Q&A

Press Conference

Analyst Conference

Bekaert H1 2020 Results

31 July 2020

Q&A selection

Included in this summary: Q&A related to Bekaert's announcement of 31 July 2020 – including information that may not have been literally disclosed in previous or today's press releases or in other information available on bekaert.com.

Public information:

- Press release of 4 March 2020
- Live webcast Analyst Conference of 4 March 2020 – available in replay
- Presentation used during Press Conference and Analyst Conference of 4 March 2020

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Q&A – Outlook

Q1: How much will seasonality play in H2? Will the business mix improvement continue? Can you relate to Michelin's projections of -15 to -20% volume decline for RR in 2020??

- In RR, we see tire cord demand picking up in May and June (from a very low level in April). This will continue in Q3 and – as it looks now - further in Q4. Against the normal seasonality trends, H2 should thus be better than H1. With the information we have today, FY 2020 volumes in RR would be 20% below 2019 (versus -25% in H1 and -36% in Q2). In SWS, we project the normal seasonality effects in H2 (vacation periods, hurricane season US) on top of the heavy Covid-19 impact in Latin America. In Specialty Businesses (Building Products in particular), visibility on industrial investments and infrastructure works is low: on the one hand there is the negative impact of Covid-19 (fewer tenders now), on the other hand stimulus and recovery programs will have a positive effect (but timing thereof still uncertain). BBRG benefited from a very good mix in H1 with nice projects and growth in good margin businesses. Seasonality and continued uncertainty in the Americas can affect H2 but the underlying business mix improvement should have lasting effects.
- Seasonality effects H2 are usually negative. In 2019, H2 was 10m€ less (uEBIT) than H1 and historically that difference has been up to 20m€. In 2020, we do anticipate seasonality in most BUs, except for RR, which will improve in H2 versus H1.

Q2: Consensus on uEBIT for H1 was beaten, for FY 2020 consensus is 175m€. What do you project?

In H2 we will continue to focus on our priorities and handle everything we have within our control the way we have done in H1. Demand seasonality will impact most of the BUs, with the exception of RR where we see demand picking up moderately but steadily.

Q3: What are the underlying trends in RR globally and specifically in China and versus competition?

We see gradual (moderate but steady) improvement in Q3 (from a low Q2 basis). We project FY 2020 levels to be 20% below 2019 (meaning H2 will be better than H1). China domestic market is growing and there are no major market share changes vs competition. Drivers and trends: mileage (has been under pressure in Q2) but also rim size (higher rim size tires use twice as much tire cord as lower rim sizes) and sustainability elements: lower rolling resistance and weight reduction requirements favor demand for super and ultra tensile tire cord.

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Q&A – Outlook

Q4: What about your competitors? Some running into liquidity issues? M&A potential?

We monitor our markets and competitors. Thanks to our global presence we have gained business from customers that are new to us or haven't ordered from us since a long time. We are focusing on how we can make this a recurring business. Some competitors indeed seem to have liquidity issues. We are closely monitoring how we can seize potential business opportunities.

Q5: What has been the margin improvement in RR in the last months?

Demand is picking up (from a low base), operations pick up accordingly and that will increase our ability to absorb fixed costs. This trend should continue to improve in Q3 and Q4.

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Q&A – H1 results

Q6: What is represented in the 30m€ positive cost + overheads bar in the uEBIT bridge?

This relates to the savings from the restructuring programs of last year (on the one hand the restructuring in Belgium: Building Products, Overheads; and on the other hand to the restructuring in the US (SWS, RR), Malaysia (SWS) and, smaller, in BBRG). These savings will also flow through in H2 at a similar level.

Q7: What is the breakdown of the 52m€ Covid-19 mitigation? How much is sustainable versus temporary? What is the evolution for Q3?

The biggest part relates to savings on labor cost (where we use government schemes that either compensate the company or the employees on temporary (full-time or part-time) unemployment. In addition: savings on T&E, consultancy and maintenance expenses as plants were partially/temporarily closed. Some elements are sustainable such as T&E and consultancy. We project for Q3 to maintain about 40-50% of these savings, depending on pick-up in demand & operations.

The Covid-19 mitigation impact should be seen in combination with the volume/cost impact of Covid-19: as business picks up, there should be less (negative) volume/cost impact but at the same time less (positive) mitigation impact.

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Q&A – On liquidity, balance sheet, working capital, capex

Q8: Less factoring in H1 versus previous periods - how do you see this evolving?

Indeed. The receivables are lower which is one element and as mentioned before, we use factoring as and when it makes sense. We have sufficient liquidity so that is not a driver here. Factoring represents 13% on A/R now, and can go back to around 20%, in line with business picking up and if conditions remain favorable.

Q9: On working capital: What is the target % on sales? DSO is rather good, is this sustainable?

We monitor receivables and overdues closely and want to maintain our good working capital performance. In a normalized context at 18-19% on sales. Temporarily, WC will evolve with operations picking up and could temporarily be a bit higher (% wise).

Q10: What about debt maturities coming up this year (120m€) and next year (the convertible bond of 380m€)?

We will not renew the EIB loan of 75m€ expiring end of Q3, nor the 46m€ bond that expires in Q4. On the convertible bond, we are evaluating the alternatives. Our cash position allows us to be opportunistic there and make the decisions without time pressure.

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Q&A – On liquidity, balance sheet, working capital, capex

Q11: What will be the capex level for 2020 and beyond? Capex has been low for two years now: is this sustainable? What is the amount of maintenance versus growth capex? What is the status of the new RR plant in Vietnam? Are you running behind competitors - eg Xingda?

- Our first focus (2019-2020) is to ensure the safety of our employees, for example: investments in machine guarding. We also invest in maintenance and improvement capex. In H1, growth capex took place in Building Products (Czech Republic/India) and in RR (Vietnam). 2020 capex will be in line with last year's level, around 100m€. There is sufficient cash to address growth opportunities, but at this moment there are a lot of uncertainties so we don't rush. Beyond 2020 and in line with business and demand, we will allocate capital to growth where needed and where it makes sense to improve our business mix. The BU's are currently finalizing their strategic plans for the future and those include capex plans.
- In Vietnam, the construction of the plant is ongoing and will be finalized. The timing to install machine capacity is subject to demand evolutions for the short and mid term.
- We are not running behind competitors. In the current context our capacity is sufficient and we do monitor opportunities for growth.

Q12: If demand goes up, can you keep up with both WC increase and growth (capex) needs?

Yes, we have sufficient cash and there is (improving) cash generation from the business as well.

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Q&A – Other

Q13: How do you see the situation in Brazil?

RR did suffer in Q2 (-60%). Also construction markets trended lower in Q2. The political uncertainties and the harsh impact of Covid-19 in Brazil are sources of worry about demand trends, but the JVs have done a very good job in securing profitability and market share.

Q14: Has price pressure increased? Specifically in China?

There is definitely price pressure and with competitors ramping up production now, we will see more of that. But our customers definitely appreciate Bekaert's efforts to guarantee supply continuity to them in the past months, thanks to our global footprint. We also continue to work on cost to support the underlying margin performance. RR competitors in China also want to be profitable and cannot afford just chasing volumes at the expense of price and margin.

Q15: On BBRG, you mention a release of provisions, what does this relate to?

We have been able to reverse about 2m€ in provisions related to claims and inventory valuation.

Q&A – Other

Q16: Do you have Covid-19 payment waivers on taxes?

No. Some governments granted payment delays, but no waivers, and all in all relatively limited.

Q17: Update on Sawing Wire?

No changes: looking at different scenarios and planning to make a decision by year-end.

Q18: What about raw material and duties situation - eg quotas in US on imports from Brazil?

Much less volatility and turbulence as we saw in 2018/2019 - as can be seen in the bridge (slightly positive inventory valuation impact). There is no wire rod supply risk and there has been no change on quotas from Brazil.

Q19: How is the search process for the CEO position going?

The process is ongoing.

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