

Quarterly statement

13 May 2020

Q1 | 2020

LEONI maintained its free cash flow uptrend in the first quarter of 2020

“LEONI was prompt and successful taking measures to lower costs and safeguard its financial resources to counteract the fallout from the Covid-19 pandemic. We have applied extensive precautionary measures throughout the Group to protect our workforce and have prepared well for restarting production.”

Aldo Kamper, CEO of LEONI AG

- First-quarter sales and earnings affected by Covid-19 pandemic
- EBIT-level result before exceptional items as well as before VALUE 21 costs improved slightly to a loss of € 17 million despite the significant sales decrease
- Asset impairment amounting to € 19 million due to economic conditions changed by the Covid-19 pandemic; reported EBIT nevertheless considerably improved
- Balanced free cash flow despite severance payments related to VALUE 21; significantly better than in the same quarter of the previous year thanks to systematic improvement of working capital management; less capital spending as well as proceeds from sale-and-leaseback transactions
- As a consequence of the Covid-19 pandemic, we have applied extensive measures to safeguard continuation of our business operations as well as to protect our workforce
- As an additional response to the pandemic, we agreed a new € 330 million operating loan with core banks, 90% of which is backed by a large-scale German federal and state government guarantee (Bund-Länder-Großbürgschaft)
- The recent expert opinion on restructuring that considered potential Covid-19 fallout confirmed the Company's ability to restructure and that it is fully financed through to the end of 2022
- Resolute implementation of our VALUE 21 performance and strategy programme; about 70 percent of the gross cost reduction potential realised as of 31 March 2020
- Ready for safe and gradual restart of production

LEONI Group

€ million

	Q1	
	2020	2019
Sales	1,128	1,262
Earnings before interest, taxes and depreciation/amortisation (EBITDA)	(4)	(76)
Earnings before interest and taxes (EBIT)	(57)	(125)
EBIT before exceptional items as well as before VALUE 21 costs ¹	(17)	(21)
Consolidated net result	(67)	(132)
Earnings per share (€)	(2.05)	(4.03)
Free cash flow ²	0	(312)
Capital expenditure	98	78
Equity ratio (%)	15.7	25.2
Employees as at 31 March (<i>number</i>)	91,872	95,704

Key events

- A task force set up promptly in response to the Covid-19 pandemic to manage action; measures applied to safeguard continuation of our business operations including temporary plant shutdowns in Europe, North Africa and in the Americas as well as reduction of working hours, for instance by introducing short-time working in Germany and comparable steps in other countries; we furthermore prepared a detailed plan for the workplace health and safety of our staff
- Implementation of our VALUE 21 programme continues on schedule; 65 percent of the initiatives applied as of 31 March; gross cost savings of about € 350 million, which equates to 70 percent of the € 500 million overall potential that will take full effect from 2022

¹ This key figure represents adjustment of EBIT for exceptional, non-recurring factors to facilitate better comparability between the periods and interpretation of operating profitability. Exceptional items comprise significant impairment of goodwill, intangible assets, property plant and equipment as well as other assets, major expenses for contingent losses on customer contracts, costs in preparation for carving out the Wire & Cable Solutions Division (excl. internal costs), refinancing costs (incl. consultant, bank and solicitor fees; apart from the costs that are attributed to interest expenses) as well as other expenses incurred by strategic decisions. Costs for the VALUE 21 programme comprise all the related restructuring and severance costs as well as third-party consultant fees.

² Prior-year figures adjusted (presentation change: interest paid and received is classified in full as a financing)

Sales performance

Group sales performance (€ million)

	Q1	
		%
Sales, previous year	1,262	
Organic change	(130)	(10.2)
Effects of changes in the scope of consolidation	(6)	(0.5)
Currency translation effects	7	0.5
Copper price effects	(5)	(0.4)
Sales, current year	1,128	(10.6)

- Significant, 11 percent overall decrease in consolidated sales: Slump in demand related mainly to the coronavirus crisis because of customers' plant shutdowns and curtailing of production
- Sharp volume drop in both divisions: sales of wiring systems as well as cable systems in the Wiring Systems Division and of automotive cables as well as special cables and cable systems in the WCS Division down
- Decline in all regions, most significantly so in Asia with a 29 percent decrease, followed by EMEA with a 9 percent fall and the Americas with a 1 percent dip; trend reflects the trajectory of the Covid-19 pandemic; measured in terms of absolute business volume EMEA had the biggest impact; successful restart in China after shutdown

Income situation

EBIT before exceptional items as well as before VALUE 21 costs (€ million)

	Q1	
	2020	2019
EBIT before exceptional items as well as before VALUE 21 costs	(17)	(21)
Exceptional items	(34)	(102)
VALUE 21 costs	(7)	(2)
EBIT	(57)	(125)

- EBIT before exceptional items as well as before VALUE 21 costs: Earnings affected mainly by the sales decline and negative copper price effect; book gain on sale-and-leaseback transaction in the amount of € 10 million boosted income; previous year's result adversely affected in the amount of € 37 million by the meanwhile resolved ramp-up difficulties at our wiring systems facility in Mérida, Mexico
- Exceptional items included primarily asset impairment in the WCS Division in the amount of € 19 million due to the changed economic conditions as a consequence of the Covid-19 pandemic as well as refinancing costs of € 9 million; the previous year's exceptional items included principally provisions for contingent losses and impairment charges in the Wiring Systems Division
- Costs amounting to € 7 million related to our VALUE 21 performance and strategy programme

Assets and financial position

Free cash flow (€ million)

	Q1	
	2020	2019 ¹
Cash flows from operating activities	(14)	(208)
Cash flows from capital investment activities	14	(104)
Free cash flow	0	(312)

¹ prior-year figures adjusted (presentation change: interest paid and received is classified in full as a financing)

- Significant free cash flow improvement in the first quarter of 2020 despite severance payments related to VALUE 21
- Uptrend in cash flows from operating activities thanks to the improved earnings as well as trend in net working capital; positive effects due to both systematic improvements in terms of working capital management as well as temporarily less accumulation of receivables because of the decline in business
- Cash provided by investment amounted to € 67 million due principally to income from the sale-and-leaseback transactions; additionally, less investing had a positive effect

Capital expenditure (€ million)

	Q1	
	2020	2019
Capital expenditure	98	78
Addition excl. the rights of use (IFRS 16)	34	72
Addition of rights of use (IFRS 16)	64	6

- Investment in property plant and equipment as well as intangible assets totalled € 98 million, of which € 84 million (previous year: € 60 million) in the Wiring Systems Division and € 13 million (previous year: € 17 million) in the WCS Division
- Significant decrease in capital expenditure on our operating business; increase in total capital investment due to addition of rights of use in the amount of € 64 million (previous year: € 6 million) stemming primarily from sale-and-leaseback transactions (IFRS 16)

- Net financial liabilities in the amount of € 1,256 million as at 31 March 2020 (31/12/2019: € 1,186 million); rise due mainly to increase in lease liabilities
- The LEONI Group's freely available liquidity amounted to € 433 million at the end of the first quarter (31/12/2019: € 624 million), of which € 141 million cash and € 292 million available credit lines; as at the balance sheet date, guarantees amounting to € 64 million (previous year: € 74 million) must be deducted from the freely available liquidity; decrease in available liquidity due, among other factors, to repayment of maturing borrower's note loans in the amount of about € 166 million
- As already described in our 2019 combined management report, agreement on the Revolving Credit Facility 2 (RCF2) of 13 March 2020: in particular the credit line of about € 52 million not locally required in China now accessible globally to the LEONI Group; conversion of the bilateral credit lines and loans without fixed terms in the amount of € 276 million into loan commitments with terms fixed to the end of 2022; a positive endorsement of restructuring in line with the S6 standard of the German Institute of Public Auditors (IDW S6) on condition that

mitigating measures to ensure medium-term liquidity are applied received on 13 March (cf. 2019 combined management report for details)

- Commitment for a large-scale German federal and state government guarantee (Bund-Länder-Großbürgschaft) involving the federal government as well as the state governments of Bavaria, Lower Saxony and North Rhine-Westphalia received on 20 April 2020; 90% backing for an € 330 million operating loan; the loan granted on standard market terms and maturing on 31 December 2022
- The expert opinion was consequently updated considering the slump in our business because of the Covid-19 pandemic and a recovery phase until the end of the year; endorsement of the Company's ability to restructure and that it is fully financed through to the end of 2022

Wiring Systems Division (WSD)

Sales performance

WSD sales performance (€ million)

	Q1	
		%
Sales, previous year	793	
Organic change	(88)	(11.1)
Effects of changes in the scope of consolidation	(6)	(0.8)
Currency translation effects	2	0.3
Copper price effects	0	(0.1)
Sales, current year	701	(11.6)

- External sales down by 12 percent: Sales decline in all regions, especially so in Germany and Asia
- Slump in demand, especially towards the end of the quarter, due to the coronavirus crisis and the related suspension or curtailing of production among most of the carmakers; corresponding shutdown of many of our plants outside Asia

Income situation

WSD EBIT before exceptional items as well as before VALUE 21 costs (€ million)

	Q1	
	2020	2019
EBIT before exceptional items as well as before VALUE 21 costs	(20)	(35)
Exceptional items	(12)	(102)
VALUE 21 costs	(6)	(1)
EBIT	(38)	(139)

- EBIT before exceptional items as well as before VALUE 21 costs improved: The reporting year's result adversely affected mainly by the volume decline because of the coronavirus crisis; in the previous year it included, among other items, heavy charges for the meanwhile stabilised ramp-up of production at our facility in Mérida, Mexico
- Exceptional items comprised principally share of the costs related to the Group's refinancing

WSD key events

- Initial fallout from the coronavirus crisis perceptible in February; huge slump in business as of March because of our customers' production shutdowns and thereupon plant shutdowns on LEONI's part
- Selective order intake as part of VALUE 21 strategy to € 0.4 billion in the first quarter (previous year: € 1.4 billion); order backlog covering the entire term of the projects of € 22.0 billion (31/12/2019: € 22.9 billion), of which cable harnesses for electric and hybrid vehicles accounted for € 5.8 billion (31/12/2019: € 6.0 billion)

Wire & Cable Solutions Division (WCS)

Sales performance

WCS sales performance (€ million)

	Q1	
		%
Sales, previous year	469	
Organic change	(42)	(9.0)
Currency translation effects	5	1.0
Copper price effects	(4)	(0.9)
Sales, current year	427	(8.9)

- Sales down by 9 percent; initial fallout from the coronavirus crisis showing
- Sharp sales declines in Asia and decrease also in EMEA; in the Americas, by contrast, still a slight uptrend
- Both automotive and industrial businesses down to varying extents; positive effects compared with the same quarter of the previous year in terms of demand in the medical technology as well as energy and infrastructure sectors

Income situation

WCS EBIT before exceptional items as well as before VALUE 21 costs (€ million)

	Q1	
	2020	2019
EBIT before exceptional items as well as before VALUE 21 costs	4	14
Exceptional items	(22)	0
VALUE 21 costs	(1)	0
EBIT	(19)	14

- Drop in EBIT before exceptional items as well as before VALUE 21 costs compared with the same quarter of the previous year because of negative measurement effects of € 10 million related to the lower copper price and because of the sales decline
- The principal exceptional items included asset depreciation of € 19 million as a consequence of the coronavirus crisis as well as share of refinancing costs

WCS key events

- Initial fallout from the Covid-19 pandemic palpable during the quarter; business decline aggravated; consequently various plant shutdowns, mainly in the automotive sector
- New order bookings worth € 449 million (previous year: € 471 million); book to bill ratio of about 1

Supplementary report

- Commitment for a large-scale German federal and state government guarantee (Bund-Länder-Großbürgschaft) received on 20 April 2020; 90% backing for an € 330 million operating loan; the loan granted on standard market terms and maturing on 31 December 2022
- Having applied these mitigating measures substantially minimised the material risk that raises significant doubt in the Company's ability to continue its business activity. With respect to the risks to the LEONI Group still existing because of the Covid-19 pandemic we refer to the risk and opportunity report in our 2019 combined management report under the headings 'Interest rate and financing risks / liquidity risk' and 'The Board of Directors' assessment of the opportunity and risk situation'.
- The expert opinion was consequently updated considering the slump in in our business because of the Covid-19 pandemic and a recovery phase until the end of the year; endorsement of the Company's ability to restructure and that it is fully financed through to the end of 2022

Outlook

- We expect the Covid-19 pandemic to continue to exert major influence on our business and that substantial impact on consolidated sales, EBIT before exceptional items as well as before VALUE 21 costs and free cash flow must be anticipated in the 2020 financial year. This will concern the second quarter of 2020 in particular. Future performance will depend substantially on the duration of customers' plant shutdowns and restart of production as well as on macroeconomic development. For more detail, we refer to our comprehensive explanations concerning fiscal 2020 performance in the forecast presented in our 2019 combined management report.
- During the plant shutdowns, we began planning reopening and ramping up of production in close dialogue with our customers. The precise timing and extent of capacity will be coordinated and implemented individually with our customers depending on their production processes and official regulations. The timing of a return to the pre-coronavirus level cannot yet be reliably estimated. Our plants in China are meanwhile producing at a high level of about 75 percent again.

Notes regarding forward-looking statements

This quarterly statement contains forward-looking statements that are based on management's current assumptions and estimates concerning future trends. Such statements are subject to risk and uncertainty that LEONI cannot control or precisely assess. Should imponderables occur or assumptions on which these statements are based prove to be incorrect, actual results could deviate considerably from those described in these statements. LEONI assumes no obligation to update forward-looking statements to adjust them to events following publication of this quarterly statement.

Rounding differences may for arithmetical reasons occur in the tables, charts and references versus the mathematically precise figures (monetary units, percentages, etc.).

Financial publications are available on our website at www.leoni.com.

This Quarterly statement is published in German and English. In case of doubt or conflict, the German language version will prevail.

Financial calendar

Annual General Meeting 2020	23 July 2020
Interim Report for the 1 st half of 2020	12 August 2020
Quarterly statement on 3 rd quarter 2020	11 November 2020

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Key financial information

for the first quarter of the 2020 financial year

Consolidated income statement

(€ '000, except information on shares)

	Q1	
	2020	2019
Sales	1,128,168	1,261,991
Cost of sales	(1,007,450)	(1,190,628)
Gross profit on sales	120,718	71,363
Selling expenses	(62,810)	(74,626)
General and administration expenses	(88,551)	(84,568)
Research and development expenses	(36,557)	(42,589)
Other operating income	13,236	4,625
Other operating expenses	(10,578)	(8,321)
Result from associated companies and joint ventures	7,527	9,309
EBIT	(57,015)	(124,807)
Finance revenue	273	481
Finance costs	(9,277)	(7,635)
Other income / expenses relating to equity investments	65	93
Income before taxes	(65,954)	(131,868)
Income taxes	(1,032)	(277)
Consolidated net loss	(66,986)	(132,145)
due to: holders of equity in the parent company	(67,031)	(131,714)
non-controlling interests	45	(431)
Earnings per share in € (basic and diluted)	(2.05)	(4.03)
Weighted average no. of shares outstanding (basic and diluted)	32,669,000	32,669,000

Consolidated statement of comprehensive income

(€ '000)

	Q1	
	2020	2019
Consolidated net loss	(66,986)	(132,145)
Other comprehensive income		
Items that cannot be reclassified to the income statement:		
Actuarial gains or losses on defined benefit plans	36,207	(18,993)
Income taxes applying to items of other comprehensive income that are not reclassified	(7,756)	2,535
Share of the actuarial gains and losses that pertain to associates and joint ventures	0	0
In die Gewinn- und Verlustrechnung umgliederbare Posten:		
Cumulative translation adjustments		
Gains / losses arising during the period	(15,659)	22,253
Less reclassification adjustments included in the income statement	2,220	0
Total cumulative translation adjustments	(13,439)	22,253
Cash flow hedges		
Gains / losses arising during the period	(24,215)	2,061
Less reclassification adjustments included in the income statement	(2,089)	(2,803)
Total cash flow hedges	(26,304)	(742)
Parts of the items that can be reclassified to the income statement, which pertain to associates and joint ventures	284	1,149
Income taxes applying to items of other comprehensive income that are reclassified	4,044	(271)
Other comprehensive income (after taxes)	(6,964)	5,931
Total comprehensive income	(73,950)	(126,214)
due to:		
holders of equity in the parent company	(74,004)	(125,960)
non-controlling interests	54	(254)

Consolidated statement of cash flows

(€ '000)

	Q1	
	2020	2019
Consolidated net loss	(66,986)	(132,145)
Adjustments to reconcile cash provided by operating activities:		
Income taxes	1,032	277
Net interest	8,900	7,368
Dividend income	(65)	(93)
Depreciation and amortisation	53,132	49,146
Impairment of non-current assets	18,763	44,120
Non-cash result relating to associates and joint ventures	(7,527)	(9,309)
Result of asset disposals	(9,986)	(74)
Change in operating assets and liabilities		
Change in receivables and other financial assets	63,458	(76,492)
Change in inventories	(50,823)	(66,841)
Change in other assets	(28,329)	(33,204)
Change in restructuring provisions	(16,364)	544
Change in other provisions	(6,408)	37,134
Change in liabilities	16,601	(14,832)
Income taxes paid	(6,709)	(13,780)
Dividends received	17,055	93
Cash flows from operating activities	(14,256)	(208,088)
Capital expenditure on intangible assets	(2,065)	(137)
Capital expenditure on property, plant and equipment	(49,631)	(103,584)
Capital expenditure on other financial assets	(750)	0
Cash receipts from disposals of assets	66,903	156
Cash flows from capital investment activities	14,457	(103,565)
Cash receipts from borrowings	191,138	338,166
Cash repayments of financial debts	(184,882)	(57,272)
Interest paid ¹	(8,015)	(5,434)
Interest received ¹	197	165
Cash flows from financing activities	(1,562)	275,625
Change in cash and cash equivalents	(1,361)	(36,028)
Currency adjustments	(1,448)	4,053
Cash and cash equivalents at beginning of period	144,213	151,754
Cash and cash equivalents at end of period	141,404	119,779

¹ prior-year figures adjusted (presentation change: interest paid and received is classified in full as a financing)

Consolidated statement of financial position

(€ '000)

ASSETS	31/03/2020	31/12/2019	31/03/2019
Cash and cash equivalents	141,404	144,213	119,779
Trade receivables	490,260	527,242	699,418
Other financial assets	48,761	60,912	54,353
Other assets	177,173	166,395	188,941
Receivables from income taxes	11,915	21,927	23,918
Inventories	587,526	536,703	676,131
Contract assets	125,441	104,729	105,041
Total current assets	1,582,480	1,562,121	1,867,581
Property, plant and equipment	1,412,680	1,452,921	1,364,447
Intangible assets	64,518	66,582	68,333
Goodwill	135,564	139,202	138,661
Shares in associated companies and joint ventures	18,621	44,694	44,271
Contract assets	85,235	84,753	73,854
Other financial assets	8,380	7,872	6,018
Deferred taxes	142,995	98,208	72,138
Other assets	141,179	142,185	150,446
Total non-current assets	2,009,172	2,036,417	1,918,168
Total ASSETS	3,591,652	3,598,538	3,785,749
EQUITY AND LIABILITIES	31/03/2020	31/12/2019	31/03/2019
Current financial debts and current proportion of long-term financial debts	194,058	364,774	671,387
Trade payables	751,501	766,484	884,658
Other financial liabilities	151,980	134,774	107,224
Income taxes payable	14,132	19,175	25,176
Other current liabilities	217,991	196,324	230,638
Provisions	100,176	116,644	60,815
Total current liabilities	1,429,838	1,598,175	1,979,898
Long-term financial debts	1,203,403	965,010	539,083
Long-term financial liabilities	24,806	24,743	25,084
Other non-current liabilities	11,338	11,071	9,611
Pension provisions	150,343	187,720	179,812
Other provisions	93,548	98,051	35,849
Deferred taxes	116,188	77,630	61,188
Total non-current liabilities	1,599,626	1,364,225	850,627
Share capital	32,669	32,669	32,669
Additional paid-in capital	290,887	290,887	290,887
Retained earnings	305,164	372,195	675,028
Accumulated other comprehensive income	(68,324)	(61,351)	(49,043)
Holders of equity in the parent company	560,396	634,400	949,541
Non-controlling interests	1,792	1,738	5,683
Total equity	562,188	636,138	955,224
Total EQUITY and LIABILITIES	3,591,652	3,598,538	3,785,749

Consolidated statement of changes in equity

(€ '000)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income				Equity attributable to shareholders in the parent company	Non-controlling interests	Total
				Cumulative translation adjustments	Cash flow hedges	Actuarial gains and losses				
1 January 2019	32,669	290,887	806,742	42,852	2,869	(100,518)	1,075,501	5,937	1,081,438	
Consolidated net loss			(131,714)				(131,714)	(431)	(132,145)	
Other comprehensive income				23,225	(1,013)	(16,458)	5,754	177	5,931	
Total comprehensive income							(125,960)	(254)	(126,214)	
31 March 2019	32,669	290,887	675,028	66,077	1,856	(116,976)	949,541	5,683	955,224	
1 January 2020	32,669	290,887	372,195	59,026	1,096	(121,473)	634,400	1,738	636,138	
Consolidated net loss			(67,031)				(67,031)	45	(66,986)	
Other comprehensive income				(13,164)	(22,260)	28,451	(6,973)	9	(6,964)	
Total comprehensive income							(74,004)	54	(73,950)	
31 March 2020	32,669	290,887	305,164	45,862	(21,164)	(93,022)	560,396	1,792	562,188	

Segment information

(€ '000, employees excluded)

	Q1		Change %
	2020	2019	
Wiring Systems			
Sales, gross	701,010	793,736	(11.7)%
Less intersegment sales	112	563	(80.2)%
External sales (sales to third parties)	700,898	793,173	(11.6)%
EBIT	(38,202)	(138,509)	72.4%
as a percentage of external sales	(5.5)%	(17.5)%	---
EBIT before exceptional items as well as before VALUE 21 costs	(20,394)	(35,331)	42.3%
as a percentage of external sales	(2.9)%	(4.5)%	---
Employees 31.03. (number)	83,146	86,546	(3.9)%
Wire & Cable Solutions			
Sales, gross	469,843	520,265	(9.7)%
Less intersegment sales	42,573	51,447	(17.2)%
External sales (sales to third parties)	427,270	468,818	(8.9)%
EBIT	(19,095)	13,954	>(100)%
as a percentage of external sales	(4.5)%	3.0%	---
EBIT before exceptional items as well as before VALUE 21 costs	3,500	14,266	(75.5)%
as a percentage of external sales	0.8%	3.0%	---
Employees 31.03. (number)	8,497	8,802	(3.5)%
Consolidation / LEONI AG			
Sales, gross	(42,685)	(52,010)	17.9%
Less intersegment sales	42,685	52,010	(17.9)%
External sales (sales to third parties)	---	---	---
EBIT	283	(252)	---
EBIT before exceptional items as well as before VALUE 21 costs	283	(252)	---
Employees 31.03. (number)	229	356	(35.7)%
Group			
Sales, gross	1,128,168	1,261,991	(10.6)%
Less intersegment sales	---	---	---
External sales (sales to third parties)	1,128,168	1,261,991	(10.6)%
EBIT	(57,015)	(124,807)	54.3%
as a percentage of external sales	(5.1)%	(9.9)%	---
EBIT before exceptional items as well as before VALUE 21 costs	(16,612)	(21,316)	22.1%
as a percentage of external sales	(1.5)%	(1.7)%	---
Employees 31.03 (number)	91,872	95,704	(4.0)%