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Krones adjusts its earnings outlook for 2019

* Increased costs and unfavorable product mix burden the profitability
* Based on the actual available figures Krones adjust the margin target for the fiscal year 2019. Krones expects an EBT margin of around 3%
* The board initiates measures to increase the earnings, and works on structural changes to strengthen its profitability in the long run
* Krones keeps its mid term targets

Based on the actual available figures Krones, the world’s leading manufacturer of filling and packaging technology, adjusts its earnings outlook for the fiscal year 2019. The uncertain macroeconomic developments, like the unsolved trade conflict between China and USA, as well as the discussion about the sustainability of PET-Packaging, negatively influence the customers of Krones and their willingness to invest. Nevertheless, the revenue growth of Krones in the first six month of 2019 were still satisfactory. However, the earnings before tax (EBT) for this period will be significantly below the expectations of Krones.

Increased costs and unfavorable product mix burden the profitability

The profitability of Krones is influenced by high costs, in particular the material cost ratio remains on high level. Krones expected, that the weaker economic outlook in other important industries in 2019 would have resulted in a small easing in the increasing of material costs. Also, the additional measures, which are implemented by Krones to reduce the material costs materialize with a delay. Furthermore, the product mix has an unfavorable effect on the earnings for the period January till June 2019. Especially in the second quarter 2019 the sales of products with a high own value added, like machines and lines for the plastic technology, were lower than expected. In the plastic technology Krones offers extensive products and services for the packaging and filling of beverages in plastic containers like PET-bottles. However, the current discussion about the PET-packaging solution will open opportunities for Krones for innovative solutions.

Another important reason for the actual earnings development is the sales growth of the high-margin after sales business (LCS), which were in the first 6 month of 2019 below expectations. This results from the demand of the customer of Krones for some parts of the LCS product and service offering, which were negatively influenced by the macroeconomic uncertainties. In the second half year this LCS business is expected to recover.

Outlook

Krones still expects an unchanged growth target of 3% in 2019. The EBT margin is planned around 3% (prior target: around 6%). For its third target, working capital to revenue, Krones expects an unchanged figure of 26%.

The board has taken measures in order to counteract the earnings decline. This includes among others a hiring freeze and measures to reduce the material costs. The current global footprint is on track. For example, the new plant in Hungary is according to budget and time schedule. During the second quarter of 2019, Krones will increase its production in Hungary with a positive margin contribution in 2020.

By its global footprint Krones will not only use competitive cost advantages, but also take advantage of regional market opportunities. The closer Krones is to its customers, the better the company can understood customer needs and local requirements

The strategic measures that Krones has introduced so far, like the price increase and the development of the global footprint are however not sufficient to reach the ambitious targets. Hence, the board is working in additional structural changes in order to strengthen its earning level in the long run. Focus areas are reduction of complexity, an agile reaction to market needs as well as a corporate structure, which serves the customer even better.

Krones keeps its mid term targets. Depending on the macro economic environment and development of Krones markets, the board envisages a year-on-year revenue growth of 3 to 5% without acquisition effects, an EBT margin of 6 to 8% and a working capital to revenue ratio of 22 to 24%.

Krones will publish the interim report as of June 30th of 2019 by 25th of July 2019.

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