

High costs and unfavourable product mix impact profitability at Krones in first half of 2019

The difficult economic conditions and uncertainties such as the unresolved trade conflict between China and the USA increasingly affected Krones' business in the first half of 2019. After strong growth in the first quarter (by 10.3%), revenue from April to June increased by 0.7% year-on-year. In total, the company's revenue from January to June 2019 improved by 5.5%, from €1,790.8 million in the previous year to €1,889.3 million. Adjusted for acquisitions and currency effects, growth was 1.8%.

The slowdown in the economy and the uncertain economic outlook are also affecting investment confidence among Krones' customers. The company experienced weak demand in parts of its portfolio between April and June 2019. However, Krones was largely able to compensate for this due to its broad product range. Order intake from January to June 2019 increased by 1.2%, from €2,014.8 million to €2,038.6 million. Adjusted for acquisition effects, the contract value of orders increased by 0.4% in the first six months of 2019.

High costs and unfavourable product mix impact profitability

Earnings before taxes (EBT) decreased year-on-year in the first half of 2019, from €112.7 million to €47.9 million. The EBT margin dropped from 6.3% to 2.5%. Krones' profitability was impacted by high material and labour costs. The product mix also had an adverse effect on earnings. In the second quarter of 2019 in particular, revenue was lower than expected on products with a large proportion of own value added, such as machines and lines in plastics technology. That led to capacity underutilisation in this area. Another major reason for the lower earnings is that revenue in parts of the high-margin after-sales business was above 2018 but below budget in the first half of 2019. Krones generated consolidated net income of €33.3 million from January to June 2019 (previous year: €76.9 million). This corresponds to earn-



Representatives of the Executive Board and Supervisory Board of Krones AG at the Annual General Meeting: Picture from left to right: Michael Andersen, CFO Krones AG, Christoph Klenk, CEO of Krones AG and the Chairman of the Supervisory Board of Krones AG, Volker Kronseider

ings per share of €1.06 (previous year: €2.45).

Krones has improved the ratio of average working capital to sales over the past four quarters. The ratio decreased from 28.8% in the previous year to 26.0%. Free cash flow went down to -€259.4 million (previous year: -€56.2 million). Krones having a negative free cash flow in the first half year is a seasonal effect and is nothing out of the ordinary for the company's business.

Krones expects better earnings in second half year

The Executive Board has taken further action to offset the negative impacts on earnings. This includes among others a recruitment freeze and measures to reduce material costs. We are progressing well with the expansion of our global footprint. The new plant in Hungary, for example, is fully on schedule and on budget. Krones will start producing there in the course of this year and will generate positive earnings contributions from the Hungarian plant from 2020 as planned.

Krones expects, in line with previous year, that especially in Q4 the production capacity utilisation will increase as well as the high-margin life-cycle services (LCS)

business. Therefore Krones expects better earnings in the second half of 2019 than in the first six months.

In total, the company expects growth of 3% in 2019. The EBT margin is expected to be around 3%. For its third performance target, working capital to revenue, Krones expects a figure of 26%.

Krones working on structural measures and adheres to mid-term targets

The strategic measures launched to date, such as the price rises and expansion of our global footprint so far, are not enough for the earnings targets to be attained on a long term basis. The Executive Board is therefore currently working on further structural changes for a sustained increase in profitability. These changes focus on reducing complexity, rapid response to market needs and shaping an even more customer-centric business organisation.

Krones is maintaining its mid-term targets. Depending on the overall economic situation and developments in the company's markets, the Executive Board expects average annual revenue growth of 3% to 5% excluding acquisition effects, an EBT margin of 6% to 8% and working capital at 22% to 24% of revenue. ♦