

Corporate News Release

30 October 2019

Revenue growth of 7.3% in first three quarters of 2019 – structural measures to deliver sustained improvements in earnings launched by Krones Executive Board

- High costs and unfavourable product mix impact profitability. EBT in the first nine months was €61.4 million (previous year: €139.4 million). The EBT margin decreased from 5.2% to 2.1%.
- Revenue for the first three quarters, at €2,889.7 million, is 7.3% higher than in the previous year. Adjusted for currency and acquisition effects, revenue growth was 2.7%. Order intake, at €2,957.9 million, was slightly above the previous year's level.
- Executive Board launches structural measures for sustained improvements in profitability.
- For the full year 2019, Krones continues to expect revenue growth of 3% and an EBT margin of around 3%. The guidance for the EBT margin does not include any costs of structural measures.

Krones' revenue increased significantly in the third quarter of 2019 despite the difficult general economic conditions. From July to September, revenue was up 10.9% year-on-year to €1,000.4 million. The revenue increase mainly related to the new and bought-in machinery business. In the first three quarters of 2019, Krones' revenue rose by 7.3% year-on-year, from €2,692.8 million to €2,889.7 million. Adjusted for acquisitions and currency effects, growth in the first nine months of 2019 was 2.7%.

Krones' customers, like others, are taking the many general economic uncertainties into account in their investment decisions. Overall, however, Krones' market is relatively stable. Order intake decreased slightly by 0.6% year-on-year from July to September 2019, to €919.3 million. In the first three quarters of 2019, the contract value of orders increased slightly year-on-year to €2,957.9 million (previous year: €2,940.0 million). Due to its broad range of products and services Krones was able to compensate the temporarily weak demand in parts of the portfolio.

Krones' profitability under pressure due to high costs

Following the loss in the second quarter of 2019, the earnings situation eased slightly in the third quarter. From July to September 2019, earnings before taxes (EBT) came to €13.5 million. The EBT margin went down from 3.0% to 1.4%. Krones generated EBT of €61.4 million in the first nine months of 2019 (previous year: €139.4 million). The EBT margin went down from 5.2% to 2.1%. Profitability was impacted by high costs, mainly of materials and labour, and an unfavourable product mix. Due to temporarily reduced demand for machinery and lines in plastic technology, production capacity for such products was underutilised, most of all in the second quarter. The EBT margin was also negatively affected by the fact that revenue from the profitable after-sales business in the first three quarters of 2019, although higher than in the previous year, was below budget overall. Krones generated consolidated net income of €40.3 million in the first nine months of 2019 (previous year: €99.4 million). Earnings per share decreased from €3.16 to €1.28.

Ratio of working capital to revenue improved

Krones reduced average working capital over the past four quarters as a percentage of revenue to 25.8% in the first nine months of 2019 (previous year: 28.8%). Free cash flow went down to –€294.5 million (previous year: –€140.0 million).

Executive Board launches structural measures for sustained improvements in profitability

The Executive Board has taken further action to counter the negative impacts on earnings. In addition to short-term measures such as savings in budgets, Krones will significantly cut capital expenditure for the next one to two years. Acquisitions will likewise be suspended for the time being.

Krones works on consistently competitive cost structures in order to maintain and ideally expand its market share. The strategic measures launched so far, such as the price rises and the expansion of the company's global footprint to date, are not enough for the medium-term earnings targets to be attained. There will therefore also be structural adjustments. All processes, organisational structures and resources are to be optimised. Portfolio streamlining will also contribute to improving the company's efficiency. Overall, it cannot be avoided that 300 to 500 jobs, mainly at the German locations, will be eliminated.

Outlook for 2019

Krones expects good production capacity utilisation in the fourth quarter. That will have a positive impact on profitability. The company is therefore sticking to its earnings guidance for the full year 2019 and continues to expect an EBT margin of around 3%. Attaining this target is challenging, however. The guidance for the EBT margin does not include any costs of structural measures. The company continues to expect revenue to increase by 3% in the full

year 2019. For its third performance target, working capital to revenue, Krones expects a figure of 26%.

Krones has published the complete quarterly statement online at <https://www.krones.com/en/company/investors.php>.

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Key figures for Q1–Q3		1 Jan – 30 Sep 2019	1 Jan – 30 Sep 2018	Change
Revenue	€ million	2,889.7	2,692.8	+7.3%
Order intake	€ million	2,957.9	2,940.0	+0.6%
Orders on hand at 30 September	€ million	1,329.3	1,487.3	–10.6%
EBITDA	€ million	164.3	206.1	–20.3%
EBITDA margin	%	5.7	7.7	–2.0 PP*
EBIT	€ million	58.4	132.6	–56.0%
EBT	€ million	61.4	139.4	–56.0%
EBT margin	%	2.1	5.2	–3.1 PP*
Consolidated net income	€ million	40.3	99.4	–59.5%
Earnings per share	€	1.28	3.16	–
Capital expenditure for PP&E and intangible assets	€ million	138.3	89.6	+€48.7 million
Free cash flow	€ million	–294.5	–140.0	–€154.5 million
Net cash and cash equivalents at 30 September**	€ million	–153.1	–34.1	–€119.0 million
Working capital to revenue***	%	25.8	28.8	–3.0 PP*
ROCE	%	4.8	12.3	–7.5 PP*
Employees at 30 September				
Worldwide		17,405	15,949	+1,456
Germany		10,844	10,601	+243
Outside Germany		6,561	5,348	+1,213

Key figures for Q3 2019		1 Jul – 30 Sep 2019	1 Jul – 30 Sep 2018	Change
Revenue	€ million	1,000.4	902.0	+10.9%
Order intake	€ million	919.3	925.2	–0.6%
EBITDA	€ million	47.4	48.8	–2.9%
EBITDA margin	%	4.7	5.4	–0.7 PP*
EBIT	€ million	10.9	22.9	–52.4%
EBT	€ million	13.5	26.7	–49.4%
EBT margin	%	1.4	3.0	–1.6 PP*
Consolidated net income	€ million	7.0	22.5	–68.9%
Earnings per share	€	0.22	0.71	–

* PP = percentage points ** Cash and cash equivalents less debt *** Average of last 4 quarters