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Zumtobel Group AG: Profitability impacted by revenue declines and intense price competition

Annual Financial Report 2017/18 (May 2017 - April 2018)

Dornbirn (pta010/28.06.2018/07:30) - The 2017/18 financial year was not only characterised by key strategic steps to improve the competitive position of the Zumtobel Group, but also a reduction in the Group's profitability attributable to a substantial decline in revenues and intense price competition.

Revenues impacted by negative currency effects

The Zumtobel Group recorded a year-on-year decline of 8.2% in revenues to EUR 1,196.5 million for 2017/18 in a challenging industry environment (2016/17: EUR 1,303.9 million). Revenue development was influenced by substantial negative currency translation effects of EUR 31.5 million, above all from the appreciation of the euro versus the British pound and the Swiss franc. After an adjustment for currency translation effects, revenues declined by 5.8% in 2017/18. An analysis by region shows a particularly strong decline of more than 20% in Great Britain, the most important market for the Zumtobel Group. The LED share of Group revenues increased from 73.6% to 79.6% over the twelve-month period.

Significant decline in profitability

The 2017/18 financial year was characterised by key strategic steps to improve the competitive position of the Zumtobel Group. Important milestones to support profitability over the medium-term included the start of construction on a new plant in Serbia in July 2017, closure for the sale of the Zumtobel Group plant in Les Andelys (France) in October 2017, and the decision to gradually transfer parts of the components production to Serbia in the coming years. However, these long-term steps and recently implemented cost-reduction measures were unable to prevent a reduction in Group EBIT adjusted for special effects to EUR 19.7 million (2016/17: EUR 72.4 million). The drop in the Group's profitability during the reporting year is attributable above all to a substantial decline in revenues as well as very aggressive price competition. Consequently, net profit fell from EUR 25.2 million in the previous year to minus EUR 46.7 million in 2017/18.

As a result of the lower cash flow generated by the operating business and increased investment activity, free cash flow dropped to minus EUR 23.9 million (2016/17: plus EUR 69.4 million) in the reporting year, while net debt rose by EUR 55.3 million to EUR 146.3 million as of 30 April 2018. In view of the substantially weaker operating development, no distribution of dividends is planned for the 2017/18 financial year.

Investment in the future of light

In 2017/18 the Zumtobel Group invested a total of EUR 73.4 million in research and development (R&D) aimed at further strengthening the Group's outstanding technology position. This is reflected not least in the Group's extensive patent portfolio. The number of active commercial property rights - currently 8,128, including 4,728 patents - speaks for the company's innovative strength. In addition to advancing LED technology, R&D also focuses on the increasing intelligence of the systems.

2018/19 as a year of transition for stabilisation and strategic realignment

The Zumtobel Group Management Board sees 2018/19 as a transitional year aimed at the continuing stabilisation of operations and the re-establishment of a strong foundation for future profitable growth. This will require fundamental organisational and strategic changes alongside targeted restructuring and cost-reduction measures in all functional areas. Specific details will be defined during the current strategy development process, which will include open discussions aimed at analysing all structures and

corporate processes as well as business areas, markets and brand and product portfolios. The Executive Board will present the new strategy for the management of the Group as well as revised medium-term objectives at the latest by 4 September 2018 in conjunction with the announcement of first-quarter 2018/19 results.

Due to the upcoming major changes in the Group, the intense price competition in the lighting industry and the noticeable deterioration in the operating environment in Great Britain, which is the Zumtobel Group's most important market, the forecast for revenues and earnings in the 2018/19 financial year is surrounded by substantial uncertainty. The Zumtobel Group expects a further decline in revenues, especially during the first half-year. For the full 2018/19 financial year, the Management Board has set the target of generating a slight year-on-year improvement in adjusted Group EBIT (FY 2017/18: EUR 19.7 million). Further non-recurring charges associated with the Group's strategic realignment are also highly probable in the coming quarters.

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