Results
January-March 2020

24 April 2020

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Results note

Main highlights of the January-March 2020 results:

- José Domingo de Ampuero y Osma, Chairman of Viscofan Group: "I would like to highlight the commitment of the more than 4,900 people who make up Viscofan within a situation of need caused by the COVID-19 pandemic. Their immense effort together with our wide geographical and product offering and the strength of our production and logistics model have allowed us to ensure the supply of casings to our customers around the world, thus fulfilling our responsibility as an essential food company."

- €222.1 million in revenue, 10.4% higher than the previous year.

- €52.0 million in reported EBITDA[1], a growth of 13.3% compared to the previous year.

- €27.4 million in reported Net Profit, up 20.3% on the previous year.

- €28.9 million of net bank debt[2] at March 2020, a decrease of 32.2% compared to €42.5 million at December 2019 thanks to the strength of operating results and lower investment needs.

- 1Q20 results in line with our growth prospects for the year 2020.

Viscofan. Response to COVID-19

Given the situation caused by the COVID-19 pandemic, the Viscofan Group has focused on three main areas: protecting the health of workers; ensuring the supply of our products to the food chain; and helping prevent and combat the expansion of COVID-19 and its effects.

In protecting health, hygiene measures have been reinforced, the mandatory use of facial masks, social distancing measures and the frequency of cleaning and disinfection has increased. In addition, own health personnel services in factories have increased, workers have frequently had their temperature measured, teleworking has been implemented when possible and close communication has been maintained with the workforce.

These measures, together with the commitment of the team of professionals working at Viscofan are allowing Viscofan to fulfil its greatest responsibility as an essential food company. In this respect, all the Group's plants have maintained production, thus ensuring supply to all our customers around the world, while also making it possible to meet certain increases in demand that are taking place in some countries.

Additionally, personal protection equipment has been purchased for our employees around the world, and more than 170,000 masks have been donated to various institutions to protect people who may be more exposed to this new virus.

Performance of the business

On December 2019, Viscofan Group incorporated the collagen casing companies in the United States and Canada, which were acquired from Nitta Gelatin Inc. (renamed as Viscofan Collagen USA Inc. and Viscofan Collagen Canada Inc.) improving customer proximity and completing the productive portfolio with this technology in North America. In the first quarter of 2020, the acquired companies have contributed with €7.1 million to revenue and with €0.2 million to EBITDA.

[1] EBITDA = Operating profit (EBIT) + Depreciation of property, plant and equipment and amortization.
[2] Net bank debt= Current and non-current bank debt - Cash and cash equivalents.

Since January 2020, the Group's activity has been influenced by the evolution of COVID-19 that started in China, spread throughout Asia and later on throughout the European and American continent. In this context, the Group has maintained intense commercial and operational activity that has allowed all the Group's plants to maintain production while applying the protocols to combat COVID-19, increasing the supply of raw materials, semi-finished and finished product in different locations and the logistics and supply chain activity has been strengthened, thus allowing us to meet customer orders and guarantee the safety of our people.

1Q20. Selected figures. Viscofan Group income statement ('000 €)

	Reported			
	Jan-Mar' 20	Jan-Mar' 19	*Change*	*Like- for - like*
Revenue	222,105	201,246	10.4%	7.2%
EBITDA	51,986	45,869	13.3%	12.2%
EBITDA Margin	*23.4%*	*22.8%*	0.6 p.p.	1.0 p.p.
Operating profit	33,307	28,055	18.7%	
Net profit	27,363	22,754	20.3%	

Revenue:

Revenue in the first quarter reached €222.1 million, 10.4% more than 1Q19 thanks to the higher volumes of casings, the improvement in the price mix and the incorporation of Nitta Casings.

Of this amount, €211.7 million relate to casing sales (+10.7% vs. 1Q19) and €10.4 million to revenue from the sale of co-generation energy (+4.3% vs. 1Q19).

In like-for-like terms[3], revenue in 1Q20 grew by 7.2% vs. 1Q19, that is, without taking into account the impact of the consolidation scope changes, which provide +3.6 p.p. of growth, and the variation in exchange rates, which eroded -0.4 p.p. of growth, in a quarter in which the significant depreciation of the Brazilian Real against the Euro (-12.9% on average) is partially offset by the appreciation of the US$ against the Euro (+3.0% on average).

The geographical breakdown[4] of revenue in 1Q20 is as follows:

- Europe and Asia (53.4% of the total): Reported revenue reached €118.5 million, 6.9% higher than 1Q19 and 6.6% in like-for-like terms.

- North America (31.8% of the total): Revenue amounted to €70.7 million, showing an increase of 21.6% compared to 1Q19 and 6.3% in like-for-like terms.

- Latin America (14.8% of the total): Revenue stood at €32.9 million, a growth of 2.2% compared to 1Q19 in reported terms eroded by the weakness of the Brazilian Real, while it grew by 11.1% in like-for-like terms.

Operating expenses

Consumption costs[5] for the quarter grew by 5.8% to €61.1 million. Thus, gross margin[6] for the first quarter stands at 72.5%, an improvement of +1.2 p.p. compared to the previous year due to the operating leverage of the higher volumes of casings and the savings of the new cellulose and fibrous technology installed in Cáseda.

[3] Like-for-like: Comparable growth excludes the impact of the variation of the different exchange rates, changes in the scope of consolidation and non-recurring results of the business.
[4] Revenue by origin of sale
[5] Consumption costs = Net purchases +/- Changes in inventory of finished goods and work in progress.
[6] Gross margin = (Revenue - Consumption costs) / Revenue

The average workforce as of March 2020 stood at 4,830 people, showing an increase of 3.4% compared to the previous year, while it is -1.0% lower at constant perimeter, that is, without taking into account the Nitta Casings staff in the United States and Canada. In the first quarter personnel expenses reached €57.2 million, a growth of 11.9% vs. 1Q19 mainly due to the incorporation of Nitta Casings personnel in the United States and Canada in December 2019, excluding said acquisition, personnel expenses grew by 3.7%.

Other operating expenses grew by 9.7% in 1Q20 compared to 1Q19 to €52.9 million due to the incorporation of new companies and higher plant expenses, including cleaning and environmental costs; and selling expenses, including higher transportation costs. In addition, energy supply expenses decreased by 5.0% compared to the same period of the previous year.

Operating profit

The reported EBITDA for the quarter grew by 13.3% to €52.0 million driven by higher revenue in a context of high productive activity and savings from new cellulose and fibrous technology. Excluding the impact of the variation in exchange rates and the companies acquired, EBITDA grew by 12.2% compared to the previous year.

The reported EBITDA margin for 1Q20 stood at 23.4% and at 23.8% in like-for-like terms, a growth of +0.6 p.p. and +1.0 p.p. respectively compared to 1Q19.

Amortization and depreciation expense in 1Q20 was €18.7 million, 4.9% higher than 1Q19, showing a slower growth pace than the double-digit rates of previous years, once the investment needs of the MORE TO BE Strategic Plan are reduced.

Thus, Operating Profit in the first quarter was €33.3 million, 18.7% higher than 1Q19.

Financial results

In the first quarter of 2020, the Net financial result was positive with +€2.7 million compared to a positive Net financial result of +€0.6 million in 1Q19. This increase is mainly due to the higher positive exchange rate differences, +€3.0 million in 1Q20 compared to +€1.0 million in 1Q19.

Net Profit

Profit before taxes for the first quarter of 2020 stood at €36.0 million with a Corporate Tax expense of €8.7 million (a growth of 47.8% vs. 1Q19) placing the effective tax rate at 24.1% (20.5% in the same period of the previous year).

Finally, reported Net profit reached €27.4 million, 20.3% higher than the same quarter of the previous year.

Investment

The current situation has not altered the investment plans for the year as a whole, where the objective of investing €54 million in 2020 is maintained. The investment need in absolute terms is lower than in previous years, in line with the plan envisaged in the second phase of the MORE TO BE period (2019-2020) after the significant investment effort made in the first phase of the plan (2016-2018).

Thus, a total of €5.1 million was invested in this first quarter, less than €7.6 million in 1Q19.

Financial liabilities

Within the action plan against COVID-19 Viscofan has increased the use of credit facilities, increasing the cash available to €86.4 million with the aim of having greater guarantees against contingencies that may arise in an environment of such uncertainty as the current one.

Nevertheless, the strength of the results and the lower investment needs translate into a sound cash flow generation that has allowed us to continue reducing our indebtedness.

Net bank debt stands at €28.9 million, showing a decrease of 32.2% compared to €42.5 million registered in December 2019, while net financial debt[7] at the end of March 2020 stood at €69.0 million compared to €89.4 million at December 2019.

[7] Current and non-current bank debt + Current and non-current financial liabilities - Current financial assets - Cash and cash equivalents

Viscofan Group profit and loss account. 1Q20 ('000 €)

	Jan-Mar' 20	Jan-Mar' 19	*Change*
Revenues	222,105	201,246	10.4%
Other operating income	964	1,523	-36.7%
Self-constructed assets	72	64	12.5%
Variation in stocks of finished products and work-in-progress	8,501	9,843	-13.6%
Net purchases	-69,630	-67,615	3.0%
Personnel expenses	-57,241	-51,132	11.9%
Other operating expenses	-52,873	-48,207	9.7%
Capital grants	130	150	-13.3%
Impairments	-7	-58	-87.9%
Results coming from disposals of non-current assets	-35	55	c.s
Other results	0	0	n.s.
EBITDA	51,986	45,869	13.3%
EBITDA margin	*23.4%*	*22.8%*	*0.6 p.p.*
Amortization and depreciation	-18,679	-17,814	4.9%
Operating profit	33,307	28,055	18.7%
Operating profit margin	*15.0%*	*13.9%*	*1.1 p.p.*
Financial incomes	91	57	59.6%
Financial expenditures	-364	-487	-25.3%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	3,002	998	200.8%
Impairment and results coming from disposals of financials assets	0	0	n.s.
Financial results	2,729	568	380.5%
Profit from associated companies	0	0	n.s.
Profit before taxes	36,036	28,623	25.9%
Taxes	-8,673	-5,869	47.8%
Profit after taxes from continued operations	27,363	22,754	20.3%
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	27,363	22,754	20.3%
a) Net profit attributable to the parent comany	27,363	22,765	20.2%
b) Net profit attributable to minority interests	0	-11	n.s.

Consolidated balance sheets ('000 €) - ASSETS

	Mar'20	Dec '19	*Change*
Intangible assets	19,138	19,635	-2.5%
Goodwill	2,745	2,671	2.8%
Others intangible asset	16,393	16,964	-3.4%
Tangible assets	485,042	514,326	-5.7%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	0	0	n.s.
Non-current financial assets	2,114	2,376	-11.0%
a) At fair value through profit and loss	633	633	0.0%
Of which "Designated upon initial recognition"	633	633	0.0%
b) At fair value with changes in other comprehensive income	0	0	n.s.
Of which "Designated upon initial recognition"	0	0	n.s.
c) At amortized cost	1,481	1,743	-15.0%
Non-current derivatives	0	96	n.s.
Cash flow hedges	0	96	n.s.
Others	0	0	n.s.
Deferred tax assets	26,449	28,432	-7.0%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	532,743	564,865	-5.7%
Non-current assets held for sale	0	0	n.s.
Inventories	278,671	277,390	0.5%
Trade and other receivables	175,255	184,347	-4.9%
Trade debtors	156,794	167,341	-6.3%
Other debtors	15,640	15,484	1.0%
Current tax assets	2,821	1,522	85.3%
Current financial assets	821	815	0.7%
a) At fair value through profit and loss	746	746	0.0%
Of which "Designated upon initial recognition"	746	746	0.0%
b) At fair value with changes in other comprehensive income	0	0	n.s.
Of which "Designated upon initial recognition"	0	0	n.s.
c) At amortized cost	75	69	8.7%
Current derivatives	276	2,768	-90.0%
Cash flow hedges	276	2,721	-89.9%
Others	0	47	n.s.
Other current assets	5,969	3,454	72.8%
Cash and cash equivalents	86,368	51,370	68.1%
CURRENT ASSETS	547,360	520,144	5.2%
TOTAL ASSETS	1,080,103	1,085,009	-0.5%

Consolidated balance sheets ('000 €) - EQUITY AND LIABILITIES

	Mar'20	Dec '19	*Change*
Share capital	32,550	32,550	0.0%
Share issue premium	12	12	0.0%
Reserves	843,738	737,899	14.3%
Treasury shares	-6,031	-6,487	-7.0%
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	27,363	105,577	-74.1%
Less: Interim dividend	-30,128	-30,127	0.0%
Other equity instruments	262	262	0.0%
SHAREHOLDER´S FUNDS	**867,766**	**839,686**	**3.3%**
Items that are not reclassified to profit or loss for the period	0	0	n.s.
Equity instruments through other comprehensive income	0	0	n.s.
Others	0	0	n.s.
Items that may subsequently be reclassified to profit or loss for the period	-109,462	-55,320	97.9%
Hedge transactions	-5,104	1,662	c.s.
Currency translation differences	-104,358	-56,982	83.1%
Share in other comprehensive income for investments in joint ventures and others	0	0	n.s.
Debt instruments at fair value through other comprehensive income	0	0	n.s.
Others	0	0	n.s.
ACCUMULATED OTHER COMPREHENSIVE INCOME	-109,462	-55,320	97.9%
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY	758,304	784,366	-3.3%
Non-controlling interests	0	0	n.s.
EQUITY	758,304	784,366	-3.3%
Grants	1,581	1,551	1.9%
Non-current provision	33,686	33,602	0.2%
Non-current financial liabilities	84,786	86,301	-1.8%
Bank debt	54,177	55,234	-1.9%
Other financial liabilities	30,609	31,067	-1.5%
Deferred tax liabilities	17,389	23,669	-26.5%
Non-current derivatives	2,835	0	n.s.
Cash flow hedges	2,835	0	n.s.
Others	0	0	n.s.
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	140,277	145,123	-3.3%
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	11,143	8,959	24.4%
Current financial liabilities	71,398	55,331	29.0%
Bank debt	61,053	38,677	57.9%
Other financial liabilities	10,345	16,654	-37.9%
Trade and other payable accounts	92,809	90,893	2.1%
Trade creditors	59,263	58,393	1.5%
Other creditors	24,103	27,342	-11.8%
Current tax liabilities	9,443	5,158	83.1%
Current derivatives	5,844	125	4575.2%
Cash flow hedges	5,844	40	14510.0%
Others	0	85	n.s.
Other current liabilities	328	212	54.7%
CURRENT LIABILITIES	181,522	155,520	16.7%
TOTAL EQUITY AND LIABILITIES	1,080,103	1,085,009	-0.5%

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€)	1Q20	1Q19	% Change	End period (Currency/€) Mar 20	Dec 19	% Change
Euro	1.000	1.000	0.0%	1.000	1.000	0.0%
US Dollar	1.102	1.136	3.0%	1.096	1.123	2.5%
Canadian Dollar	1.481	1.510	2.0%	1.562	1.460	-6.5%
Mexican Peso	22.045	21.804	-1.1%	26.177	21.220	-18.9%
Brazilian real	4.915	4.280	-12.9%	5.696	4.528	-20.5%
Czech crown	25.614	25.684	0.3%	27.312	25.408	-7.0%
British Pound	0.862	0.872	1.2%	0.886	0.851	-4.0%
Serbian Dinar	117.566	118.225	0.6%	117.504	117.593	0.1%
Chinese yuan remminbi	7.691	7.663	-0.4%	7.809	7.816	0.1%
Uruguayan Peso	43.640	37.279	-14.6%	47.120	41.912	-11.1%
Australian Dollar	1.676	1.595	-4.9%	1.774	1.603	-9.6%
New Zealand Dollar	1.738	1.667	-4.1%	1.827	1.668	-8.7%

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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 change in the scope of consolidation 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.