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**P R E S S   R E L E A S E**

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## KENDRION'S Q3 RESULTS LOWER THAN EXPECTED IN A DIFFICULT AUTOMOTIVE MARKET; MID-TERM TARGETS UNCHANGED

- **Revenue in Q3 2018 of EUR 107.1 million, 8.2% less than in Q3 2017 (EUR 116.7 million) mostly due to weaker sales in Passenger Cars**
- **Normalised EBITA of EUR 7.7 million, 23% lower than in Q3 2017 (EUR 10.0 million)**
- **Normalised EBITA margin of 7.2% in Q3 2018 (Q3 2017: 8.6%)**
- **Normalised EBITA margin for the first nine months of 2018 of 9.0%, slightly higher than 8.9% in the same period in 2017**
- **Full-year revenue now anticipated to come in slightly lower than in 2017, as a result of difficult conditions in the automotive market**
- **Expected underlying EBITA margin as from the end of 2018 of more than 9%, compared to the earlier expectation of 10%[*]**
- **Simplification measures in Automotive on schedule to be fully implemented by 1 January 2019**
- **Mid-term targets unchanged: Return on Investment target of at least 20% and EBITDA margin of more than 15% by 2023**

### Key figures

| (x EUR 1 million unless otherwise stated) | Q3 2018[1] | Q3 2017[2, 3] | Difference in % |
|---|---|---|---|
| Revenue | 107.1 | 116.7 | -8% |
| EBITDA | 13.5 | 15.5 | -13% |
| EBITA | 7.7 | 10.0 | -23% |
| Net profit | 4.6 | 5.9 | -22% |
| ROS | 7.2% | 8.6% | |
| | | | |
| (x EUR 1 million unless otherwise stated) | YTD 2018[1] | YTD 2017[2, 3] | Difference in % |
| Revenue | 346.7 | 352.3 | -2% |
| EBITDA | 48.6 | 48.2 | 1% |
| EBITA | 31.2 | 31.4 | -1% |
| Net profit | 20.4 | 19.6 | 4% |
| ROS | 9.0% | 8.9% | |

[1] Normalised for YTD 2018 non-recurring restructuring costs of EUR 6.5 million (after tax EUR 4.8 million):
Q1 2018: EUR 1.1 million (after tax EUR 0.8 million); Q2 2018: EUR 4.8 million (after tax EUR 3.4 million)
Q3 2018: EUR 0.6 million (after tax EUR 0.6 million)

[2] 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)

[3] Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

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[*] Including the annualised contribution from implemented simplification measures

- The quarterly results are not audited -

**Joep van Beurden, Kendrion CEO:**

"*We had a difficult quarter as the market for Passenger Cars has deteriorated over the past few months. Weaker than expected passenger car sales in both Europe and China affected our leading Automotive customers. The backlog in test and validation procedures to comply with the new Worldwide Harmonised Light Vehicles Test Procedures (WLTP) and pressure on diesel sales persisted as well. This led to a EUR 9.6 million or 8% drop in total revenue in Q3 compared with last year, and a reduction of EUR 2.3 million or 23% in EBITA.*

*We are implementing the simplification measures we announced earlier in the Passenger Cars business unit and expect all measures to be effective on schedule as of 1 January 2019. Notwithstanding the short-term pressure, we continue to focus our resources and investments in Passenger Cars, specifically in the areas of electrification, autonomous driving, safety and comfort, in permanent magnet brakes for robotics and in China where we see and tap into healthy growth opportunities. In China, where our business is subject to the same market pressure as in Europe, we continued to realise double-digit revenue growth in Q3, as the ramp-up of new projects more than compensates for the downward pressure on existing production.*

*Looking ahead, we expect the difficult market conditions to impact our 2018 total revenue and EBITA margin. For the mid-term, we remain positive about the fundamentals of our business, and reiterate our objective to deliver sustainable profitable growth and our targets of an ROI of at least 20% and an EBITDA margin of more than 15% by 2023.*

*We are looking at the future with confidence as our simplified, leaner organisation is resilient in the face of significant market headwinds, while our pipeline momentum, underlying business fundamentals and financial position remain strong.*"

**Progress on strategy**

In August 2018, Kendrion announced its strategic update for 2019 - 2023. Since 2016, Kendrion has simplified and refocused the company based on the "Simplify, Focus and Grow" pillars. This has increased our profitability, improved our resilience to market uncertainties and has placed us in a good position to benefit from important long-term trends. We remain focused on these pillars, with an emphasis on "Focus and Grow" for the next five years.

In 2018, our simplification measures continued to reduce complexity and increase cost-efficiency. The additional simplification measures taken in our Passenger Cars business unit to further streamline the R&D organisation and to address pockets of inefficiency are on track and are expected to be fully implemented by the start of 2019. These measures include the creation of a dedicated centre of excellence for sound, software and electronics in Malente, Germany. Our R&D centre in Ilmenau has been sold and is operating independently following a management buy-out in October 2018.

The cost reductions and restructuring measures implemented in Q3 resulted in one-off costs of EUR 0.6 million, with corresponding savings on an annualised basis of EUR 1.0 million. We reiterate our expectation of one-off costs of around EUR 7.0 million with corresponding savings of EUR 5.5 million on an annualised basis for the full year 2018.

With respect to growth, pipeline momentum in our three areas of focus, Passenger Cars, specifically in the areas of electrification, autonomous driving, safety and comfort, in permanent magnet brakes for robotics and in China remains strong and our investments in additional resources and in additional capacity in both Villingen, Germany, and China are on track. These investments are a direct result of Kendrion's expanding project pipeline.

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## Financial review

### Revenue

*Third quarter of 2018*

During the third quarter, our Automotive activities posted a decrease in revenues that was fully attributable to the Passenger Cars business unit. The slower sales of diesel cars and the significant backlog in test and validation procedures experienced by several important automotive customers to comply with the new Worldwide Harmonised Light Vehicles Test Procedures (WLTP) continued during the third quarter. This downward pressure, mentioned in our Q2 and H1 results announcement, combined with weaker than expected car sales of our leading customers in Europe and China, led to stronger than anticipated sales pressure in our Passenger Cars activities. In contrast, Passenger Cars' revenue in China posted double digit growth in Q3, as the ramp-up of new projects more than compensates for the downward pressure on existing production. Commercial Vehicles reported revenue growth, driven by good market conditions for heavy trucks in the United States and agricultural equipment in Europe.

In Industrial, the economic conditions are more favourable. The German machine building index declined slightly but is still at a historically favourable level. Industrial Magnetic Systems is affected by a low order intake from a major textile customer and the loss of some smaller customers due to the closure of the Swiss manufacturing operations last year. Industrial Control Systems continued to do well, driven by higher demand for power heat controllers and increased demand in the medical segment. Industrial Drive Systems that includes our business for permanent magnet brakes for robots, performed well.

Total Q3 revenue decreased by 8.2% (8.1% at constant exchange rates), which breaks down into 10.3% lower revenue for Automotive and 4.5% lower revenue for Industrial (4.3% at constant exchange rates) against a strong Q3 last year.

*First nine months of 2018*

Compared to the first nine months of 2017, revenue was 1.6% lower (-0.5% at constant exchange rates). In the first nine months of 2018, the Industrial activities posted 1.9% growth (2.5% at constant exchange rates) while revenue from Automotive activities declined by 3.6% (-2.1% at constant exchange rates).

### Results

*Third quarter of 2018*

The normalised operating result before amortisation (EBITA) fell by 23% to EUR 7.7 million (Q3 2017: EUR 10.0 million). Profitability in Automotive declined in line with the decrease in Passenger Cars sales, partly offset by lower staff costs and other operating expenses. In Industrial, the lower revenue from Industrial Magnetic Systems was partly compensated by the more streamlined and direct way in which we run our operations. This resulted in a decrease of the normalised EBITA margin to 7.2% (Q3 2017: 8.6%).

*First nine months of 2018*

Normalised EBITA in the first nine months of 2018 decreased slightly to EUR 31.2 million (first nine months of 2017: EUR 31.4 million). The normalised EBITA margin improved from 8.9% in the first nine months of 2017 to 9.0% in year-to-date 2018.

Net finance costs in the first nine months of 2018 amounted to EUR 2.3 million (first nine months of 2017: EUR 2.6 million). This decrease was mainly due to negative currency differences last year.

Normalised income tax expenses for the first nine months of 2018 were EUR 6.6 million, in line with last year. The normalised effective tax rate in the first nine months of 2018 was 24.4% (2017: 25.3%), a slight improvement compared to last year due to the introduction of lower corporate tax rates in the USA and a favourable country mix.

Normalised net profit for the first nine months of 2018 was EUR 20.4 million (first nine months of 2017: EUR 19.6 million). Normalised net earnings per share increased to EUR 1.53 (first nine months of 2017: EUR 1.46).

**Financial position**

The net debt position at the end of the third quarter was EUR 78.9 million. Excluding the effects of the adoption of IFRS 16, net debt amounted to EUR 64.3 million. The increase of EUR 0.2 million compared to the second quarter is in line with the third quarter free cash inflow of EUR 0.1 million and includes the cash out of EUR 2.6 million for the acquisition on 3 August 2018 of a 30% minority stake in Newton CFV, Inc., a strategic partnership for the development and manufacturing of innovative constant flow valves for the food and beverage industry.

Free cash flow in the first nine months was EUR 4.4 million (first nine months of 2017: EUR 2.6 million).

Capital expenditure totalled EUR 20.7 million in the first nine months of 2018, well ahead of the depreciation level of EUR 17.3 million. Investments for the full year 2018 are expected to be higher than the depreciation level, largely due to new automotive projects and the capacity expansion in permanent magnet brakes for robotics.

Kendrion's financial position is strong, with a solvency ratio of 48.2% at the end of September 2018. Excluding the effects of IFRS 16, the solvency ratio is 50.1%.

## Number of employees

The total number of employees (FTEs) at the end of the third quarter 2018 was 2,573, including 128 temporary employees (Q3 2017: 2,661 employees, including 142 temporary employees).

## Outlook

The overall environment for the global economy in general, but especially for the automotive industry, has deteriorated since the summer.

We now expect our 2018 total revenue to come in slightly lower than in 2017, and expect our targeted underlying EBITA margin as from the end of 2018 to be more than 9%. This includes the annualised contribution from implemented simplification measures.

For the mid-term, we remain confident about our business fundamentals, with our main objective being to deliver sustainable profitable growth for the business in the medium to long term. We reiterate our mid-term targets of a Return on Investment of at least 20% and an EBITDA margin of more than 15% by 2023.

## Analysts' conference call Q3 2018

Kendrion CEO Joep van Beurden and CFO Frank Sonnemans will host a conference call for analysts on Wednesday, 7 November 2018, 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, 7 November 2018

The Executive Board

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**Annexes**

1. Consolidated statement of comprehensive income
2. Consolidated statement of financial position
3. Financial calendar 2018 - 2019

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## Annex 1 – Consolidated statement of comprehensive income [1, 2]

| (EUR million) | Q3 2018 | Q3 2017[1] | period ended 30-09-2018 | period ended 30-09-2017[1] | full year 2017[1] |
|---|---|---|---|---|---|
| Revenue | 107.1 | 116.7 | 346.7 | 352.3 | 461.8 |
| Other income | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 |
| **Total revenue and other income** | **107.2** | **116.7** | **346.8** | **352.3** | **461.8** |
| Changes in inventories of finished goods and work in progress | (2.0) | 1.0 | (2.2) | (2.0) | (1.8) |
| Raw materials and subcontracted work | 57.4 | 60.1 | 184.0 | 184.3 | 242.9 |
| Staff costs | 31.5 | 33.0 | 103.0 | 101.5 | 134.2 |
| Depreciation and amortisation | 6.4 | 6.4 | 19.2 | 19.3 | 25.7 |
| Other operating expenses | 7.4 | 8.8 | 19.9 | 24.0 | 31.6 |
| **Result before net finance costs** | **6.5** | **7.4** | **22.9** | **25.2** | **29.2** |
| Finance income | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Finance expense | (0.9) | (1.0) | (2.4) | (2.7) | (3.5) |
| **Net finance costs** | **(0.8)** | **(0.9)** | **(2.3)** | **(2.6)** | **(3.4)** |
| **Profit before income tax** | **5.7** | **6.5** | **20.6** | **22.6** | **25.8** |
| Income tax expense | (1.7) | (1.8) | (5.0) | (5.7) | (6.3) |
| **Profit for the period** | **4.0** | **4.7** | **15.6** | **16.9** | **19.5** |
| Basic earnings per share (EUR), based on weighted average | 0.30 | 0.35 | 1.16 | 1.26 | 1.45 |
| Basic earnings per share (EUR), based on weighted average (diluted) | 0.30 | 0.35 | 1.16 | 1.26 | 1.44 |

[1] Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

[2] Not adjusted for non-recurring items

# Annex 2 – Consolidated statement of financial position

| (EUR million) | 30 Sept. 2018 | 30 Sept. 2017[1] | 31 Dec. 2017[1] |
|---|---|---|---|
| **Assets** | | | |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 109.2 | 97.1 | 102.7 |
| Intangible assets | 116.7 | 118.8 | 117.9 |
| Other investments | 3.2 | 0.2 | 0.2 |
| Deferred tax assets | 11.2 | 13.9 | 12.5 |
| Contract costs | 0.4 | - | 0.5 |
| **Total non-current assets** | **240.7** | **230.0** | **233.8** |
| | | | |
| **Current assets** | | | |
| Inventories | 64.1 | 57.5 | 57.3 |
| Current tax assets | 0.9 | 1.2 | 1.0 |
| Trade and other receivables | 63.0 | 71.7 | 57.6 |
| Cash and cash equivalents | 12.9 | 9.6 | 7.6 |
| **Total current assets** | **140.9** | **140.0** | **123.5** |
| | | | |
| **Total assets** | **381.6** | **370.0** | **357.3** |
| | | | |
| **Equity and liabilities** | | | |
| | | | |
| **Equity** | | | |
| Share capital | 27.1 | 27.0 | 27.0 |
| Share premium | 39.8 | 49.6 | 49.6 |
| Reserves | 101.3 | 87.0 | 83.5 |
| Retained earnings | 15.6 | 16.9 | 19.5 |
| **Total equity** | **183.8** | **180.5** | **179.6** |
| | | | |
| **Liabilities** | | | |
| Loans and borrowings | 81.6 | 75.7 | 60.8 |
| Employee benefits | 18.8 | 21.2 | 19.1 |
| Deferred tax liabilities | 8.5 | 10.1 | 8.8 |
| **Total non-current liabilities** | **108.9** | **107.0** | **88.7** |
| | | | |
| Bank overdraft | 7.7 | 4.7 | 11.7 |
| Loans and borrowings | 2.5 | 2.9 | 2.8 |
| Provisions | 4.6 | 0.4 | 0.8 |
| Current tax liabilities | 2.7 | 1.7 | 1.4 |
| Contract costs | 8.4 | 8.6 | 8.5 |
| Trade and other payables | 63.0 | 64.2 | 63.8 |
| **Total current liabilities** | **88.9** | **82.5** | **89.0** |
| | | | |
| **Total liabilities** | **197.8** | **189.5** | **177.7** |
| | | | |
| **Total equity and liabilities** | **381.6** | **370.0** | **357.3** |

[1] Restated due to application of IFRS 9, IFRS 15 and IFRS 16 as per 1 January 2018.

## Annex 3 – Financial calendar 2018 - 2019

### 2018

| | | |
|---|---|---|
| Publication of Q3 2018 results | Wednesday, 7 November 2018 | 07.30 a.m. |
| Analysts' call | Wednesday, 7 November 2018 | 11.00 a.m. |

### 2019

| | | |
|---|---|---|
| Publication of FY 2018 results | Tuesday, 19 February 2019 | 07.30 a.m. |
| Analysts' meeting | Tuesday, 19 February 2019 | 11.00 a.m. |
| General Meeting of Shareholders | Monday, 8 April 2019 | 02.30 p.m. |
| Publication of Q1 2019 results | Tuesday, 7 May 2019 | 07.30 a.m. |
| Analysts' call | Tuesday, 7 May 2019 | 11.00 a.m. |
| Publication of HY1 2019 results | Tuesday, 13 August 2019 | 07.30 a.m. |
| Analysts' meeting | Tuesday, 13 August 2019 | 11.00 a.m. |
| Publication of Q3 2019 results | Tuesday, 5 November 2019 | 07.30 a.m. |
| Analysts' call | Tuesday, 5 November 2019 | 11.00 a.m. |