January-September Results 2019

24 October 2019

(Free translation from the original in Spanish, in event of discrepancy, the Spanish-language version prevails)

Results note

Main highlights of the July-September 2019 results:

- €215.9 million in revenue in the quarter, a new all-time high, up 12.4% on the previous year driven by strong growth in all the reporting areas.
- €50.3 million in reported EBITDA[1], up 12.8% on the previous year (+13.8% in recurring terms[2]).
- €27.0 million in the reported net profit, up 17.3% on the previous year (+18.8% in recurring terms[2]).
- €56.5 million in net bank debt[3] in September 2019, down 29.1% compared with €79.7 million reported in December 2019 thanks to the strength of the third-quarter operating results and reduced investment needs in the second phase of the MORE TO BE strategic plan.
- According to José Domingo de Ampuero y Osma, chairman of the Viscofan Group: "The results of the third quarter, with the main financial figures growing at double digit rate, show Viscofan´s strength to deal with any environment, meanwhile we improve our leadership in the market combining volume growth and improvement in sales price. These results reinforce our guidance for the year as well as our growth vision in the medium and long term for Viscofan and the market. "

Business development

3Q19. Selected figures. Viscofan Group income statement ('000 €)

	Recurring (2)				Reported		
	Jul-Sep' 19	Jul-Sep' 18	*Change*	*Like- for - like (4)*	Jul-Sep' 19	Jul-Sep' 18	*Change*
Revenue	215,949	192,175	12.4%	9.8%	215,949	192,175	12.4%
EBITDA	50,791	44,614	13.8%	9.5%	50,329	44,614	12.8%
EBITDA Margin	*23.5%*	*23.2%*	0.3 p.p.	0.0 p.p.	*23.3%*	*23.2%*	0.1 p.p.
Operating profit	32,839	28,983	13.3%		32,377	28,983	11.7%
Net profit	27,328	22,999	18.8%		26,981	22,999	17.3%

9M19. Selected figures. Viscofan Group income statement ('000 €)

	Recurring (2)				Reported		
	Jan-Sep' 19	Jan-Sep' 18	*Change*	*Like- for - like (4)*	Jan-Sep' 19	Jan-Sep' 18	*Change*
Revenue	625,840	577,867	8.3%	5.8%	625,840	577,867	8.3%
EBITDA	145,547	139,417	4.4%	-0.3%	143,226	153,910	-6.9%
EBITDA Margin	*23.3%*	*24.1%*	-0.8 p.p.	-1.4 p.p.	*22.9%*	*26.6%*	-3.7 p.p.
Operating profit	92,064	93,019	-1.0%		89,743	107,512	-16.5%
Net profit	74,410	78,262	-4.9%		72,669	88,697	-18.1%

[1] EBITDA = Operating profit (EBIT) + Depreciation of property, plant and equipment and amortization.
[2] Recurring results: a) In 2019 the amount excludes €2.3 million of non-recurring expenses related with the strike at the Danville plant in the US in June. b) 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 this dispute and the acquisition of companies.
[3] Net bank debt = Non-current bank debt + Current bank debt - Cash and cash equivalents.

Revenue:

Revenue reached a new record high of €215.9 million in the third quarter of 2019, up 12.4% on 3Q18 thanks to the growth in casing volumes, the improvement in the price mix, the integration of Globus and the strength of the main trading currencies, especially the US dollar versus the €.

By revenue type, quarterly casing sales contributed with a growth of 13.4% compared with the 3Q18 to €204.4 million, while revenue from co-generation power fell by 2.8% vs. 3Q18 to €11.6 million.

Stripping out the impact of foreign exchange differences, which contributed 2.6 p.p. of growth, like-for-like[4] quarterly revenue was up 9.8% on 3Q18.

The third quarter of the year saw a recovery in casings volumes with growth in all reporting geographic areas and all product families, not only as compared with 3Q18 but also with precedent quarters in 2019.

Europe and Asia stands out in the third quarter with 13.7% growth vs. 3Q18 (+12.9% in like-for-like terms), driven by greater volumes in China and other countries of Asia, especially of the new products designed to replace pig gut casings.

Meanwhile, Viscofan in Latin America continues to register high quarterly growth rates with 14.7% in 3Q19 vs. 3Q18 (equivalent to +9.9% in like-for-like terms) with growth in all technologies.

In North America the improvement in the competitive positioning in the snacking, slicing meat and specialty plastic markets led to a growth of 8.8% vs. 3Q18 (equivalent to +4.1% in like-for-like terms).

In the year to date, revenue has grown 8.3% versus 9M18 to reach €625.8 million. Of this amount, €592.7 million relate to casing sales (+8.9% vs. 9M18) and €33.2 million to revenue from co-generation power sales (-0.9% vs. 9M18).

Stripping out the impact of foreign exchange differences, which contributed 2.5 p.p. of growth, 9M19 revenue was up 5.8% vs. 9M18 in like-for-like terms[4].

The breakdown and geographical performance[5] of revenue through to September 2019 is as follows:

- Europe and Asia (55.8% of the total): Reported revenue reached €349.5 million, up 6.7% on 9M18 and up 5.8% in like-for-like terms.
- North America (29.1% of the total): Revenue amounted to €182.0 million, revealing a growth of 8.9% on 9M18 and of 2.9% in like-for-like terms.
- Latin America (15.1% of the total): Revenue came to €94.4 million, up 13.2% on 9M18 and up 11.7% in like-for-like terms.

Other operating income

Other operating income in 9M19 came to €3.7 million, significantly lower than the €19.9 million of 9M18 that included €8.5 million arising from a decision of the Supreme Court for patent infringement against Mivisa Envases S.A.U. 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 the two companies.

Operating expenses

Consumption costs[6] were up 20.6% in 9M19 vs. 9M18 to €195.3 million including higher consumption costs due to the inclusion in the consolidation scope of the distribution company Globus, in Australia and New Zealand. Meanwhile, in this line of expenditure co-generation energy and emission allowances saw an aggregate growth of 12.3% in 9M19 vs. 9M18.

[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.

Negotiations towards the signature of a new collective agreement at the Danville plant (US) have been done in the first months of the year. The new collective agreement signed, in force until 2022, includes broader work flexibility and economic terms that help the US plant recover competitiveness in line with the demands of the North American market. In the course of the negotiations of the current collective agreement, the workers at the Danville plant went on strike in the month of June, with a non-recurring impact of €2.3 million.

In Spain, two new cellulose casing production modules were started up in Cáseda (plant 4) in the months of April and June, which continue to produce very satisfactory results in terms of speed and productive efficiency.

Quarterly consumption costs were up 29.8% on 3Q18, reaching €73.1 million, due to the increase in sales volumes, the change in the consumption cost mix and CO_2 emission allowances costs in Europe.

Altogether, the gross margin[7] for the quarter reached 66.2% (-4.5 p.p. vs. 3Q18) and the cumulative gross margin was 68.8% (-3.2 p.p. vs. 9M18).

In the third quarter, personnel costs increased by 5.9% vs. 3Q18 to reach €49.5 million due to the increase in wage costs and the appreciation of currencies against the euro (especially the US dollar). In the year to date, personnel costs have amounted to €151.2 million, a growth of 6.6% vs. 9M18.

In the early years of the MORE TO BE strategic plan, the workforce was increased to launch new capacity and technology, with optimisation in other plants through efficiency and productivity improvements. The average workforce headcount in September 2019 was 4,639 employees, down -0.4% on the previous year, and -2.5% in constant scope, i.e. stripping out the Globus employees in Australia and New Zealand who joined the workforce in December 2018.

In quarterly terms, “Other operating expenses” were €44.7 million, down 3.5% on the 3Q18 figure, with energy supply costs falling by 3.5% vs. 3Q18. In cumulative terms, “Other operating expenses” fell 0.1% vs. 9M18 to €140.5 million, while energy supply costs increased by 6.6% vs. 9M18.

Operating profit and Net profit

Recurring[2] EBITDA for the third quarter was up 13.8% vs. 3Q18, rising to €50.8 million. Excluding the impact of foreign exchange differences, like-for-like[4] EBITDA was up 9.5% driven by higher volumes, the absorption of fixed costs and the cost-saving measures.

In the year to date, recurring[2] EBITDA has reached €145.5 million, up 4.4% on 9M18. Stripping out the impact of foreign currencies, like-for-like[4] EBITDA was flat with the previous year (-0.3%). In reporting terms, EBITDA is €143.2 million, 6.9% less than at 9M18.

Depreciation and amortisation costs in 3Q19 were up 14.8% vs. 3Q18, standing at €18.0 million. In the year to date, depreciation and amortisation have grown by 15.3% vs. 9M18 to €53.5 million. This is explained by the start-up of the new production plant in Cáseda and the investments made under the current MORE TO BE strategic plan, especially in the first phase (2016-2018).

The operating profit in 3Q19 is €32.4 million, up 11.7% on 3Q18. Robust performance but it is still insufficient to offset the results obtained in the early months of the year. Therefore, operating profit in 9M19 is €89.7 million (-16.5% vs. 9M18).

The net financial result was a positive +€1.5 million in the third quarter of 2019 owing to positive exchange differences of +€1.9 million, compared with a net financial loss of -€0.1 million 3Q18, when foreign exchange differences generated a positive +€0.7 million.

[7] Gross margin = (Revenue – Cost of consumption) / Revenue.

In the year to date at 9M19, the net financial result was a positive +€1.6 million owing to the positive exchange differences of +€2.9 million, compared with a net financial gain of +€2.3 million in 9M18, when foreign exchange differences were positive at +€3.6 million.

In quarterly terms, profit before tax amounted to €33.9 million, up 17.2% on 3Q18, with corporate income tax totalling €6.9 million, once an effective tax rate of 20.4% has been applied (20.5% for the same period in the previous year).

Cumulative profit before tax through to September 2019 amounted to €91.4 million, with corporate income tax totalling €18.7 million (down 11.1% vs. 9M18), placing the cumulative effective tax rate at 20.5% (19.2% in the same period in the previous year).

Finally, the reported net profit for the third quarter is €27.0 million, representing a growth of 17.3% on 3Q18.

At 9M19 the reported net profit stands at €72.7 million, down 18.1% on the same period last year, which is equivalent to a decline of 4.9% in recurring terms[2], in line with the guidance expected for the year.

<u>Investment</u>

In the first nine months of the year, Viscofan made further progress with the initiatives envisioned in this phase of the MORE TO BE strategic plan, notably the start-up of the modules featuring new cellulose technology at the Cáseda plant (Spain), as mentioned previously. This will enable the Company to accomplish its objective of lowering production costs in the second half of the year.

After investing heavily during the first phase (2016-2018) of the MORE TO BE strategic plan, the final two years of this period (2019-2020) will require lower investment in absolute terms. Accordingly, a total of €37.1 million has been invested to date this year, which is 15.9% lower than the €44.1 million invested at 9M18. This is in line with the €60 million investment planned for 2019.

<u>Financial liabilities</u>

At the close of September 2019 the net bank debt was €56.5 million, 29.1% less than the December 2018 figure of €79.7 million. The strength of the third-quarter operating results and the lower investment needs this year have led to a solid generation of cash flows.

Viscofan Group profit and loss account. 9M19 ('000 €)

	Jan-Sep' 19	Jan-Sep' 18	*Change*
Revenues	625,840	577,867	8.3%
Other operating income	3,655	19,910	-81.6%
Self-constructed assets	192	192	0.0%
Variation in stocks of finished products and work-in-progress	1,078	24,659	-95.6%
Net purchases	-196,397	-186,623	5.2%
Personnel expenses	-151,208	-141,814	6.6%
Other operating expenses	-140,468	-140,665	-0.1%
Capital grants	449	468	-4.1%
Impairments	-72	-119	-39.5%
Results coming from disposals of non-current assets	157	35	348.6%
Other results	0	0	n.s.
Recurring EBITDA	145,547	139,417	4.4%
Recurring EBITDA margin	*23.3%*	*24.1%*	*-0.8 p.p.*
Non-recurring	-2,321	14,493	c.s
EBITDA	143,226	153,910	-6.9%
EBITDA margin	*22.9%*	*26.6%*	*-3.7 p.p.*
Amortization and depreciation	-53,483	-46,398	15.3%
Operating profit	89,743	107,512	-16.5%
Operating profit margin	*14.3%*	*18.6%*	*-4.3 p.p.*
Financial incomes	198	247	-19.8%
Financial expenditures	-1,431	-1,635	-12.5%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	2,880	3,616	-20.4%
Impairment and results coming from disposals of financials assets	0	23	n.s.
Financial results	1,647	2,251	-26.8%
Profit from associated companies	0	0	n.s.
Profit before taxes	91,390	109,763	-16.7%
Taxes	-18,721	-21,066	-11.1%
Profit after taxes from continued operations	72,669	88,697	-18.1%
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	72,669	88,697	-18.1%
a) Net profit attributable to the parent comany	72,688	88,782	-18.1%
b) Net profit attributable to minority interests	-19	-85	-77.6%

Viscofan Group Profit and loss account. 3Q19 ('000 €)

	Jul-Sep' 19	Jul-Sep' 18	*Change*
Revenues	215,949	192,175	12.4%
Other operating income	1,350	1,653	-18.3%
Self-constructed assets	64	64	0.0%
Variation in stocks of finished products and work-in-progress	-11,044	886	c.s
Net purchases	-62,023	-57,196	8.4%
Personnel expenses	-49,485	-46,723	5.9%
Other operating expenses	-44,695	-46,337	-3.5%
Capital grants	150	153	-2.0%
Impairments	-7	-66	-89.4%
Results coming from disposals of non-current assets	70	5	1300.0%
Other results	0	0	n.s.
Recurring EBITDA	50,791	44,614	13.8%
Recurring EBITDA margin	*23.5%*	*23.2%*	*0.3 p.p.*
Non-recurring	-462	0	n.s.
EBITDA	50,329	44,614	12.8%
EBITDA margin	*23.3%*	*23.2%*	*0.1 p.p.*
Amortization and depreciation	-17,952	-15,631	14.8%
Operating profit	32,377	28,983	11.7%
Operating profit margin	*15.0%*	*15.1%*	*-0.1 p.p.*
Financial incomes	97	83	16.9%
Financial expenditures	-483	-856	-43.6%
Changes in reasonable value of financial instruments	0	0	n.s.
Exchange differences	1,909	723	164.0%
Impairment and results coming from disposals of financials assets	0	-1	n.s.
Financial results	1,523	-51	c.s
Profit from associated companies	0	0	n.s.
Profit before taxes	33,900	28,932	17.2%
Taxes	-6,919	-5,933	16.6%
Profit after taxes from continued operations	26,981	22,999	17.3%
Profit after taxes from interrupted operations	0	0	n.s.
Net profit	26,981	22,999	17.3%
a) Net profit attributable to the parent comany	26,988	23,024	17.2%
b) Net profit attributable to minority interests	-7	-25	-72.0%

Viscofan The casing company

Consolidated balance sheets ('000 €) - ASSETS

	Sep '19	Dec '18	*Change*
Intangible assets	22,204	22,915	-3.1%
Goodwill	6,205	5,933	4.6%
Others intangible asset	15,999	16,982	-5.8%
Tangible assets	487,785	479,479	1.7%
Real state investments	0	0	n.s.
Investment accounting ussing the equity method	0	0	n.s.
Non-current financial assets	3,171	2,615	21.3%
a) At fair value through profit and loss	511	266	92.1%
Of which "Designated upon initial recognition"	511	266	92.1%
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	2,660	2,349	13.2%
Non-current derivatives	219	13	1584.6%
Cash flow hedges	219	13	1584.6%
Others	0	0	n.s.
Deferred tax assets	22,112	22,533	-1.9%
Other non-current assets	0	0	n.s.
NON-CURRENT ASSETS	535,491	527,555	1.5%
Non-current assets held for sale	0	0	n.s.
Inventories	286,407	284,341	0.7%
Trade and other receivables	186,019	178,711	4.1%
Trade debtors	163,731	150,586	8.7%
Other debtors	18,201	21,947	-17.1%
Current tax assets	4,087	6,178	-33.8%
Current financial assets	801	8,433	-90.5%
a) At fair value through profit and loss	730	730	0.0%
Of which "Designated upon initial recognition"	730	730	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	71	7,703	-99.1%
Current derivatives	1,415	742	90.7%
Cash flow hedges	1,415	701	101.9%
Others	0	41	n.s.
Other current assets	6,104	2,910	109.8%
Cash and cash equivalents	67,125	31,050	116.2%
CURRENT ASSETS	547,871	506,187	8.2%
TOTAL ASSETS	1,083,362	1,033,742	4.8%

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

	Sep '19	Dec '18	*Change*
Share capital	32,550	32,623	-0.2%
Share issue premium	12	12	0.0%
Reserves	739,783	701,377	5.5%
Treasury shares	-5,662	-5,289	7.1%
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	72,688	123,833	-41.3%
Less: Interim dividend	0	-35,818	n.s.
Other equity instruments	0	0	n.s.
SHAREHOLDER´S FUNDS	**839,371**	**816,738**	**2.8%**
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	-54,554	-59,125	-7.7%
Hedge transactions	235	-380	c.s.
Currency translation differences	-54,789	-58,745	-6.7%
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	-54,554	-59,125	-7.7%
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY	784,817	757,613	3.6%
Non-controlling interests	79	13	507.7%
EQUITY	784,896	757,626	3.6%
Grants	1,603	2,135	-24.9%
Non-current provision	22,125	21,964	0.7%
Non-current financial liabilities	91,527	56,476	62.1%
Financial debt	62,188	44,231	40.6%
Other financial liabilities	29,339	12,245	139.6%
Deferred tax liabilities	18,892	21,352	-11.5%
Non-current derivatives	60	495	-87.9%
Cash flow hedges	60	495	-87.9%
Others	0	0	n.s.
Other non-current liabilities	0	0	n.s.
NON-CURRENT LIABILITIES	134,207	102,422	31.0%
Liabilities linked to non-current assets held for sale	0	0	n.s.
Current provisions	7,199	5,745	25.3%
Current financial liabilities	69,097	78,448	-11.9%
Financial debt	61,246	66,497	-7.9%
Other financial liabilities	7,851	11,951	-34.3%
Trade and other payable accounts	85,517	88,187	-3.0%
Trade creditors	52,660	58,188	-9.5%
Other creditors	23,543	24,015	-2.0%
Current tax liabilities	9,314	5,984	55.6%
Current derivatives	1,957	1,046	87.1%
Cash flow hedges	1,957	904	116.5%
Others	0	142	n.s.
Other current liabilities	489	268	82.5%
CURRENT LIABILITIES	164,259	173,694	-5.4%
TOTAL EQUITY AND LIABILITIES	1,083,362	1,033,742	4.8%

Reporting exchange rates (Currency/€)

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

	9M19	9M18	% Change	Sep 19	Dec 18	% Change
Euro	1.000	1.000	0.0%	1.000	1.000	0.0%
US Dollar	1.124	1.195	6.3%	1.089	1.145	5.2%
Canadian Dollar	1.494	1.538	3.0%	1.443	1.561	8.2%
Mexican Peso	21.633	22.742	5.1%	21.452	22.492	4.8%
Brazilian real	4.367	4.297	-1.6%	4.535	4.437	-2.2%
Czech crown	25.702	25.570	-0.5%	25.816	25.724	-0.4%
British Pound	0.883	0.884	0.1%	0.886	0.895	1.0%
Serbian Dinar	117.970	118.245	0.2%	117.528	118.195	0.6%
Chinesse yuan remminbi	7.700	7.771	0.9%	7.754	7.847	1.2%
Uruguayan Peso	38.757	35.954	-7.2%	40.223	37.105	-7.8%
Australian Dollar	1.607	1.576	-1.9%	1.613	1.622	0.5%
New Zealand Dollar	1.692	1.708	0.9%	1.735	1.706	-1.7%

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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

Appendix. 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 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.