Viscofan
The casing company

January-September Results 2018

25 October 2018

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Results report

Main highlights of the January-September 2018 results:

- €577.9 million in revenue. Growth of 2.6% in like-for-like[1] terms, and a 0.5% reduction in reported revenue due to a weak set of exchange rates for the main trading currencies against the euro.
- €153.9 million in EBITDA[2], down 6.6% year on year and down 2.8% in like-for-like[1] terms against a backdrop of rising raw material and energy prices.
- In the year to date, the Company has reported non-recurring positive income of €14.5 million in compensation for patent infringement.
- €88.7 million in net profit, down 3.8% year-on-year.
- Net bank debt[3] at September 2018 stands at €50.5 million, compared with the €41.1 million reported in December 2017.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group: "Market strength in the first half has slowed down in the third quarter due to the decline in emerging markets, specially China and South-East Asia. Although price increases have been successfully implemented and Viscofan keeps on gaining market share, growth expectations for the year are slightly below our initial guidance."

Viscofan Group. January-September 2018

Selected figures. Viscofan Group income statement ('000 €)

	Cumulative				Quarterly			
	Jan-Sep' 18	Jan-Sep' 17	*Change*	*Like-for-like (2)*	Jul-Sep' 18	Jul-Sep' 17	*Change*	*Like-for-like (2)*
Revenue	577,867	580,727	-0.5%	2.6%	192,175	190,429	0.9%	0.7%
Recurring EBITDA (1)	139,417	158,836	-12.2%	-2.8%	44,614	48,241	-7.5%	-5.6%
Recurring EBITDA Margin (1)	*24.1%*	*27.4%*	-3.3 p.p.	-1.5 p.p.	*23.2%*	*25.3%*	-2.1 p.p.	-1.6 p.p.
EBITDA	153,910	164,826	-6.6%		44,614	48,241	-7.5%	
EBITDA Margin	*26.6%*	*28.4%*	-1.8 p.p.		*23.2%*	*25.3%*	-2.1 p.p.	
Operating profit	107,512	122,723	-12.4%		28,983	34,268	-15.4%	
Net profit	88,697	92,209	-3.8%		22,999	26,045	-11.7%	

(1) Recurring results: a) In 2018, the amount excludes the impact recorded in Other operating income of €15.4 million corresponding to the compensation received in 2018 for a dispute against Mivisa Envases S.A.U. due to patent infringement, netted at €0.9 million recorded in Other operating expenses corresponding to the expenses related with this dispute and the acquisition of companies. b) In 2017, it excludes the positive impact of €6.0 million in EBITDA corresponding to the net impact of the compensation for the fire in Germany, once non-recurring costs are deducted for inventory, clearing and cleaning, inter alia.
(2) Like-for-like: Like-for-like growth excludes the impact of the variation in exchange rates, the effect of the change in the consolidation scope and the non-recurring impacts of the business.

[1] Like-for-like: Like-for-like growth excludes the impact of the variation in exchange rates, the effect of the change in the consolidation scope and the non-recurring impacts of the business.
[2] EBITDA = Operating profit (EBIT) + Depreciation of property, plant and equipment and amortization.
[3] Net bank debt = Non-current bank debt + Current bank debt - Cash and cash equivalents

Revenue:

The strong evolution of volumes seen in the first months of the year has slowed down in the third quarter of the year due to a sharp decline in volumes across emerging markets, notably China and other Asian countries, compared with the strength of mature markets in North America and Europe. Thus, market growth for the whole year is in line with the historical range of volume growth.

In a context of rising costs for raw materials and energy, the Viscofan Group has focused its commercial activity to raise prices for a wide base of its customers, especially in the third quarter of the year, aiming to bring them in line with inflation levels within the market.

Thus, the Viscofan Group's revenue in the year to date amounts to €577.9 million, down 0.5% on 9M17. By revenue type, reported casing sales contributed €544.4 million (-0.7% vs. 9M17), while revenue from co-generation power sales totalled €33.5 million (+3.1% vs. 9M17).

In like-for-like terms[1], revenue was up 2.6% in 9M18 vs. 9M17, boosted by increased volumes and improved co-generation prices. Meanwhile, new acquisitions contributed +2.0 p.p. to Group growth in 9M18, while foreign exchange fluctuations eroded growth by -5.1 p.p. in 9M18.

Revenue amounted to €192.2 million in the third quarter, up 0.9% on the third quarter of 2017. By revenue type, reported casing sales contributed €180.3 million (+0.8% vs. 3Q17), driven by the increase in prices and the incorporation of Supralon. Meanwhile, revenue from co-generation sales amounted to €11.9 million (+2.7% vs. 3Q17).

In like-for-like terms[1], revenue was up 0.7% in 3Q18 vs. 3Q17, i.e. stripping out the impact of foreign exchange differences (which eroded 3Q18 growth by -1.7 p.p.) and excluding also the changes in the consolidation scope, which contributed +1.8 p.p. of growth in 3Q18.

The breakdown and geographical performance of revenue[4] through to September 2018 is as follows:

- Europe and Asia (56.7% of the total): Reported revenue came to €327.4 million, up 3.2% on 9M17. In like-for-like terms, revenue was up 1.1% in 9M18 vs. 9M17, but was down 4.8% in 3Q18 vs. 3Q17, largely due to the worse performance from China and South-East Asia.
- North America (28.9% of the total): Revenue amounted to €167.1 million, down 4.7% on 9M17, caused by the weakness of the US$ against the euro. In like-for-like terms, revenue was up 2.1% on 9M17. The Group performed strongly in the third quarter, posting like-for-like growth of 6.7% vs. 3Q17.
- Latin America (14.4% of the total): Revenue amounted to €83.3 million, down 5.4% on 9M17, caused by the weakness of the Brazilian real against the euro. In like-for-like terms, revenue from Latin America was up 9.2% in 9M18 vs. 9M17.

Other operating income

Other operating income through to September came to €19.9 million, including €8.5 million received in January 2018 as compensation for patent infringement and a further €6.9 million recorded in June 2018 resulting from the agreement reached with Crown Food España S.A.U. to end the legal action between both companies.

Operating expenses

Consumption costs[5] rose by 7.0% in 9M18 vs. 9M17 to €162.0 million and by 1.5% in 3Q18 vs. 3Q17 to reach €56.3 million, due to increased costs for raw materials, mainly caustic soda and glycerine, and co-generation gas.

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[4] Revenue per origin of sale

[5] Cost of consumption = Net purchases +/- Changes in inventory of finished goods and work in progress

The gross margin[6] for the first nine months of the year came to 72.0% (-1.9 p.p. vs. 9M17). In quarterly terms, the gross margin stood at 70.7% (-0.2 p.p. vs. 3Q17). The decision to raise prices has partly offset the increased costs for raw materials, driving to a lower decline in the gross margin when compared with previous quarters.

Personnel expenses in 9M18 grew by 1.6% vs. 9M17 to reach €141.8 million. The average workforce was up 2.7% to 4,658 people, driven by the inclusion of staff from Supralon companies in Europe and the increase in personnel recruited, most notably in Spain (+9% compared to the previous year) following the commissioning of the new plant. Personnel expenses amounted to €46.7 million in 3Q18, up 1.5% vs. 3Q17.

Other operating expenses advanced 0.4% in the first nine months of the year when compared with 9M17 to reach €140.7 million, with energy supply costs growing by 1.6% vs. 9M17.

In the third quarter, other operating expenses rose 8.6% to €46.3 million. This increase is partly due to higher plant costs and other costs related with the commissioning of a new cellulose production module featuring cutting-edge technology at the Cáseda plant (Spain).

Meanwhile, energy prices rose sharply in the third quarter, especially in Spain, leading to a 12.3% increase in energy supply costs for the Group vs. 3Q17.

Operating profit and Net profit

Reported EBITDA in 9M18 totalled €153.9 million, down 6.6% on the previous year. This is largely due to the increase in the cost of raw materials, plus additional fixed costs and personnel costs largely stemming from the commissioning of the new plant in Spain, as discussed previously. Moreover, the negative performance of foreign exchange rates against euro sapped more than €15 million or 9.6 p.p. from the total EBITDA reported for 9M18.

The lower sales volumes in the third quarter caused mainly by the slowdown in China and South-East Asia fed through to EBITDA in the third quarter, which came to €44.6 million, down 7.5% on the EBITDA reported in the same quarter of 2017.

Cumulative depreciation and amortisation costs in the year to date have risen by 10.2% vs. 9M17 to €46.4 million and by 11.9% in 3Q18 vs. 3Q17 to reach €15.6 million.

As a result, the Group's operating profit in the year to date comes to €107.5 million, 12.4% less than in 9M17, with €29.0 million reported in the third quarter (-15.4% vs. 3Q17).

In 9M18, the net financial result was positive at +€2.3 million due to the positive exchange differences of +€3.6 million, which compares with the net financial loss of -€8.3 million in 9M17 when foreign exchange differences were negative at -€7.0 million.

Profit before tax through to September 2018 amounted to €109.8 million, with corporate income tax totalling €21.1 million at an effective tax rate of 19.2% (19.4% in the same period in the previous year).

As a result, net profit through to September was €88.7 million, down 3.8% year-on-year, with €23.0 million of this figure relating to 3Q18 (-11.7% vs. 3Q17).

Investment

The investment projects planned for this year remain on track, with the aim of investing a total of €75 million in 2018, of which €44.1 million has already been invested in the year to date (€79.4 million in 9M17).

[6] Gross margin = (Revenue - Consumption costs) / Revenue

The Group's new technology is able to produce metres more efficiently and at a faster pace, with a high degree of customer satisfaction. New machinery was installed in the third quarter of the year, effectively increasing production volume aiming to obtain production savings looking ahead to 2019 and 2020.

Financial liabilities

Solid cash generation has allowed the Group to lower its net bank debt to €50.5 million when compared with the previous quarter.

Dividend payment in 2018

On 22 March 2018, the Viscofan Group paid an extraordinary dividend of €0.13 per share, which corresponds to the contribution of the net profit of the year 2018 of the one-off gain from the Supreme Court ruling in the action brought by Industrias Alimentarias de Navarra S.A.U. against Mivisa Envases S.A.U. (now Crown Food España S.A.U.) for the infringement of a patent which, according to the sale contract of Industrias Alimentarias de Navarra, S.A.U., belongs to Viscofan S.A.

Also, as per the distribution of profit from 2017 approved by the General Shareholders' Meeting, in June 2018 the final dividend of €0.92 per share was paid (total of €42.9 million). This final dividend, coupled with the interim dividend paid in December 2017 and the bonus for attending the Shareholders' Meeting, makes for €1.55 per share, 6.9% more than in the previous year.

Viscofan Group Profit and loss account. 9M18 ('000 €)

	Jan-Sep' 18	Jan-Sep' 17	*Change*
Revenues	577,867	580,727	-0.5%
Other operating income	19,910	13,730	45.0%
Self-constructed assets	192	195	-1.5%
Variation in stocks of finished products and work-in-progress	24,659	24,034	2.6%
Net purchases	-186,623	-175,373	6.4%
Personnel expenses	-141,814	-139,516	1.6%
Other operating expenses	-140,665	-140,100	0.4%
Capital grants	468	478	-2.1%
Impairment and results coming from disposals of non-current assets	-84	651	c.s
Other results	0	0	n.s.
EBITDA	153,910	164,826	-6.6%
EBITDA margin	*26.6%*	*28.4%*	*-1.8 p.p.*
Amortization and depreciation	-46,398	-42,103	10.2%
Operating profit	107,512	122,723	-12.4%
Operating profit margin	*18.6%*	*21.1%*	*-2.5 p.p.*
Financial incomes	247	99	149.5%
Financial expenditures	-1,635	-1,410	16.0%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	3,616	-7,016	c.s
Impairment and results coming from disposals of financials assets	23	0	n.s.
Financial results	2,251	-8,327	c.s
Profit from associated companies	0	0	n.s.
Profit before taxes	109,763	114,396	-4.0%
Taxes	-21,066	-22,187	-5.1%
Profit after taxes from continued operations	88,697	92,209	-3.8%
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	88,697	92,209	-3.8%
a) Net profit attributable to the parent comany	88,782	92,280	-3.8%
b) Net profit attributable to minority interests	-85	-71	19.7%

Viscofan Group Profit and loss account. 3Q18 ('000 €)

	Jul-Sep' 18	Jul-Sep' 17	*Change*
Revenues	192,175	190,429	0.9%
Other operating income	1,653	1,240	33.3%
Self-constructed assets	64	63	1.6%
Variation in stocks of finished products and work-in-progress	886	1,503	-41.1%
Net purchases	-57,196	-56,973	0.4%
Personnel expenses	-46,723	-46,045	1.5%
Other operating expenses	-46,337	-42,678	8.6%
Capital grants	153	157	-2.5%
Impairment and results coming from disposals of non-current assets	-61	545	c.s
Other results	0	0	n.s.
EBITDA	44,614	48,241	-7.5%
EBITDA margin	*23.2%*	*25.3%*	*-2.1 p.p.*
Amortization and depreciation	-15,631	-13,973	11.9%
Operating profit	28,983	34,268	-15.4%
Operating profit margin	*15.1%*	*18.0%*	*-2.9 p.p.*
Financial incomes	83	36	130.6%
Financial expenditures	-856	-498	71.9%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	723	-2,144	c.s
Impairment and results coming from disposals of financials assets	-1	0	n.s.
Financial results	-51	-2,606	-98.0%
Profit from associated companies	0	0	n.s.
Profit before taxes	28,932	31,662	-8.6%
Taxes	-5,933	-5,617	5.6%
Profit after taxes from continued operations	22,999	26,045	-11.7%
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	22,999	26,045	-11.7%
a) Net profit attributable to the parent comany	23,024	26,068	-11.7%
b) Net profit attributable to minority interests	-25	-23	8.7%

Consolidated balance sheets ('000 €)

	Sep '18	Dec '17	*Change*
Intangible assets	19,733	19,293	2.3%
Goodwill	6,764	4,906	37.9%
Others intangible asset	12,969	14,387	-9.9%
Tangible assets	462,874	469,799	-1.5%
Real state investments	0	0	n.s.
Investment accounting using the equity method	0	0	n.s.
Non-current financial assets	3,899	9,149	-57.4%
Deferred tax assets	14,065	17,472	-19.5%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	500,571	515,713	-2.9%
Non-current assets held for sale	0	0	n.s.
Inventories	271,121	238,530	13.7%
Trade and other receivables	182,015	172,134	5.7%
Trade debtors	147,165	141,165	4.3%
Other debtors	25,102	27,135	-7.5%
Current tax assets	9,748	3,834	154.3%
Other financial current assets	2,480	3,557	-30.3%
Other current assets	5,451	2,727	99.9%
Cash and cash equivalents	47,956	28,143	70.4%
CURRENT ASSETS	509,023	445,091	14.4%
TOTAL ASSETS= EQUITY AND LIABILITIES	1,009,594	960,804	5.1%
Share capital	32,623	32,623	0.0%
Share issue premium	12	12	0.0%
Reserves	700,905	650,573	7.7%
Treasury shares	0	0	n.s.
Profit for previous years	0	0	n.s.
Received from associates	0	0	n.s.
Net profit of the period attributable to the parent company	88,782	122,101	-27.3%
Less: Interim dividend	-6,058	-28,894	-79.0%
Other equity instruments	0	0	n.s.
SHAREHOLDER´S FUNDS	**816,264**	**776,415**	**5.1%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	1,322	1,772	-25.4%
Currency translation differences	-64,543	-50,641	27.5%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**-63,221**	**-48,869**	29.4%
SHAREHOLDERS' EQUITY	753,043	727,546	3.5%
Minority interest	50	135	-63.0%
EQUITY	753,093	727,681	3.5%
Grants	2,304	2,482	-7.2%
Non-current provision	22,444	22,235	0.9%
Non-current financial liabilities	78,235	74,336	5.2%
Financial debt	64,511	62,679	2.9%
Other financial liabilities	13,724	11,657	17.7%
Deferred tax liabilities	17,482	20,514	-14.8%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	120,465	119,567	0.8%
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	5,391	4,999	7.8%
Current financial liabilities	42,383	19,386	118.6%
Financial debt	33,941	6,571	416.5%
Other financial liabilities	8,442	12,815	-34.1%
Trade creditor and other payable accounts	87,698	88,596	-1.0%
Trade creditors	55,775	58,007	-3.8%
Other creditors	22,099	24,072	-8.2%
Current tax liabilities	9,824	6,517	50.7%
Other current liabilities	564	575	-1.9%
CURRENT LIABILITIES	136,036	113,556	19.8%
NET BANK DEBT / (NET BANK CASH)	50,496	41,107	22.8%

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€)	9M18	9M17	% Change	End period (Currency/€) Sep 18	Dec 17	% Change
Euro	1.000	1.000	0.0%	1.000	1.000	0.0%
US Dollar	1.195	1.113	-6.9%	1.158	1.199	3.6%
Canadian Dollar	1.538	1.453	-5.5%	1.506	1.504	-0.2%
Mexican Peso	22.742	20.993	-7.7%	21.780	23.661	8.6%
Brazilian real	4.297	3.532	-17.8%	4.635	3.967	-14.4%
Czech crown	25.570	26.552	3.8%	25.731	25.535	-0.8%
British Pound	0.884	0.873	-1.3%	0.887	0.887	0.0%
Serbian Dinar	118.245	122.182	3.3%	118.418	118.473	0.0%
Chinesse yuan remminbi	7.771	7.570	-2.6%	8.011	7.802	-2.6%
Uruguayan Peso	35.954	31.748	-11.7%	38.449	34.548	-10.1%

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All results information can be consulted on Viscofan Group website.

Disclaimer

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This document may contain additional non-compulsory forward-looking statements on intentions or expectations of the Company as of the date of its publication whose only purpose is to provide further information on perspectives on future performance.

Such forward-looking statements do not constitute any guarantee of future performance and involve risks and uncertainties as well as other important factors that could cause actual developments or results to differ essentially from those expressed in our forward-looking statements.

Analysts and investors in particular as well as any other persons or entities who must take decisions or give advise on investments in the Company should not place undue reliance on those forward-looking statements.

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is unaudited and, therefore, subject to potential future modifications

Alternative Performance Measures

The Viscofan Group has included in this report various Alternative Performance Measures (hereinafter APMs), as established in APM Guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415es) and adopted by the National Securities Market Commission (the CNMV).

This involves a series of measures designed using the financial information of Viscofan, S.A. and its subsidiary companies, and they are complementary to the financial information drawn up in agreement with International Financial Reporting Standards (IFRS). Under no circumstance should they be assessed separately or considered a substitute.

They are measures used internally in decision making processes and which the Board of Directors decides to report externally as it considers they provide additional information that is useful in the analysis and assessment of the Viscofan Group's results and its financial situation.

The APMs included in this report are as follows:

- The EBITDA, or operating profit before depreciation and amortisation, is calculated excluding depreciation and amortisation costs from the operating profit. The EBITDA is a measure that is commonly reported and widespread among analysts, investors and other stakeholders in the casing industry. The Viscofan Group uses this measure to monitor the business' development and to establish operational and strategic objectives in Group companies. However, it is not a defined indicator in IFRS and, therefore, it may not be compared with other similar indicators employed by other companies in their reports.

- Cost of consumption: This is calculated as the net amount of supplies plus the change in finished and unfinished products. Management monitors cost of consumption as one of the main cost components for Viscofan. The weight of net revenue for this cost component on revenue or gross margin is also analysed to study the operating margin's development. However, it is not a defined indicator in IFRS and consumption costs must not be considered a substitute for the different items in the profit and loss account that comprise them. Furthermore, it may not be compared with other similar indicators employed by other companies in their reports.

- Net bank debt: This is calculated as non-current borrowings plus current borrowings netted from cash and cash equivalents. Management considers net bank debt to be relevant to shareholders and other stakeholders as it provides an analysis of the Group's solvency. However, net bank debt should not be considered a substitute for gross bank debt in the consolidated balance sheet, nor other liability or asset items that may affect the Group's solvency.

- Like-for-like revenue and EBITDA: This measure excludes the impact of exchange rate variations on the comparable previous period, the effect of the change in the consolidation scope, and the non-recurring impacts of the business in order to present a homogeneous comparison of the Viscofan Group's development. However, like-for-like revenue and EBITDA are not defined indicators in IFRS and, therefore, they may not be compared with other similar indicators employed by other companies in their reports, nor may they be considered a substitute for the business development indicators defined in IFRS.