Bilfinger SE

Bilfinger SE Company Presentation

February 2019

Overview

Bilfinger at a glance

- **Leading international industrial services provider**
- **Efficiency enhancement of assets**, ensuring a **high level of availability** and reducing **maintenance costs**
- **Clear 2-4-6 strategy** with **two** service lines, **four** regions and **six** focus industries
- Combination of excellence in **products and manufacturing** (T) and **covering the full life-cycle** (E&M)
- Large share of business with long-term **frame contracts** and **high retention rates**
- **Well-established customer base** with focus on process industries
- **Highly recognized safety and quality** performance
- **Digital pioneer** for the process industry

€4.15bn revenue

thereof ~55% recurring business

Orders Received +10%

€65m EBITA adjusted

Approx. 36,000 employees

based on FY 2018

Extensive analysis since mid-2016

CMD 2019

2016/2017		2018/2019
• Deep analysis of the company, its markets and its customers • Evaluated our strengths, opportunities and challenges • Analysis based on decades-long industry experience of top management team	**Procedure**	• Deep dives on key entities • Leverage “orders received” ➔customers selectivity • BTOP to drive implementation
• Exceptional profile: consistently No. 1 supplier of industrial services for the process industry in Europe • Demand for engineering and services is strong and getting stronger	**Products**	• Integrated projects • High margin, high growth opportunities: a) Biopharma; b) Energy (Nuclear) & Emissions (Scrubbers) c) Automation / Digitalization
• Deep expertise, knowledge and best-in-class practices • Multiple restructuring phases led to brain-drain and loss of direction • Long-standing customer relationships	**People**	• Management “upgrades” • Business development • COO
• Very fragmented, non-integrated sub-optimal structure • Silo mentality not reflective of market demands • Tremendous potential but unrealized opportunities	**Structure**	• Governance structure, especially “projects” • In country consolidation ➔ critical mass • Cross border team work

Bilfinger 2020: Strengthening sense of PURPOSE

Strategy affirmed, enhanced setup

2 Service Lines, 4 Regions, 6 Industries

CMD 2019

Our ambition

We engineer and deliver process plant performance

Where to play

2 Service Lines	4 Regions	6 Industries
• Technologies • Engineering & Maintenance	• Continental Europe • Northwest Europe • North America • Middle East	• Chemicals & Petrochem • Energy & Utilities • Oil & Gas • Pharma & Biopharma • Metallurgy • Cement

How to win

People & Culture	Customer & Innovation	Organization & Structures	Financials

European Engineering Resources

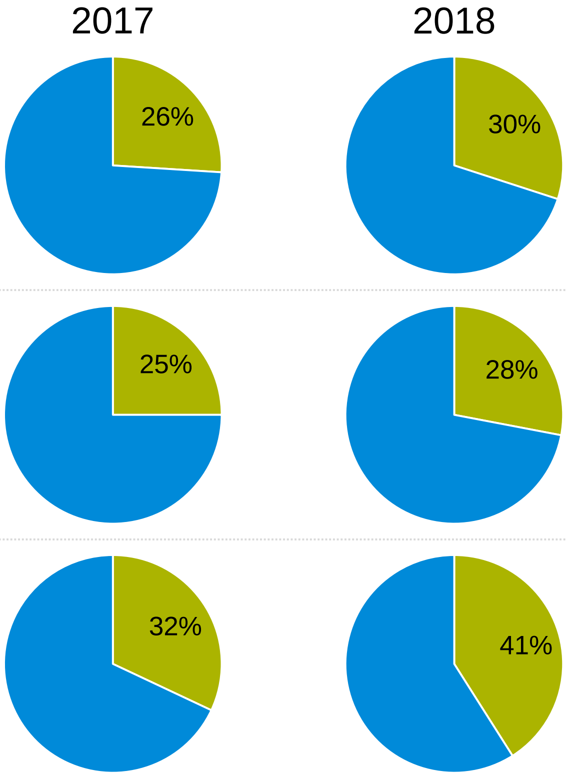
Maintenance & Modification Engineering with increasing contribution to gross profit

CMD 2019

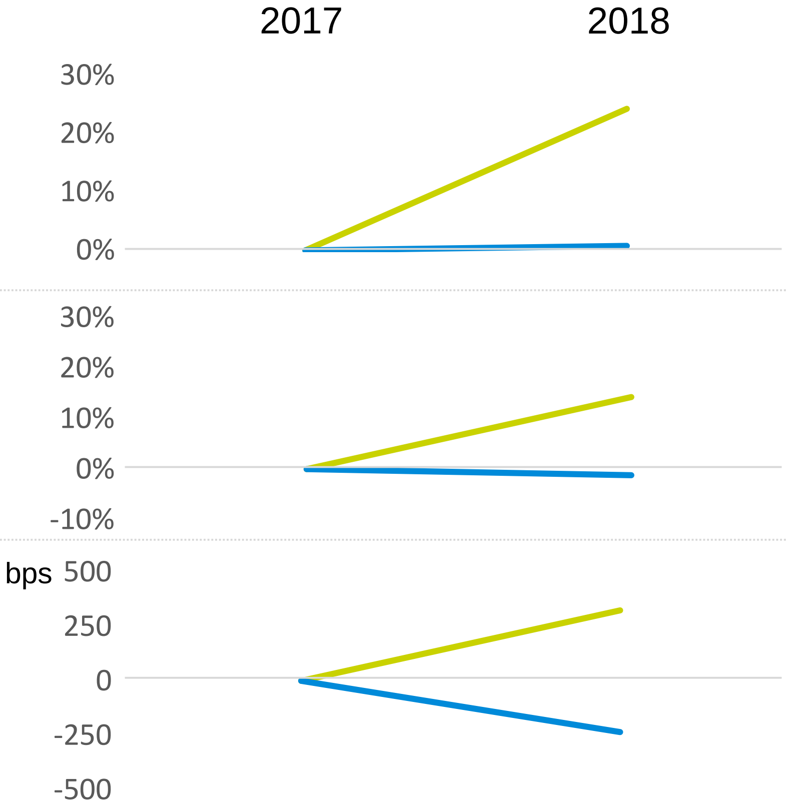
Orders received

Revenue

Gross profit



Maintenance & Modification Engineering
Project Management Consulting



Change in orders received

Change in revenue

Change in gross margin

2 Service Lines
Enhanced setup for build up and build out phase

CMD 2019

Technologies

FY 2018: Revenues € 499m, EBITA adj. € -24m

Market

High growth potential for technological products esp. in Energy & Emissions, Biopharma (Life Science) and Automation / Digitalization – supported by mega trends

Characteristics

- Proven technological competence
- Product and manufacturing excellence
- Centralized capacities
- Serving the global market

Focusing on Technologies drives stronger growth and higher margins

Engineering & Maintenance

FY 2018: Revenues € 3.495m, EBITA adj. € 133m

Market

Increasing demand in Engineering Maintenance services

Characteristics

- Higher added value to maintenance business
- Covering full life-cycle
- Improve asset and plant performance
- Superior customer perception
- Potential for cost savings in SG&A

Combining E and M leverages our business to higher-end services and higher margin

2 Service Lines
Technologies: ambition to grow higher-margin business

CMD 2019

Technology	Scrubber	Pharma & biopharma expertise	Nuclear Services
			
Description	• High demand driven by legislation on emissions and CO_2 • Proven expertise in flue gas desulphurisation • Attractive, compact design with short payback	• Ageing society and global rise of middle class drives new products and sales growth • Global market, customers and procurement • Compact production facilities	• Worldwide build programs averaging 25 in construction • 448 rectors operable worldwide – 50% in US and Europe • High standards of safety, quality and service essential
Goal	• Increase serial production capacity internally and with partners • ~€100m (70 ships) in order book with further options	• Biopharma skids and bioreactors • Global reach in with deliveries into China and Russia • No. 1 supplier in Europe and ~20% revenue CAGR in the last 4 years	• Present on 3 new builds in Europe • Chosen as strategic supplier for NSSS at Hinkley Point > €250m • Specialist in engineering, piping systems and handling

2 Service Lines

Engineering & Maintenance: combined and full life cycle services driving value

CMD 2019

Tech-nology	 **Combined strength**	 **Bilfinger Turnaround Concept**	 **Corrosion under insulation**
Descrip-tion	• €36m deoderization plant for Fluxys • Critical system in transmission and leak detection for gas to/from GER • Gas processing & transmission investment increasing	• High risk events for customers – safety, duration and cost • Large investment programs with up to 10 year look-aheads • Complimentary to maintenance services and customer entry point	• Major root cause of process safety issues in recent years • Investment programs of ~€2bn in US and Europe p.a. • Inspection followed by remediation and replacement
Goal	• Bilfinger expertise from four businesses combined • Specialists in Gas systems, automation fabrication and installation involved	• Consistent and modular approach to reduce risks • Training and development of new mobile resources • Established player in market	• Bilfinger multi-services enable integrated teams • Rope access technicians reduce customer costs • Innovative solutions for the avoidance of repeat failures

Compliance Management System

A competitive advantage

Certified by compliance monitor in December of 2018

Compliance system is industry leading

Compliance-related activities are ongoing,
system in a continuous process of innovation

Compliance: an integral part of Bilfinger's DNA

Growth potential through digitalization

Market potential

We see significant market potential in digitalizing the process industry

Estimated market potential

- More than 16,000 plants within 2-4-6 in Continental and Northwest Europe
- ~4,000 of these plants are mid-sized type with strong appetite for digitalization

- Varying acceptance rate per industry – highest acceptance expected in Chemicals & Petrochem, Energy and Oil & Gas
- Yearly volume per actual client expected around 1-2 m EUR

- Total market potential in Europe calculated around 7 bn EUR
- Market penetration mainly driven by availability of brainpower
- Additional market potential in Middle East and North America

Strategic position

Bilfinger is well positioned to be the frontrunner in the IoT of process industries

Process Industry

Digitalization hurdles

- Requirement to improve performance
- Lack of digitalization knowledge

Bilfinger

Building digital bridges

- Deep knowledge of customer needs and processes
- Comprehensive digitalization know-how
- Independent service provider
- Nr.1 in conventional services in Europe

IT Industry

Applicability deficits

- No access to plant operators
- Challenge to apply IoT knowledge to process industries

WE MAKE DIGITALIZATION WORK!

New analysis options

BCAP® provides a better decision-making basis

BCAP®

Bilfinger Connected Asset Performance

What has happened?	What could happen?	What should we do?
Descriptive Analytics	Predictive Analytics	Prescriptive Analytics
Dashboards, reports	Predictive maintenance	Dynamic operation support

Improving our financial performance

We will address all P&L line-items

CMD 2017

GROSS MARGIN

- Growth opportunities in high-profitability areas
- LOA[1] process and Project management

ADDRESSING BOTH LINE ITEMS

- Process and IT harmonization
- Procurement

SG&A RATIO

- Lean headquarters
- Lean structures in the field

Impact on gross margin: improvement of ~200bps

Impact on SG&A ratio: Improvement of ~300bps

AMBITION[2]

EBITA margin increase of

~500bps

by 2020

1) Limits of authority 2) Mid-cycle targets

Initiatives for higher efficiency and lower costs

IT PROJECTS

Status of process and system harmonization (ERP-System):

- ✓ Template solution set up
- ✓ Degree of completion: 40%
- ✓ Targeting ~70% by end of 2019

PROCUREMENT INITIATIVE

- ✓ Increasing number of e-auctions to improve the competitive advantage
- ✓ Reduced prices for direct material by further bundling across entities
- ✓ Focus on best price structures for products like scrubbers

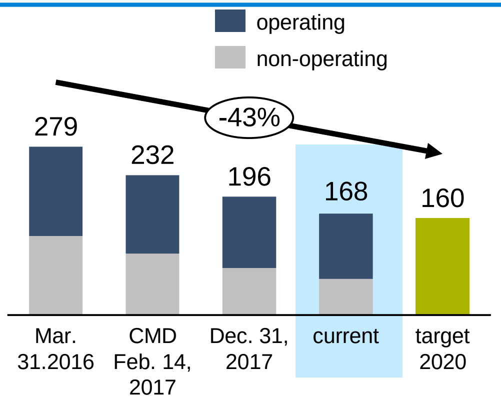
MERGER OF OPERATING UNITS

Example Austria: realizing cost synergies by full merger

- ✓ Reduction from 5 to 1 legal entities by merger, roll-in of ERP System
- ✓ Joint go-to-market
- ✓ Full life cycle, i.e. engineering, procurement, construction, maintenance
- ✓ Ability to serve all focus industries

REDUCTION IN THE NUMBER OF LEGAL ENTITIES

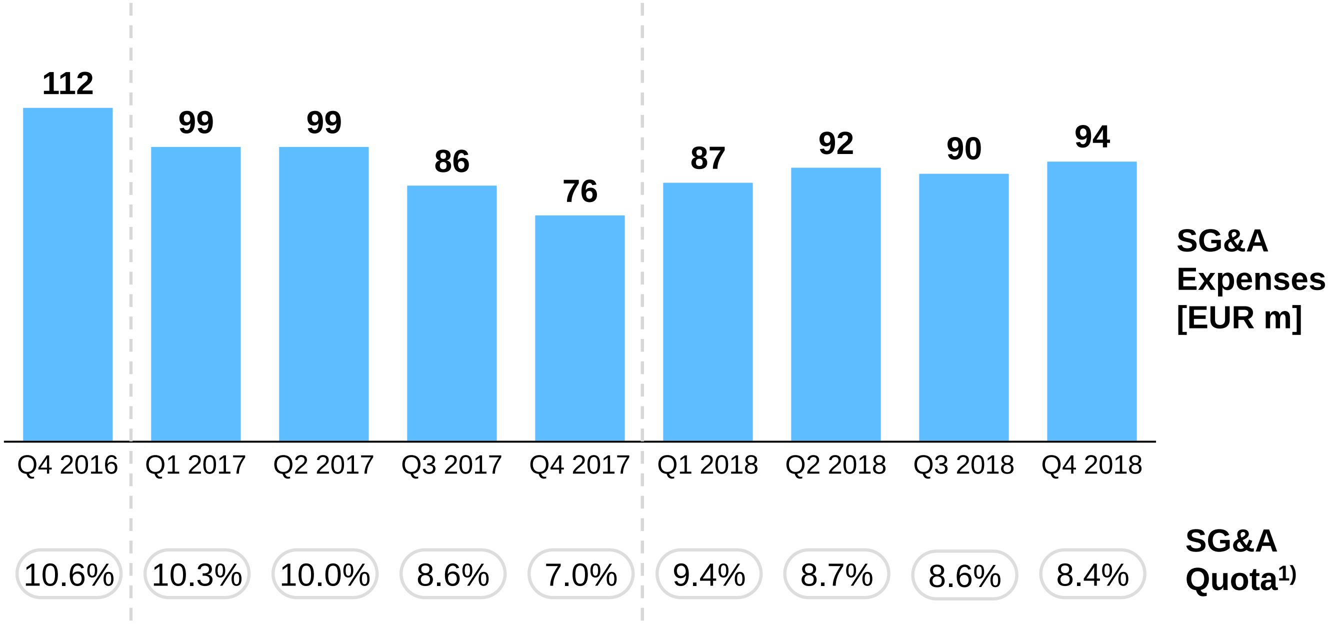
Complexity reduction within the organization through significant simplification of legal structure



SG&A expenses

SG&A expenses show positive trend

Adjusted SG&A expenses [EUR m]



Highlights

- SG&A ratio continues to move towards target level

- Streamlining of processes
- Reduction of complexity in structures, organization and governance
- Adjustment of admin headcount

1) As percentage of revenue

Portfolio rotation 2019 and 2020

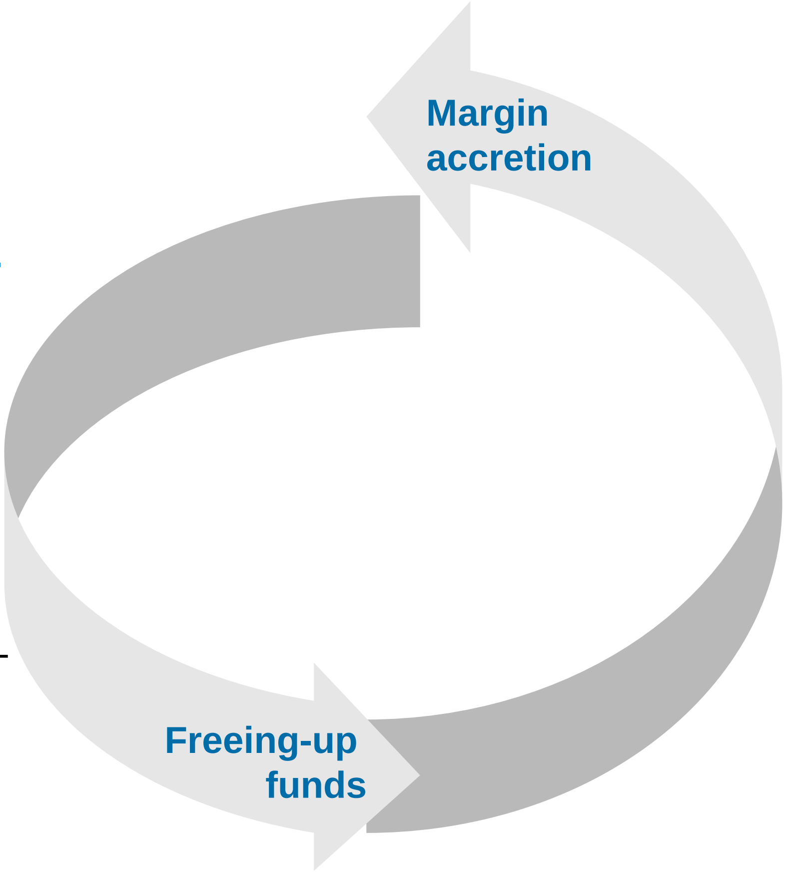
Further margin enhancement while keeping a sound balance sheet

Funding sources:

1. Disposal Other Operations (OOP)
4 „accretive" legal entities to be sold

2. Potential disposal of selected margin-dilutive units

3. Apleona
Vendor's Note
€100m, 10% compound interest p.a.
Accrued value 12/2018: €125m
Preferred Participation Note
Book value 12/2018: €237m
→ Typical money multiple of owner EQT would lead to a significant value upside
→ Will receive 49% of sales proceeds (after repayment of debt) at exit



Re-Investment:

- **Strengthening growth regions**
- **Strengthening growth industries**
- **M&A criteria:**
  - EBITA accretive one year after integration, ROCE beats WACC two years after integration
  - Immediate start of comprehensive integration

Guidance 2019, Targets 2020 and Wrap-up

Outlook 2019: next step on our way to reach targets

in € million	Actual FY 2018	Expected FY 2019
Revenue	4,153	Mid single-digit organic growth
EBITA adjusted	65	Significant increase to more than €100 million
Free Cash Flow reported	-4	Positive[1)]

1) Including positive effect from first-time application of IFRS16, like-for-like: break-even

Benefit from 49% of the value creation at Apleona

Vendor‘s Note: €100m, 10% compound interest p.a. upon maturity (book value 12/2018: €117m)

Preferred participation note (PPN):

- No management involvement
- Certain information rights, some further rights
- Investment: €195m
- Book value 12/2018: €237m
- Measured at Fair Value through Profit & Loss

> **Will receive 49% of sales proceeds (after repayment of debt) at exit**

> **Typical money multiple of owner EQT would lead to a significant value upside**

Bilfinger 2020
Financial ambition

Organic Growth	Profit	Cash	Return
>5% CAGR based on revenue FY 2017	• **EBITA adjusted ~5%** • Gross margin improvement by ~200bps • SG&A ratio reduction by ~300bps	• Positive **adj. FCF** from 2018 onwards • Over the cycle, from 2018 onwards: Cash Conversion Rate ~ 1 (minus growth adjustment)[1]	Post-tax **ROCE reported**: 8 to 10%

Capital Structure	Investment Grade (mid-term perspective)
Dividend Policy	Sustainable dividend stream going forward Policy: 40 to 60% of adjusted net profit

[1] Cash Conversion Definition: (Adj. EBITA + Depreciation – Change NWC - Net CAPEX) / Adj. EBITA

Bilfinger 2020
Further progress in build-up phase

Value

Stabilization ✓

- Strategy defined ✓
- Organization announced ✓
- Execution master plan ✓
- Top Management Team ✓
- Dividend proposed ✓
- B TOP rolled out ✓
- LOA Process rolled out ✓
- SAP roll-ins commenced ✓
- CRM implementation started ✓
- Cash focus in incentive system increased ✓
- Operating performance improved ✓

Build up

- Top line growth resumed ✓
- First successes in new growth areas
- New organization in full swing ✓
- Consistent project management process established ✓
- Net Profit break-even
- Adj. FCF positive latest in FY 2018 ✓
- Share buyback completed ✓
- Successfully refinanced

Build out

- Process and System harmonization fully rolled out
- Performance culture established
- Productivity wheel in full swing
- Complexity significantly reduced

Financial ambition reached

Time

The Bilfinger Investment Case:
Turnaround case based on favorable business model

Structural demand for industrial services

- Increasing # of Industrial plants
- Increasing total service market and contracted out market
- Rising age and complexity
- Customers demand for greater efficiency
- Service bundling
- Stricter environmental standards

Good starting position:

- Consistently No. 1 supplier of industrial services for the process industry in Europe
- Clearly defined strategy
- Organization derived from strategy
- Detailed implementation plan
- Growth and profitability targets
- Growth will be supported by additional business development and digitalization activities

Favorable business characteristics

- ~55% of output in recurring business
- No material dependency from single clients or regions
- Growing regional diversification

Asset light business

- Capex: 1.5 – 2.0% of output volume
- Balanced net working capital profile

Financial soundness

- BB / stable outlook
- 35% equity ratio (as of Dec 31, 2018)
- Financial participation in Apleona with significant upside potential
- Financial policy: Ambition (mid-term perspective) Investment Grade

Shareholder-friendly distribution*

- From FY 2016 onwards:
  €1.00 dividend floor
- Sustainable dividend stream going forward:
  40 to 60% of adjusted net profit
- Share buyback program of up to €150m started in Sep 2017 and completed in Oct 2018

* Based on current expectations and execution of presented strategy as well as on economic outlook at the time.

Financials Q4 and Preliminary Figures FY 2018

FY 2018: Strong order book drives future revenue growth

Orders received
FY 2018: organic growth of 12%, book-to-bill ratio of 1.07
Q4: organic increase of 3%

Revenue
FY 2018: organic growth of 6% exceeded expectations
Q4: organic increase of 4%

EBITA adjusted
FY 2018: significant increase to €65m, margin at 1.6%
Q4: once again strongest quarter

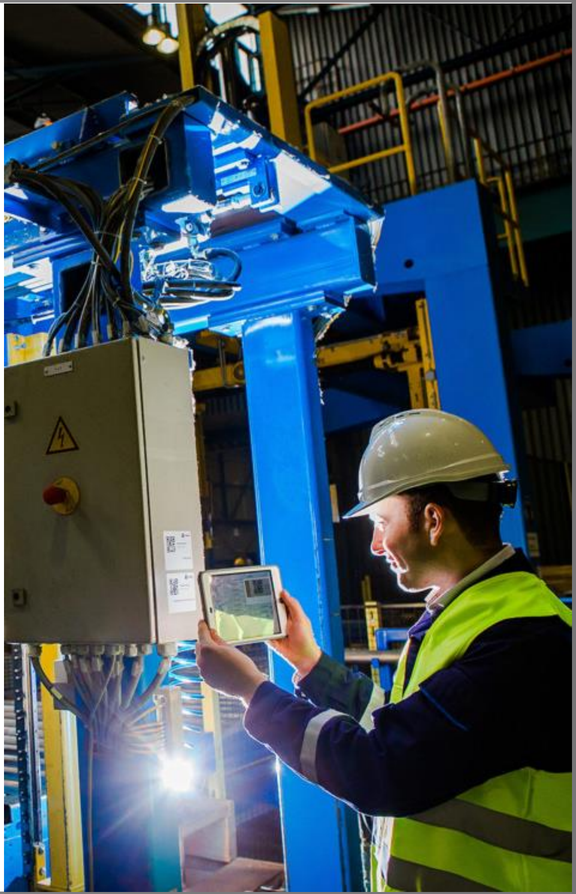
Net profit
FY 2018: still negative, but significantly improved

FY 2018: Strong cash development in fourth quarter

Liquidity
Adjusted free cash flow significantly improved to €56m, DSO improvement by 14 days in Q4
Reported free cash flow close to break-even

Balance sheet / dividend
Solid balance sheet, maintain baseline dividend proposal[1)] of €1.00 per share; share buyback plan completed October 31, 2018

Outlook 2019
Continued organic growth of orders received and revenue
Further significant increase in adjusted EBITA to more than €100m



1) Intended dividend proposal of Executive Board, subject to a corresponding resolution from the Supervisory Board

Overall positive market outlook

Update on market developments (1/2)

	Oil & Gas	Chemicals & Petrochem	Energy & Utilities	Pharma & Biopharma
Conti-nental Europe	▪ Maintenance & field life extension investments continue. ▪ Upgrades along the “European gas network”	▪ Stable maintenance business ▪ Demand for general contractor solutions within maintenance projects ▪ Turn-around pipeline filling fast ▪ Willingness for further contracting-out of maintenance depends on country/region	▪ CHP / district heating ▪ Perceived increase of contracting-out rate in maintenance ▪ Distributed power generation ▪ Focus on renewable energy and digitalization	▪ Few investments but larg projects ▪ Good activity around ‘modules’ ▪ Market remains positive but slowing dynamic ▪ Price-driven maintenance for pharma
North-west Europe	▪ Record profits & cash for many O&G customers ▪ Maintenance backlog being addressed ▪ O&G majors continuing to offload later life assets and investing in new fields	▪ Chemical / downstream investments and expansions continue ▪ IMO 2020 beginning to impact refinery upgrades ▪ Chemical companies becoming more interested in plastic to X technologies	▪ Majors maintaining focus on renewables market ▪ Wylfa nuclear project suspended ▪ Hinkley Point continues on track	

*International Maritime Organization:
date for ships to comply with low sulphur fuel oil requirement

**Electrical & Instrumentation

Significant markets for Bilfinger (based on current revenue)

Oil & Gas and Chemicals & Petrochemicals show positive outlook in our growth regions

Update on market developments (2/2)

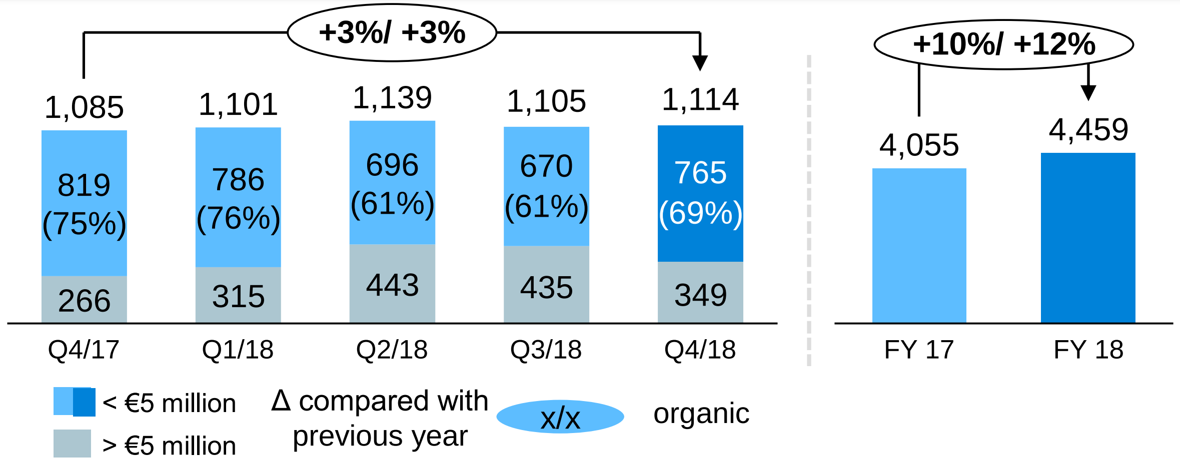
	Oil & Gas	Chemicals & Petrochem	Energy & Utilities	Pharma & Biopharma
North America	▪ Number of active drilling rigs ramp-up and stable ▪ Mid-stream gas investments continue ▪ Gulf of Mexico picking up ▪ LNG new builds announced	▪ American Chemical Council confirms growth with slowing pace in general, however ▪ Gas monetization expansion on the US Gulf Coast continues	▪ Energy storage market is expected to double ▪ Trend towards renewable energy continues and becomes competitive due to decreasing CAPEX	▪ US is largest market in the world ▪ Single use batch processing is rising ▪ Rising investment in Biopharmaceutical R&D (personalized medicines)
Middle East	▪ Oil & Gas upwards trend fueled by NOC investments ▪ Major opportunities in the pipeline in gas and upstream oil ▪ Environmental tech in focus ▪ The OPEX market remains solid and steady	▪ Petrochemical market steady on Opex and upbeat on Capex ▪ Shifting Capex to integrate the value chain to consumer spots leading to multiple ME funded American and Asian projects ▪ Refining under margin pressure; focus on Opex optimization creates opportunity	▪ Energy utility (conventional) under pressure due to arrival of renewable revolution to Middle East as well as excess thermal capacity ▪ Energy efficiency back on the agenda ▪ Electrical Energy demand plateauing	▪ Expected market growth in the next few years due to pressure on localization

Significant markets for Bilfinger (based on current revenue)

Strong order book

Development of orders received

Orders received (€ million)



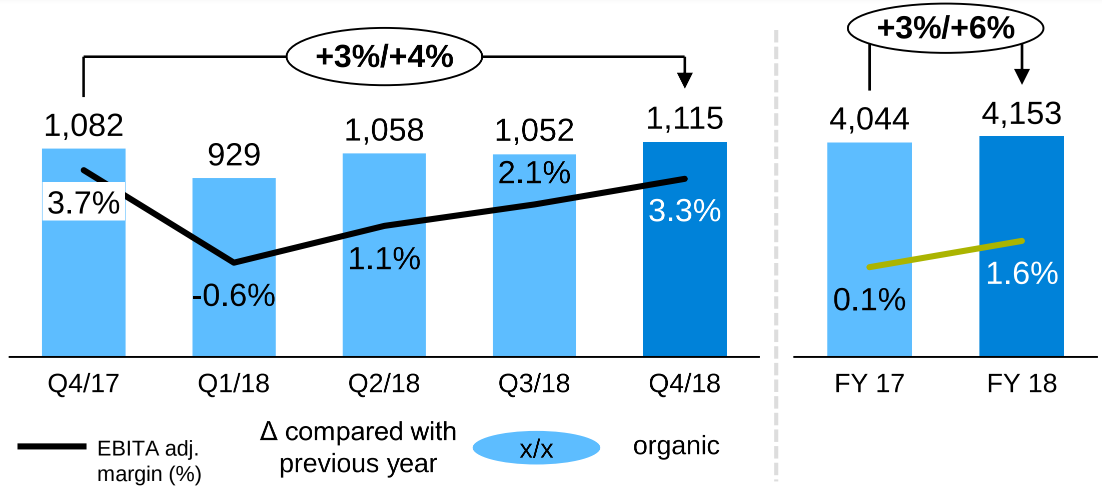
	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18	FY 17	FY 18
Book-to-bill ratio	*1.0*	*1.2*	*1.1*	*1.1*	*1.0*	*1.0*	*1.1*
Order backlog (€ million)	*2,531*	*2,689*	*2,767*	*2,828*	*2,818*	*2,531*	*2,818*

- **Orders received:**
  FY: +10% above prior year (org.: +12.5%), with especially strong order momentum in E&T
- Q4: y-o-y increase in E&T and MMO, decrease in OOP
- **Book-to-bill:** FY 1.07
- **Order backlog:**
  +11% above prior year (org.: +12%)

Revenue growth continues, Q4 remains strongest quarter

Development of revenue and profitability

Revenue (€ million)

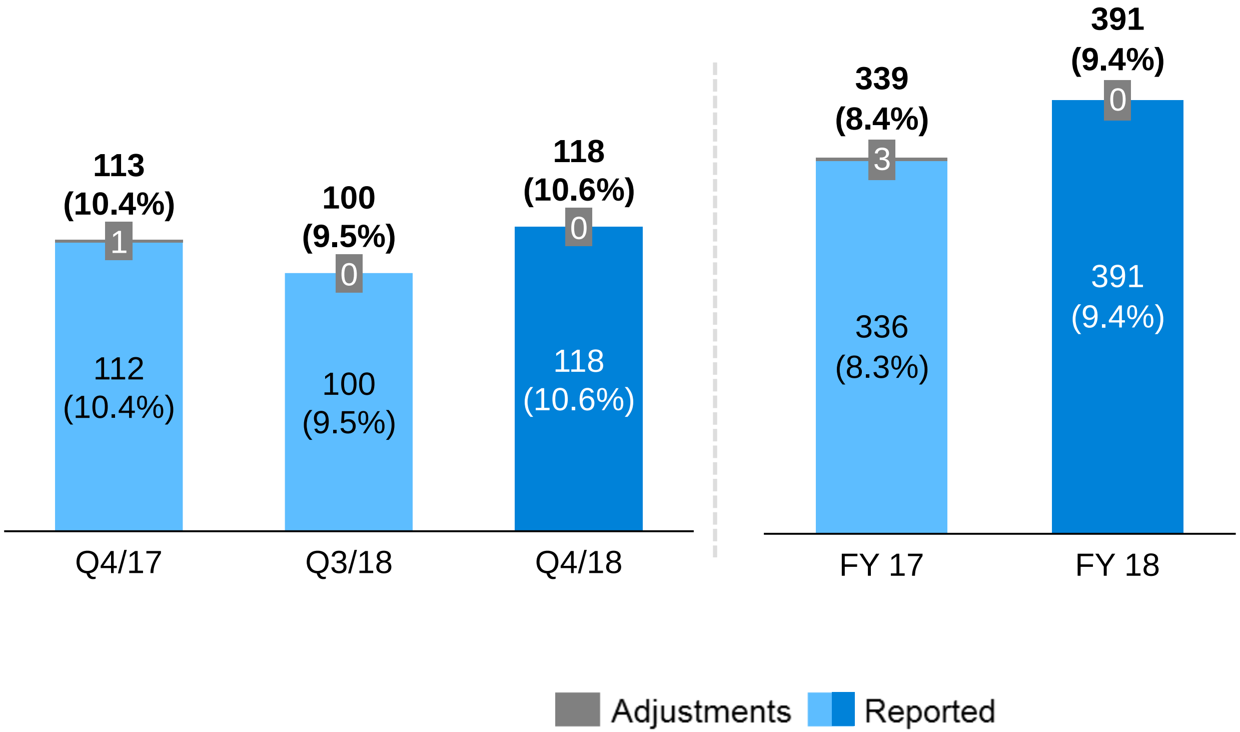


	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18	FY 17	FY 18
EBITA adj. (€ million)	*40*	*-6*	*12*	*22*	*37*	*3*	*65*
EBITA (€ million)	*2*	*-11*	*-1*	*11*	*-6*	*-118*	*-7*

- **Revenue**:
  FY: Increase of +3% (org. +6%), strong book and bill
- **EBITA adj.**:
  FY: Increase as expected, margin up to 1.6%, Q4 strongest quarter with 3.3%
- **Special items**:
  FY: Decrease in special items: €72 million compared to €121 million in prior year, thereof €17 million from non-cash disposal losses;
  Compliance, IT, Restructuring in total €55 million

Gross profit with 20bps quarter-on-quarter improvement

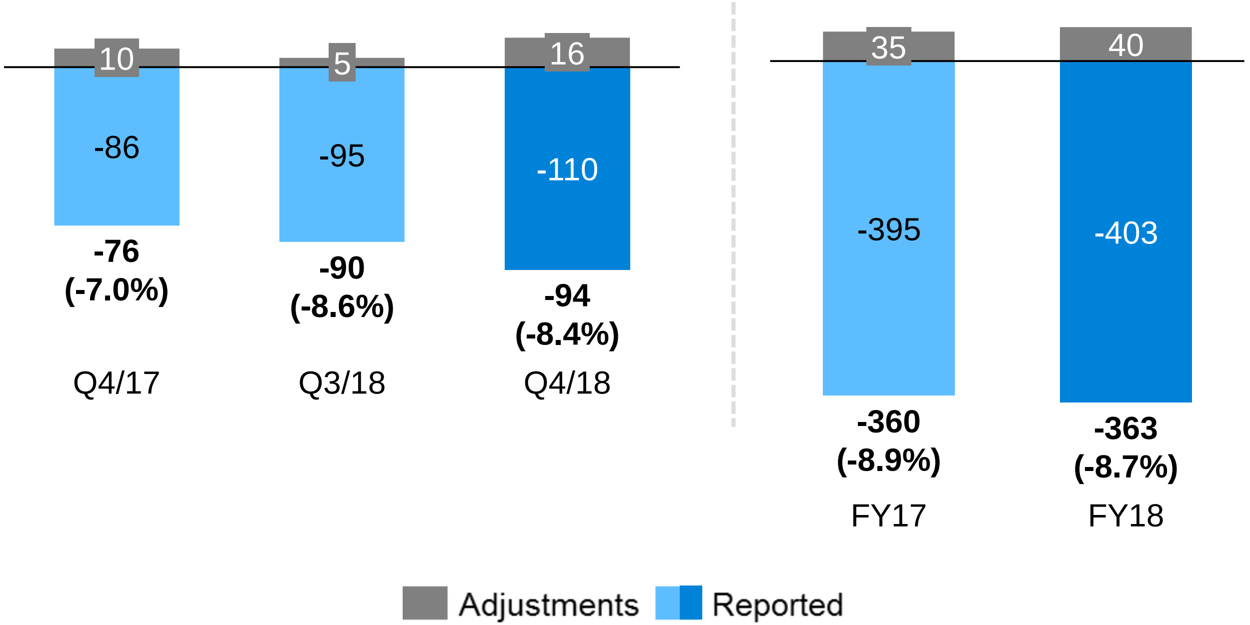
Adjusted gross profit (€ million)



- Full year with y-o-y improvement; prior year was burdened by project risk provisions
- Future improvement by
  - portfolio optimization
  - growth in higher-margin business (marine / nuclear / biopharma)
  - continued execution improvements
- FY 2018:
  - Amortization €5m
  - Depreciation €65m

Stable y-o-y SG&A supporting growth with increased start-up costs of ~20m EUR for business development and digitalization

Adjusted selling and administrative expenses (€ million)

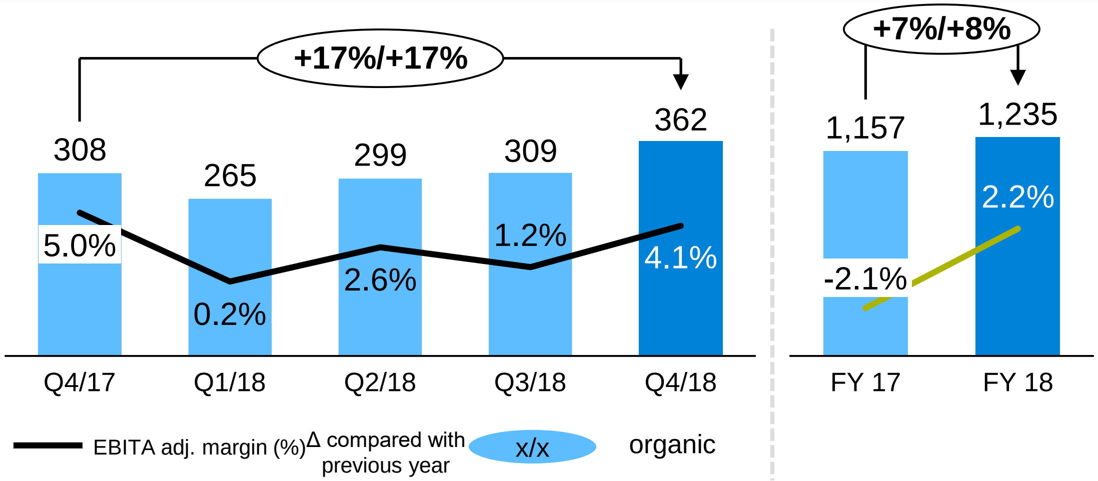


- Adjusted SG&A ratio in FY18 improved to 8.7% despite increased expenses for business development and digitalization
- Q4 2017 was impacted by positive reclassification effects, run-rate has been and still is at approx. € 90m per quarter
- Target 2020 confirmed: 7.5% of revenue
- Positive effects in administration costs from efficiency and process optimization programs
  Further reduction in number of legal entities and strengthening system support

E&T: visible improvements, but still mixed performance within segment

Development of revenue and profitability

Revenue (€ million)

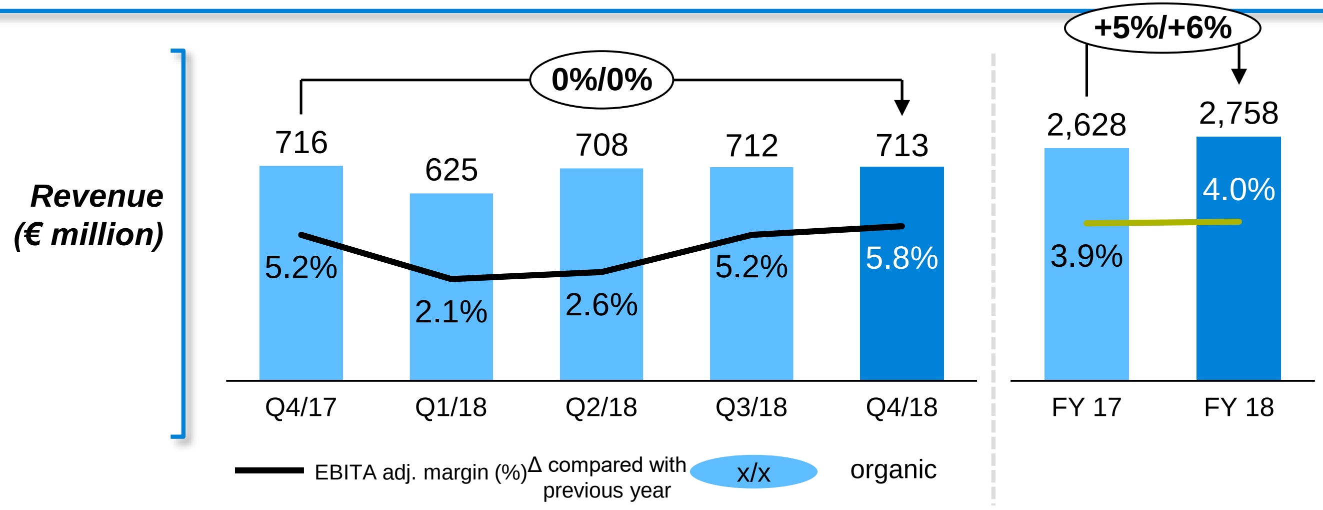


	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18	FY 17	FY 18
Book-to-bill ratio	0.9	1.1	1.3	1.5	1.0	1.0	1.2
EBITA adj. (€ million)	15	1	7	4	15	-24	27

- **Orders received:**
  FY: Strong increase: +32% (org. +34%) compared to low prior-year figure, book-to-bill 1.2
  Q4: +28% (org. +26%); strong performance in Biopharma and North America
- **Order backlog:**
  €1,002 million / +34% (org. +33%)
- **Revenue**:
  FY: Growth of +7% (org. +8%)
  Q4: Increased by +17% (org. +17%), significant contribution from North America
- **EBITA adjusted**:
  Still mixed performance within segment; margin at 2.2%

MMO: Progressive EBITA adj. margin improvement

Development of revenue and profitability

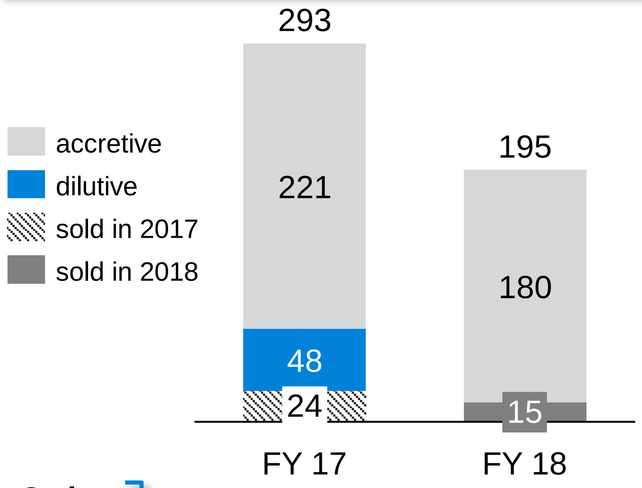


	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18	FY 17	FY 18
Book-to-bill ratio	*1.0*	*1.2*	*1.0*	*0.9*	*1.0*	*1.0*	*1.0*
EBITA adj. (€ million)	*38*	*13*	*19*	*37*	*41*	*103*	*110*

- **Orders received:**
  FY: Increase of +7% (org. 9%), book-to-bill at 1.05
  Q4: Increase of +7% (org. 7%), book-to-bill at Q4 1.03; especially good growth in Oil & Gas and Petrochem
- **Order backlog:**
  €1,717 million, i.e. increase of +6% (org. +6%)
- **Revenue**:
  FY: Increase of +5% (org. +6%), stable development quarter-on-quarter
- **EBITA adjusted margin**:
  FY: 4.0%, i.e. at prior-year level
  Q4: increase to 5.8%, esp. strong in Northwest Europe

OOP1): Two of four "accretive" entities will be sold by end of Q1 2019

Revenue OOP *(€ million)*



	FY 17	FY 18
Orders received (€ million)	*286*	*171*
EBITA adj. (€ million)	*-4*	*-3*

1) Part of Reconciliation Group

- **M&A progress on track:**

  Dilutive: all 13 entities disposed or terminated in 2018

  Accretive: out of four entities, one signed, one closed

  Consequently a book loss of €9 million in Q4 2018 and a book gain of €5 million in Q1 2019

  Related ~€30 million cash-inflow expected in Q1 2019

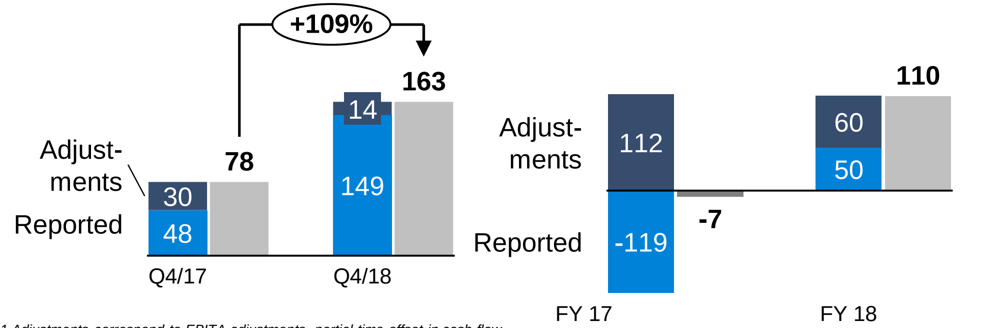
- **Business development:**

  Revenue Q4 declining by -17% due to sale of "dilutive" entities, organic +4%

  EBITA adj. Q4 year-on-year decrease from €4 million to €3 million, mainly due to maintenance postponements in South Africa

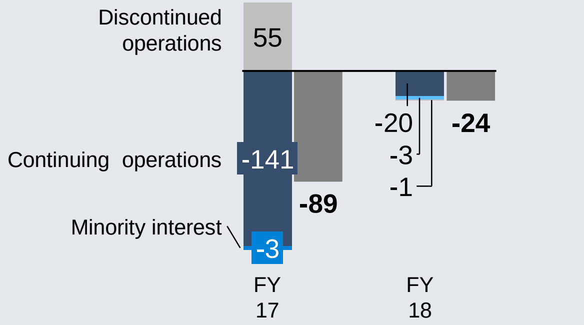
Cash turnaround with exceptionally strong Q4

Adjusted operating cash flow[1] (€ million)

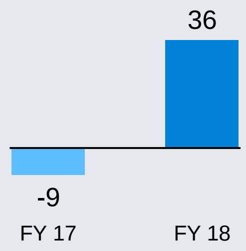


1 Adjustments correspond to EBITA adjustments, partial time offset in cash flow

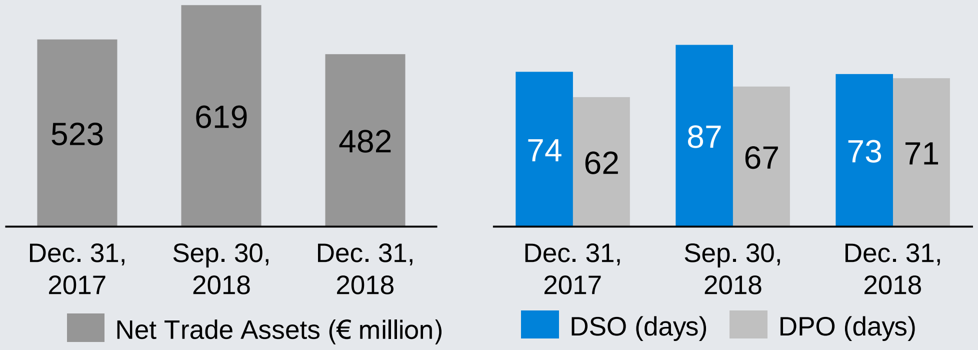
Net profit (€ million)



Adjusted net profit (€ million)

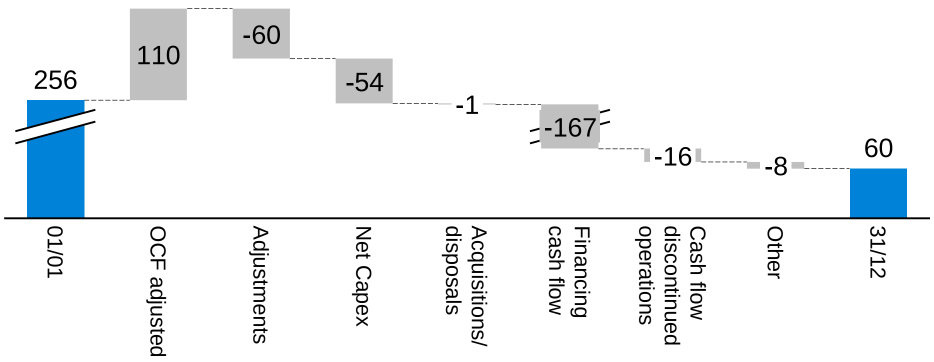


Net Trade Assets (€ million)



DSO: Trade receivables + WIP - advance payments received, DPO: Trade payables

Net cash (€ million)



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