Q&A
Webcast
Q3 trading update

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20 November 2020

Public information

Included in this summary: Q&A related to Bekaert's announcement of 20 November 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.

- Press release of 20 November 2020
- Presentation used during the Analyst conference of 20 November 2020
- Live webcast Analyst conference of 20 November 2020 – replay

Q&A - Sales

Q1: Is the increase in sales in Rubber Reinforcement due to inventory replenishment?

A1: To a certain degree. Stock levels were very low across the supply chain, so there was eagerness to refill. But demand was stronger than just stock replenishment. While the mileage is lower than normal in passenger traffic in some countries, the commercial (truck) mileage is more resilient. Q4 demand is projected to remain strong.

Q2: Is BBRG's sales decrease related to portfolio pruning or to demand weakness?

A2: Firstly, it is related to seasonality and to the timing of projects. We had a high level of project deliveries in H1, but these do not come in a linear way. We are structurally better placed now to capture good projects going forward. There are interesting infrastructure projects in the pipeline. Secondly, on the portfolio, the optimization process continues as part of the ongoing profit restoration program in BBRG.

Q3: What is driving the uptick in Latin America?

A3: We came back very strongly from being hit hard in Q2. Our sales team did a fantastic job in capturing the opportunities. Some competitors have not been able to ensure delivery continuity as they had more difficulty in getting sufficient volumes of raw materials on time. On the flip side, the FX movements caused a negative translation effect on the topline.

Q&A – Outlook and margin guidance

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Q4: Can you give some insight in uEBIT margin beyond 2020?

A4: 2020: close to 2019 and hence higher margin percentage. For 2021, we expect volume recovery to continue, but not yet to the level of 2019. The combination of volume increase plus the results of our actions will generate more value. We will continue to focus on cost but also on how we can further improve in meeting the needs of our customers, for example in services and digitalization. The rim size increase in the tire market will help too. On the other side, the uncertainty around the evolution of the pandemic and its impact on demand at global and local levels is unpredictable at this moment.

Q5: Are there special one-time elements in the margin you expect for this year? eg inventory valuation? Provision releases?

A5: No, the impact of provisions or inventory revaluation is not material. On raw material cost, the landscape is much less volatile than in previous years.

Q6: Can you give an update on the restructuring and the mitigating savings that were substantial in H1?

A6: The restructurings we did last year (in Belgium and in US, Malaysia, ..) generate around € 40m in recurring savings versus 2019. On top of that, turnaround actions in our plants in Qingdao (China), Proalco (Colombia) and in plants in UK, US and of BBRG contribute as well.

On the Covid-mitigating savings, amounting to € 52m at H1 (end of Q3: about € 70m), there are essentially three categories:

1. Labor: as demand is picking up (the furlough impact was at its highest in Q2), the mitigating actions gradually fade out.
2. Fixed and discretionary costs: we looked at our spending and the crisis not only created a sense of urgency, it also made us look at the way we do things more structurally: better use of digital channels, less travel, higher efficiencies.
3. Other operational costs like utilities and maintenance: these costs came back when operations resumed, although also there, we saw opportunities to reduce costs through, for example, predictive instead of preventive maintenance planning.

All in all, we expect that we can maintain around 20% of the mitigation savings.

Q&A – competitive environment and footprint

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Q7: what about the competition at this moment?

A7: We cherish the competition as it keeps us sharp. In Rubber Reinforcement, we saw a small market share decrease in China in Q2. We did not want to give in on pricing as it is hard to recover prices afterwards. In other regions, we noted more local and regional sourcing by our customers due to transport restrictions, increased freight costs, and – for India specific – trade tensions with China. It all helped us since we are a global player. This also applied to some other business units, eg in SWS: we are present in all regions and were able to guarantee supply continuity to our customers. Not all competitors were able to do so.

Q8: Are you continuing your analysis of footprint (plants/countries)?

A8: We are proactively looking at our footprint and we are assessing in detail the performance of our production entities and possible scenarios based on future potential. At this moment, there is nothing to disclose that we have not announced yet.

Q9: Do you foresee changes in the US (footprint/partnering) as the business seems to be underperforming there?

A9: We have acted already. Hose reinforcement activities were shifted to our Rogers plant, the Shelbyville restructuring of last year was implemented. Optimization and cost performance are always on the agenda. Only on the exploration of new partnerships we haven't booked real progress in the US.

Q10: Have you made a decision on the sawing wire activities?

A10: The decision will be made before year-end.

Q&A – On balance sheet, debt, capex, capital allocation

Q11: Capex guidance?

A11: In 2020: € 100m as previously guided. For 2021, we want to maintain selective in the way we invest and have a governance model in place to manage the decision and monitoring process. Focus on the projects that bring the best return and that are fitting the strategic direction. Level for 2021 will be around € 140-150m.

Q12: Will you consider share buy backs?

A12: We have asked ourselves the same question, but it is not a priority.

Q13: You want to focus more on innovation. This means more R&D resources?

A13: We notice that many of our efforts go to small projects that do not always return the cost. It is more about reallocating resources and deploying them more in line with our strategic focus. There are opportunities within our core and in addition, we focus on developments of solutions in adjacent markets and beyond steel: for example synthetic ropes for floating offshore wind.

Q14: Has factoring increased?

A14: The level of factoring is at the same level of December 2019. Our net debt improvement is not due to more factoring.

Q&A – Other

Q15: Update on leadership? Status on CEO search

A15: Our first priority over the past months has been to manage the crisis and counter its impacts. The Board is pleased with the results that have been achieved by the team. A rush in the search for a new, permanent CEO hasn't been the #1 priority.

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