- Real-time condition monitoring and predictive maintenance thanks to LEONiQ and its combination with Microsoft Azure Sphere

HPF[2)] cables for semi-conductor industry

- High-tech cable technology for most technically advanced and cleanest applications (“cleanroom production”)
- Trusted partner to global players in semiconductor manufacturing industry

Battery connector solutions

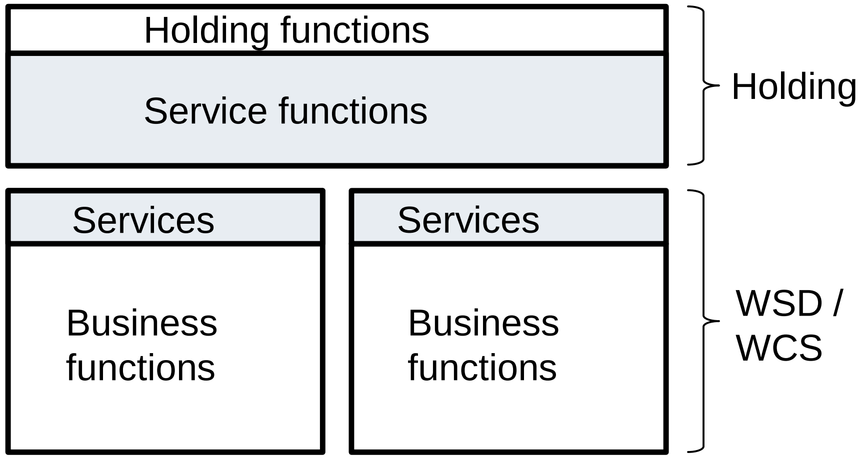
- Integrated system solution for optimum performance developed together with strategic partner Diehl
- OEM to transfers full responsibility for system interface to LEONI

1) High voltage 2) High performance flex

3 New setup will foster divisional cost ownership and entrepreneurial freedom

Current organizational setup:

- Strategic holding with centralized service functions aiming for cross-divisional synergies



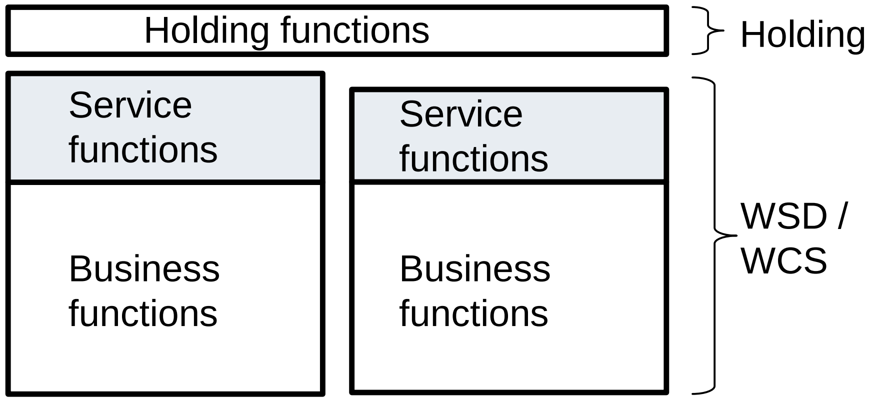
Core insights

- Beyond governance, there is little synergy between the 2 divisions
- Current set up generates more costs than benefits

1) Differentiation between holding functions and service functions tbd.

Future organizational setup[1)]:

- Establish 2 stand alone capable divisions
- Transform into financial and governance holding model

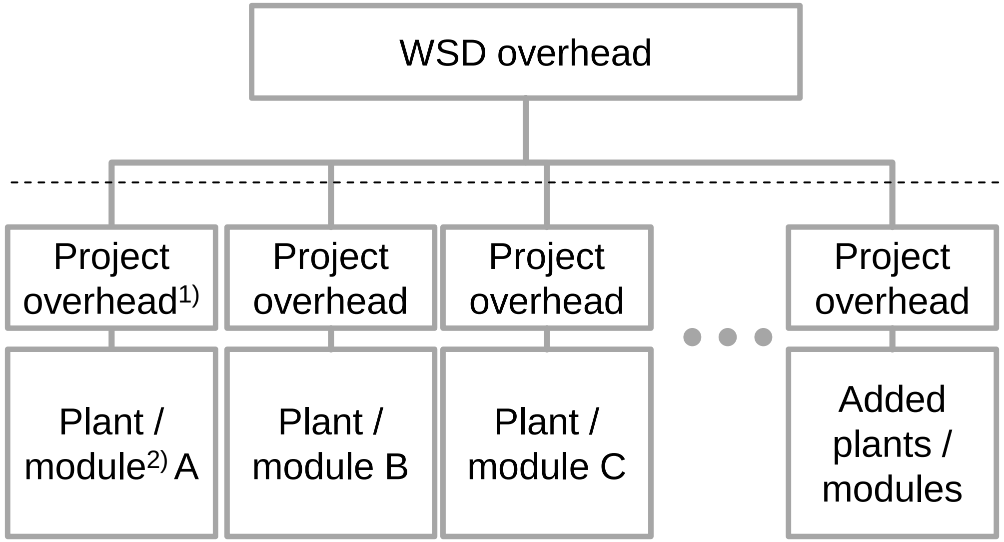


Benefits

- Divisional ownership instead of cost allocation for service functions
- Two flexible and entrepreneurial divisions with service levels & costs matching their specific requirements
- CEO / CFO of holding to also lead WSD together with WSD COO

4 WSD has reached relevant size – market share gains no longer a priority

Cost structure for WSD growth:



Fixed costs

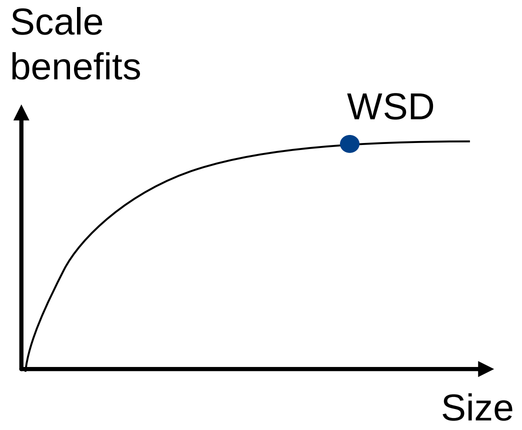
Costs that scale with # of projects

Growth typically requires additional plants / modules[3)]

Implications

Only fixed cost portion declines with additional revenues, however fixed part is already comparatively small

→ Flattish economies of scale:



1) Product design, project management, plant overhead etc 2) A plant typically runs 1 to 5 projects 3) Some growth possible by space efficiency increases

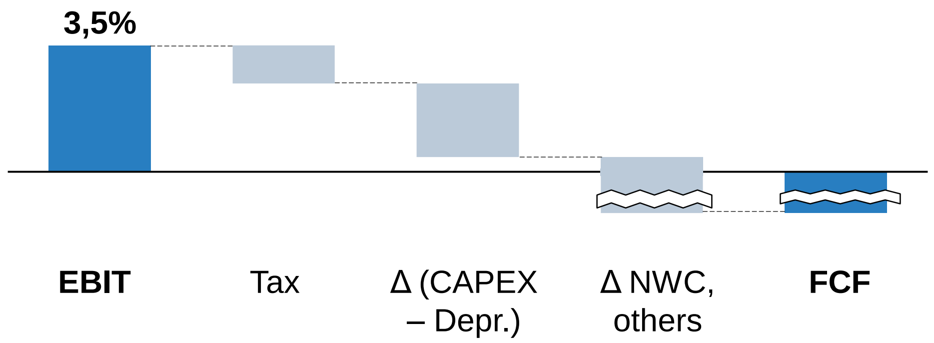
❹ Reducing WSD growth leads to significant improvements in FCF

WSD „today“

WSD with strong focus on market share gains

Core insight
- 8 new factories in 2019
- High cash requirements for capex and NWC
- High ramp-up costs, inefficiencies and problems
- Reduced ability to be selective at project acceptance

WSD EBIT / FCF at ~7% growth
Ø 2013 to 2017

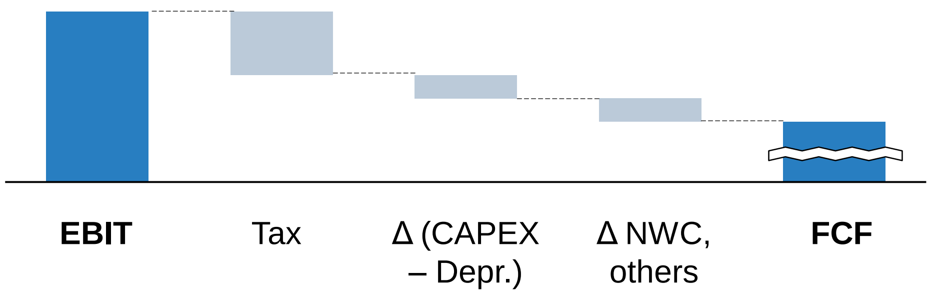


WSD „tomorrow“

WSD growth ≤ market growth

Implications
- Growth of harness business within footprint as available in 2020, i.e. no new sites for growth
- Lower ramp-up costs and less complexity
- Increase selectivity for order intake and focus on few, but very deep OEM relations

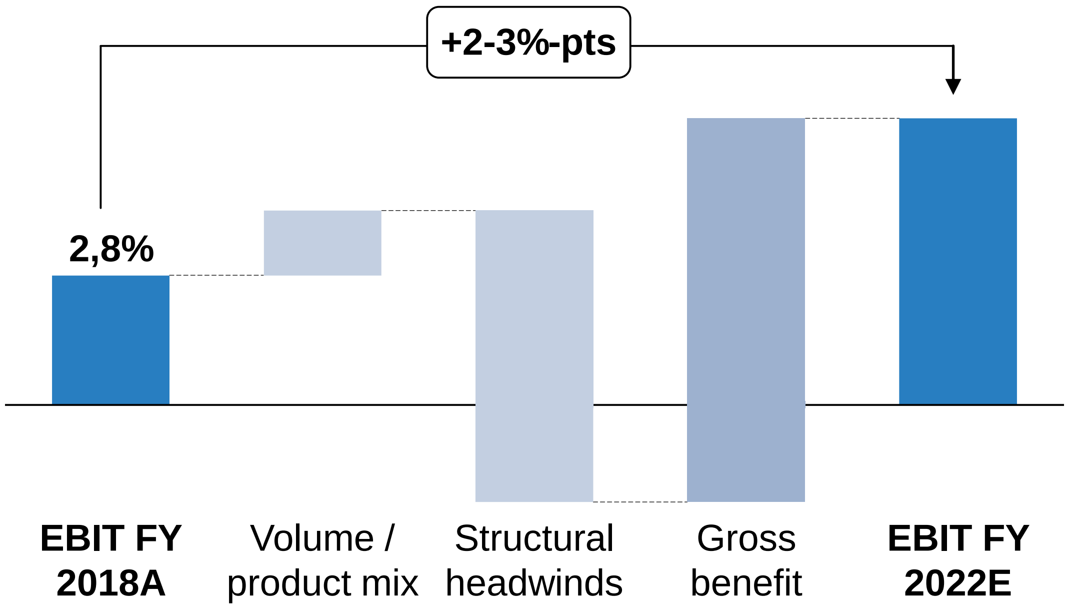
WSD EBIT / FCF when growing in line with the market
After 2021 [indicative; impact from “reduced growth” only]



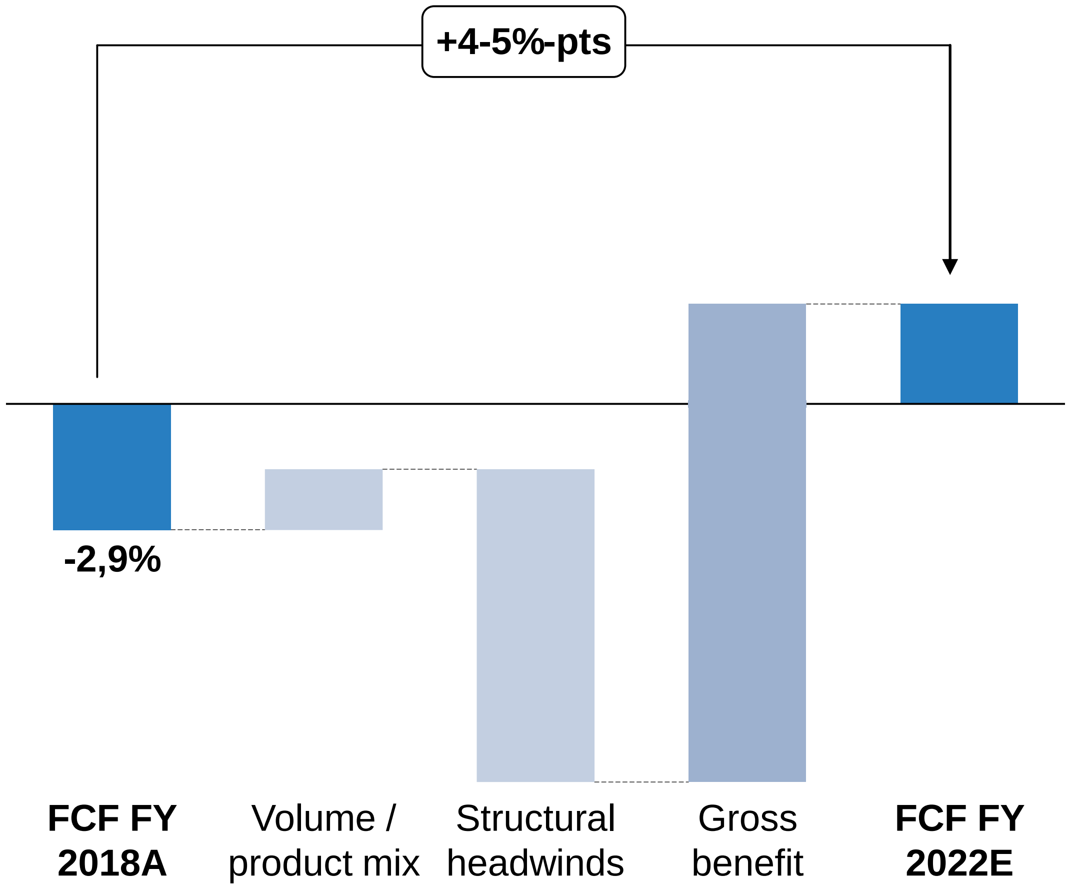
VALUE 21 will improve EBIT by 2 – 3%-pts and FCF by 4 – 5%-pts

ILLUSTRATIVE

EBIT margin impact



FCF yield impact



Assuming stable economic environment

LEONI will report quarterly about the status along the VALUE 21 levers

	Target picture	Status
1 Performance	Measures ready for implementation	100%
	EBIT impact	500 m€
	Costs	120 m€
2 Portfolio profitability	Fix, sell or close of underperforming / non-strategic businesses	
3 Organization	Implementation of new organizational structure	
4 Cash, not growth	Order intake	

LEONI post VALUE 21: A fundamentally different company

VALUE 21

Performance	Strategy
Sustainable improvement of profitability and cash flow	Long-term success and profitable growth

Organisational & operational profile

- Streamlined organisational structure
- Two stand alone divisions
- Transparent, with clear reporting structure
- Optimized portfolio
- Increasingly focused on system solutions
- Maintain #1 harness maker position in Europe & #2 global position in automotive cable
- Highly efficient operations and flawless ramp-ups

Financial profile

- Cash generator vs cash burner
- Strong focus on profitability
- Reduced / actively managed revenue growth

LEONI ready for further strategic developments

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Summary

- Highest priority: Fix current operational problems and transparency issues
- Stringent execution of VALUE 21 performance measures to quickly reap benefits
- Implement new set up, portfolio optimization and focused growth approach
- After stabilization, drive further strategic development

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