January-March Results 2019

7 May 2019

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Results note

Main highlights of the January-March 2019 results:

- €201.2 million in revenue, up 7.2% on the previous year.
- €45.9 million in EBITDA[1], down 0.8% in recurring[2] terms versus the previous year. Reported EBITDA was down 15.8% when the non-recurring amount of compensation received in 2018 for patent infringement is included.
- €22.8 million in net profit, down 11.6% in recurring terms. Including non-recurring impact recorded in 2018 Net Profit is down 28.1% on the previous year.
- €70.0 million in net bank debt[3] in March 2019, down 12.1% on the €79.7 million reported at the end of December 2018.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group: "Viscofan continues to strengthen its competitive position across the main casings families, within an adverse backdrop of energy costs and wage inflation. The efficiency improvements and the launch of new products exhibited at IFFA trade fair in Germany, will allow us to combine higher volumes of casings with increased production savings in the second half of the year, in line with our growth plans".

Business development. January-March 2019

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

	Recurring (1)				Reported		
	Jan-Mar' 19	Jan-Mar' 18	*Change*	*Like- for - like (2)*	Jan-Mar' 19	Jan-Mar' 18	*Change*
Revenue	201,246	187,795	7.2%	4.3%	201,246	187,795	7.2%
EBITDA	45,869	46,252	-0.8%	-8.3%	45,869	54,461	-15.8%
EBITDA Margin	*22.8%*	*24.6%*	-1.8 p.p.	-2.9 p.p.	*22.8%*	*29.0%*	-6.2 p.p.
Operating profit	28,055	31,229	-10.2%		28,055	39,438	-28.9%
Net profit	22,754	25,741	-11.6%		22,754	31,651	-28.1%

(1) Recurring results: In 2018, the amount excludes the impact recorded in Other operating income of €8.5 million corresponding to the compensation received in 2018 for a dispute against Mivisa Envases S.A.U. due to patent infringement, netted at €0.3 million recorded in Other operating expenses related with this dispute and the acquisition of companies.
(2) Like-for-like: Like-for-like growth excludes the impact of the variation in exchange rates and the non-recurring gains of the business.

Changes in the consolidation scope:

In November 2018, the Viscofan Group acquired 100% of the Globus companies in Australia and New Zealand, which were added to the consolidation perimeter of the Viscofan Group on 1 December 2018 using the full consolidation method.

[1] EBITDA = Operating profit (EBIT) + Depreciation of property, plant and equipment and amortization.
[2] Recurring results: In 2018, the amount excludes the impact recorded in Other operating income of €8.5 million corresponding to the compensation received in 2018 for a dispute against Mivisa Envases S.A.U. due to patent infringement, netted at €0.3 million recorded in Other operating expenses related with this dispute and the acquisition of companies.
[3] Net bank debt = Non-current bank debt + Current bank debt - Cash and cash equivalents.

Revenue:

Revenue was up 7.2% in the first quarter of 2019 to reach €201.2 million, driven by the increase of prices, the strength of the main commercial currencies, especially the US$ versus the €, and the integration of Globus.

By type of revenue, reported sales of casings were up 7.8% to reach €191.2 million, while revenue from the sale of co-generation energy fell 4.4% to €10.0 million.

Stripping out the impact of foreign exchange change, which contributed +2.9 p.p. of growth, quarterly revenue was up 4.3% vs. 1Q18 in like-for-like terms[4].

Latin America and North America saw strong growth. Europe and Asia posted slower growth - in line with market performance - where business volumes may be affected by uncertainties surrounding the African swine fever crisis in Asia.

In May, Viscofan plans to carry out the largest product launch in its history to coincide with the international trade fair for the meat industry (IFFA) in Germany. This product launch comprises casings from all families, some of which stand out notably: Collagen casings designed to replace pork gut ("Natur"), new cellulose and collagen sticks that will improve our customers´ yields ("Marathon line"), the "Vispice" range with new spice transfers, and the launch of a new edible vegetable casing ("Viscofan veggie casings") for this market niche.

The breakdown and geographical performance of revenue[5] in 1Q19 is as follows:

- Europe and Asia (55.1% of the total): Reported revenue totalled €110.9 million, up 2.5% on 1Q18 and up 1.2% on a constant currency basis.
- North America (28.9% of the total): Revenue amounted to €58.2 million, revealing growth of 10.6% on 1Q18 and of 2.9% on a constant currency basis.
- Latin America (16.0% of the total): Revenue came to €32.2 million, up 19.1% on 1Q18 and up 19.6% on a constant currency basis.

Other operating income

Other operating income in 1Q19 totalled €1.5 million, showing a sharp reduction on the €9.9 million reported in 1Q18, which included the €8.5 million compensation resulting from a Supreme Court ruling due to patent infringement against Mivisa Envases S.A.U.

Operating expenses

Within the operating activity for the first months of the year, the start-up of a new production module in Cáseda (Spain) stands out, featuring brand new cellulose technology that is expected to improve unit production costs at the new factory in the second half of the year.

Consumption costs[6] were up 14.3% in 1Q19 vs. 1Q18 to reach €57.8 million, being particularly significant the co-generation energy costs and emission allowances which together were up 18.4%. This brought the gross margin[7] for the quarter to 71.3% (-1.8 p.p. vs. 1Q18).

The average workforce headcount in March 2019 was up 0.4% on the previous year to 4,671 employees, including the 98 Globus employees in Australia and New Zealand. This moderate increase in personnel can be explained by the fact that the largest increase occurred over the early years of the MORE TO BE strategic plan, when the Company was seeking to increase capacity and implement new technology. While the average workforce remained stable when compared with the previous year, the increase in wage costs

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

and the appreciation of production currencies against the € (especially the US$ against the €) drove personnel costs up by 8.5% in 1Q19 vs. 1Q18 to €51.1 million.

Other operating expenses rose by 5.4% in 1Q19 versus 1Q18 to reach €48.2 million, with energy supply costs growing by 19.7% in 1Q19 vs. 1Q18.

Operating profit and Net profit

EBITDA amounted to €45.9 million in 1Q19, down 0.8% on recurring EBITDA for 1Q18. If we include the positive non-recurring earning of €8.2 million recorded in 1Q18 in the form of compensation for patent infringement, 1Q19 EBITDA was 15.8% down on 1Q18 reported EBITDA. In like-for-like terms (stripping out the impact of the exchange rate fluctuations and non-recurring results), EBITDA was down 8.3% on the previous year.

Depreciation and amortisation costs grew by 18.6% in 1Q19 vs. 1Q18 to €17.8 million, following the start-up of the new production plant in Cáseda and the investments made under the current MORE TO BE strategic plan.

As a result, the Group posted operating profit of €28.1 million, down 28.9% year on year.

The net financial result was a positive +€0.6 million in the first quarter of 2019, owing to positive exchange differences of +€1.0 million, compared with a net financial loss of -€2.2 million in 1Q18, when foreign exchange differences generated a negative -€1.9 million.

Profit before tax amounted to €28.6 million through to March 2019, while corporate income tax totalled €5.9 million. The effective tax rate is 20.5%, compared with 15.1% in the same period of last year. Accordingly, net profit for the first quarter of 2019 came to €22.8 million, down -28.1% vs. 1Q18 and -11.6% stripping out non-recurring results.

Investment

In the first quarter of 2019, Viscofan made further progress with the initiatives envisioned in this phase of the MORE TO BE strategic plan, notably the start-up of the third module featuring new cellulose technology at the Cáseda plant (Spain), which will enable to reduce production costs in the second half of the year, in line with Company plans.

After investing heavily under the first phase (2016-2018) of the MORE TO BE strategic plan, the final two years of this period (2019-2020) come with lower investment requirements in absolute terms. As such, a total of €7.6 million was invested in the first quarter of 2019, down from the €13.1 million in 1Q18.

Financial liabilities

Operating cash flows generation and lower investment requirements have led to a reduction in net bank debt, which came to €70.0 million at the end of March 2019, down 12.1% from the €79.7 million reported at the end of December 2018.

Viscofan Group Profit and loss account. 1Q19 ('000 €)

	Jan-Mar' 19	Jan-Mar' 18	*Change*
Revenues	**201,246**	**187,795**	**7.2%**
Other operating income	1,523	9,857	-84.5%
Self-constructed assets	64	64	0.0%
Variation in stocks of finished products and work-in-progress	9,843	15,228	-35.4%
Net purchases	-67,615	-65,777	2.8%
Personnel expenses	-51,132	-47,138	8.5%
Other operating expenses	-48,207	-45,758	5.4%
Capital grants	150	158	-5.1%
Impairment and results coming from disposals of non-current assets	-3	32	c.s
Other results	0	0	n.s.
EBITDA	**45,869**	**54,461**	**-15.8%**
EBITDA margin	*22.8%*	*29.0%*	*-6.2 p.p.*
Amortization and depreciation	-17,814	-15,023	18.6%
Operating profit	**28,055**	**39,438**	**-28.9%**
Operating profit margin	*13.9%*	*21.0%*	*-7.1 p.p.*
Financial incomes	57	77	-26.0%
Financial expenditures	-487	-369	32.0%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	998	-1,911	c.s
Impairment and results coming from disposals of financials assets	0	25	n.s.
Financial results	**568**	**-2,178**	**c.s**
Profit from associated companies	0	0	n.s.
Profit before taxes	**28,623**	**37,260**	**-23.2%**
Taxes	-5,869	-5,609	4.6%
Profit after taxes from continued operations	**22,754**	**31,651**	**-28.1%**
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	**22,754**	**31,651**	**-28.1%**
a) Net profit attributable to the parent comany	22,765	31,677	-28.1%
b) Net profit attributable to minority interests	-11	-26	-57.7%

Consolidated balance sheets ('000 €)

	Mar '19	Dec '18	Change
Intangible assets	22,744	22,915	-0.7%
Goodwill	6,008	5,933	1.3%
Others intangible asset	16,736	16,982	-1.4%
Tangible assets	493,201	479,479	2.9%
Real state investments	0	0	n.s.
Investment accounting using the equity method	0	0	n.s.
Non-current financial assets	2,641	2,628	0.5%
Deferred tax assets	21,759	22,533	-3.4%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	540,345	527,555	2.4%
Non-current assets held for sale	0	0	n.s.
Inventories	294,975	284,341	3.7%
Trade and other receivables	186,172	178,711	4.2%
Trade debtors	154,425	150,586	2.5%
Other debtors	24,828	21,947	13.1%
Current tax assets	6,919	6,178	12.0%
Other financial current assets	13,576	9,175	48.0%
Other current assets	6,262	2,910	115.2%
Cash and cash equivalents	38,664	31,050	24.5%
CURRENT ASSETS	539,649	506,187	6.6%
TOTAL ASSETS= EQUITY AND LIABILITIES	1,079,994	1,033,742	4.5%
Share capital	32,550	32,623	-0.2%
Share issue premium	12	12	0.0%
Reserves	819,859	701,377	16.9%
Treasury shares	0	-5,289	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	22,765	123,833	-81.6%
Less: Interim dividend	-35,818	-35,818	0.0%
Other equity instruments	0	0	n.s.
SHAREHOLDER´S FUNDS	**839,368**	**816,738**	**2.8%**
Financial assets held for sale	0	0	n.s.
Hedge transaction reserves	264	-380	c.s.
Currency translation differences	-49,205	-58,745	-16.2%
Others	0	0	n.s.
ADJUSTMENTS DUE TO CHANGE IN VALUE	**-48,941**	**-59,125**	-17.2%
SHAREHOLDERS' EQUITY	790,427	757,613	4.3%
Minority interest	28	13	115.4%
EQUITY	790,455	757,626	4.3%
Grants	1,991	2,135	-6.7%
Non-current provision	21,910	21,964	-0.2%
Non-current financial liabilities	90,855	56,971	59.5%
Financial debt	63,195	44,231	42.9%
Other financial liabilities	27,660	12,740	117.1%
Deferred tax liabilities	20,625	21,352	-3.4%
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	135,381	102,422	32.2%
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	7,682	5,745	33.7%
Current financial liabilities	56,848	79,494	-28.5%
Financial debt	45,512	66,497	-31.6%
Other financial liabilities	11,336	12,997	-12.8%
Trade creditor and other payable accounts	89,227	88,187	1.2%
Trade creditors	61,603	58,189	5.9%
Other creditors	19,669	24,014	-18.1%
Current tax liabilities	7,955	5,984	32.9%
Other current liabilities	401	268	49.6%
CURRENT LIABILITIES	154,158	173,694	-11.2%
NET BANK DEBT / (NET BANK CASH)	70,043	79,678	-12.1%

Reporting exchange rates (Currency/€)

Average exchange rates (Currency/€) | End period (Currency/€)

	1Q19	1Q18	% Change	Mar 19	Dec 18	% Change
Euro	1.000	1.000	0.0%	1.000	1.000	0.0%
US Dollar	1.136	1.230	8.3%	1.124	1.145	1.9%
Canadian Dollar	1.510	1.555	3.0%	1.500	1.561	4.0%
Mexican Peso	21.804	23.029	5.6%	21.691	22.492	3.7%
Brazilian real	4.280	3.990	-6.8%	4.378	4.437	1.3%
Czech crown	25.684	25.400	-1.1%	25.802	25.724	-0.3%
British Pound	0.872	0.883	1.3%	0.858	0.895	4.2%
Serbian Dinar	118.225	118.421	0.2%	117.972	118.195	0.2%
Chinese yuan remminbi	7.663	7.802	1.8%	7.561	7.847	3.8%
Uruguayan Peso	37.279	35.043	-6.0%	37.619	37.105	-1.4%
Australian Dollar	1.595	1.564	-1.9%	1.585	1.622	2.3%
New Zealand Dollar	1.667	1.691	1.4%	1.656	1.706	3.0%

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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.