METAL ENGINEERING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL ENGINEERING DIVISION

In millions of euros

	Q 1 2019/20	Q 2 2019/20	Q 3 2019/20	Q 1 – Q 3 2019/20	Q 1 – Q 3 2018/19	Change in %
	04/01–06/30/2019	07/01–09/30/2019	10/01–12/31/2019	04/01–12/31/2019	04/01–12/31/2018	
Revenue	778.8	758.7	707.6	2,245.1	2,318.7	–3.2
EBITDA	90.0	82.3	56.5	228.8	262.2	–12.7
EBITDA margin	11.6%	10.8%	8.0%	10.2%	11.3%	
EBIT	44.9	31.4	–3.4	72.9	137.4	–46.9
EBIT margin	5.8%	4.1%	–0.5%	3.2%	5.9%	
Employees (full-time equivalent)	13,371	13,369	13,175	13,175	13,377	–1.5

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

While demand for railway infrastructure was good, the Metal Engineering Division's Industrial Systems business segment was faced with a difficult market particularly in its wire technology and tubulars product segments.

Railway Systems

In Europe, the Railway Systems business segment met with good demand. In North America, however, the slowdown was palpable. Owing to weaker industrial production, the quantity of goods transported by rail declined a bit after the summer, in turn triggering a slight decline in railway infrastructure investments. By contrast, Asia in general and China in particular saw growing demand, while the Australian market remained more or less stable. Demand in South America's mining regions developed along a largely solid trajectory, whereas activities in South Africa showed little momentum, as before. The turnout systems product segment performed very well on the whole against this backdrop. While the rail technology product segment saw excellent capacity utilization, too, it was confronted with high pre-material costs in the current business year's first half.

Industrial Systems

The wire technology product segment, which produces high-quality wire for the automotive industry, was deeply affected by the slowing momentum in the automotive supplier industry. Reductions in inventories have dominated activities in the past few business quarters across the entire automotive supply chain. Competitive pressures intensified as well because the electric furnace technology enabled producers to benefit now and then from hugely positive developments in the cost of raw materials. voestalpine already reacted to these developments at the start of the business year 2019/20 by cutting operations from four shifts to three.

Strong price pressures in the important U.S. market affected the tubulars segment, which produces seamless tubes for oil and natural gas exploration. The country's protectionist Section 232 tariffs continued to weigh on the division's earnings. Consequently, activities were reduced to three-shift operations after the summer of 2019. In strategic terms, voestalpine has adopted a two-pronged approach to the future. For one, it aims to expand its sales regions in order to reduce its dependence on the United States. For another, it aims to achieve greater product differentiation in order to lessen competitive pressures.

The welding consumables segment developed along a stable, positive trajectory despite the dampening of economic sentiment. A new production site in the U.S. that has already entered the start-up phase will counteract the negative fallout from the country's isolationist stance. Alongside the positive momentum in Asian markets, European markets remained somewhat satisfactory up through the third quarter despite the economic downturn.

FINANCIAL KEY PERFORMANCE INDICATORS

The key performance indicators (KPIs) of the Metal Engineering Division for the first three quarters of the business year 2019/20 reflect its weaker performance year over year. Revenue fell by 3.2%, from EUR 2,318.7 million to EUR 2,245.1 million, due to volume losses despite largely stable prices. But the declines in earnings were more pronounced. While the performance of the Railway Systems business segment even improved, the earnings performance of the Industrial Systems business segment was significantly lower in a very challenging environment. As a result, EBITDA dropped year over year by 12.7%, from EUR 262.2 million to EUR 228.8 million. EBIT plunged in the same period by 46.9%, from EUR 137.4 million to EUR 72.9 million. Add to that negative non-recurring effects that affected the numbers for the current business year's third quarter, lowering EBITDA by EUR 5.0 million. Some EUR 20 million in impairment losses on assets in the tubulars product segment had an additional negative impact on EBIT owing to the changed parameters in the United States. Consequently, the EBITDA margin fell from 11.3% to 10.2% and the EBIT margin from 5.9% to 3.2%.

However, the quarter-on-quarter comparison (QoQ) between the second and third quarters of the business year 2019/20 presents a more differentiated picture. Revenue decreased by 6.7%, from EUR 758.7 million to EUR 707.6 million. Given the customary slowdowns in project activity during the winter months, the Railway Systems business segment, too, was confronted with a slight reduction in its business volume during the third quarter. As far as earnings are concerned, aside from the poorer operating performance of both the Railway Systems and Industrial Systems segments the non-recurring effects mentioned in the year-over-year comparison were also key to the significant downturn. As a result, the official figures pursuant to IFRS show that EBITDA dropped by 31.3%, from EUR 82.3 million (margin of 10.8%) to EUR 56.5 million (margin of 8.0%). The non-recurring effects in the third quarter of the business year 2019/20 had a massive impact on EBIT, causing it to enter negative territory at EUR –3.4 million (margin of –0.5%) compared to the previous quarter (EUR 31.4 million, margin of 4.1%).