Wacker Neuson Group Quarterly report Q3/2019

November 7, 2019, unaudited

Foreword

Wilfried Trepels (CFO) Martin Lehner (CEO) Alexander Greschner (CSO)

Highlights Q3/19:

Revenue +12% on previous year

- Double-digit growth in all reporting regions
- Above-average growth continues in the agricultural sector

Profitability below previous year (EBIT margin -1.5 PP yoy)

- Lower productivity in production plants
- Delay in realizing increase in profitability in the US

Increase in net working capital: High levels of inventory and trade receivables coupled with reduction in trade payables

Dear Ladies and Gentlemen,

We published our preliminary figures for the third quarter of 2019 around three weeks ago. Whereas revenue developed positively relative to the previous year with an increase of roughly 12 percent, profitability decreased significantly with the EBIT margin for the third quarter at 8.6 percent. This was 1.5 percentage points below the prior-year level. This was attributable to an unfavorable product and customer mix, lower productivity levels at our plants in line with inventory streamlining plans and initial difficulties in rolling out new processes in the US. As a result, we have adjusted our guidance for the full year. Whereas revenue is set at the upper end of the projected range of between EUR 1,775 and 1,850, we now expect the EBIT margin to amount to between 8.3 and 8.8 percent instead of our previous guidance of between 9.5 and 10.2 percent. The net working capital expressed as a percentage of revenue is projected at a significantly higher level than the prior year.

Looking back at the fiscal year thus far, we do not, however, want to lose sight of the company's positive achievements. In both the third quarter and first half of the year, all three regions under review reported double-digit growth rates despite the uncertain market environment. The fact that we are making double-digit gains in markets such as England, with its challenging current climate, shows that we are able to win customers with our innovative drive and customer-centric service.

We will continue to tackle any problems we identify with confidence and – as always – do our utmost to secure the long-term success of the Wacker Neuson Group.

Best regards,

The Executive Board team of Wacker Neuson SE

Key figures

Q3/19

Revenue yoy	EBIT yoy
+12%	**-4%**
(€ 467 m)	(margin: 8.6%)

Op. CF	FCF
€ 2 m	**€ -17 m**
(Q3/18: € 10 m)	(Q3/18: € -3 m)

9M/19

Revenue yoy	EBIT yoy
+14%	**+4%**
(€ 1,418 m)	(margin: 8.8%)

Op. CF	FCF
€ -143 m	**€ -203 m**
(9M/18: € -26 m)	(9M/18: € 9 m)

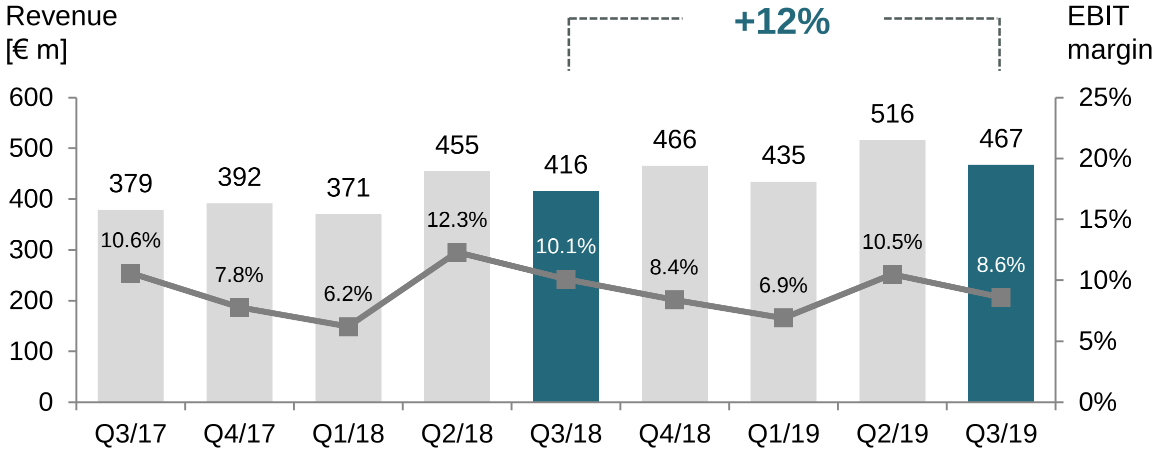
September 30, 2019

NWC ratio[1]: 48.1%	DIO[2]: 173 days	Equity ratio: 54.0%
(+9.8 PP yoy)	(+22 days yoy)	(-11.3 PP yoy)

[1] Net working capital/annualized revenue for the quarter.
[2] Days inventory outstanding: (inventory/annualized cost of sales for the quarter)*365.

Revenue and earnings

Q3/19: Revenue remains on growth path



Income statement (condensed)

€ m	Q3/19	Q3/18	9M/19	9M/18
Revenue	467.2	415.8	1,417.9	1,240.9
Gross profit	117.9	113.9	364.8	339.0
as a % of revenue	*25.2%*	*27.4%*	*25.7%*	*27.3%*
SG&A incl. other income/expenses	-77.7	-72.1	-240.1	-218.6
as a % of revenue	*-16.6%*	*-17.3%*	*-16.9%*	*-17.6%*
EBIT	40.2	41.8	124.7	120.4
as a % of revenue	*8.6%*	*10.1%*	*8.8%*	*9.7%*
Financial result	-4.2	-2.6	-8.9	-7.9
Taxes on income	-10.3	-11.5	-35.7	-45.3
Profit for the period[1]	25.7	27.7	80.1	122.0
EPS (in €)	0.37	0.39	1.14	1.74
Adj. EPS (in €)[2]	0.37	0.39	1.14	1.09

Q3/19: Comments

Revenue +12.4% yoy (adj. for FX effects: +11.1%)

- Strong growth in all reporting regions
- Sustained above-average growth for compact equipment targeted at the agricultural sector (+23% yoy)

Gross profit +3.5% yoy (gross profit margin -2.2 PP)

- Cutbacks in production programs resulted in overcapacity, which impacted productivity at production plants
- Increase in profitability in the US could not be realized within the planned timeline
- Unfavorable product and customer mix for new equipment sales

EBIT -3.8% yoy (EBIT margin: -1.5 PP)

- Operating costs increased below average; their share of revenue decreased by 0.7 PP yoy
- Decrease in gross profit margin could not be compensated for

Earnings per share -5.1% yoy

- Financial result € 1.6 m down on prior year: Attributable to a rise in interest expenses caused by an increase in gearing and the initial application of IFRS 16
- Tax rate decreased slightly yoy to 28.6% (Q3/18: 29.3%)

[1] The 9M/2018 period includes an extraordinary earnings contribution of € 45.8 m after tax from the sale of a real estate company belonging to the Group. [2] Adjusted to discount the extraordinary earnings contribution.

Business development by region and business segment

Wacker Neuson Group

Q3/19: Double-digit growth in all regions

Revenue [€ m]		share	yoy	EBIT[1]
Europe	337.6	72%	+10%	36.0
Americas	114.9	25%	+18%	-1.9
Asia-Pacific	14.7	3%	+32%	-1.3
Total Q3/19	467.2	100%	+12%	40.2

Q3/19: Above-average growth with light equipment

Revenue [€ m][2]		share	yoy
Light equipment	127.1	27%	+17%
Compact equipment	248.5	53%	+13%
Services	96.9	21%	+6%
Total Q3/19	467.2	100%	+12%

Q3/19: Comments

Revenue Europe +10.0% yoy (adj. for FX effects: +9.9%)

- Continued above-average growth in England, France, Germany, Austria, the Czech Republic, Spain and Italy
- Gains in particular with dumpers, wheel loaders, telescopic handlers and compaction technology
- Revenue generated with Weidemann- and Kramer-branded compact equipment for the agricultural sector +23% yoy
- EBIT[1] was clearly lower than the prior year at € 36.0 m (Q3/18: € 47.9 m) due to, among other things, a drop in productivity; positive effect through consolidation

Revenue Americas +17.6% yoy (adj. for FX effects: +12.7%)

- Continued strong growth in worksite technology, esp. generators and light towers
- Significant gains with compact equipment imported from Europe
- EBIT[1] improved vs. PY (Q3/19: € -1.9 m; Q3/18: € -3.6 m); still affected by cutbacks in the production program and initial difficulties in rolling out new processes in the US

Revenue Asia-Pacific +32.4% yoy (adj. for FX effects: +32.4%)

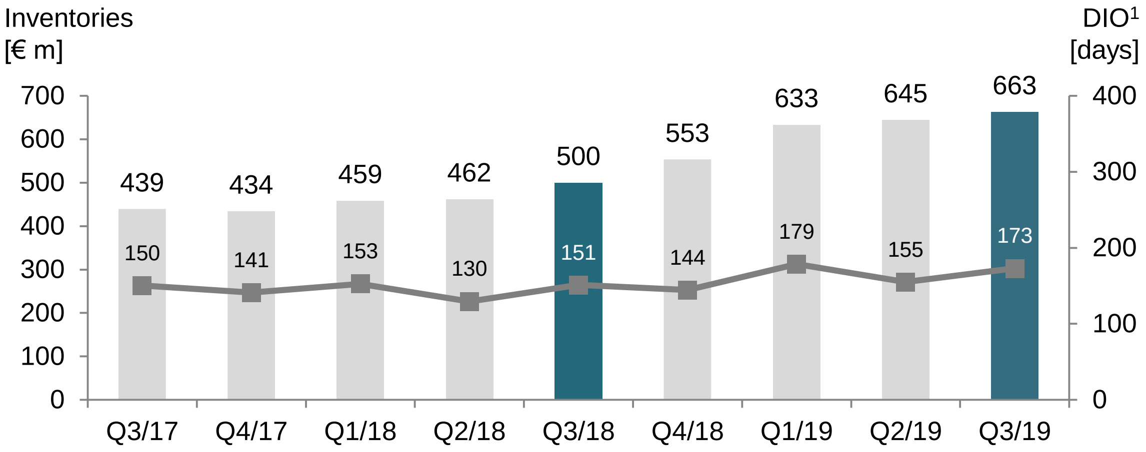
- Despite the rise in revenue, earnings did not improve due to strong price pressure in China (among other things)
- Sale of equipment to OEM partner below planned figures due to difficult market dynamics in China

[1] EBIT for regions before consolidation.
[2] Revenue by business segment before cash discounts.

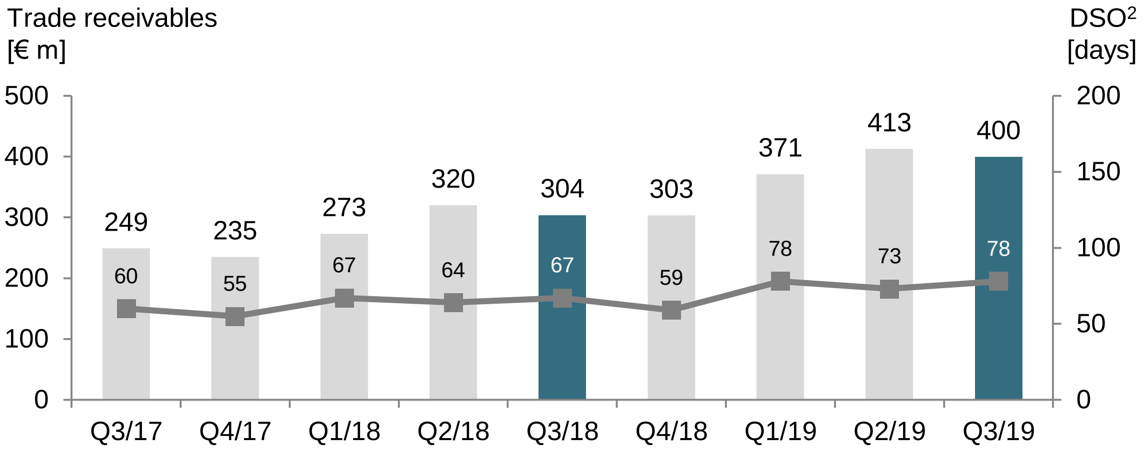
Inventory and receivables clearly above target, NWC elevated

Wacker Neuson Group

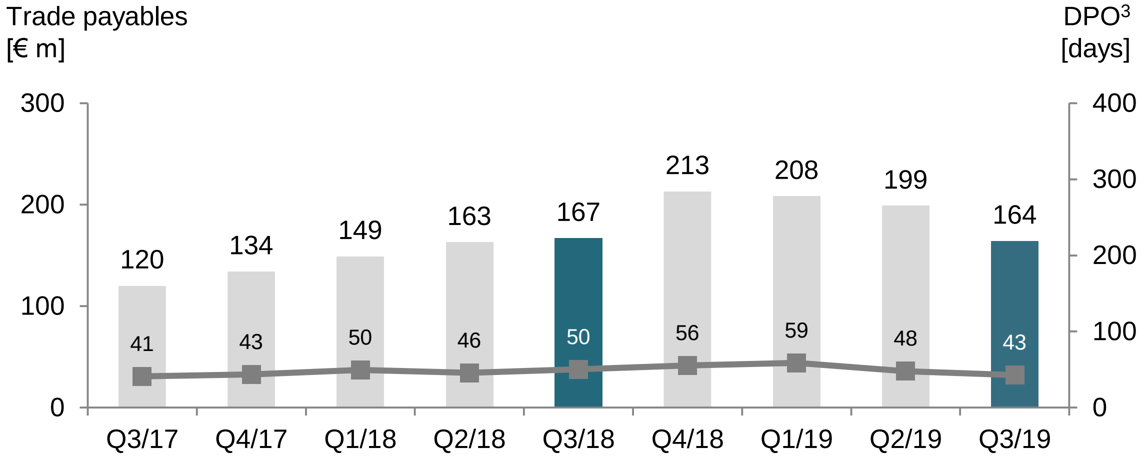
Inventories



Trade receivables



Trade payables



Comments

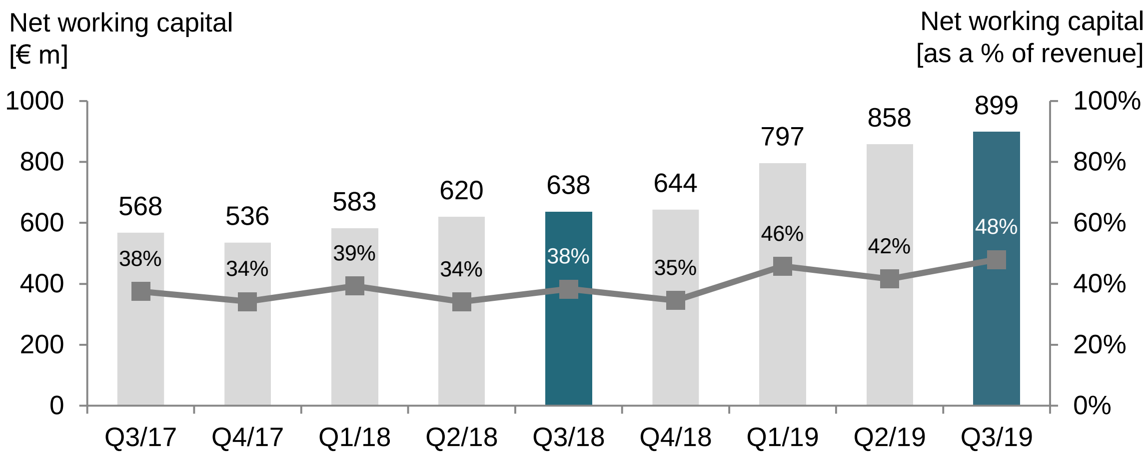
- Inventories and trade receivables remained significantly higher than planned
- Trade payables back at prior-year level after temporary rise in Q4/18 through Q2/19 (caused, among other things, by pre-buy engine stock-building)

➔ Significant rise in net working capital (see next slide)

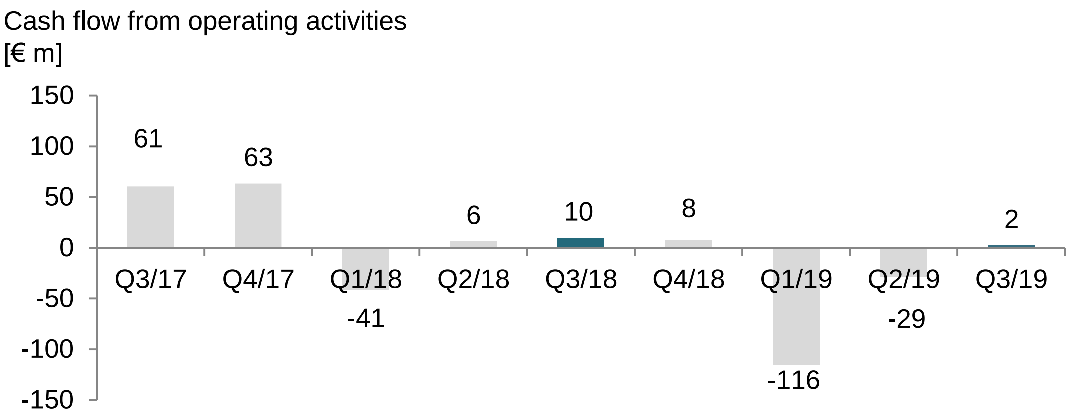
[1] Days inventory outstanding = (inventories/(cost of sales*4))*365 days; [2] Days sales outstanding = (receivables/(revenue*4))*365 days; [3] Days payables outstanding = (payables/(cost of sales*4))*365 days.

Free cash flow remains negative

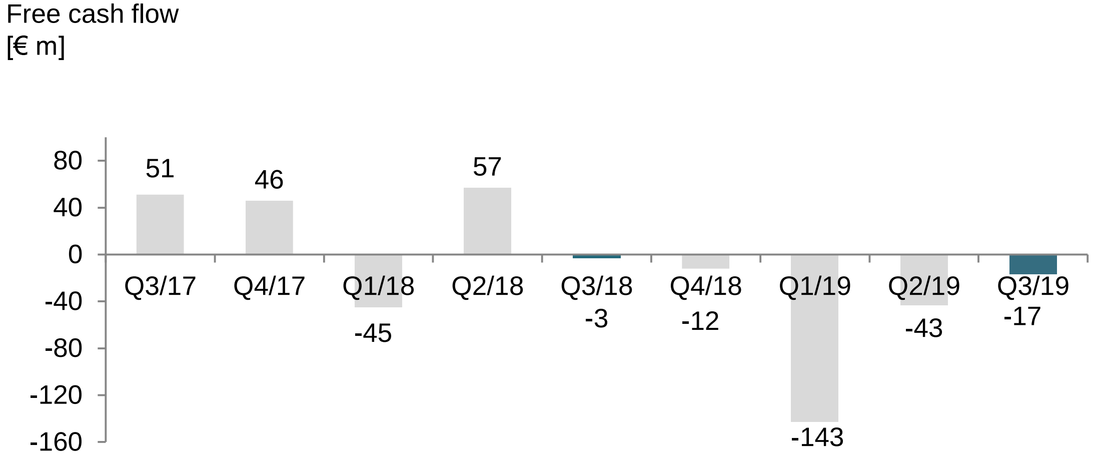
Net working capital



Cash flow from operating activities



Free cash flow



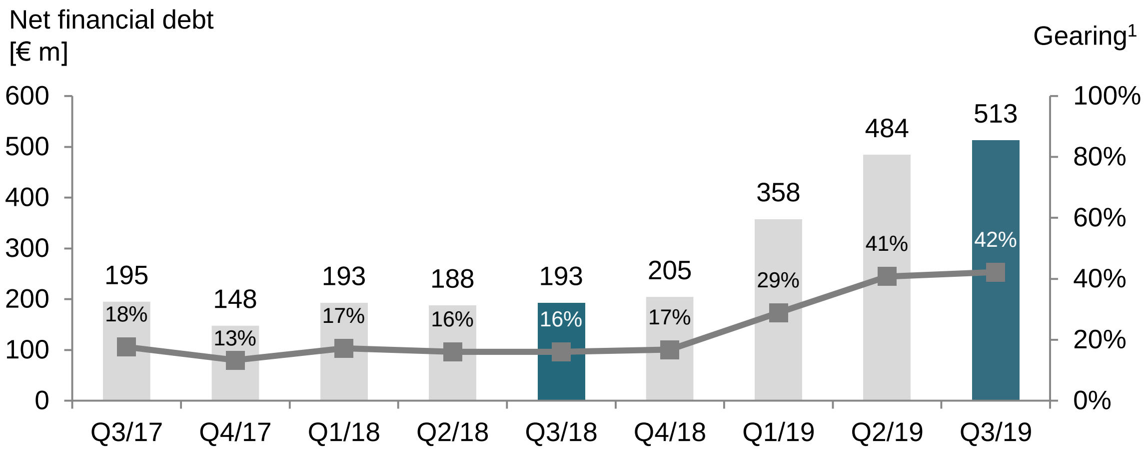
Comments

- Increase in net working capital due to high levels of inventory and trade receivables coupled with reduction in trade payables (see previous slide)
- Free cash flow at € -203 m after first three quarters of the year
- Production cutbacks were more extensive than planned in order to rapidly reduce inventory levels while minimizing impact on market prices

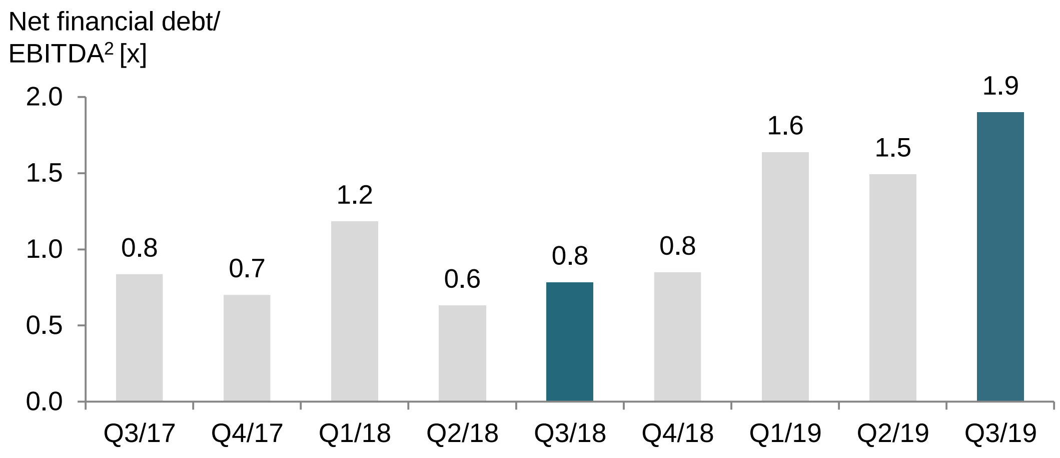
➡ Development of cash flow pushed net financial debt up further (see next slide)

Increased gearing in balance sheet

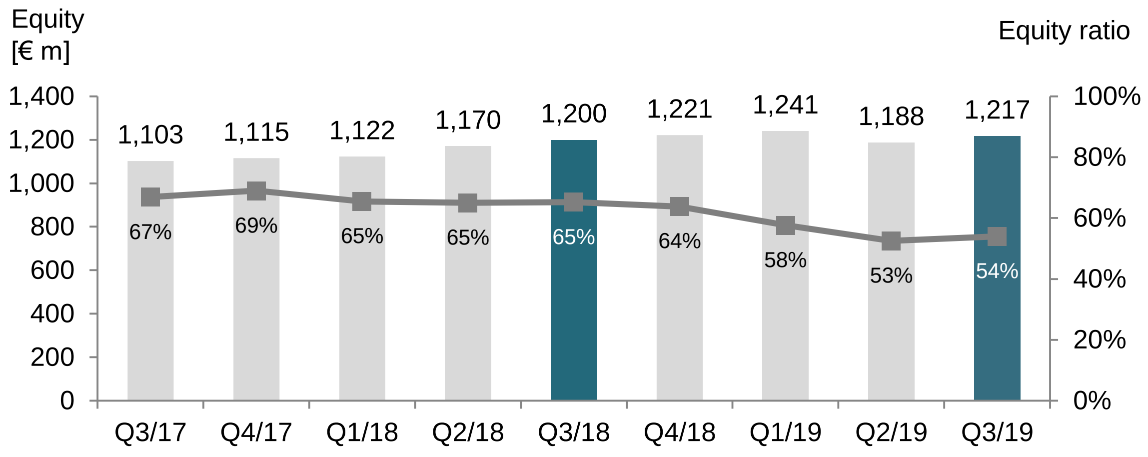
Net financial debt and gearing[1]



Net financial debt/EBITDA[2]



Equity and equity ratio



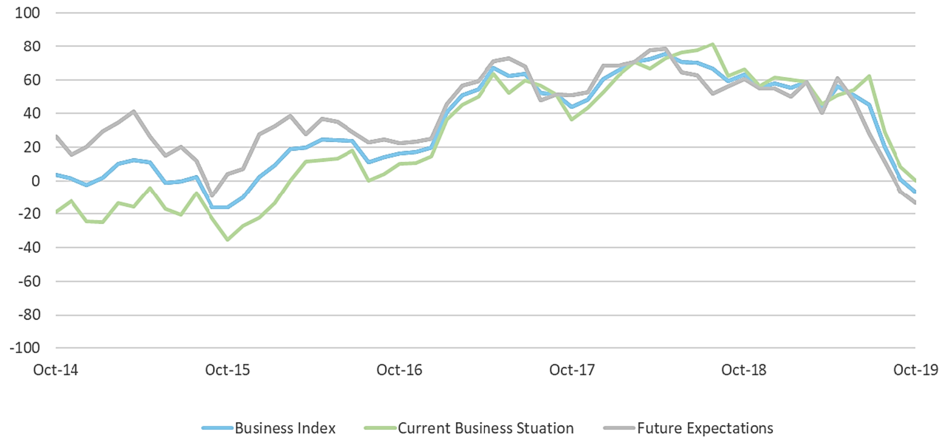
Comments

- Negative development of cash flow (see previous slide) pushes net financial debt up to € 513 m
- Gearing[1] up further at 42%
- Net financial debt / EBITDA[2] clearly above target corridor

[1] Net financial debt/equity.
[2] Net financial debt/annualized EBITDA for the quarter.

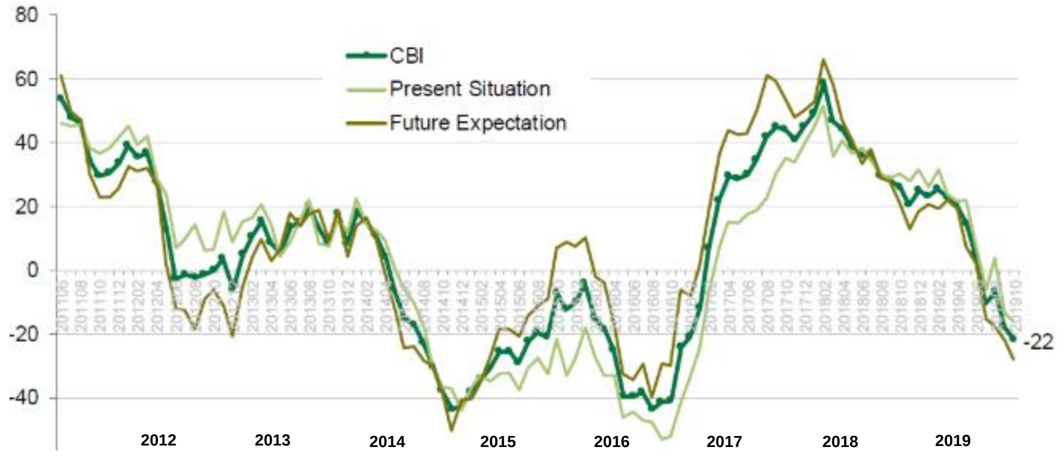
Outlook for 2019

Business index for construction sector is cooling markedly



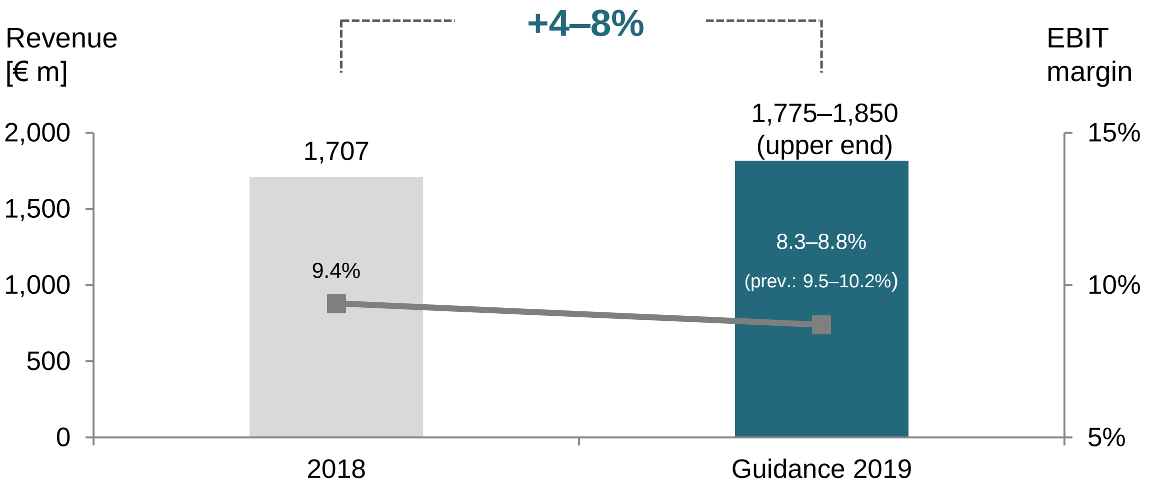
Source: CECE, October 2019

Business index for ag sector remains on downward path



Source: CEMA, October 2019

Earnings guidance for 2019 adjusted



Comments

- Recent order intake for the Wacker Neuson Group slightly below prior year
- Business indices from CECE and CEMA on a downward tilt, IMF has again lowered its economic outlook
- Revenue guidance for 2019 confirmed with revenue expected at the upper end of the projected range (previously: in the upper half) and EBIT margin set in the 8.3 to 8.8 percent range (previously: 9.5 to 10.2 percent range)
- At the close of the year, net working capital as a percentage of revenue expected to be significantly higher than prior year (prev.: slightly higher than prior year)
- Investments are expected at around € 90 m (previously: around € 100 m)

Consolidated Financial Statements

(unaudited)

Consolidated Income Statement

Wacker Neuson Group

IN € MILLION

	Q3/19	Q3/18 adjusted	9M/19	9M/18 adjusted
Revenue	467.2	415.8	1,417.9	1,240.9
Cost of sales	-349.3	-301.9	-1,053.1	-901.9
Gross profit	**117.9**	**113.9**	**364.8**	**339.0**
Sales and service expenses	-53.6	-48.4	-164.4	-146.0
Research and development expenses	-9.2	-7.5	-28.6	-26.2
General administrative expenses	-17.8	-17.8	-56.6	-55.5
Other income	3.1	2.0	10.4	9.9
Other expenses	-0.2	-0.4	-0.9	-0.8
Profit before interest and tax (EBIT)	**40.2**	**41.8**	**124.7**	**120.4**
Income from the sale of a real-estate company	–	–	–	54.8
Financial income	1.7	1.9	7.7	7.4
Financial expenses	-5.9	-4.5	-16.6	-15.3
Profit before tax (EBT)	**36.0**	**39.2**	**115.8**	**167.3**
Taxes on income	-10.3	-11.5	-35.7	-45.3
Profit for the period	**25.7**	**27.7**	**80.1**	**122.0**
Earnings per share in € (diluted and undiluted)	**0.37**	**0.39**	**1.14**	**1.74**

In fiscal 2019, expenses for service technicians are reported under cost of sales (previously: personnel costs were reported under cost of sales while expenses for pro-rata property, plant and equipment costs were reported under sales expenses). Prior-year figures have been adjusted accordingly. There was also a change to the cost of sales line relating to incidental acquisition costs for inventories based on the adjustments made on December 31, 2018 for the reference year. This had a positive effect on profitability. For further information on this, refer to page 24 onwards in the Notes to the 2019 half-year report.

Consolidated Balance Sheet

Wacker Neuson Group

IN € MILLION	Sept. 30, 2019	Dec. 31, 2018 adjusted	Sept. 30, 2018 adjusted
Assets			
Property, plant and equipment	375.1	294.6	292.3
Property held as financial investment	25.4	25.8	26.0
Goodwill	238.3	237.8	237.7
Intangible assets	156.5	143.5	138.1
Deferred tax assets	47.6	40.2	34.6
Other non-current financial assets	104.5	78.8	67.7
Other non-current non-financial assets	0.1	1.7	0.2
Total non-current assets	**947.5**	**822.4**	**796.6**
Rental equipment	176.6	149.4	151.7
Inventories	663.1	553.4	500.0
Trade receivables	399.8	303.3	304.3
Tax offsets	1.6	0.4	1.6
Other current financial assets	20.1	16.2	10.9
Other current non-financial assets	22.6	22.5	19.3
Cash and cash equivalents	23.5	43.8	53.5
Non-current assets held for sale	0.3	2.8	–
Total current assets	**1,307.6**	**1,091.8**	**1,041.3**
Total assets	**2,255.1**	**1,914.2**	**1,837.9**

IN € MILLION	Sept. 30, 2019	Dec. 31, 2018 adjusted	Sept. 30, 2018 adjusted
Equity and liabilities			
Subscribed capital	70.1	70.1	70.1
Other reserves	583.8	587.5	588.5
Net profit/loss	563.3	563.8	541.2
Total equity	1,217.2	1,221.4	1,199.8
Long-term financial borrowings	372.3	214.7	211.4
Long-term leasing liabilities	55.6	2.6	2.6
Deferred tax liabilities	36.3	34.6	32.2
Long-term provisions	73.9	58.2	55.1
Total non-current liabilities	**538.1**	**310.1**	**301.3**
Trade payables	**164.1**	212.8	166.8
Short-term liabilities to financial institutions	164.0	33.8	35.2
Current portion of long-term borrowings	0.3	–	–
Short-term leasing liabilities	26.0	1.4	1.3
Short-term provisions	18.7	15.7	16.7
Tax liabilities	1.2	1.0	2.8
Other short-term financial liabilities	44.9	35.6	34.9
Other short-term non-financial liabilities	80.6	82.4	79.1
Total current liabilities	**499.8**	**382.7**	**336.8**
Total liabilities	**2,255.1**	**1,914.2**	**1,837.9**

The Consolidated Financial Statements 2018 were revised to reflect changes to the accounting and valuation methods, changes to accounting-related estimates and corrections of errors related to incidental acquisition costs for raw materials and supplies, the statutory Swiss pension plans, accruals/deferrals for outstanding invoices, finance leases and pre-paid customer bonuses. In the current fiscal year of 2019, new lines have been added to the Consolidated Balance Sheet due to the first-time application of IFRS 16. For further information on this, refer to page 21 onwards in the Notes to the 2019 half-year report.

Consolidated Cash Flow Statement (1)

Wacker Neuson Group

IN € MILLION

	Q3/19	Q3/18 adjusted	9M/19	9M/18 adjusted
EBT	**36.0**	**39.2**	**115.8**	**167.3**
Adjustments to reconcile profit before tax with gross cash flows:				
Depreciation and amortization of non-current assets	15.9	10.2	46.9	29.9
Unrealized foreign exchange gains/losses	-12.0	-1.9	-16.9	-0.2
Financial result	4.2	2.6	8.9	7.9
Gains from the sale of intangible assets and property, plant and equipment	-0.7	–	-0.8	-3.4
Income from the sale of a real-estate company	–	–	–	-54.8
Changes in rental equipment, net	-1.4	-6.2	-25.8	-30.5
Changes in misc. assets	-1.8	-15.0	-9.7	-36.7
Changes in provisions	1.6	-0.4	3.3	-1.7
Changes in misc. liabilities	4.7	4.1	16.1	17.8
Gross cash flow	**46.5**	**32.6**	**137.8**	**95.6**
Changes in inventories	-9.8	-36.4	-98.3	-63.6
Changes in trade receivables	19.4	16.4	-88.0	-67.4
Changes in trade payables	-36.1	3.7	-50.6	32.1
Changes in net working capital	**-26.5**	**-16.3**	**-236.9**	**-98.9**
Cash flow from operating activities before income tax paid	20.0	16.3	-99.1	-3.3
Income tax paid	-18.5	-6.7	-44.1	-22.5
Cash flow from operating activities	**1.5**	**9.6**	**-143.2**	**-25.8**

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Consolidated Cash Flow Statement (2)

Wacker Neuson Group

IN € MILLION	Q3/19	Q3/18 adjusted	9M/19	9M/18 adjusted
Cash flow from operating activities	**1.5**	**9.6**	**-143.2**	**-25.8**
Purchase of property, plant and equipment	-9.6	-8.5	-28.2	-23.7
Purchase of intangible assets	-9.4	-9.4	-24.5	-21.5
Investments in participations	–	–	-8.8	–
Proceeds from the sale of property, plant and equipment, intangible assets and assets held for sale	1.0	5.7	2.0	19.8
Proceeds from the sale of a real estate company	–	–	–	60.0
Cash flow from investment activities	**-18.0**	**-12.2**	**-59.5**	**34.6**
Free cash flow	**-16.5**	**-2.6**	**-202.7**	**8.8**
Dividends	–	–	-77.2	-42.1
Cash receipts from short-term borrowings	-4.2	–	161.4	–
Repayments from short-term borrowings	0.5	-1.5	-30.7	-16.6
Cash receipts from long-term borrowings	–	–	150.0	81.4
Repayments from long-term borrowings	–	–	–	–
Repayments from leasing liabilities	-5.6	–	-15.9	–
Interest paid	-3.3	-2.0	-9.8	-7.1
Interest received	1.3	1.0	4.1	2.3
Cash flow from financial activities	**-11.3**	**-2.5**	**181.9**	**17.9**
Change in cash and cash equivalents before exchange rates effects	-27.8	-5.1	-20.8	26.7
Effect of exchange rates on cash and cash equivalents	0.4	-0.2	0.5	-0.5
Change in cash and cash equivalents	**-27.4**	**-5.3**	**-20.3**	**26.2**
Cash and cash equivalents at the beginning of the period	50.9	58.9	43.8	27.3
Cash and cash equivalents at the end of the period	**23.5**	**53.5**	**23.5**	**53.5**

The Consolidated Financial Statements 2018 were revised to reflect changes to the accounting and valuation methods, changes to accounting-related estimates and corrections of errors related to incidental acquisition costs for raw materials and supplies, the statutory Swiss pension plans, accruals/deferrals for outstanding invoices, finance leases and pre-paid customer bonuses. In the current fiscal year of 2019, new lines have been added to the Consolidated Balance Sheet due to the first-time application of IFRS 16. For further information on this, refer to page 21 onwards in the Notes to the 2019 half-year report.

Consolidated Segmentation

Geographical segments

IN € MILLION

Q3	Europe		Americas		Asia-Pacific		Consolidation		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Total revenue	521.2	522.8	169.0	224.5	18.0	15.8			708.2	763.1
Revenue from external customers	337.6	307.0	114.9	97.7	14.7	11.1			467.2	415.8
EBIT[1] (adjusted for 2018)	36.0	47.9	-1.9	-3.6	-1.3	-1.3	7.4	-1.2	40.2	41.8
EBIT margin[2] (%)	10.7	15.6	-1.7	-3.7	-8.8	-11.7			8.6	10.1

9M	Europe		Americas		Asia-Pacific		Consolidation		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Total revenue	1,736.2	1,628.3	521.8	671.9	53.9	61.6			2,311.9	2,361.8
Revenue from external customers	1,029.9	906.2	344.4	299.5	43.6	35.2			1,417.9	1,240.9
EBIT[1] (adjusted for 2018)	140.0	135.0	3.9	-1.6	-2.4	-3.5	-16.8	-9.5	124.7	120.4
EBIT margin[2] (%)	13.6	14.9	1.1	-0.5	-5.5	-9.9			8.8	9.7

Business segments

IN € MILLION

	Q3/19	Q3/18 adjusted	9M/19	9M/18 adjusted
Segment revenue from external customers				
Light equipment	127.1	108.4	374.2	338.5
Compact equipment	248.5	220.1	786.4	664.2
Services	96.9	91.8	272.4	251.4
	472.5	420.3	1,433.0	1,254.1
Less cash discounts	-5.3	-4.5	-15.1	-13.2
Total	467.2	415.8	1,417.9	1,240.9

The Consolidated Financial Statements 2018 were revised to reflect changes to the accounting and valuation methods, changes to accounting-related estimates and corrections of errors related to incidental acquisition costs for raw materials and supplies. This had a positive impact on profitability. For further information on this, refer to page 24 onwards in the Notes to the 2019 half-year report.
In fiscal 2019, financing components from different financing options posted under the cash discounts item were directly allocated to the compact equipment business segment. Prior-year values have been adjusted accordingly.

[1] Before consolidation.
[2] EBIT as a % of revenue from external customers.

Financial calendar and contact

November 7, 2018	**Publication of nine-month report 2019, investors and analysts call**
November 11, 2019	Frankfurt roadshow
November 14, 2019	Paris roadshow
January 21, 2020	German Corporate Conference (KeplerCheuvreux), Frankfurt
February 4, 2020	Hamburg investors' day (Montega)
March 16, 2020	**Publication of the 2019 Annual Report, press conference, Munich**
March 25, 2020	Bankhaus Lampe German Conference, Baden-Baden
April 1, 2020	MainFirst Corporate Conference, Copenhagen

Disclaimer

This report contains forward-looking statements which are based on current estimates and assumptions made by corporate management at Wacker Neuson SE. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by Wacker Neuson SE and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from forward-looking statements. Many of these factors are outside the Company's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and market players. The Company neither plans nor undertakes to update any forward-looking statements.

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