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FLSmidth & Co. Group Annual Report for 2020

Company Announcement No. 2-2021, 10 February 2021

Strong cash flow and stable organic order intake in 2020

Highlights in 2020

- Group organic order intake was on par with last year
- Group revenue declined 16% organically
- The EBITA margin decreased to 4.7%
- Strong cash flow, reduction in net working capital and net debt
- Sequential improvement in both order intake, revenue and EBITA
- Group business improvement programme was completed
- Outlook for Mining remains positive
- Continued reshaping of our Cement business

Organically, the order intake in 2020 was on par with last year, comprising a 13% growth in Mining and a 22% decline in Cement. Including currency effects and acquisitions, order intake decreased by 5% to DKK 18,524m.

FLSmidth Group CEO, Thomas Schulz, commented: "2020 was impacted operationally and financially by the pandemic, which has presented both challenges and opportunities for FLSmidth. Our employees have done a tremendous job handling this crisis and adapting to the changed situation. Our financial results were negatively impacted by the rapidly deteriorating business environment which affected order intake, revenue and EBITA. Still, we secured four large orders and a book-to-bill of 113% for the year, representing an organic order intake on par with 2019."

In 2020, the order backlog increased by 5% to DKK 14,874m from DKK 14,192m in 2019, comprising an 18% increase in Mining and an 11% contraction in Cement.

Financial performance

Group organic revenue declined 16% in 2020, comprising a 7% decrease in Mining and a 30% decline in Cement. The sharp decline in Cement was due to a more severe pandemic impact on the cement industry and a low backlog entering the year. Including currency effects, Group revenue decreased by 20% to DKK 16,441m.

Despite the stable gross margin and lower SG&A costs, EBITA decreased by 54% to DKK 771m in 2020 from DKK 1,663m in 2019, as a result of the sharp decline in revenue. The EBITA margin declined to 4.7% from 8.1% in 2019. Adjusted for business improvement costs and Cement reshaping costs in the year, the EBITA margin was 5.9% in 2020. Cement was loss-making, whereas profitability in Mining was quite resilient.

Net working capital decreased to DKK 1,752m at the end of 2020 (2019: DKK 2,739m), owing to a lower activity level and continued strong cash collection from accounts receivables. The net working capital ratio came down to 10.7% from 13.3% at the end of 2019.
Despite significantly lower EBITDA for the year, CFFO increased to DKK 1,421m in 2020 compared to DKK 948m in 2019, mainly due to significant cash inflow from working capital. The adjusted free cash flow increased to DKK 1,082m in 2020, compared to DKK 574m in 2019.

Due to the strong free cash flow, net interest-bearing debt decreased to DKK 1,808m, from DKK 2,492m at the end of 2019. Despite the reduction in net debt, financial gearing increased to 1.6 from 1.2 in 2019 due to lower EBITDA for the year.

Average capital employed decreased slightly to DKK 15,195m (2019: DKK 15,251m) as a result of the decrease in working capital. ROCE decreased to 5.1% from 10.9% in 2019, as a result of the lower EBITA for the year.

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 digitalisation and green cement, but the fall in cement capital investment has been accelerated by the pandemic and is not expected to recover in the mid-term. Throughout the year, our focus has been on executing our Group business improvement programme, including site consolidation, an improved logistical setup and lower fixed costs. The programme 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."

Highlights in Q4 2020

Increased order intake and strong cash flow

- Group order intake grew 15% y-o-y organically with growth in both Mining and Cement
- Group revenue declined 24% y-o-y organically
- The EBITA margin decreased to 5.5%
- Strong cash flow, reduction in net working capital and net debt
- Acquisition of KnowledgeScape

In Q4 2020, order intake increased 7% to DKK 4,695m compared to DKK 4,389m in Q4 2019. Organic order intake increased by 15%, comprising a 2% growth in Mining and a 39% growth in Cement. Order intake in Cement included a large contract for engineering, procurement and supervision on a greenfield cement plant in Ethiopia valued at around DKK 750m.

Revenue declined 30% to DKK 4,236m in Q4 2020 from DKK 6,022m in Q4 2019, and declined 24% organically, comprising a 15% decrease in Mining and a 37% decline in Cement. EBITA decreased by 52% to DKK 235m compared to the same quarter last year, but increased by 33% compared to Q3 2020.

Guidance 2021

FLSmidth guides for group revenue of DKK 15.5-17.0bn and a group EBITA-margin of 5-6%. The guidance is based on expected different developments in the two individual businesses, Mining and Cement, and continued impact from the pandemic in the first half of 2021.

The guidance for 2021 is subject to uncertainty due to the COVID-19 pandemic. Lockdowns and mobility restrictions continue to impact suppliers, customers and our workforce. Restricted access to customer sites, in particular, is creating uncertainty around the timing of our order backlog conversion and the activity level for our service business. A gradual improvement in business sentiment and access to customer sites is, however, expected in the second half of the year.

The outlook for the mining industry remains positive. For 2021, the Mining business revenue and EBITA are expected to grow in the second half of the year as COVID-19 restrictions are expected to ease. EBITA-margin for Mining is expected to be high-single digit.

The outlook for the cement industry remains impacted by overcapacity and slow recovery. The Cement business revenue is expected to decline further in 2021, and as a consequence, initiatives to reshape the Cement business will continue during the year. The Cement business is not expected to be EBITA positive in 2021 due to continued Cement reshaping costs and low capacity utilisation in the service business until the pandemic eases.

Mid- and long-term financial targets withdrawn
In recent years, cement industry dynamics have diverged from those of the mining industry. Whereas fundamentals for the mining industry remain positive, overcapacity in the cement industry has put pressure on the returns of the cement producers, a development which has been further accelerated by the ongoing pandemic.

The structural changes in the cement industry and the pandemic have increased uncertainty around our mid- and long-term target levels and the timing for achieving these targets. Consequently, it has been decided to withdraw the mid- and long- term financial targets. Targets for capital structure, including financial gearing, equity ratio and dividend policy remain unchanged.

We will resume communication on the longer-term prospects for our Mining and Cement businesses when we have sufficient visibility.

Read the full Annual report 2020 here

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Key figures 2020

(DKKm)	Q4 2020	Q4 2019	Change (%)	2020	2019	Change (%)
Order intake (gross)	**4,695**	**4,389**	**7%**	**18,524**	**19,554**	**-5%**
- of which service order intake	2,316	2,890	-20%	9,822	11,250	-13%
Service order intake share	*49%*	*66%*		*53%*	*58%*	
Order backlog	14,874	14,192	5%	14,874	14,192	5%
Revenue	**4,236**	**6,022**	**-30%**	**16,441**	**20,646**	**-20%**
- of which service revenue	2,552	2,866	-11%	9,884	10,777	-8%
Service revenue share	*60%*	*48%*		*60%*	*52%*	
Gross profit	**1,022**	**1,327**	**-23%**	**3,865**	**4,849**	**-20%**
Gross profit margin	24.1%	22.0%		23.5%	23.5%	
EBITDA before special non-recurring items	337	580	-42%	1,134	2,008	-44%
EBITA	235	487	-52%	771	1,663	-54%
EBITA margin	**5.5%**	**8.1%**		**4.7%**	**8.1%**	
EBIT	145	393	-63%	428	1,286	-67%
EBIT margin	**3.4%**	**6.5%**		**2.6%**	**6.2%**	
Profit	**78**	**227**	**-66%**	**205**	**776**	**-74%**
CFFO	329	327		1,421	948	
Free cash flow	232	235		1,045	287	
Net working capital	1,752	2,739	-36%	1,752	2,739	-36%
Net interest-bearing debt	1,808	2,492	-27%	1,808	2,492	-27%

For additional information, go to our Investor Room 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 ~10,600 employees are present in more than 60 countries. In 2020, FLSmidth generated a revenue of DKK 16.4 billion. www.flsmidth.com