

Q3 2019

QUARTERLY REPORT

1 JANUARY TO 30 SEPTEMBER 2019



REVENUE IN THE KAP GROUP IN THE FIRST NINE MONTHS OF 2019 SLIGHTLY BELOW LAST YEAR'S FIGURES, RESULT AFFECTED BY EXTRAORDINARY ITEMS

- Revenue of €289.5 million in the revised group of consolidated companies 2% lower than last year
- Adjusted EBITDA at €27.9 million
- EBIT at €-1.2 million due to extraordinary items
- The segments flexible films and it/services were able to assert themselves at an operational level
- Revised forecast for 2019 as a whole: revenue of €365 to 375 million, adjusted EBITDA of €29 to 33 million

In Q3 2019, the KAP Group increasingly felt the adverse effects of the economic headwind. Demand from the automotive sector in particular declined noticeably, so that the engineered products and precision components segments both recorded fewer requests from our clients. By contrast, the segments flexible films and it/services were able to assert themselves at an operational level, benefiting from their positive positions on the market.

“Conditions have become increasingly challenging for SMEs over the course of the year. Our diversified business model has proven itself robust in this context, however. As a result, we were almost able to maintain the revenue figures from last year in the revised group of consolidated companies,” says Dr Alexander Riedel, CFO of KAP AG.

The non-cash one-off effects described in the six-month financial statements have not had a significant impact on the earnings figures.

KAP Group

		Q3 2019	Q3 2018 ^{1,2}	Change in %
Revenue	€ millions	289.5	296.9	-2.5
EBITDA	€ millions	26.2	30.7	-14.7
Adjustments	€ millions	1.7	0.0	n. a.
Adjusted EBITDA	€ millions	27.9	30.7	-9.1
Adjusted EBITDA margin	%	9.6	10.3	-6.8
Investments	€ millions	12.8	16.5	-22.4
Employees as of 30 September		2,878	3,051	-5.7

¹ Figures adjusted for discontinued operations.

² Adjusted due to error correction. EBITDA before error correction at €31.6 million.

DEVELOPMENT OF THE KAP GROUP IN THE FIRST NINE MONTHS OF 2019

As a result of changes in the consolidated group of companies and the error correction, which led to an adjustment of the previous period with an impact on earnings, comparing the figures reported for the first nine months of the financial year with those from the previous period is only possible to a limited extent.

In the first nine months of 2019, revenue came to €289.5 million (previous year: €296.9 million), a decrease of 2.5% on the previous year.

Adjusted earnings before interest, taxes, depreciation and amortisation ("adjusted EBITDA") decreased by 9.1% to €27.9 million (previous year: €30.7 million). This corresponds to an adjusted EBITDA margin of 9.6% (previous year: 10.3%). In addition to the negative impact of the worsening economic outlook on the operative growth of the segments, the decrease is also largely due to the extraordinary items (fire at the Heinsdorfergrund site, error correction) described in the first half of the year. At €26.2 million, reported EBITDA was 14.7% down on the previous year (€30.7 million). EBIT amounted to €-1.2 million (previous year: €14.1 million), with €4.3 million in losses caused by the fire at our Heinsdorfergrund site. Earnings before taxes (EBT) decreased to €-4.7 million (previous year: €10.5 million).

The equity ratio was 46.4% (31 December 2018: 51.3%) with total assets of €373.1 million (31 December 2018: €373.9 million).

Cash flow from operating activities improved year-on-year in the first nine months of 2019 by €26.1 million to €27.9 million (previous year: €1.8 million) as a result of reduced net working capital. Investments amounted to €12.8 million (previous year: €16.5 million).

The number of employees on 30 September 2019 was 2,878 (previous year: 3,051 employees). The decrease is primarily due to staffing cuts in the surface technologies segment.

SEGMENT REPORTING: GROWTH OF THE SEGMENTS IN THE FIRST NINE MONTHS OF 2019

engineered products

		Q3 2019	Q3 2018 ¹	Change in %
Revenue	€ millions	119.0	131.6	-9.6
Adjusted EBITDA	€ millions	5.4	10.2	-47.1
Adjusted EBITDA margin	%	4.5	7.8	-42.3
Investments	€ millions	2.3	3.4	-32.4
Employees		999	1,052	-5.0

¹ Adjusted due to error correction. EBITDA before error correction at €11.1 million.

Revenue in the **engineered products** segment decreased by 9.6% to €119.0 million in the first nine months of 2019 (previous year: €131.6 million). The negative growth in the automotive sector had a corresponding impact, which meant that our clients increasingly suffered from lower order volumes from the big OEMs over the course of the year. Revenue in the fabrics for conveyor belts area was also down. As a result, adjusted EBITDA decreased by 47.1% to €5.4 million (previous year: €10.2 million). The adjusted EBITDA margin was 4.5% (previous year: 7.8%).

In the first nine months of 2019, the investment volume came to €2.3 million (previous year €3.4 million). The main focus of our investment activities was on our sites in Germany and Portugal. The number of staff decreased by 5.0% to 999 people as of 30 September 2019 (previous year: 1,052).

flexible films

		Q3 2019	Q3 2018	Change in %
Revenue	€ millions	70.7	70.3	1.0
Adjusted EBITDA	€ millions	8.9	8.6	3.5
Adjusted EBITDA margin	%	12.6	12.2	3.3
Investments	€ millions	1.7	1.7	0.0
Employees		327	322	1.6

In the **flexible films** segment, however, revenue rose slightly by 1.0% to €70.7 million in the first nine months of 2019 (previous year: €70.3 million). The premium products in the area of construction, such as sealing membranes and pool liners, as well as products for agricultural applications showed particularly positive growth. By contrast, growth in transport protection was poor. EBITDA rose to €8.9 million (previous year: €8.6 million), an increase of 3.5%. The EBITDA margin was 12.6% (previous year: 12.2%)

In the first nine months of 2019, the investment volume came to €1.7 million (previous year €1.7 million), the same level as last year. Accounting for €0.7 million of investments, the focus was primarily on our Nordkirchen site. The number of staff increased slightly by 1.6% to 327 people as of 30 September 2019 (previous year: 322).

surface technologies

		Q3 2019	Q3 2018	Change in %
Revenue	€ millions	49.2	26.9	82.9
Adjusted EBITDA	€ millions	9.1	4.5	102.2
Adjusted EBITDA margin	%	18.5	16.7	10.8
Investments	€ millions	5.5	3.8	44.7
Employees		767	824	-6.9

Revenue in the **surface technologies** segment also increased in the first nine months of 2019, rising by 82.9% to €49.2 million (previous year: €26.9 million). This growth reflects the successful takeover of the Heiche Group in the second half of 2018. The Polish site followed a positive trajectory, achieving additional growth due to the conclusion of new orders in the area of anodisation. At the same time, the effects of the capacity shortfall owing to the fire led to limitations for operational growth. The scheduled restoration of production capacities will be accompanied by the significant expansion of our Polish production site and is slated for completion by 2020. Adjusted EBITDA improved by over 100.0% to €9.1 million (previous year: €4.5 million). The adjusted EBITDA margin rose to 18.5% (previous year: 16.7%).

In the first nine months of 2019, the investment volume came to €5.5 million (previous year €3.8 million). One area of focus was the expansion of capacity in the area of anodisation at our Polish site. The number of staff decreased by 6.9% to 767 people as of 30 September 2019 (previous year: 824).

it/services

		Q3 2019	Q3 2018	Change in %
Revenue	€ millions	15.1	16.4	-7.9
Adjusted EBITDA	€ millions	2.0	2.5	-20.0
Adjusted EBITDA margin	%	13.2	15.2	-13.2
Investments	€ millions	1.2	0.6	100.0
Employees		122	132	-7.6

Revenue in the **it/services** segment decreased by 7.9% to €15.1 million in the first nine months of 2019 (previous year: €16.4 million). A major order from the German Federal Office of Administration with a volume of around €2.7 million was invoiced in the same period of the previous year. As a result, adjusted EBITDA decreased by 20.0% to €2.0 million (previous year: €2.5 million). The adjusted EBITDA margin was 13.2% (previous year: 15.2%).

The investment volume was €1.2 million in the first nine months of 2019 (previous year: €0.6 million). Of this, more than half was assigned to upgrading the data centre. The number of staff decreased by 7.6% to 122 people as of 30 September 2019 (previous year: 132).

precision components

		Q3 2019	Q3 2018 ¹	Change in %
Revenue	€ millions	38.6	54.4	-29.0
Adjusted EBITDA	€ millions	3.7	7.6	-51.3
Adjusted EBITDA margin	%	9.6	14.0	-31.4
Investments	€ millions	1.5	3.8	-60.5
Employees		631	684	-7.7

¹ Figures adjusted for discontinued operations.

Revenue in the **precision components** segment decreased by 29.0% to €38.6 million in the first nine months of 2019 (previous year: €54.4 million). Some reasons for this were the delayed start-ups of new products and weaker demand from clients in the automotive sector. Adjusted EBITDA fell by 51.3% to €3.7 million (previous year: €7.6 million). As a result, the adjusted EBITDA margin was recorded at 9.6% (previous year: 14.0%).

In the first nine months of 2019, the investment volume came to €1.5 million (previous year €3.8 million). The focus was on our sites in Dresden and Hungary. The number of staff decreased by 7.7% to 631 people as of 30 September 2019 (previous year: 684).

REVISED FORECAST FOR THE 2019 FINANCIAL YEAR

Following the completion of the extensive validations of the projected figures for the engineered products segment, which were conducted as a result of the irregularities described previously, as well as the effects of the capacity shortfall due to the fire at one of the surface technologies segment sites, the KAP AG Executive Board has revised its forecast for the 2019 financial year. This now takes into account the current economic outlook and, in particular, the decreasing demand from clients in the automotive sector. Due to seasonal fluctuations, we are expecting a poor fourth quarter. According to current estimates, the Executive Board now expects to see revenue in the range of €365 to 375 million and adjusted EBITDA of €29 to 33 million for the 2019 financial year.

For the coming year, we are anticipating a relatively slight improvement in adjusted EBITDA with stable revenue. We are currently working on additional measures to improve the results of the engineered products and precision components segments. We will make a decision on the implementation of the measures and their effects on revenue and results in Q1 2020.

By current estimates, the investments agreed as a result of the fire in the surface technologies segment and the associated expansion in capacity will start to have a positive impact on revenue and results as of Q1 2021. We expect all of the costs resulting from the fire - including those due to the interruption of business - to be fully reimbursed by our insurer.

From 2021, we expect to be able to achieve our target of an adjusted EBITDA margin of over 10% in the KAP Group as a result of the implementation of these measures. At the same time, we are currently planning targeted acquisitions for the future that will support the strategic and financial growth of our segments. We have therefore been holding, and continue to hold, regular discussions with potential sellers.

FINANCIAL INFORMATION

DEVELOPMENT OF THE KAP GROUP IN Q3 2019

CONSOLIDATED STATEMENT OF INCOME

FROM 1 JANUARY TO 30 SEPTEMBER 2019

in € thousands	Q3 2019	Q3 2018 ¹
Revenue	289,475	296,889
Change in inventories and other own work capitalised	440	2,313
Total performance	289,915	299,202
Other operating income	13,454	8,584
Cost of materials	-158,486	-168,833
Personnel expenses	-75,896	-66,662
Depreciation and amortisation of intangible assets, property, plant and equipment and investment property	-27,421	-16,576
Other operating expenses	-42,776	-41,623
Operating result	-1,210	14,093
Interest result	-2,783	-2,611
Net other financial result	-664	-1,007
Financial result	-3,447	-3,618
Earnings from continuing operations before income taxes	-4,657	10,475
Income taxes	1,588	-3,189
Earnings from continuing operations	-3,068	7,286
Earnings from discontinued operations after taxes	-30	9,949
Earnings after taxes	-3,099	17,235
Result share of non-controlling interests	-412	-464
Consolidated annual result of KAP AG shareholders	-3,511	16,771
Undiluted/diluted earnings per share (€)		
Earnings from continuing operations	-0.45	0.98
Gains/losses from discontinued operations	0.00	1.41
	-0.45	2.39

¹ Adjusted due to error correction.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

FROM 1 JANUARY TO 30 SEPTEMBER 2019

in € thousands	Q3 2019	Q3 2018 ¹
Consolidated result after taxes	-3,099	17,235
Unrealised gains from currency translation	237	-98
Unrealised gains from the disposal of available-for-sale financial assets	-	-
Items which may be reclassified in the income statement in the future	237	-98
Items which will not be reclassified in the income statement in the future	-	-
Other comprehensive income after taxes	237	-98
thereof result after taxes attributable to non-controlling interests	-7	26
thereof result after taxes attributable to shareholders of KAP AG	244	-124
Total comprehensive income	-2,861	17,137
thereof attributable to non-controlling interests attributable to total comprehensive income	406	490
thereof attributable to shareholders of KAP AG	-3,267	16,647

¹ Adjusted due to error correction.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 SEPTEMBER 2019

in € thousands	30.09.2019	31.12.2018 ¹	30.09.2018 ¹
ASSETS			
FINANCIAL ASSETS			
Non-current assets			
Intangible assets	39,028	42,327	49,700
Property, plant and equipment	174,327	169,026	158,011
Investment property	4,444	4,678	4,717
Financial assets accounted for using the equity method	0	0	0
Other financial assets	1,315	1,374	1,187
Deferred tax assets	5,352	5,802	6,518
	224,466	223,207	220,132
Current assets			
Inventories	65,896	67,047	73,574
Trade receivables	62,367	62,935	75,295
Income tax refund claims	1,526	2,631	3,934
Other receivables and assets	6,936	6,400	6,741
Cash and cash equivalents	11,941	11,727	37,244
	148,666	150,740	196,788
	373,132	373,947	416,920

¹ Adjusted due to error correction.

in € thousands	30.09.2019	31.12.2018 ¹	30.09.2018 ¹
LIABILITIES			
EQUITY AND LIABILITIES			
Equity and reserves			
Subscribed capital	20,177	20,177	19,917
Capital reserve	86,840	86,840	82,965
Reserves/revenue reserves	-14,806	-15,358	-12,504
Net result	77,924	97,598	100,538
Equity attributable to shareholders of KAP AG	170,135	189,255	190,917
Non-controlling interests	2,945	2,400	4,535
	173,080	191,655	195,452
Non-current liabilities			
Provisions for pensions and similar obligations	17,597	18,080	18,072
Non-current financial liabilities	75,742	59,399	91,875
Deferred tax liabilities	9,889	13,309	6,526
Other non-current liabilities	349	349	0
	103,576	91,137	116,472
Current liabilities			
Other provisions	27,659	25,433	29,989
Current financial liabilities	29,140	28,115	29,121
Trade payables	26,458	24,292	29,458
Income tax liabilities	4,163	4,895	4,630
Other liabilities	9,056	8,419	11,798
	96,476	91,854	104,996
	373,132	373,947	416,920

¹ Adjusted due to error correction.

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY TO 30 SEPTEMBER 2019

in € thousands	Q3 2019	Q3 2018 ¹
Earnings before interest and income taxes	-1,904	23,053
Depreciation and amortisation of non-current assets (offset against write-ups)	27,421	18,426
Change in provisions	1,724	-1,190
Other non-cash expenses and income	4,251	-591
Gains/losses from the disposal of non-current assets and discontinued operations	55	-7,531
Cash flow from operating activities before changes in assets and liabilities	31,546	32,167
Changes in inventories, receivables and other assets not attributable to investing and financing activities	-2,936	-11,847
Changes in payables and other liabilities which are not attributable to investing and financing activities	2,735	-13,276
Cash flow from operating activities before interest and income taxes	31,346	7,044
Interest paid and received	-2,598	-2,357
Income taxes paid and received	-833	-2,872
Cash flow from operating activities	27,914	1,815
Proceeds from disposals of property, plant and equipment (including investment property)	854	1,301
Investments in property, plant and equipment (including investment property)	-12,484	-17,560
Investments in intangible assets	-346	-2,172
Proceeds from the disposal of financial assets	53	73
Investments in financial assets	-2	-
Cash inflow from the disposal of consolidated companies	-	37,311
Cash outflow from the addition of consolidated companies	-	-5,111
Cash inflow from repayments of financial receivables	-	2
Disbursements by granting loans	-86	-3,563
Cash flow from investing activities	-12,011	10,282

¹ Adjusted due to error correction.

in € thousands	Q3 2019	Q3 2018 ¹
Proceeds from capital increase	-	600
Dividends paid to shareholders	-15,521	-14,056
Cash inflow from borrowing	7,470	54,677
Disbursements for the repayment of financial liabilities	-7,605	-26,087
Cash flow from financing activities	-15,656	15,134
Net change in cash and cash equivalents	249	27,231
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	-35	-66
Cash and cash equivalents at beginning of period	11,727	10,079
Cash and cash equivalents at end of period	11,941	37,244

¹ Adjusted due to error correction.

STATEMENT OF CHANGES IN EQUITY

AS OF 30 SEPTEMBER 2019

in € thousands	Subscribed capital	Capital reserve	Currency differences	Cash flow hedges	Available-for-sale financial assets
01.01.2018	17,224	48,811	-20,521	-	-
Error correction	-	-	-	-	-
01.01.2018	17,224	48,811	-20,521	-	-
Consolidated result	-	-	-	-	-
Other comprehensive income before taxes	-	-	-124	-	-
Deferred tax on other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-124	-	-
Capital increase	2,693	34,601	-	-	-
Capital decrease	-	-	-	-	-
Dividends paid to shareholders	-	-	-	-	-
Change in consolidation group	-	-	-	-	-
Other changes	-	-446	-	-	-
30.09.2018	19,917	82,965	-20,646	-	-
01.01.2019	20,177	86,840	-20,566	-	-
Consolidated result	-	-	-	-	-
Other comprehensive income before taxes	-	-	244	-	-
Deferred tax on other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	244	-	-
Capital increase	-	-	-	-	-
Capital decrease	-	-	-	-	-
Dividends paid to shareholders	-	-	-	-	-
Change in consolidation group	-	-	-	-	-
Other changes	-	-	-	-	-
30.09.2019	20,177	86,840	-20,322	-	-

Revenue reserves			Consolidated balance sheet result	Equity attributable to KAP shareholders	Non-controlling interests	Total equity
Actuarial gains/losses	Other	Total				
-4,998	10,432	-15,086	98,874	149,822	5,365	155,187
-	-	-	-2,050	-2,050	-	-2,050
-4,998	10,432	-15,086	96,824	147,772	5,365	153,137
-	-	-	17,433	17,433	464	17,897
-	-	-124	-	-124	26	-98
-	-	-	-	-	-	-
-	-	-124	17,433	17,309	490	17,799
-	-	-	-	37,294	-	37,294
-	-	-	-	-	-	-
-	-	-	-14,056	-14,056	-	-14,056
-	0	0	-	-	-595	-595
-	2,708	2,708	336	2,598	-725	1,872
4,998	13,140	12,504	-100,538	-190,917	-4,535	-195,452
-5,247	10,455	-15,358	97,598	189,255	2,400	191,655
-	-	-	-3,511	-3,511	412	-3,099
-	-	244	-	244	-7	237
-	-	-	-	-	-	-
-	-	244	-3,511	-3,267	406	-2,861
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-15,521	-15,521	-	-15,521
-	-	-	-	-	-	-
-	308	308	-642	-334	139	-195
-5,247	10,323	-14,806	77,924	170,135	2,945	173,080

SEGMENT REPORTING BY BUSINESS AREA

in € thousands	engineered products*		flexible films		it/services	
	Q3 2019	Q3 2018	Q3 2019	Q3 2018	Q3 2019	Q3 2018
Revenue	118,976	131,632	70,746	70,348	15,092	16,378
Segment result ¹	4,009	10,185 ⁶	8,924	8,609	1,932	2,537
Scheduled depreciation and amortisation	5,808	5,485	2,805	2,761	786	645
Operating result ²	-1,799	4,700 ⁷	6,119	5,849	1,146	1,892
Investments ³	2,253	3,402	1,743	1,734	1,161	613
Working capital	58,454	63,458	22,553	25,833	2,298	3,371
Employees as of 30 September	999	1,052	327	322	122	132

* Previous year's figures were adjusted due to error correction.

As the figures are presented in € thousands, the numbers may not add up due to rounding.

¹ The segment result is defined as the segment EBITDA.

² The operating result for the surface technologies segment includes depreciation of €4,897 thousand (previous year: €0 thousand).

³ Relates to intangible assets and property, plant and equipment.

⁴ The previous year's figures were adjusted as a result of GM Tec Industries Holding GmbH being assigned to this segment.

⁵ The previous year's figures were adjusted as a result of KAP Surface Holding GmbH being assigned to this segment.

⁶ Prior to error correction, €11,132 thousand for engineered products and €31,616 thousand for continuing operations.

⁷ Prior to error correction, €5,647 thousand for engineered products and €15,040 thousand for continuing operations.

precision components ⁴		surface technologies ⁵		Reconciliation		Consolidation		Continuing operations	
Q3 2019	Q3 2018	Q3 2019	Q3 2018	Q3 2019	Q3 2018	Q3 2019	Q3 2018	Q3 2019	Q3 2018
38,584	54,415	49,222	26,878	2	0	-3,146	-2,761	289,475	296,889
4,214	7,640	9,705	4,449	-4,759	-4,820	2,187	2,069	26,211	30,669 ⁶
3,203	3,396	9,121	3,479	607	617	195	193	22,524	16,576
1,011	4,245	-4,312	970	-5,366	-5,437	1,992	1,876	-1,210	14,093 ⁷
1,503	3,837	5,516	3,783	651	564	0	2,591	12,826	16,525
16,283	17,546	4,218	6,794	-1,821	1,756	-180	-111	101,805	118,648
631	684	767	824	32	37	-	-	2,878	3,051

FINANCIAL CALENDAR

- 25.-27.11.2019** Analyst/investor conference (as part of the Deutsches Eigenkapitalforum 2019, Frankfurt am Main)
- February 2020** Publication of preliminary figures for the 2019 financial year
- April 2020** Publication of the 2019 Annual Report
- May 2020** Publication of the Q1 2020 quarterly report
- July 2020** Annual General Meeting
- July 2020** Dividend announcement
- August 2020** Publication of the six-month financial statements as of 30 June 2020
- November 2020** Publication of the Q3 2020 quarterly report

All dates are subject to change. We publish all the dates above together with additional dates and any updates to these on <https://www.kap.de/en/investor-relations/calendar>.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These statements are based on current estimates and forecasts by the Executive Board and on the information currently available to the Executive Board. Such statements are subject to risks and uncertainties that are mostly difficult to assess and are generally outside the scope of KAP AG's and its subsidiaries' control. These include the future market environment and economic conditions, the behaviour of other market participants, the successful integration of new acquisitions, the realisation of anticipated synergy effects and measures taken by government agencies. Should any of these or other uncertainties and imponderables materialise or should the assumptions on which the statements made are based prove to be inaccurate, actual results could differ materially from those expressed or implied by such statements. KAP AG does not assume any special obligation going beyond the legal requirements to update forward-looking statements made in this report.

ROUNDING

The figures in this report have been rounded in accordance with established commercial practice. Rounding differences may thus occur, meaning that the result of adding the individual figures together does not always precisely correspond to the total specified.

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