Q&A

Press Conference

Analyst Conference

Bekaert FY2019 Results

4 March 2020

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Q&A selection

Included in this summary: Q&A related to Bekaert’s announcement of 4 March 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 – COVID-19

Q1: How many weeks of inactivity did Bekaert suffer in China and what is the financial impact thereof?

Most plants in China had one week of inactivity on top of the holiday week for Chinese New Year. BBRG Hangzhou was closed for 2 weeks. We don't disclose the financial impact of the inactivity in China in February because we don't have visibility yet on the further developments.

Q2: Is the economy picking up again in China?

Our order bank is strong and Government is implementing stimulus programs, but we wouldn't say we see the economy bouncing back already. We assume there is some duplication in the orders, by customers who want to make sure they will get the deliveries they need. Other industries – components related – suffer more due to the lack of supplies. Our suppliers (steel mills) have continued to produce, so we haven't had shortages of raw materials.

Q3: Trade wars, viruses, .. : are you evaluating/reconsidering your footprint?

We are always evaluating our footprint and both the trade barriers and the virus issues are proving the benefits of having a global footprint like Bekaert.

Q4: Do you expect the situation globally will ease soon or will get worse?

Apart from the extra week of inactivity in China we have not seen significant impact in our markets yet. We do believe the global economy will worsen as a result of the virus spread. To what extent and for how long is impossible to say right now.

Q&A – 7% underlying EBIT margin goal

Q5: How fast will you move to the 7% margin? Why did you leave out the time indication?

Excluding the uncertainties of COVID-19 we would have stated that we would be making about the same margin improvement progress in 2020 like we have made in 2019 – on about flat volumes. Today, it's difficult to assess how much of that progress might be whiped out in 2020. The actions we have taken have made us more resilient though, and the flow-through impact of measures taken in Q4/2019 will become more visible.

In a normalized environment, we would take a significant step again on our improvement path toward 7% margin. Our goal has not changed and neither has the timing of when we want to reach it.

Q6: What is the additional savings potential from the actions taken?

Quite some actions were taken only in Q4 of 2019, so the full-year impact will flow through as of 2020. Cf closure of Shelbyville (US) and Ipoh (Malaysia) and the restructuring in Belgium which was effectively implemented in October of 2019. Also the turnaround programs (like eg, Qingdao (China), which had been loss making since years and now turned around into a very profitable plant (€ +6 million impact, year-on-year) ; other such examples, and definitely BBRG) will enable margin growth.

These implemented actions should generate about the same progress in u-EBIT in 2020 as we have realized in 2019.

Q7: At flat volume growth, how can you book further progress on operating costs?

There is still potential from improvements in OPEX and taking more economies of scale. Eg: half-product footprint actions and cost champion best practices in other plants.

Q8: Do you expect the same impact of inventory valuation corrections in 2020?

Not with what we know now. There is volatility and prices may trend down, but we don't see major pricing hiccups at this moment. We also don't see significant changes in tariff/quota impacts like at the start of 2019.

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Q&A – pricing power – pricing erosion

Q9: Price pressure Rubber Reinforcement: is the competition catching up with ST/UT technologies?

Competition indeed catching up but most competitors aren't really focusing on super/ultra tensile steel cords because they can only make it with more expensive Japanese wire rod. Xingda can now produce ST/UT also with domestic wire rod.

Price pressure is more from long-term contract negotiations which always have this impact – up to us to offset with efficiency gains, cost savings, and product innovations that create value to our customers.

Q10: Does your pricing improvement come from less competition?

No. It comes from pricing discipline and better tools and mechanisms. It also is driven by customer value creation, which determines whether you can use pricing power.

Q11: Was it pricing that drove the results in Building Products so high?

On continued strong volumes, we implemented more pricing discipline, better pricing tools, and better segmentation: moving away from commoditized 3D Dramix® fibers into the 4D and 5D ranges.
In addition, we also took actions to consolidate our footprint and grow two main production hubs (Lonand, India and Petrovice, Czech Republic) while closing the plants in Moen (Belgium) and Orotina (Costa Rica). More benefits from those actions should flow through in 2020.

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Q&A – global footprint / investments

Q12: Guidance CAPEX?

2020: in the range of € 150 – 170 million.

Main expansion CAPEX: new Rubber Reinforcement plant in Vietnam and expansions in Dramix® Building Products plants in India and in the Czech Republic.

Q13: Is your plant in Venezuela still active?

Yes. They operate at relatively low volumes but they are operational. The team of 250 lives and works in extreme difficult circumstances but manage to stay breakeven. We see no reason to stop operations there.

Q14: Has the sawing wire capacity been increased?

No. We are talking with potential partners and are considering various scenarios: either focus on core wire and exit diamond wire business, or (more likely) conclude partnership to expand diamond wire capacity. In the meantime: we improved the quality, lowered the cost and have a good, thin-diameter product. We are running breakeven despite the relatively limited capacity.

Q15: Is BBRG Ropes activity still loss making? Will there be more restructuring?

BBRG Ropes is no longer loss making. More actions will be implemented, moving forward, to further improve the profitability – in line with the profit restoration program that is in place. This may include additional restructuring.

Q&A – Other

Q16: How do you see demand evolving in Rubber Reinforcement? OEM passenger cars down.

Demand remains at fairly high levels at the moment. In tire markets we are one step away from OEM. We haven't seen reductions in order volumes yet from tire makers, but we do expect this to happen if Covid-19 further spreads. In China we're mainly active in truck tire markets, where stimulus programs should help sustain demand. In the rest of the world, we're more exposed to passenger car tires.

Q17: What is the target re factoring on outstanding A/R? 20%?

Yes, if conditions are favorable, 20% is what we aim for.

Q18: Are the improvements on working capital sustainable?

The YE closing ratio isn't: a historic low of 16%. The average working capital / sales of 2019 (18.2%) is in our opinion possible to maintain by continuing what we have done in 2019: better operations planning, strict inventory controls, successful cash collection, and the increased use of factoring. We haven't seen a significant deterioration in A/R in China yet.

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