

# Loewe AG: Higher procurement costs and price adjustments lead to negative earnings

- Slight growth in sales revenue in the first half of 2010
- Business associated with the FIFA World Cup fell short of expectations
- Restructuring started
- Löhner resigns on own volition
- Seidl assumes chairmanship of Executive Board

**Kronach, July 29, 2010** – Sales of the Loewe Group in the second quarter of 2010, at EUR 74.0 million, were 4% higher than the 2009 figure of EUR 71.0 million. In the first six months of 2010, Group sales increased moderately by 3% from EUR 143.8 million to EUR 147.4 million. While first half sales in Germany at EUR 84.0 million equaled those of the previous year, export sales grew by 5% to EUR 63.4 million. Despite this moderate increase in sales volume, Loewe recorded an EBIT loss of EUR 4.9 million in the second quarter of 2010 compared to positive EBIT of EUR 0.7 million in the same period of 2009. For the first six months of 2010, EBIT amounts to a loss of EUR 4.1 million, down from positive EBIT of EUR 1.4 million in H1 2009. Price adjustments in the entry level TV segment and higher procurement costs (especially for the LCD panels highly in demand), enabled Loewe to achieve a gross margin of 22.9% in the first six months of 2010. This amount is accordingly 4.8 percentage points lower than the high level of 27.7% in the 2009 period. Furthermore, problems with suppliers prevented Loewe from launching the new Individual TV family in the key European markets until the FIFA World Cup had already started.

"We did not accomplish everything we had planned in recent months. In particular the business associated with the FIFA World Cup in South Africa fell short of our expectations. I accept personal responsibility for this and have requested the Supervisory Board to accept my resignation with immediate effect," said departing Loewe CEO Frieder C. Löhner.

Loewe is responding to the changed market and framework conditions with a restructuring program that has already been initiated in cooperation with an external partner in order to make the company more efficient for the future. Chief Financial Officer Oliver Seidl will assume responsibility for the complete restructuring as CEO and will provisionally be responsible for marketing and sales. "Loewe will continue in the future to systematically pursue the course of combining exceptional product design with the most

innovative technology to create individual solutions. However, in this area we must become more effective in the product development process already and capitalize on our known strengths of speediness, flexibility and innovative uniqueness," underscored Loewe AG's new CEO Oliver Seidl.

A purchasing offensive will result in improvements in earnings in the short term through a review of purchasing conditions. For the medium and long term, Loewe will use increased bundling of volume to key suppliers, the systematic use of platform concepts and improved utilization of potentials in Asian procurement markets to reduce cost of materials on the procurement side on a sustained basis. Furthermore, the central divisions of development, marketing and sales are currently being restructured to ensure more rapid availability of the products in the market and more effective marketing of products. Moreover, strong partnerships with universities, scientific institutions and companies reinforce Loewe's innovative strength. Generally, increased cost discipline is a priority for Loewe across all divisions. All investments not having product, distribution or brand relevance will come under scrutiny.

Loewe will intensify the LED product offensive already started by launching the Individual 55 and 32 inch LCD TVs and two TV product lines with the most advanced LED backlighting in the second half of 2010. Loewe will present 3D-capable televisions and the first BluRay player for 3D television at the most important trade show, IFA. These two products will be launched on the market in the first quarter of 2011. The company will also present user friendly solutions for connecting televisions to the Internet based on the new HbbTV standard at the IFA. "The market acceptance of our current new Loewe Individual line of sets is outstanding. It recently received the coveted IFA PreView Award from more than 250 journalists," said Oliver Seidl. "In recent years, Loewe has built up a strong brand position in the premium segment in the European consumer electronics market and is the market leader for LCD TVs priced 2,000 euros or higher.

The possibility of sustained weakness of the euro could result in future risks arising from the purchasing volume for flat panel displays, which are for the most part settled in U.S. dollars. Accordingly, an appreciation of the U.S. dollar in relation to the euro will lead to higher procurement costs. Hedging instruments are used to hedge a defined purchasing volume on a rolling basis for a period of about 18 months. From the present perspective, however, it cannot be ruled out that the weakness of the euro will have a negative impact on the gross margin in the future.

Loewe continues to expect sales to grow moderately in the current fiscal year 2010. Despite the positive stimuli expected from the International Consumer Electronics Fair (IFA) in Berlin, the launch of new, innovative home entertainment solutions and the early initiation of the restructuring program, it is impossible to rule out negative EBIT for 2010 as a whole from the present perspective. This primarily results from currency and

procurement risks. Loewe anticipates slight sales growth and a positive earnings trend for fiscal 2011. The company's sound capital structure and multiyear financing agreements make it well positioned for the future.

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