

Corporate news release

25 October 2018

## Krones reduces revenue and earnings forecast for 2018

- At the end of the first nine months, EBT is down by 17.0% to €139.4 million due to rising costs of goods and labour and to a one-time expense in connection with setting up our production location in Hungary.
- Based on the results and the current forecast, Krones is reducing its full year earnings forecast for 2018. Adjusted for one-time expenses, the EBT margin is targeted at 6.5% instead of the 7.0% projected previously.
- Revenue for the first three quarters, at €2,692.8 million, is 7.3% higher than in the previous year. The Executive Board is nonetheless revising the revenue growth target for 2018, due to negative currency effects and large-scale projects being postponed, from 6% to 4%.
- Krones is maintaining its mid-term targets. However, reaching those targets will take one or two years longer than planned.

Krones, the world's leading manufacturer of filling and packaging technology, was able to continue its stable revenue growth in the third quarter of 2018. Revenue in the first nine months of 2018 was up 7.3% year-on-year to €2,692.8 million. Acquisitions had no significant influence on revenue. Currency effects reduced revenue by an amount in the mid-double-digit millions of euros.

Order intake from January to September 2018 increased 9.0% year-on-year to €2,940.0 million. Acquisitions did not have a noticeable effect on order intake. At €1,487.3 million as of the end of September 2018, orders on hand at Krones were up 11.6% on the previous year (€1,332.6 million).

### Profitability reduced by one-time effect and rising prices of goods and labour

Despite higher revenue, the key earnings figures for the first nine months of 2018 were down on a year earlier. This was mainly due to higher costs of goods and labour combined with an adverse product mix. In addition, third quarter earnings were affected by expenses in the low double-digit million euro range for setting up the production location in Hungary. In the period from January to September 2018, earnings before taxes (EBT) were down 17.0% year-on-year to €139.4 million. The EBT margin dropped from 6.7% in the previous year to 5.2%. Adjusted for the one-time costs, Krones' EBT margin in the first nine months was almost 6%. After taxes, consolidated net income was down by 13.3% on the prior-year figure to €99.4 million in the reporting period. Earnings per share for the period fell from €3.68 in the previous year to €3.16. Excluding the one-time costs, consolidated net income and earnings per share would be level with the previous year.

Krones improved free cash flow year-on-year by €102.0 million to –€140.0 million in the first three quarters of 2018. The ratio of average working capital for the past four quarters to revenue increased to 28.8% (previous year: 26.5%). However, it was stable relative to 30 June (28.8%). As a result of the lower earnings, return on capital employed (ROCE), that is the ratio of EBIT to average net capital employed, dropped to 12.3% in the reporting period (previous year: 14.6%).

## Krones revises forecast for 2018

Based on the results for the first nine months of 2018 and the forecast for the fourth quarter, the company is reducing its revenue and earnings forecast. Due to rising costs of goods and labour, start-up expenses and one-time costs for the expansion of the global footprint, Krones now expects an operating EBT margin for 2018 as a whole of approximately 6.5%, which is adjusted for the one-time expenses. The previous target was 7%.

Krones now expects a 4% increase in revenue in 2018, compared to the previous revenue target of 6%. This is due to adverse currency effects and large-scale projects being postponed. With respect to its third performance target – working capital as a percentage of revenue – Krones expects to reach the communicated target of 28%.

## Medium-term goals to be attained later

To compensate for cost increases and to enhance profitability, Krones is implementing extensive measures under its Value strategy programme. Additionally, Krones raised the prices for all bottling and packaging equipment and for process technology by an average of 4.5% effective 1 May 2018. The strategic measures implemented by Krones have not yet taken full effect.

Overall, Krones is maintaining its mid-term targets of an 8% EBT margin and 22% working capital as a percentage of revenue. However, reaching those targets will take one or two years longer than planned. Krones expects to publish its new medium-term planning figures in February 2019 on presentation of the preliminary figures for financial year 2018.

Krones has published the complete quarterly statement for the period January to September 2018 online at at <https://www.krones.com/en/company/investors.php>

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| <b>Key figures for Q1–Q3</b>   |           | <i>1 Jan – 30 Sep<br/>2018</i> | <i>1 Jan – 30<br/>Sep<br/>2017</i> | <i>Change<br/>%</i> |
|--|-----------|--------------------------------|------------------------------------|---------------------|
| Revenue  | € million | 2,692.8                        | 2,508.9                            | + 7.3               |
| Order intake   | € million | 2,940.0                        | 2,696.8                            | + 9.0               |
| Orders on hand at 30 September   | € million | 1,487.3                        | 1,332.6                            | + 11.6              |
| EBITDA   | € million | 206.1                          | 233.7                              | – 11.8              |
| EBITDA margin  | %         | 7.7                            | 9.3                                | – 1.6 PP*           |
| EBIT   | € million | 132.6                          | 163.1                              | – 18.7              |
| EBT  | € million | 139.4                          | 168.0                              | – 17.0              |
| EBT margin   | %         | 5.2                            | 6.7                                | – 1.5 PP*           |
| Net income   | € million | 99.4                           | 114.6                              | – 13.3              |
| Earnings per share   | €         | 3.16                           | 3.68                               | – 14.1              |
| Capital expenditure for PP&E and intangible assets   | € million | 89.6                           | 74.8                               | + €14.8 million     |
| Free cash flow   | € million | – 140.0                        | – 242.0                            | + €102.0 million    |
| Net cash and cash equivalents at 30 September**  | € million | – 34.1                         | 77.9                               | – €112.0 million    |
| Working capital to revenue ***   | %         | 28.8                           | 26.5                               | + 2.3 PP*           |
| ROCE   | %         | 12.3                           | 14.6                               | – 2.3 PP*           |
| Employees at 30 September  |           |                                |                                    |                     |
| Worldwide  |           | 15,949                         | 15,174                             | + 775               |
| Germany  |           | 10,601                         | 10,295                             | + 306               |
| Outside Germany  |           | 5,348                          | 4,879                              | + 469               |
| * PP = percentage points ** Cash and cash equivalents less debt *** Average of last 4 quarters |           |                                |                                    |                     |
| <b>Key figures for Q3</b>  |           | <i>1 Jul – 30 Sep<br/>2018</i> | <i>1 Jul – 30<br/>Sep<br/>2017</i> | <i>Change<br/>%</i> |
| Revenue  | € million | 902.0                          | 733.7                              | + 22.9              |
| Order intake   | € million | 925.2                          | 917.5                              | + 0.8               |
| EBITDA   | € million | 48.8                           | 69.3                               | – 29.6              |
| EBITDA margin  | %         | 5.4                            | 9.4                                | – 4.0 PP*           |
| EBIT   | € million | 22.9                           | 46.0                               | – 50.2              |
| EBT  | € million | 26.7                           | 47.0                               | – 43.2              |
| EBT margin   | %         | 3.0                            | 6.4                                | – 3.4 PP*           |
| Net income   | € million | 22.5                           | 32.2                               | – 30.1              |
| Earnings per share   | €         | 0.71                           | 1.04                               | – 31.7              |