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# Financial results
# Q2 2019

Aldo Kamper
Ingrid Jägering

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# Q2 at a glance

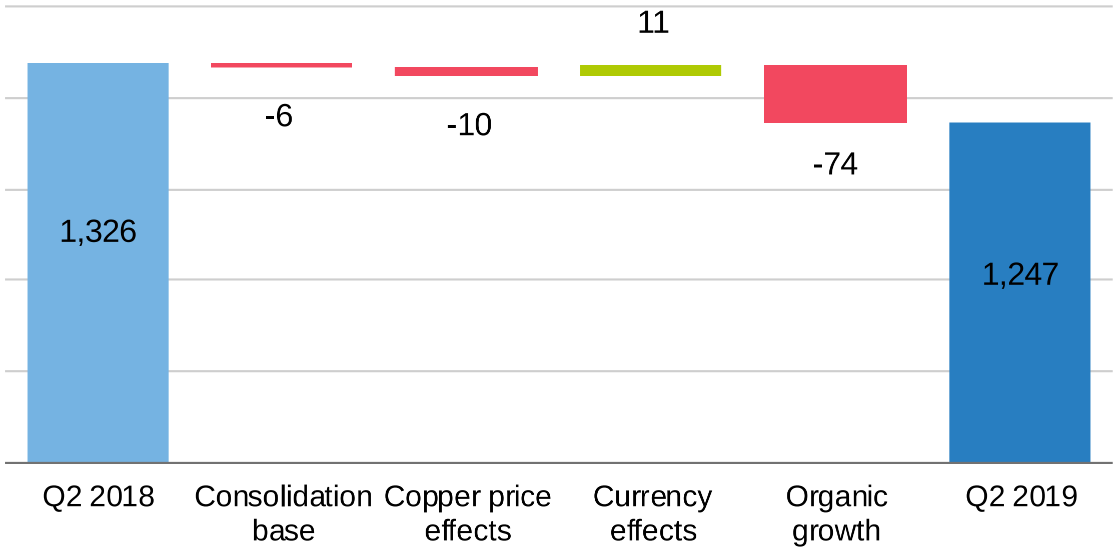
## VALUE21 progressing well in weaker market environment


- Sales and EBIT development impacted by weaker market environment
- Production situation in Merida stabilised, burdens related to the project ramp-up now almost completely ceased
- VALUE21 implementation progressing well. Gross cost savings of EUR500m now detailed with bottom-up measures; approx. 20% of these have already been implemented
- Significant free cash flow improvement in Q2 2019 in line with expectations
- Further strategic development continues to be driven by WCS carve-out process

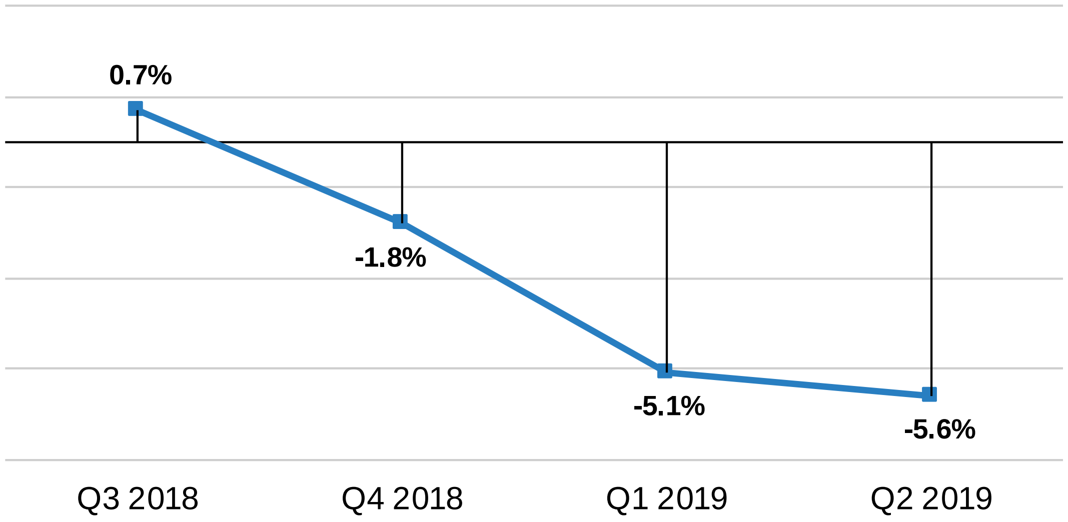
# Market environment continues to be challenging

## Sales year-on-year

in Euro million




**Organic sales growth development LTM**
(in % y/y)




› Weaker demand, mainly from the automotive industry, led to a decline in sales in Q2 2019

› Slowdown due to weaker demand in both divisions, especially in China



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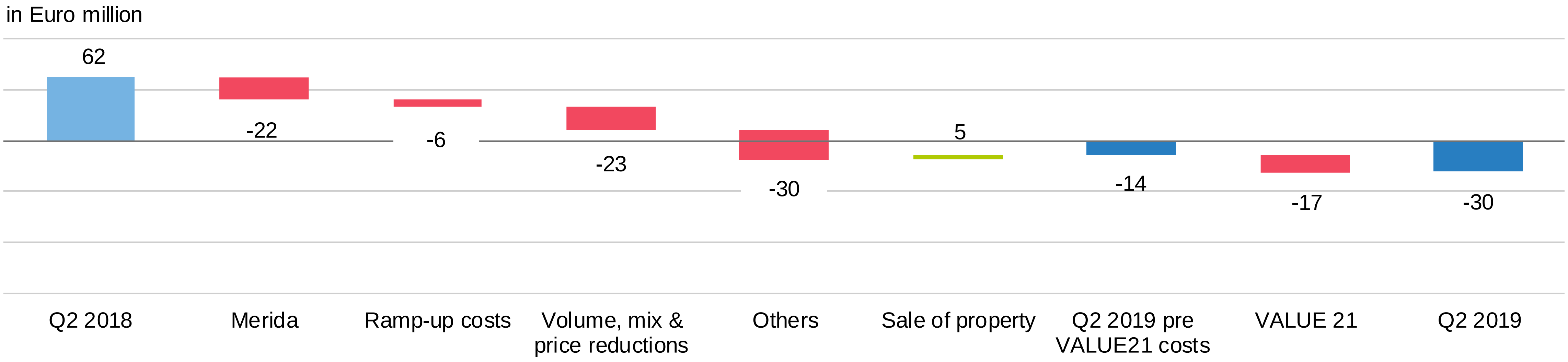
# Q2 EBIT impacted by lower volumes and ramp-up preparation costs

## Operating income development year-on-year




- Meaningful improvement at Merida plant, burdens related to the project ramp-up now almost completely ceased
- Volume reduction reflects weaker market environment
- As anticipated, ramp-up costs increase year-on-year

- Others includes items such as significant salary inflation and negative copper valuation effects; in addition, EBIT in Q2 2018 included a positive one-off effect related to the release of a provision
- Sale of property in China
- Rapid implementation of VALUE21 led to first costs

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



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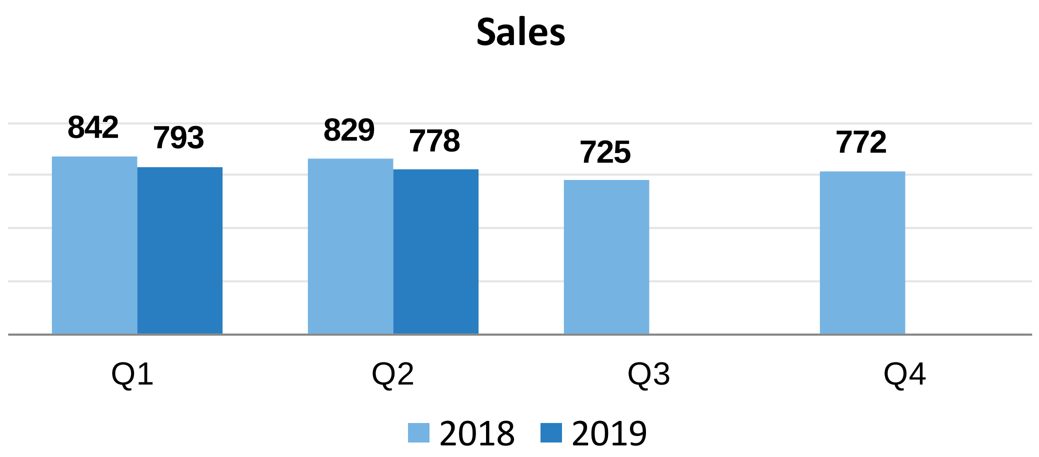
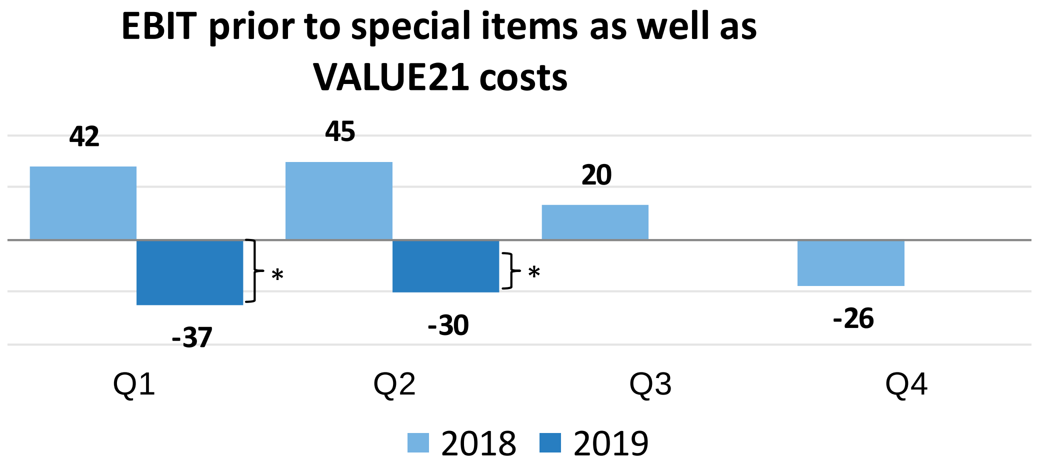
# WSD burdened by weaker demand and Merida costs

## Sales and EBIT by division

in Euro million




› Organic sales -5.8% y/y in Q2 2019

› Reported EBIT for Q2 2019 came in at EUR-41m (Q1 2019: EUR-139m)

› EBIT burden related to Merida reduced from EUR37m in Q1 2019 to EUR22m in Q2 2019

* Merida

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



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# Ramp-up in Mexico stabilised

## Improvement according to plan

**Progress of stabilising actions (Q2 2019)**

- Deployment of task force (peak in Q1: >1,000 employees) at Mexican site ended in June
- Significant reduction of freight costs to normalised levels
- Production situation stabilised, customer orders served on schedule, no backlog

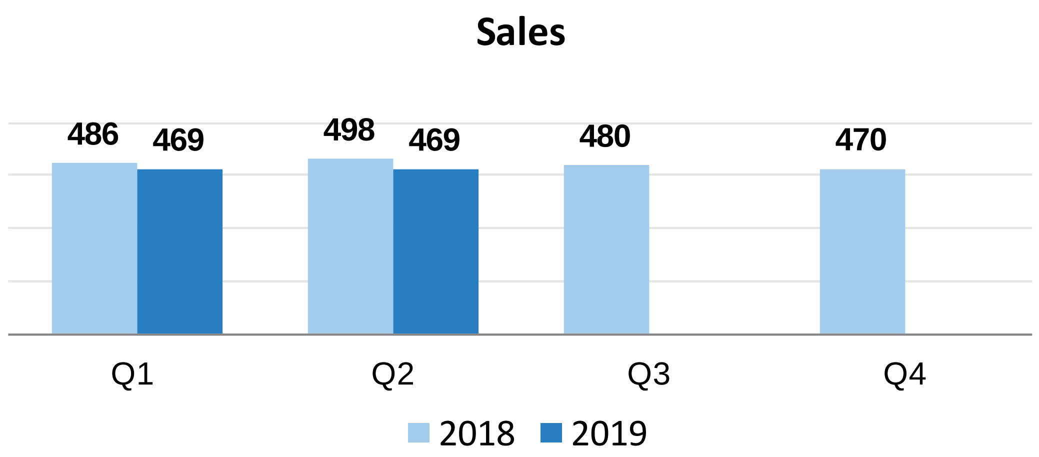
**Financial implications**

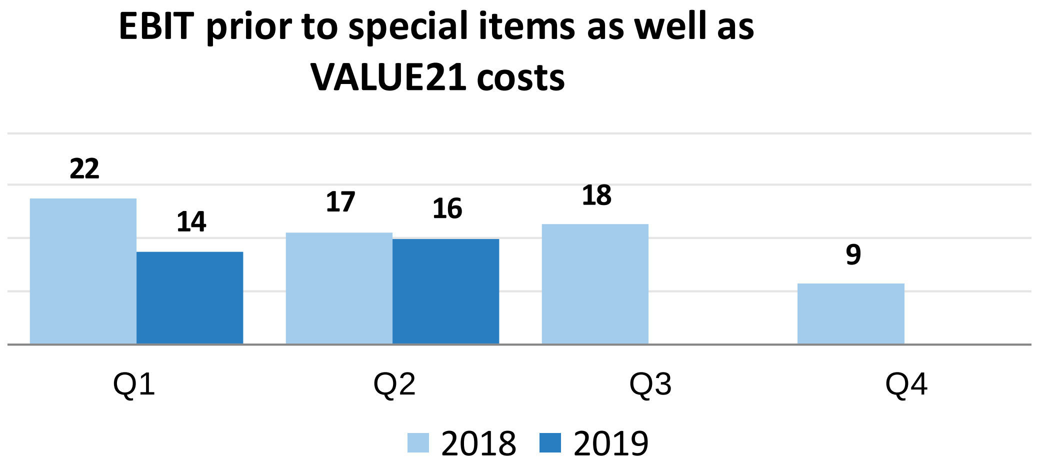
- EBIT burden in Q2: EUR22m
- As anticipated, unexpected additional burden largely ceased by end of Q2

# WCS EBIT declines mainly due to lower volumes and copper valuation effect

## Sales and EBIT by division

in Euro million



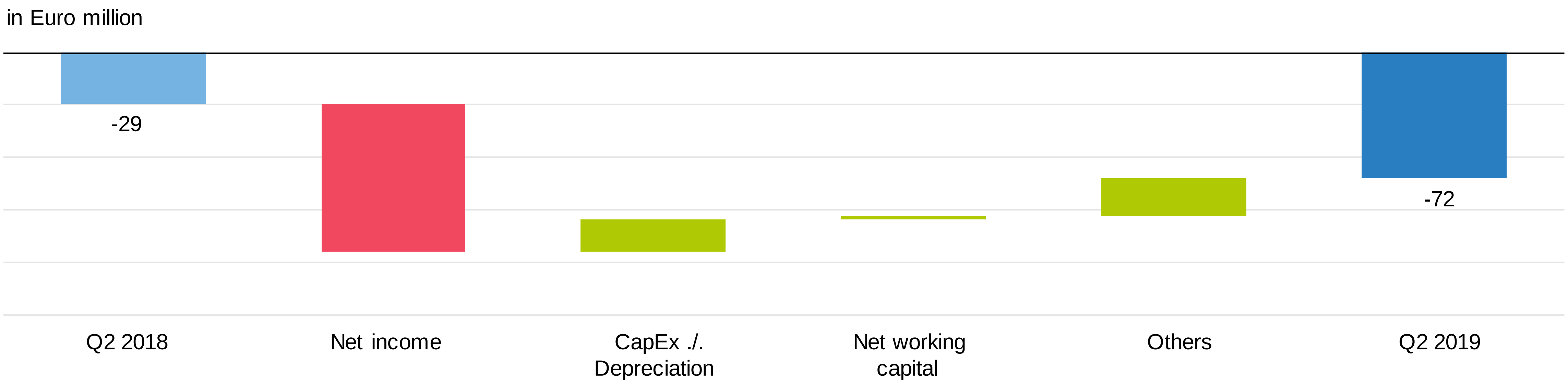

- Organic sales -5.4% y/y in Q2 2019

- Reported EBIT of EUR10m in Q2 2019*
- EBIT included special items related to the sale of property in China as well as positive product mix effects
- Lower sales, valuation effects from the lower copper price and currency effects weighed on earnings

* including VALUE21 costs of EUR6m

# Significant FCF improvement versus Q1 2019

## FCF development year-on-year




- Bottom-line development suffers from Merida issues, operational performance as well as VALUE21 costs
- To ensure proper execution of future ramp-ups, necessary capital expenditures remain at a high level (Q2/19: EUR61m; Q2/18: EUR67m)
- “Others“ includes proceeds from the sale of property in China



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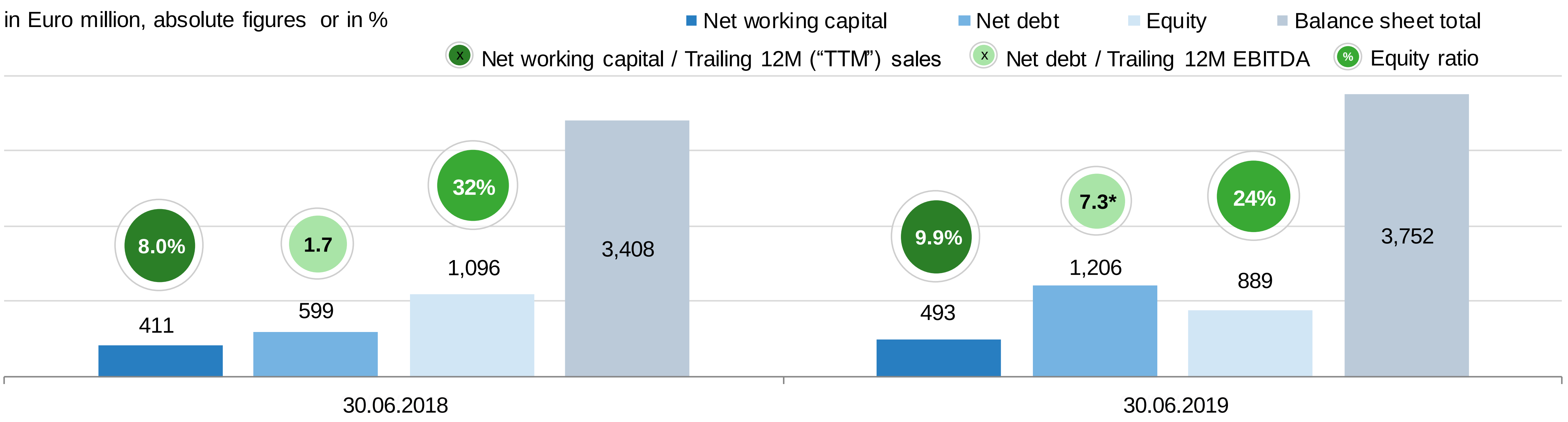
# Bottom-line development reflected in equity ratio decline

## Key balance sheet items

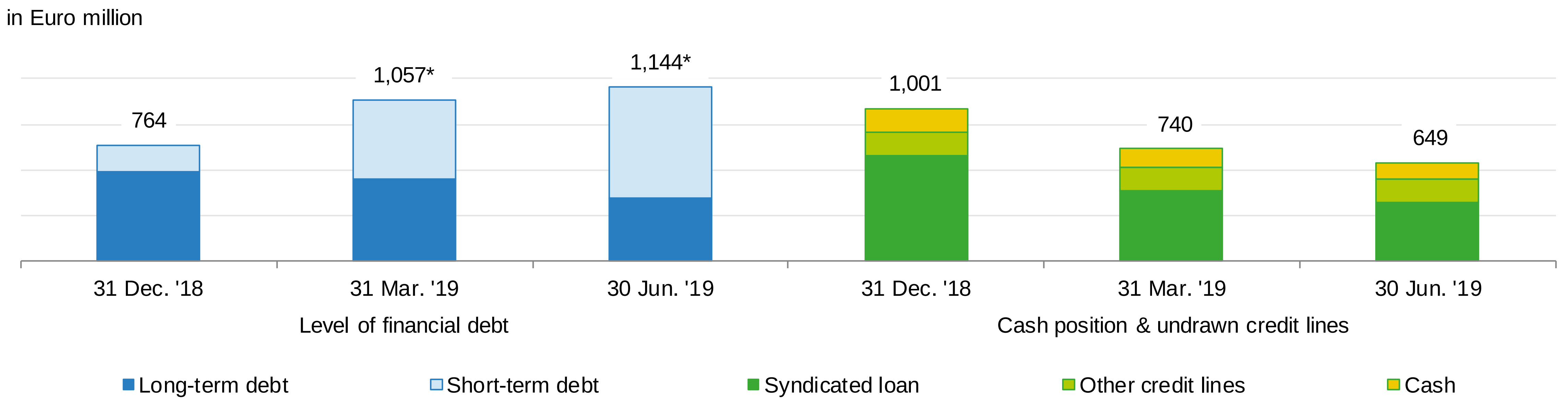



- Equity ratio decreases to 24% due to negative Q2 result and an increase in total assets related to IFRS 16 of EUR172m
- Gearing (net debt/equity) at the end of June of 136%

* TTM EBITDA excluding Q1/19's exceptional items totaling EUR102m as well as VALUE21-related costs of EUR17m in Q2/19

# Financial debt and liquidity position

## Group financial position




- Given H1's negative free cash flow, financial debt increased to EUR1.1bn* at the end of Q2
- Increase in financial debt slows down due to significantly lower cash burn versus Q1 2019
- Total liquidity including cash position of EUR649m at the end of Q2
- Around 75% of the undrawn credit lines are firmly committed and all financing is without covenants
- Increase in short-term debt due to drawn funds related to the RCF

* excluding leasing liabilities related to IFRS16: Q1/19: EUR153m; Q2/19: EUR172m



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# Q2 2019 update on VALUE21

## VALUE21 well on track to deliver EUR500m in gross savings before headwinds until FY 2022

| 1 Performance | Target picture | Status | |
|---|---|---|---|
| | Implemented initiatives | ~20% | 100% |
| | Gross savings* | ~10% | 500 EURm |
| | Costs | ~15% | 120 EURm |

- Good progress with regards to quick realisation and implementation of a large number of initiatives (approx. 300)
- Total EUR500m gross savings potential (before offsetting effects) now fully underlined with very concrete bottom-up defined measures
- Management of the whole group is firmly committed to deliver on proper execution of VALUE21; implementation driven by initiative owners across the company
- Target until year-end 2019: implementation of more than half of planned initiatives

* Full run-rate as of FY 2022

# Q2 2019 update on VALUE21

## Pillars 2 to 4 also progressing well

| | Target picture | Status |
|---|---|---|
| 2 **Portfolio profitability** | Fix, sell or close underperforming / non-strategic businesses | WSD with clear focus on strategic customers<br>WCS addressing underperforming assets |
| 3 **Organisation** | Implementation of lean organisational structure | Negotiation with workers' council started in June<br>Transformation of organisation to start in Q4 |
| 4 **Cash, not growth** | Selective order intake<br>Cash and EBIT optimised growth rate | WSD project acquisition stop for non-strategic customers/projects<br>On track to reach controlled full-year target of EUR2.5-3.0bn order intake; year-to-date at EUR1.5bn<br>No additional production capacity expected to be necessary from 2021 onwards |


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# Outlook for 2019

## Anticipated improvement of operating performance in H2 2019


- Sales at group-level are forecast to be moderately below previous-year's level
- Given expectations for better EBIT development in H2, Group EBIT in 2019 prior to exceptional items as well as VALUE21 costs will be up to a negative mid double-digit million-euro figure
- Given our expectation of balanced free cash flow development in H2 2019, LEONI's full-year FCF will be in the range of plus or minus a low double-digit million-euro compared to the level reported in H1 2019


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# Regaining stability after turbulent quarters

- VALUE21 implementation well on track with first cost-saving initiatives implemented
- Merida situation stabilised, launches at other sites went smoothly
- Improved cash flow management begins to bear fruit; further improvement during remainder of the year expected
- Carve-out: planned separation of WCS will allow for better and quicker strategic development of both divisional businesses
- Ingrid Jägering completed Board of Directors: new Group CFO joined August 1, 2019

# Q & A session

# Contact

## Investor Relations


### Your Contact

**Frank Steinhart**

| | |
|---|---|
| Phone | +49 911 2023-203 |
| Fax | +49 911 2023-10203 |
| E-Mail | invest@leoni.com |

**Jens von Seckendorff**

| | |
|---|---|
| Phone | +49 911 2023-134 |
| Fax | +49 911 2023-10134 |
| E-Mail | invest@leoni.com |

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