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CORPORATE PARTICIPANTS

Axel Jaeger *WashTec AG - CFO & Member of the Board of Management*

Ralf Koeppe *WashTec AG - CEO, CTO & Chairman of Management Board*

Stephan Weber *WashTec AG - Chief Sales Officer & Member of Management Board*

CONFERENCE CALL PARTICIPANTS

Aliaksandr Halitsa *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Eggert Kuls *Warburg Research GmbH - Senior Analyst*

Richard Schramm *HSBC, Research Division - Analyst*

PRESENTATION

Operator

Dear ladies and gentlemen, welcome to the conference call of WashTec AG. At our customers' request, this conference will be recorded. (Operator Instructions)

I will now hand you over to Dr. Ralf Koeppe, who will lead you through this conference. Please go ahead, sir.

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

Thank you very much. Ladies and gentlemen, I would like to welcome you today to the presentation of the WashTec group's 2019 financial year. With me here in the room are my colleagues: Chief Financial Officer Axel Jaeger; and Chief Sales Officer Stephan Weber; and Sergej Wolodin, the Head of Global Finance and Accounting.

After we had to cancel our annual press conference at short notice due to current developments regarding the coronavirus, we are pleased that we can now hold the annual press conference and the usual separate telephone conference combined in one conference call.

To begin with, I would like to give you a brief overview of the topics listed on Slide 2.

Next slide, please. Yes. I will briefly explain the WashTec business model and then focus on the 3 most important priority topics: company culture, operational excellence, and innovation by digital transformation.

Next slide, please. As many of you already know, WashTec's business model consists of 3 areas. The WashTec product range comprises all types of vehicle wash equipment as well as the associated peripheral devices, wash chemicals and water reclaim systems. WashTec also offers comprehensive servicing packages spanning the entire product life cycle, including equipment maintenance, financing arrangements and operator management. The main revenue driver is the Equipment and Service product range.

In the fiscal year, the Equipment and Service divisions generated revenue of EUR 380.6 million. I would like to highlight the 3.3% increase in sales in the Chemicals divisions from EUR 45.6 million to EUR 47.1 million. We will come to the other financial figures later.

Next slide, please. Focusing on customer benefit in combination with entrepreneurship of employees is the foundation of our company. Digital transformation of products, services and business models can only be successful when the customer benefit is defined and proven to be valid. For this reason, it is essential to break down functional silos and work cross-functional and product-centric in teams that generate results quickly and that are validated together with the customer. This process is known as HR product development. It assigns the responsibility to the entrepreneur teams. The management team is asked to support this fast and precise decision-making. Within the last half year, we greatly accelerated this process as an important requirement to improve our company culture.

Next slide, please. We have launched our performance program, which consists of: one, short-term reductions in other operating expenses in 2019; and second, company-wide structural changes and headcount reductions to be completed by the end of 2020. As a third part of the performance program, we have launched an operational excellence program to streamline processes and cut costs in all parts of the business. This slide shows the overall approach and dependencies. An important base to drive profitability is to take out complexity in the product portfolio and have these products produced on worldwide lean production networks. The prerequisite of a lean supply chain is to better control the progress of the customer site and to be able to deliver just-in-time and with minimized installation costs.

Digitalization is a driver of profitability and efficiency, especially in the combination with worldwide service excellence measures, but as well as internally in the plant known as Industry 4.0. Guarantee and purchasing costs are of constant matter and are improved. This operational excellence project portfolio is one of the main driver to return to a double-digit EBIT margin in the medium term. This program is driven by hardness grades and will continue to be an important part of WashTec in the long run.

Next slide, please. WashTec is working on digital transformation in all its areas. Digital functions that are integrated in our new rollover system, SmartCare, are explained in the journal of our annual report. We provide digital solutions, such as EasyCarWash, and respond to the requirements of operators and end customers with new products. WashTec is actively driving digitalization in the carwash sector.

Digital products, services and business models lead to more customer benefits, and operator can now control the systems remotely, create washing programs quickly and easily and increase quality and throughput speed. The end customer, in turn, can select his or her carwash on the smartphone and pay digitally immediately.

Next slide, please. Thank you very much for your attention. At this point, I would like to hand over to my colleague, Axel Jaeger. He will explain the financial figures for 2019.

Axel Jaeger - *WashTec AG - CFO & Member of the Board of Management*

Yes, hello, everyone. Here, you can see an overview of the -- next slide, yes -- stable revenue -- no, one slide back. Yes.

Here, you can see an overview of the key financial figures for the 2019 financial year. Revenue rose by 0.2% in 2019 to EUR 436.5 million. Prior year figure was EUR 435.4 million. Adjusted for exchange rate effects, revenue growth was slightly down year-on-year at 0.5%. The adjusted target of a stable revenue increase for 2019 was thus achieved. Revenue performance was primarily influenced by slow orders from large customers, while revenue in the direct customer business showed double-digit growth.

EBIT decreased by 29.5% to EUR 36.3 million; prior year, EUR 51.5 million. Adjusted by effect of the performance program, EBIT went down by 25.8% to EUR 38 million. The main reason for this was capacity expansion, i.e., headcount, notably in field sales and service to strengthen direct sales combined with postponements of machine sales. Immediate cost-cutting measures introduced during the year 2019 were able to compensate only partially for the negative effect. Therefore, our performance program will continue throughout 2020, e.g., reduction of headcount and driving operational excellence.

The most recently communicated guidance of stable revenue performance and EBIT performance at around 9% before one-off expenses was met with the final figures.

Free cash flow decreased by 53.6% to EUR 15 million; prior year, EUR 32.3 million. The main reason for this, aside from the group's weaker earnings, was a significant increase in trade receivables at the end of the fiscal year due to the exceptionally strong sales in the final months of 2019.

ROCE is at 18.4%. The targeted level of over 25% was thus not attained. Here too, aside from first time application of IFRS 16 and the resulting recognition of right-of-use assets, the main reason for this were, besides lower earnings, the higher net operating working capital mainly due to the increase in trade receivables at the end of the 2019 financial year. Adjusted for the effects of IFRS 16, ROCE was at 19.8%.

On the basis of the average number of shares, earnings per share decreased by 34.6% to EUR 1.66; prior year, EUR 2.55.

Next slide, please. As shown, the second half of the year was a significant improvement particularly in terms of revenue. The fourth quarter was the strongest quarter in the company's history. EBIT in H2 also increased further compared to H1. In the fourth quarter, the realization of receivables generated in the first half of the year had a significant positive impact on the free cash flow.

Next slide, please. Revenue split into regions is as follows: At EUR 353.6 million, revenue in Europe was stable relative to prior year's EUR 355.8 million. As is the case for the WashTec group as a whole, revenue performance here was notably affected by the slow revenue development with major customers. In contrast, direct sales recorded good growth. Despite unfavorable weather in the first half year, Chemicals revenue grew on a full year basis.

Revenue in North America went up from EUR 74 million in the prior year to EUR 78.2 million. In U.S. dollars, revenue was USD 87.2 million compared to prior year at USD 86.8 million, and thus increased slightly. Revenue performance in direct sales was nonetheless strongly positive with double-digit revenue growth. This positive performance was unfortunately not sufficient to offset the decrease in revenue with major customers.

At EUR 17.6 million, Asia Pacific revenue was at the same level as prior year. Revenue performance was very positive in China. In Australia, WashTec's largest market in the region, revenue growth was significantly impacted by the loss of a major customer in 2018 Q4. This also had an adverse effect on performance in this region, especially on the earnings side. It was possible to stabilize performance in the Australian market in the course of the year. As a consequence, the region completed the year with a significant increase in orders received and, hence, also a larger order backlog.

Next slide, please. On the earnings side, the regional breakdown is as follows: EBIT in Europe decreased from EUR 55.4 million in the prior year to EUR 41.2 million. The EBIT margin was at 11.7%; prior year, 15.6% in Europe. A major reason for the lower earnings was the capacity expansion, i.e., head count increase in direct customer contact activities in 2018 and 2019 for greater focus on direct sales customers, field services -- sales and service. Personnel expenses will be tightly managed in the course of the performance program. The one-off expenses for this program of EUR 1.9 million are included in the segment earnings. Adjusted for these effects, EBIT in Europe was EUR 43.1 million, with an EBIT margin of 12.2%.

Our earnings in North America were stable at minus EUR 3.4 million; prior year, minus EUR 3.4 million. Many processes and workflows in the region were continuously improved in the past year, with a results that the number of employees were reduced at the year-end despite the investment in capacity expansion necessitated by the newly won chemicals tender in North America.

EBIT decreased in Asia Pacific to minus EUR 1.3 million; prior year, 0.4 -- minus EUR 0.4 million. As mentioned above, earnings were negatively impacted in particular by the revenue-driven decline in profitability in the Australian market combined with the investment in growth in China.

Next slide, please. Group revenue of EUR 436.5 million remains stable at the prior year's level.

Personnel expenses went up compared with the prior year from EUR 135.2 million to EUR 141.8 million due to the larger average number of employees, primarily in field sales and service, collectively agreed pay increases and expenses in connection with the performance program. Adjusted for the one-off expenses, the increase in personnel expenses was EUR 4.7 million or 3.4%. Personnel expenses, excluding one-off expenses, came to EUR 139 million. The year-on-year increase in personnel expenses was reduced from 6% in the first half year to 1.3% in the second half as a result of the immediate cost-cutting measures.

The number of employees at the year-end was 1,874 and, therefore, 4 more than the prior year. However, the figure was 14 down on the 1,888 employees at the end of the third quarter 2019. The announced reduction in the workforce to around 1,820 employees by December 31, 2020, will be implemented in a socially responsible manner and constantly driven over the entire year 2020.

Other operating expenses fell by EUR 5.5 million to EUR 52.5 million; prior year, EUR 58 million. Unlike the prior year, this includes the effect of the first-time adoption of IFRS 16, the reclassification of expense items from other operating expenses to depreciation and amortization.

Next slide, please. The first time adoption of IFRS 16 leases resulted in an increase in total assets as of December 31, 2019, due to recognition of right-of-use assets in the amount of EUR 21.5 million. This resulted in a negative effect on the equity ratio in the amount of 2.2 percentage points. Equity went down from EUR 95.4 million to EUR 84.5 million. Net operating working capital, i.e., trade receivables plus inventories minus trade payables minus prepayments on orders, increased by EUR 13.4 million (sic) [EUR 13.6 million] from EUR 82.6 million to EUR 96.2 million. This resulted from a substantial increase in trade receivables due to the revenue generated in the final months of the fiscal year.

Next slide, please. Free cash flow decreased to EUR 15 million; prior year, EUR 32.3 million, due to a decrease in earnings before tax compared to prior year, an increase in accounts receivable and inventory due to the strong fourth quarter of 2019, an IFRS effect, an increase in depreciation and amortization as part of free cash flow and an increase of amortization of leasing liabilities as part of financing cash flow.

Next slide, please, and I hand over to my colleague, Ralf Koeppe.

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

Let us now move away from the 2019 figures and look ahead to the coming year. Last week, on March 12, the financial statements were approved. Forecast for 2020 is based on this status. And as you know, since there has been incredible changes here in Germany, in Europe and the world to battle the coronavirus pandemic. The effects on the outlook due to the coronavirus crisis are finally determined by various factors. At present, it is not possible to foresee over what period of time in which divisions and to what extent there will be a negative effect and to what extent this can be offset by opposing positive effects. The overall guidance is based on the assumption that business development will be manageable during -- due to the coronavirus crisis.

WashTec is aiming for stable revenue performance for the group in fiscal year 2020 with a slight increase in EBIT. Regarding free cash flow, the company expects a significant increase. For the coming year, we expect a return on capital employed of about 20%. The EBIT guidance of slight increase is based on revenue development in the lower end of the range.

The company is working on increasing profitability in order to return to a double-digit EBIT margin in medium term. For the regions, we anticipate stable sales development with a slight increase in EBIT for Europe and Asia Pacific and a slight increase in sales and EBIT for North America.

Next slide, please. We have decided to postpone the Annual General Meeting of WashTec AG scheduled for the end of April to a later date in 2020. In our opinion, the postponement is necessary after taking into account all aspects, especially the general ruling of the Bavarian State Ministry of Health and Care. We will inform you about the new date in the due course.

Thank you for your attention. We are now looking forward to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And the first question received is from Eggert Kuls from Warburg Research.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

I have a couple of questions. First of all, regarding the SmartCare. Have you had already the first deliveries to customers and maybe some response from them about the quality and -- of the machine and so on? So this would be the first question, please.

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

Okay. I will answer -- go ahead and answer the first question. As you know, the SmartCare, we are about to deliver in Europe production scheduled to start with Q2 2020, and we are prepared for this ramp-up but have not started yet since we have still Q1.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

Okay. So we will see hopefully the positive impact also on the cost side then later this year? Okay, then...

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

Yes. We will slightly start to bring this machine into the market under the current situation.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

Yes. Okay. Maybe a question on Q1. So Q1 is more or less over. And I guess with the exception of China, the impact from the coronavirus is not that big. And I remember you said earlier that you started with a higher order backlog into 2020. So the comparable basis of 2019 was rather weak, I guess. So can we expect the company for the first quarter to show significantly better figures?

Axel Jaeger - *WashTec AG - CFO & Member of the Board of Management*

Axel Jaeger speaking. What we see as of today -- I mean we are not through with our first quarter, of course. And given the coronavirus incidence, especially the March will be really interesting, how it turns out. However, you are right. What we see in China is that the situation is slightly improving. It seems that the, so to say, coronavirus wave -- the top of this wave is in China over, but it's now -- it's in Europe. And we have to see how it turns out. So we are carefully looking at our figures and carefully watching what our customers are doing and, of course, are busy in managing our supply side to mitigate the effects of, so to say, the coronavirus.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

Okay. So I understood that China may, let's say, have come to a certain normalization. Meanwhile, so China is maybe 2 months ahead of Europe. So maybe this is a good sign also probably for the main of the business going forward.

So China, have you seen a pickup of orders recently? Or what is your current view on the market there?

Stephan Weber - *WashTec AG - Chief Sales Officer & Member of Management Board*

February was -- this is Stephan Weber speaking. February was rather slow as expected. March seems to be back to -- heading to normal situation. Also, the factory is back in motion, so to say, we are not at 100% production capacity due to the fact that we lost, let's say, the first 2 weeks of the months of March from the capacity there due to the known circumstances. However, towards the end of the month, we are more or less running full steam again. So China, it seems to be a fade-out, the whole impact. So let's keep fingers crossed it stays that way.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

Yes, of course. And production in Augsburg is still running at full capacity. Or do you have a partial shutdown due to corona?

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

We are running on full capacity. But we have a close look on the installation capabilities in the European countries. And as you know, from the different regulations we have in these countries, we have to make sure that we can do this installation to then also realize the revenue of the machines.

Therefore, currently, we are running well. However, we are looking at measures that prepare us for other weeks, which might be weaker. As you might note, these scenarios are done by many companies. And we're doing the same to see how we can prepare if things fall short in terms of -- that we do not need the whole capacity in the plant.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

Okay. And maybe the last question, you have a very low vertical integration, so a lot of supply of components. Is that from the current point of view a risk? Or do you see a risk maybe to occur over the next couple of weeks or months?

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

We have looked into this problem early enough already, and we have a daily supervision in the supply chain. And so far, we keep our fingers crossed we have not big effects. So it seems that, let's say, operations in Italy -- in China are back up and also in [Chechen] so that the flow of material is coming into the plant. We don't see problems there currently.

Operator

And the next question received is from Richard Schramm from HSBC.

Richard Schramm - *HSBC, Research Division - Analyst*

One question I have on the dividend proposal you have made, which is more or less a full distribution of net profit from last year. Is this the right time to do such a generous distribution? Or wouldn't it be wise to scale back a bit here and to keep cash on hand for, yes, whatever comes? How is your -- how should we view this?

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

Mr. Schramm, I have a short question (sic) [answer] for this: we have published our dividend proposal last week, and the decision will be made at the annual shareholder meeting.

Richard Schramm - *HSBC, Research Division - Analyst*

Okay. So it's still not fixed yet. I see. And second question also concerning the issue you just mentioned with the installments and also, I think, service activities, which is a very important part of your business. You really do not see any restrictions there because, especially with your service technicians, I think it's getting more and more difficult to reach customers in those countries which have now imposed quite strict travel restrictions here and other measures to, yes, slow down the public traffic, so to say.

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

Stephan Weber is...

Stephan Weber - *WashTec AG - Chief Sales Officer & Member of Management Board*

Yes, I'm replying that this. I'm more or less in a live ticker with all the various countries concerned here. And we have to say that regulation stipulations are, let's say, very different in different countries. I would say, in -- whatever you just mentioned is true for, for example, for Italy, where we can barely or not move at all anymore, where even carwashes are closed down.

When we go now to Spain, the regulation is different. For example, there, we still do service, we do maintenance on request of the customer. We even physically visit customers under the necessary precautions, of course. There, we can still work, and we are even asked to work. Basically something that the German government also seems to be interested to keep in place. So there is not a one-serves-all answer. Yes, there is limitations in some countries, but it's not that way that we cannot work at all anymore. I think the most critical situation currently in Europe is Italy, followed by Austria, whereas in, for example, Spain and France, the regulations -- I mean under certain limitations but still allow us to work in -- if not all, at least in some areas. But it depends, there is some in France, they have hotspots defined where we cannot go with service anymore, and there are also carwashes, in some cases, closed.

But there is no general answer as of now, and that's what I can say for now. And we are monitoring this on a daily basis. I get daily updates from all my managers in order to be also in a position that we can say what is the impact for the company looking forward.

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

I might want to add. In Germany, we are in full operation in service. So we have to see.

Richard Schramm - *HSBC, Research Division - Analyst*

Yes. And one question concerning the customer side. You mentioned that, especially last year, you were successful in the direct sales business, which is usually business with smaller customers. And these might run the risk in current times to, yes, be forced to delay or push out their investment decisions. Do you see already something in this direction that customers are reluctant to order or ask maybe to delay deliveries?

Stephan Weber - *WashTec AG - Chief Sales Officer & Member of Management Board*

There is also not a general answer to it, I would say. And it remains to be seen now in Europe this topic of corona is still very, let's say, young in a way. And of course, at the moment, many customers are not the ones that we can talk to about investments, which we have started, but they are currently busy doing other things at the moment. Whether there is a general slowdown, it's difficult to say. I think that what we see from now is that the individual and smaller customers are the ones that are still interested to see us and discuss with us further investments because I think many of them are aware that this will be a temporary issue.

Whereas we also have the situation with larger key accounts where they, let's say, voluntarily closed down carwashes at this point in time without being even forced to for HSE regulations and just to say stay clean there. And that remains to be seen how they push investments forward as we go throughout the year. But very difficult to say. I mean the fact is that we don't expect them to be very bullish in this year, at least, for the known reason then also the fuel prices went down, which for many smaller customers is not an issue because they're simply trading fuel to fuel, whereas larger key accounts, they also have an upstream business that is impacted by the fuel price at the moment.

Operator

(Operator Instructions) The next question is from Aliaksandr Halitsa from H&A.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Not a coronavirus-related one. On the Europe, I'm struggling a little bit to reconcile. So you basically came out in 2019 more or less flat year-over-year in terms of revenue. Your EBIT declined by, what is it, EUR 11 million, I guess, adjusted for the one-off item. And at the same time, in the report, we see that there has been only 9 employees added in between those 2 years. So it seems a little bit of a stretch on the EBIT decline considering just the 9 employees added. If you could add some more color why EBIT has been so much impacted, although revenues to remain pretty much stable.

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

Oh, so the employee number is [a strict target]. It's just the end of the year report at the -- in 2019, employees were onboarded. And we started our reduction of personnel program in 2019. And we were lucky to go down to this figure, which we had -- which we've had end of the year 2019. And especially in 2020, we have already contracts where the people are out step-by-step, month per month to then come down to the figure of 1,820. So if you look at, let's say, the -- per month, what was the average, we had substantial buildup of capacity, and we were reacting in the second half of the year to manage it out again.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Okay. That makes sense. And then maybe on the -- you mentioned that you're absorbing what your customers are doing. Could you comment on that? What are you currently seeing with regards to the behavior of your key accounts and direct sales customers?

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

I think this was -- Stephan Weber was mentioning already that the direct customers are still talking to us a lot and are interested in investing. We also observe the number of washes in Europe, in the countries. And this is usually -- the number of washes depend on whether we have wash -- weather or not. So we have not seen a significant decline in this. Just in Italy a little bit. So we are cautioned about this, and we are really preparing for measures to adapt to this.

But we have also opposite effects that customers order chemistry on stock so that they can -- that they have -- say, from their side, they are anxious that we cannot supply chemistry to them. That's why they order a little bit more on stock. So this is some opposite effects which we see as well. But our supply chain is running.

Operator

(Operator Instructions) As we received no further questions, I hand back to the speakers.

Ralf Koeppe - *WashTec AG - CEO, CTO & Chairman of Management Board*

Thank you very much, ladies and gentlemen, for attending our call. And I wish you a safe and healthy end of the week. Thank you very much -- and the next month -- until the next call. Thank you very much.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.