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Kendrion continues strong performance with 6% revenue and 25% EBITA growth in third quarter

- **Revenue growth in Q3 2017 of 6% to EUR 116.7 million (Q3 2016: EUR 110.1 million)**
- **Normalised EBITA increases by 25% to EUR 9.9 million in Q3 2017 (Q3 2016: EUR 7.9 million)**
- **Normalised EBITA margin of 8.5% in Q3 2017, up from 7.2% in Q3 2016**
- **Normalised EBITA margin for the first nine months of 2017 of 8.8%, up from 7.2% in the first nine months of 2016**
- **Continuing simplification measures resulted in one-off costs of EUR 1.7 million in the third quarter, with corresponding annualised savings of EUR 1.4 million. Expectation full year one-off costs and savings increased to EUR 4.5 million and EUR 4.0 million respectively**

Key figures

(x EUR 1 million unless otherwise stated)	Q3 2017[1]	Q3 2016[2]	Difference in %
Revenue	116.7	110.1	6%
EBITDA	14.8	12.9	15%
EBITA	9.9	7.9	25%
Net profit	5.9	4.9	20%
ROS	8.5%	7.2%	

(x EUR 1 million unless otherwise stated)	YTD 2017[1]	YTD 2016[2]	Difference in %
Revenue	352.3	335.5	5%
EBITDA	46.2	39.4	17%
EBITA	31.0	24.2	28%
Net profit	19.6	15.0	31%
ROS	8.8%	7.2%	

[1] Normalised for YTD 2017 non-recurring restructuring costs of EUR 3.7 million (after tax EUR 2.7 million): Q1 2017: EUR 1.2 million (after tax EUR 0.9 million); Q2 2017: EUR 0.8 million (after tax EUR 0.6 million); Q3 2017: EUR 1.7 million (after tax EUR 1.2 million)

[2] Normalised for YTD 2016 non-recurring restructuring costs of EUR 4.0 million (after tax EUR 3.2 million): Q1 2016: EUR 2.7 million (after tax EUR 2.1 million); Q2 2016: EUR 0.7 million (after tax EUR 0.7 million); Q3 2016: EUR 0.6 million (after tax EUR 0.4 million)

Joep van Beurden, Kendrion CEO:

"Kendrion continued its good performance of the first half year into the third quarter of 2017. We grew our revenue by a solid 6% and EBITA by 25% compared to Q3 2016, as favourable market conditions combined with the more direct and streamlined way in which we run our operations.

During the quarter, we signed a letter of intent with a large customer to start producing permanent magnet brakes for industrial robots in our new facility in Suzhou, China. We expect to finalise the first phase of that investment in Q1 2019. We are on track to open our new facility in Suzhou in December 2017.

We expect that the implementation of our strategy of "Simplify, Focus, Grow" will continue to bring us benefits. We are ahead of schedule in terms of the anticipated savings for this year and we expect to implement additional simplification measures across our business units over the next six months.

The global economic outlook remains positive with favourable order patterns across our business but especially in the Industrial business units. We look at the future with confidence, based on our strong business fundamentals, broad R&D capabilities, close customer relationships and growing project pipeline. We reiterate our expectation to grow annual revenue by an average of 5% and deliver an EBITA margin of 10% as from the end of 2018."

Progress in strategy

Kendrion's strategy for 2016-2018, as announced in May 2016, comprises three pillars: "Simplify, Focus, Grow". The primary objective is to deliver sustainable profitable growth for the business in the medium to long term.

We have made good progress since May 2016 on implementing the strategy and the related simplification measures. Following the integration of our operations in China, we are now ready to further expand our production capacity and will open a new facility in Suzhou. The official opening of the new facility will take place in December 2017 and production is expected to commence in Q1 2018.

The cost reductions and restructuring measures implemented in Q3 resulted in one-off costs of EUR 1.7 million, bringing the total for the first nine months to EUR 3.7 million, with corresponding savings on an annualised basis of EUR 3.2 million, ahead of schedule in terms of the previously announced anticipated savings of EUR 3.0 million for the year. Kendrion expects to implement additional simplification measures across its business units over the next six months. For the full year 2017, one-off costs of around EUR 4.5 million are now anticipated, with corresponding savings of EUR 4.0 million on an annualised basis.

Financial review

Revenue

Third quarter of 2017

The favourable market conditions of the first half of 2017 continued in the third quarter. Revenue growth amounted to 6.0% (6.9% at constant exchange rates), which breaks down into 11.3% for Industrial (12.0% at constant exchange rates) and 2.9% for Automotive (3.8% at constant exchange rates).

The Industrial activities recorded strong revenue growth with higher activity levels across all business units driven by the favourable market conditions. In China, a letter of intent was signed for the investment in a permanent magnet brakes production line with a large customer. These brakes are used in industrial robots and other applications. In Automotive, Passenger Cars continued to benefit from the ramp-up of the production of the active damping valves for ThyssenKrupp Bilstein, while Commercial Vehicles was impacted by the closure of its facility in Brazil and the discontinuation of operations in India, reducing the overall year-on-year growth level of our Automotive activities by just over 2%. Market circumstances for both passenger cars in Europe and the truck market remained favourable.

First nine months of 2017
Compared to the first nine months of 2016, revenue was 5.0% higher (5.2% at constant exchange rates). In the first nine months of 2017, our Industrial activities posted 6.7% growth (7.2% at constant exchange rates) while the Automotive activities grew by 4.0% (4.1% at constant exchange rates).

Results
Third quarter of 2017
The normalised operating result before amortisation (EBITA) increased by 25% to EUR 9.9 million (Q3 2016: EUR 7.9 million). The profitability in Automotive slightly reduced due to lower on stock production than Q3 last year. This was more than compensated by the higher result of the Industrial activities. The more streamlined and direct way in which we run our operations combined with solid top-line growth resulted in further improvement of the normalised EBITA margin of 8.5% (Q3 2016: 7.2%).

First nine months of 2017
Normalised EBITA in the first nine months of 2017 increased to EUR 31.0 million (first nine months of 2016: EUR 24.2 million), again mostly driven by higher activity levels and the simplification measures taken throughout the year. The normalised EBITA margin improved from 7.2% in the first nine months of 2016 to 8.8% in year-to-date 2017.

Net finance costs in the first nine months of 2017 amounted to EUR 2.2 million (first nine months of 2016: EUR 2.0 million). This slight increase was fully due to a negative currency impact.

Income tax expense for the first nine months of 2017 was EUR 5.7 million (first nine months of 2016: EUR 3.6 million). The normalised effective tax rate in the first nine months of 2017 was 25.3% (2016: 22.5%). The higher tax rate was due to the withholding tax on a dividend payment from China in the third quarter and a changed country mix compared to last year.

Normalised net profit for the first nine months of 2017 was EUR 19.6 million (first nine months of 2016: EUR 15.0 million). Normalised net earnings per share increased to EUR 1.46 (first nine months of 2016: EUR 1.13).

Financial position
The net debt position at the end of the third quarter was EUR 59.9 million, a decrease of EUR 2.3 million compared to the previous quarter end. Free cash flow amounted to EUR 3.4 million in the third quarter. Our share buyback programme, which commenced in August, resulted in a cash outflow of EUR 1.3 million. The programme is expected to be finalised by year-end.

Free cash flow in the first nine months was EUR 2.6 million (first nine months of 2016: EUR 1.8 million).

Investments amounted to EUR 16.6 million in the first nine months (first nine months of 2016: EUR 14.4 million), with depreciation totalling EUR 15.2 million. Investments for the full year 2017 are also expected to exceed depreciation, largely due to new automotive projects and capacity expansions in Industrial Drive Systems.

Kendrion's financial position remains strong, with a solvency ratio of 50.8% and an improvement in net debt cover to 1.0 at the end of September 2017.

Number of employees

The number of employees (FTEs) at the end of the third quarter 2017 amounted to a total of 2,661, including 142 temporary employees (Q3 2016: 2,639 employees, including 98 temporary employees). The increase is mainly due to the higher activity levels compared to the same period last year.

Outlook

The overall outlook for the global economy remains positive. Kendrion's most important market, Germany, is expected to continue to do well, reflected by a strengthening German machine building index.

For Q4 and into 2018, we expect a continuation of the favourable order patterns for both the Automotive and the Industrial activities, while noting that, as every year, uncertainties concerning the production volume of the Automotive activities in the month of December remain. Kendrion expects its revenue to increase in 2017, driven mostly by growth in the business units Passenger Cars and Industrial Drive Systems.

Going forward, we remain confident about our business fundamentals and our main objective to deliver sustainable profitable growth for the business in the medium to long term. We reiterate our medium- to long-term outlook of expected average organic growth of 5% per year and a 10% EBITA margin as from the end of 2018.

Analysts' conference call Q3 2017

Kendrion CEO Joep van Beurden and CFO Frank Sonnemans will host a conference call for analysts on Wednesday, 8 November 2017, at 11:00 a.m. CET to discuss the third quarter results. A playback of the conference call will be available via the company website www.kendrion.com.

Profile of Kendrion N.V.

Kendrion develops, manufactures and markets high-quality electromagnetic systems and components for industrial and automotive applications. For over a century, we have been engineering precision parts for the world's leading innovators in passenger cars, commercial vehicles and industrial applications. As a leading technology pioneer, Kendrion invents, designs and manufactures complex components and customised systems as well as local solutions on demand.

We are committed to the engineering challenges of tomorrow, and taking responsibility for how we source, manufacture and conduct business is embedded into our culture of innovation. Rooted in Germany, headquartered in the Netherlands and listed on the Amsterdam stock exchange, Kendrion's expertise extends across Europe to the Americas and Asia. Created with passion and engineered with precision. Kendrion - we magnetise the world.

Zeist, 8 November 2017

The Executive Board

For more information, please contact:

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Annexes

1. Consolidated statement of comprehensive income
2. Consolidated statement of financial position
3. Financial calendar 2017 - 2018

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Annex 1 – Consolidated statement of comprehensive income [1]

(EUR million)	Q3 2017	Q3 2016	period ended 30-09-2017	period ended 30-09-2016	full year 2016
Revenue	116.7	110.1	352.3	335.5	443.4
Other income	0.0	0.0	0.0	0.0	0.1
Total revenue and other income	**116.7**	**110.1**	**352.3**	**335.5**	**443.5**
Changes in inventories of finished goods and work in progress	1.0	(1.4)	(2.0)	(3.2)	0.5
Raw materials and subcontracted work	60.1	58.8	184.3	177.0	230.0
Staff costs	33.0	32.1	101.5	101.0	132.6
Depreciation and amortisation	5.8	5.9	17.7	18.0	24.0
Other operating expenses	9.5	8.3	26.0	25.3	34.7
Result before net finance costs	**7.3**	**6.4**	**24.8**	**17.4**	**21.7**
Finance income	0.1	0.1	0.1	0.1	0.1
Finance expense	(0.9)	(0.7)	(2.3)	(2.1)	(3.2)
Net finance costs	**(0.8)**	**(0.6)**	**(2.2)**	**(2.0)**	**(3.1)**
Profit before income tax	**6.5**	**5.8**	**22.6**	**15.4**	**18.6**
Income tax expense	(1.8)	(1.3)	(5.7)	(3.6)	(3.7)
Profit for the period	**4.7**	**4.5**	**16.9**	**11.8**	**14.9**
Basic earnings per share (EUR), based on weighted average	0.35	0.34	1.26	0.89	1.12
Diluted earnings per share (EUR)	0.35	0.34	1.26	0.89	1.12

[1] Not adjusted for non-recurring items

Annex 2 – Consolidated statement of financial position

(EUR million)	30 Sept. 2017	30 Sept. 2016	31 Dec. 2016
Assets			
Non-current assets			
Property, plant and equipment	84.3	81.7	85.5
Intangible assets	118.8	123.7	124.5
Other investments, including derivatives	0.3	0.4	0.4
Deferred tax assets	13.6	15.0	16.0
Total non-current assets	**217.0**	**220.8**	**226.4**
Current assets			
Inventories	57.5	58.6	52.6
Current tax assets	1.2	0.9	1.2
Trade and other receivables	71.7	62.7	54.5
Cash and cash equivalents	9.6	15.2	12.4
Total current assets	**140.0**	**137.4**	**120.7**
Total assets	**357.0**	**358.2**	**347.1**
Equity and liabilities			
Equity			
Share capital	27.0	26.8	26.8
Share premium	49.6	56.4	56.4
Reserves	87.7	78.3	80.0
Retained earnings	16.9	11.8	14.9
Total equity	**181.2**	**173.3**	**178.1**
Liabilities			
Loans and borrowings	64.0	78.8	63.0
Employee benefits	21.3	19.7	21.4
Deferred tax liabilities	10.1	11.0	10.9
Total non-current liabilities	**95.4**	**109.5**	**95.3**
Bank overdraft	4.8	9.6	2.7
Loans and borrowings	0.7	0.7	0.7
Provisions	0.4	1.4	1.2
Current tax liabilities	1.7	0.6	0.7
Trade and other payables	72.8	63.1	68.4
Total current liabilities	**80.4**	**75.4**	**73.7**
Total liabilities	**175.8**	**184.9**	**169.0**
Total equity and liabilities	**357.0**	**358.2**	**347.1**

Annex 3 - Financial calendar 2017 - 2018

2017

Publication of Q3 2017 results	Wednesday, 8 November 2017	08.00 a.m.
Analysts' call	Wednesday, 8 November 2017	11.00 a.m.

2018

Publication of FY 2017 results	Wednesday, 21 February 2018	08.00 a.m.
Analysts' meeting	Wednesday, 21 February 2018	11.00 a.m.
General Meeting of Shareholders	Monday, 9 April 2018	02.30 p.m.
Publication of Q1 2018 results	Wednesday, 9 May 2018	08.00 a.m.
Analysts' call	Wednesday, 9 May 2018	11.00 a.m.
Publication of HY1 2018 results	Wednesday, 15 August 2018	08.00 a.m.
Analysts' meeting	Wednesday, 15 August 2018	11.00 a.m.
Publication of Q3 2018 results	Wednesday, 7 November 2018	08.00 a.m.
Analysts' call	Wednesday, 7 November 2018	11.00 a.m.