

FLSmidth & Co. Group Interim Report for Q3 2020

Company Announcement No. 18-2020, 3 November 2020

Continued impact from the pandemic, sequential improvement in order intake, EBITA - and strong cash flow

Highlights in Q3 2020

- Organic order intake declined by 5% y-o-y
- Organic revenue decreased by 12% y-o-y
- EBITA margin declined to 4.6%
- Strong cash flow
- Sequential improvement in both order intake and EBITA
- Group business improvement program complete

In Q3 2020, order intake amounted to DKK 3,955m compared to DKK 4,571m in Q3 2019 (-13%). Organic order intake declined by 5%, comprising a 2% decline in Mining and a 12% decline in Cement.

The order backlog decreased by 3% to DKK 14,839m in Q3 2020 (end of Q2 2020: DKK 15,227m).

FLSmidth Group CEO, Thomas Schulz, commented: "Similar to Q2, our Q3 results were negatively impacted by the pandemic, which affected order intake, revenue and EBITA. The market activity stabilised during the quarter, and we achieved a sequential improvement in both order intake and EBITA. However, our business is still impacted by restricted access to sites and hesitation around large capital investments, particularly in Cement. With COVID-19 infection rates currently increasing across most of the world, unexpected shutdowns could change the outlook, but we continue to take advantage of our vast pool of local resources and our strong capabilities within remote support to help customers sustain production."

Financial performance

Revenue amounted to DKK 3,834m compared to DKK 4,736m in Q3 2019 (-19%). Organic revenue decreased by 12%, comprising a 1% increase in Mining and a 33% decline in Cement. The sharp decline in Cement was due to a more severe pandemic impact on the cement industry and a low backlog.

EBITA decreased 53% to DKK 177m (Q3 2019: DKK 377m), primarily as a result of the lower revenue. The EBITA margin was 4.6% (Q3 2019: 8.0%), and the decline was driven by Cement. Adjusted for extraordinary costs and savings in the quarter, the EBITA margin was 6.3% in Q3 2020.

Net working capital decreased to DKK 1,981m at the end of Q3 2020 (end of Q2 2020: DKK 2,351m), owing to a lower activity level and continued strong cash collection from accounts receivables. The net working capital ratio came down to 10.9% from 12.3% at the end of Q2 2020.

Despite challenging market conditions, CFFO increased to DKK 594m in Q3 2020 compared to DKK 244m in Q3 2019, mainly due to significant cash inflow from working capital. The adjusted free cash flow increased to DKK 489m in Q3 2020, compared to DKK 139m in Q3 2019.

Due to the strong free cash flow, net interest-bearing debt decreased to DKK 1,936m, from DKK 2,298m at the end of Q2 2020. FLSmidth improved its strong financial position with a net debt to EBITDA of 1.4x and undrawn committed credit facilities of DKK 4.7bn by the end of September.

Average capital employed increased to DKK 15.3bn in Q3 2020 compared to DKK 15.0bn in Q3 2019, related primarily to intangible assets. ROCE decreased to 6.7% in Q3 2020 compared to 11.2% in Q3 2019, due to the higher capital employed and a lower 12-months trailing EBITA.

Thomas Schulz, commented: "In recent years, cement industry dynamics have put pressure on the returns of cement producers due to the overcapacity in regional markets. There is a clear positive outlook in the areas of digitalization and green cement, but the fall in cement capital investment has been accelerated by the pandemic and is not expected to recover in the short- to medium term. Throughout the year, our strong focus has been on executing our Group business improvement program, including site consolidation, an improved logistical setup, and headcount reductions. The program is now complete with an EBITA improvement run-rate of DKK 150m. To address the challenging cement market, we have taken additional steps to increase outsourcing, simplify the cement business and adjust the cost structure. To further strengthen our two industries setup, we will keep a focus on leveraging synergies while ensuring a clear capital allocation to capture growth opportunities and maximise value creation within both businesses."

Guidance 2020

Our full year guidance was reinstated on 28 August, based on the following assumptions:

- No further escalation of COVID-19
- No further extensive lockdowns or travel restrictions occurring before year-end
- A gradual improvement in business sentiment for the remainder of 2020
- Business improvement implementation costs of around DKK 210m (now expected to be DKK 222m) are included in the guidance

We have seen a stabilisation of business activities, but with the increasing spread of COVID-19, we have not seen the gradual improvement in business sentiment that we had assumed in our base case scenario. Consequently, we narrow our 2020 revenue guidance to around DKK 16bn (previously DKK 15.5-17.0bn) and the EBITA margin guidance to 4.5-5.0% (previously 4.5-6.0%).

The guidance remains subject to higher uncertainty than usual as lockdowns and mobility restrictions continue to impact suppliers, customers and our own workforce.

Read the full Interim report Q3 2020 [here](#)

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Key figures Q3 2020

(DKKm)	Q3 2020	Q3 2019	Change (%)	9M 2020	9M 2019	Change (%)
Order intake (gross)	3,955	4,571	-13%	13,829	15,165	-9%
- of which service order intake	2,337	2,928	-20%	7,506	8,360	-10%
<i>Service order intake share</i>	59%	64%		54%	55%	
Order backlog	14,839	16,088	-8%	14,839	16,088	-8%
Revenue	3,834	4,736	-19%	12,205	14,624	-17%
- of which service revenue	2,393	2,703	-11%	7,332	7,911	-7%
<i>Service revenue share</i>	62%	57%		60%	54%	
Gross profit	884	1,126	-21%	2,843	3,522	-19%
Gross profit margin	23.1%	23.8%		23.3%	24.1%	
EBITDA	255	459	-44%	797	1,428	-44%
before special non-recurring items						
EBITA	177	377	-53%	536	1,176	-54%
EBITA margin	4.6%	8.0%		4.4%	8.0%	
EBIT	91	294	-69%	283	893	-68%
EBIT margin	2.4%	6.2%		2.3%	6.1%	
Profit	43	190	-77%	127	549	-77%
CFFO	594	244		1,092	621	
Free cash flow	489	133		813	52	
Net working capital	1,981	2,624	-25%	1,981	2,624	-25%
Net interest-bearing debt	1,936	2,693	-28%	1,936	2,693	-28%

For additional information, go to our [Investor Room](http://www.flsmidth.com) at www.flsmidth.com

FLSmidth delivers sustainable productivity to the global mining and cement industries. We deliver market-leading engineering, equipment and service solutions to our customers enabling them to improve performance, drive down costs and reduce environmental impact. Our operations span the globe and our ~11,000 employees are present in more than 60 countries. In 2019, FLSmidth generated a revenue of DKK 20.6 billion. www.flsmidth.com