

PRESS RELEASE

SHW AG: Operating profit still within target range despite lower sales forecast

- EBITDA margin increased to 10.1 per cent in first half of 2016
- New orders safeguard 2020 growth strategy
- Promising applications for electric vehicles developed

Aalen, Germany, 26 July 2016. SHW AG, one of the leading automotive suppliers of CO₂-relevant pumps and engine components as well as composite brake discs, today published its preliminary figures for the first six months of the fiscal year 2016.

“We made significant progress in implementing our ‘SHW 2020’ strategy in the first half of 2016,” says Dr Frank Boshoff, Chief Executive Officer of SHW. “We further improved our production and business processes in the Pumps and Engine Components business segment and therefore also improved our margins. However, to reflect the reticence of individual customers, we are adjusting our sales forecast for 2016 and 2017. Nevertheless, our confidence that we will return to profitable growth from 2018 onwards following these two years of consolidation strengthened. We have landed a number of major new orders both for engine oil and transmission oil pumps over the past few months. The successful development of product applications for battery-powered electric vehicles also opens up new market potential for us. This is especially true for our electric pump for cooling and lubricating. As such, we believe that we are well on the way to achieving our sales target of € 630 million to € 660 million as well as an EBITDA margin of at least 12 per cent in 2020.”

Double-digit operating margin

In the period from January to June 2016, SHW AG reported Group sales of € 215.3 million (previous year € 240.1 million). As well as the expected decline in sales in the Pumps and Engine Components business segment, sales in the Brake Discs business segment were depressed by weaker unit sales and lower scrap prices on account of reduced material surcharges, among other factors.

Adjusted consolidated earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) amounts to € 21.8 million (previous year € 23.0 million). At 10.1 per cent, the corresponding operating margin was up significantly on the prior-year figure of 9.6 per cent.

Over the last few years, to help safeguard the future, SHW AG has invested in capacity and productivity-boosting production facilities and the establishment and expansion of international plants in North America, South America and China. As a result, depreciation increased by 15 per cent to € 12.2 million. Net income for the period declined by 32 per cent to € 6.5 million due to higher depreciation and the absence of one-off income¹ (previous year € 9.6 million). Earnings per share came to € 1.02 (previous year € 1.53).

¹ The one-off income relates to the recognition in profit and loss of a negative difference of € 1.2 million from the initial measurement of the Chinese brake discs joint venture in the second quarter of 2015.

Higher profitability in the Pumps and Engine Components business segment

The Pumps and Engine Components business segment reported sales of € 170.6 million in the first six months of 2016 (previous year € 190.8 million). Sales in the Passenger Car division declined from € 159.5 million to € 141.8 million. The decline in sales is due in particular to the termination of a contract for camshaft phasers for diesel vehicles as part of a customer's changeover to the urea injection system (SCR technology). The Industry segment contributed € 14.6 million to sales (previous year € 15.2 million). The Powder Metallurgy segment closed the first half of 2016 with consolidated sales of € 142 million (previous year € 16.1 million).

Despite the decline in sales, the Pumps and Engine Components business segment recorded improved adjusted EBITDA of € 18.8 million in the period under review (previous year € 18.2 million). The corresponding EBITDA margin increased from 9.6 per cent to 11.0 per cent.

The improvement in margins was mainly attributable to the successful implementation of the efficiency programmes in Powder Metallurgy at the Company's Aalen-Wasseraffingen plant and the resulting effects on earnings in pump assembly in Bad Schussenried. "We must and will now further optimise our business processes to successively increase the earnings margin," emphasises Dr Frank Boshoff.

The business of the foreign subsidiaries in Canada and China developed as planned in the first half of the year. The operating segment earnings were negatively impacted by the costs for the establishment and expansion of these two foreign plants, as well as to the weak Brazilian automobile market.

Capacity underutilisation partially offset by ramp-up of composite brake discs

In the Brake Discs business segment, sales declined by 9.5 per cent to € 44.7 million in the first six months of the fiscal year 2016. The decrease in sales was mainly accounted for in the first quarter. In addition to the effects of lower material surcharges, this is attributable to the significant decline in sales of one-piece brake disks. This contrasts with strong growth in sales of composite brake discs.

The lower capacity utilisation was partially offset by the disciplined implementation of productivity-boosting measures and the ramp-up of composite brake discs. Adjusted EBITDA in the Brake Discs business segment therefore declined by € 1.3 million to € 3.8 million in the period under review. The corresponding EBITDA margin decreased from 10.3 per cent to 8.4 per cent, although the operating margin again reached 9.0 per cent in the second quarter.

New orders in China and South America

New business developed very positively in the first half of the year. SHW secured three new contracts for transmission and engine applications in China and one in Brazil. Production is scheduled for 2018 in all cases. SHW has a broad-based customer portfolio in China – as well as Chinese and North American OEMs, customer relationships have been established with European automobile manufacturers and international joint ventures. Based on the contracts secured, SHW expects to generate annual sales in excess of € 100 million in China for 2020.



Product range expanded with applications for electric vehicles

SHW AG expanded its product portfolio over the past few months with solutions for battery-powered electric vehicles. The move largely reflects the increasing variety of powertrain concepts and lays the foundation for entry in the market for purely electric vehicles. The product portfolio therefore includes engine oil pumps for combustion engines as well as primary and secondary transmission oil pumps for automatic transmissions (e.g. double-stroke vane pumps, electric secondary oil pumps and electric power pack transmission oil pumps) and lubricant and cooling oil pumps for battery-powered electric vehicles.

Sales forecast for 2016 adjusted – operating profit for the year still within target range

To reflect the reticence currently shown by individual customers SHW is adjusting its sales forecast for 2016 and 2017 by around € 30 million each. The Company now expects Group sales of between € 410 million and € 430 million for 2016 and 2017 (previously € 440 million to € 460 million each). It is forecasting sales for 2016 of between € 320 million and € 340 million in the Pumps and Engine Components business segment (previously € 340 million to € 360 million) and sales of around € 90 million in the Brake Discs business segment (previous year € 98 million), taking into account the lower material surcharges.

Despite the reduced sales forecast, the Company continues to expect a year-on-year improvement in the operating profit margin and adjusted EBITDA at the lower end of the € 43 million to € 47 million range in 2016. In particular, this reflects the positive effects of the implementation of the efficiency-boosting measures to improve business processes in both business segments.

“Our half-yearly figures show that we are on the right path,” says Dr Boshoff. “We are now much more efficient. And the new orders in China and Brazil are further proof that SHW offers the right product solutions for all powertrain concepts. We will stay on course and return to profitable growth in 2018.”

SHW AG will publish its half-year Financial Report with the final figures on 29 July 2016 and its nine-month Financial Report on 26 October 2016.

Preliminary financial figures for the second quarter and first half of 2016 (in K EUR)

Key performance indicators – SHW Group	Q2			H1		
	2016	2015	Change	2016	2015	Change
Sales	108.659	123.122	-11,7%	215.263	240.111	-10,3%
EBITDA adjusted	10.995	11.933	-7,9%	21.755	22.971	-5,3%
as % of sales	10,1%	9,7%	-	10,1%	9,6%	5,6%
Depreciation (excl. PPA)	6.249	5.508	13,5%	12.196	10.495	16,2%
as % of sales	5,8%	4,5%	-	5,7%	4,4%	29,6%
EBIT adjusted	4.746	6.425	-26,1%	9.559	12.476	-23,4%
as % of sales	4,4%	5,2%	-	4,4%	5,2%	-14,5%
ROCE	-	15,9%	-	11,9%	16,0%	-
Net income for the period	3.228	5.531	-41,6%	6.536	9.616	-32,0%

Key performance indicators – Pumps and Engine Components	Q2			H1		
	2016	2015	Change	2016	2015	Change
Sales	84.659	98.222	-13,8%	170.605	190.759	-10,6%
EBITDA adjusted	9.205	8.951	2,8%	18.753	18.223	2,9%
as % of sales	10,9%	9,1%	-	11,0%	9,6%	-
Depreciation (excl. PPA)	5.042	4.406	14,4%	9.811	8.312	18,0%
as % of sales	6,0%	4,5%	-	5,8%	4,4%	-
EBIT adjusted	4.163	4.545	-8,4%	8.942	9.911	-9,8%
as % of sales	4,9%	4,6%	-	5,2%	5,2%	-
ROCE	-	-	-	17,3%	20,1%	-

Key performance indicators – Brake Discs	Q2			H1		
	2016	2015	Change	2016	2015	Change
Sales	24.000	24.900	-3,6%	44.658	49.352	-9,5%
EBITDA adjusted	2.171	2.968	-26,9%	3.762	5.095	-26,2%
as % of sales	9,0%	11,9%	-	8,4%	10,3%	-
Depreciation (excl. PPA)	1.132	1.043	8,5%	2.234	2.053	8,8%
as % of sales	4,7%	4,2%	-	5,0%	4,2%	-
EBIT adjusted	1.039	1.925	-46,0%	1.528	3.042	-49,8%
as % of sales	4,3%	7,7%	-	3,4%	6,2%	-
ROCE	-	-	-	7,2%	12,0%	-



About SHW

The Company was established in 1365 making it one of the oldest industrial companies in Germany. Today, SHW AG is a leading automotive supplier providing products that make a substantial contribution to reducing fuel consumption and, consequently, to lowering CO2 emissions. In its Pumps and Engine Components business segment, the SHW Group develops and produces pumps for passenger vehicles and industry applications (e.g., trucks, agricultural and construction vehicles, stationary engines and wind farms) as well as engine components. The Brake Discs business segment develops and produces monobloc ventilated brake discs made of cast iron and composite brake discs made of a combination of an iron friction ring and an aluminium pot. The SHW Group's customers include renowned automotive manufacturers, manufacturers of commercial, agricultural, and construction vehicles as well as other suppliers to the automotive industry. Currently, the SHW Group has four production sites in Germany located in Bad Schussenried, Aalen-Wasseralfingen, Tuttlingen-Ludwigstal and Neuhausen ob Eck, one site in Brazil (Sao Paulo) and China (Kunshan) and has a sales and development centre in Toronto, Canada. Besides, SHW Automotive GmbH also holds a 51 per cent interest in the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., in LongKou, China. With just over 1,250 employees, the Company generated Group sales in fiscal year 2015 of € 463 million. Further information is available at: www.shw.de

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Future-oriented statements

This press release contains certain future-oriented statements that are based on current assumptions and forecasts made by the management of SHW AG. Various known and unknown risks, uncertainties and other factors may lead to the actual results, financial position, development or performance of the company deviating considerably from the appraisals specified here. The company assumes no obligation to update future-oriented statements of this nature or adapt them to future events or developments.

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