deceuninck group

Press Release | H1 2019 Financial Results

Regulated Information
Tuesday 20 August 2019 at 7:00h CET

Slowdown Turkish economy impacts results

Highlights

- **Sales:** H1 2019 sales decreased by 8.5% to € 312.5m (H1 2018: € 341.5m) primarily due to the downturn of the Turkish economy.
- **Adjusted EBITDA:** On a like for like basis[1], the Adj. EBITDA decreased to € 25.9m or 8.3% on sales (H1 2018: € 36.5m or 10.7% on sales). This is primarily explained by the lower volumes and increased investments in marketing, partially compensated by the increased use of recycled PVC. The reported Adj. EBITDA, including the positive impact (+ € 4.3m) of the new IFRS 16 lease accounting standard, amounted to € 30.2m (or 9.7% on sales).
- **Net profit**: Net profit decreased to € (1.2)m (H1 2018: € 7.5m), mainly as a result of the downturn in Turkey. The net effect of the new IFRS16 leasing standard on net profit is limited to €(0.4)m.
- **Net debt and leverage:** On a like for like basis[1], the net debt on 30 June 2019 decreased to € 112.4m (30 June 2018: € 126.3m), thanks to structural working capital improvements and the drop in volumes. This is entirely offset by € 37.8m lease commitments considered as financial debt following the implementation of IFRS 16, resulting in a reported net debt of € 150.2m. Leverage amounted to 2.12x, including the negative impact of IFRS16 which is expected to fluctuate around 0.4x.
- **Strategic projects** including the strengthening of the Deceuninck brand, the optimization of our product range and the integration of Western and Central Europe are on track. The recycling plant in Diksmuide is ramping up.
- **Financing**: a new € 60.0m Sustainability Linked Revolving Credit Facility maturing 2024 has been signed on July 9th replacing the 2015 € 50.0m credit facility which was to mature in 2020.

Quote of the CEO, Francis Van Eeckhout

"The effects of the economic downturn in Turkey which were already visible in the second half of 2018 continued into 2019. We remain absolutely convinced about the long term potential of Turkey, both because of its large and dynamic domestic market and its potential as export hub, however the timing of the recovery remains difficult to predict. In Europe we are making good progress with the integration of Western and Central Europe and the launch of our new product ranges. We are also happy that our new recycling plant is ramping up as this is a key element in our sustainability commitment."

[1] Not taking into account the effect of IFRS 16 (Leasing) applicable since 1 January 2019.

Figure 1 : Summary of consolidated Income Statement[1]

(in € million)	JUNE 2018 Unaudited	JUNE 2019 Unaudited	% yoy
Sales	**341,5**	**312,5**	***(8,5%)***
Gross profit	102,3	92,8	*(9,2%)*
Gross-margin (%)	*29,9%*	*29,7%*	*-0,2pp*
EBITDA	36,4	29,4	*(19,3%)*
Adj. EBITDA	**36,5**	**30,2**	***(17,3%)***
Adj. EBITDA-margin (%)	*10,7%*	*9,7%*	*-1,0pp*
EBIT	**21,4**	**9,3**	***(56,5%)***
Financial result	(10,3)	(11,1)	*7,7%*
EBT	11,1	(1,8)	*(116,0%)*
Income taxes	(3,6)	0,6	*(115,3%)*
Net profit	**7,5**	**(1,2)**	***(116,3%)***

[1] The adoption of IFRS 16 from 01.01.2019 positively impacted H1 2019 Adj. EBITDA with € 4.3m which is compensated by a negative impact on depreciations (€3.6m) and financial result (€1.1m). The total impact of IFRS 16 on H1 2019 net profit is therefore negative € (0.4)m.

Figure 2: Sales

Sales (in € million & % yoy)	Total	Europe	Turkey & Emerging Markets	North America
H1 2018	**341,5**	**170,6**	**107,9**	**63,0**
Volume	(12,9%)	(1,2%)	(32,3%)	(6,5%)
Exchange rate	(4,3%)	(0,1%)	(17,3%)	6,6%
Other (price & mix)	8,7%	1,5%	21,5%	1,7%
Total	**(8,5%)**	**0,1%**	**(28,1%)**	**1,9%**
H1 2019	**312,5**	**170,8**	**77,6**	**64,2**

Figure 3: Summary of consolidated Balance Sheet[2]

(in € million)	JUNE 2018 Unaudited	JUNE 2019 Unaudited	% yoy
Total assets	591,0	605,6	*2,5%*
Equity	253,9	248,0	*(2,3%)*
Net debt	126,3	150,2	*18,9%*
Capital expenditure	28,7	16,0	*(44,0%)*
Working capital	140,2	105,5	*(24,8%)*

[2] The adoption of IFRS 16 added € 37.8m lease commitments to the Net debt as well as €37.3m to total assets as of 30.06.2019

Management comments

Sales

Consolidated H1 2019 sales decreased by 8.5% to € 312.5m, compared to € 341.5m in H1 2018.

Sales in **Europe** stabilized at € 170.8m (H1 2018: € 170.6m). Strong business development in Spain, the UK and Poland was offset by weaker demand in France, due to low consumer confidence and changes in renovation subsidies, and Belgium. Sales in Germany were broadly in line with H1 2018.

Sales in **Turkey & Emerging Markets** decreased 28.1% to € 77.6m (H1 2018: € 107.9m), primarily due to the economic downturn in Turkey. This has been partially compensated by strong further growth in Emerging Markets, albeit on a relatively small basis. Price increases necessary to compensate for the inflation and devaluation of the TRY have been implemented.

In **North America** sales increased 1.9% to € 64.2m (H1 2018: € 63.0m). Although demand seems to remain strong, volumes have been negatively impacted by harsh winter conditions and the loss of a customer , while new signed customers will only start to materially contribute as of the end of 2019.

Income statement

Adjusted EBITDA: On a like for like basis[2], the Adj. EBITDA decreased to € 25.9m or 8.3% on sales (H1 2018: € 36.5m or 10.7% on sales). This is primarily explained by the lower volumes and to a lesser extent by the one-off negative EBITDA impact resulting from the reduction of inventory levels and higher marketing expenses. These effects are to some extent compensated by better margins, partially thanks to the increased use of recycled PVC. The reported Adj. EBITDA, including the positive impact (+ € 4.3m) of the new IFRS 16 lease accounting standard, amounted to € 30.2m (or 9.7% on sales). The evolution of raw material prices differs between regions however remained on average stable.

Depreciations and impairments increased to € (20.1)m (H1 2018: € (15.0)m) as a result of the implementation of IFRS 16 (€ 3.6m) and the high level of capital expenditures in previous years.

Operating Result (EBIT) as a consequence of the above decreased to € 9.3m (H1 2018: € 21.4m).

The **Financial result** decreased from € (10.3)m to € (11.1)m which is mainly explained by the implementation of IFRS 16 (€ 1.1m). The negative effect of higher interest rates and more commercial finance in Turkey is entirely offset by lower net financial debt.

Income tax expenses were € 0.6m positive due to the recognition of deferred tax assets.

As a consequence of the above, **Net Profit** decreased from € 7.5m in H1 2018 to € (1.2)m in H1 2019 representing a loss per share of € 0.01 (H1 2018: gain of € 0.05). The net effect of IFRS16 on net profit is limited (€ (0.4)m).

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[2] Not taking into account the effect of IFRS 16 (Leasing) applicable since 1 January 2019.

Balance sheet

Total assets on 30 June 2019 increased to € 605.6m and include € 37.3m leased assets because of the adoption of the IFRS 16 leasing standard.

Working capital on 30 June 2019 decreased to 16.4% of LTM sales compared to 20.3% on 30 June 2018. Compared to June 30, 2018, trade receivables shrunk by € 35.4m, explained by the lower volumes in Turkey and by continued efforts to reduce DSO's. Inventories decreased by € 11.0m, due to the lower volumes in Turkey as well as to inventory optimization efforts in all regions. Trade payables decreased by € 11.7m primarily as a consequence of the lower inventory levels.

Capital expenditures in H1 2019 amounted to € 16.0m (H1 2018: € 28.7m) and include besides maintenance capex mainly investments in tools for new products and for increased use of recycled material.

Net debt and leverage: On a like for like basis[1], the net debt on 30 June 2019 decreased to € 112.4m (30 June 2018: € 126.3m), thanks to structural working capital improvements and the drop in volumes. This is entirely offset by € 37.8m lease commitments considered as financial debt following the implementation of IFRS 16, resulting in a reported net debt of € 150.2m. Leverage amounted to 2.12x, including the negative impact of IFRS16 which is expected to fluctuate around 0.4x.

Strategic projects

The **strengthening of the Deceuninck brand** in Europe is gaining momentum, supported by the numerous wins in the first half of the season by the cycling team Deceuninck – Quick Step. Although it is too early to make a full evaluation of the cycling sponsorship, it is clear that it has been very well received by our partners.

The roll out of the **One Europe** and **One Brand** strategy is on schedule. The regions Western Europe and Central Europe have been merged under one management team. Preparations for the integration of product ranges and platforms are going on, both from an operational and a commercial perspective. As a consequence, it has been decided to investigate a further optimization of our production capacity in Europe.

Through a joint venture with So Easy Holding BVBA, we **broadened our product range** with innovative aluminium profiles. Business development started well.

The new **recycling** plant in Diksmuide (BE) is ramping up.

The **rollout of SAP** in Western Europe has been finalized. The implementation in other regions is on track.

Outlook

Some of our end markets remain challenging as a result of increased geopolitical uncertainty. This however does not change the more long term attractiveness of our industry and we will continue to focus on the realisation of our operating plan.

Statement of the auditor

The statutory auditor, Ernst & Young Bedrijfsrevisoren BCVBA represented by Marnix Van Dooren, has confirmed that the audit procedures on the consolidated financial statements, which have been substantially completed, have not revealed any material adjustments which would have to be made to the accounting data included in the present press release.

Annex 1: Consolidated Income Statement

(in € million)	H1 2018	H1 2019
Sales	**341,5**	**312,5**
Cost of goods sold	(239,2)	(219,7)
Gross profit	**102,3**	**92,8**
Marketing, sales and distribution expenses	(54,7)	(56,3)
Research and development expenses	(4,3)	(3,9)
Administrative and general expenses	(22,3)	(23,4)
Other net operating result	0,5	0,0
Operating profit (EBIT)	**21,4**	**9,3**
Financial result	(10,3)	(11,1)
Profit before taxes (EBT)	**11,1**	**(1,8)**
Income taxes	(3,6)	0,6
Net profit	**7,5**	**(1,2)**
Adj. EBITDA	**36,5**	**30,2**

The net profit is attributable to: (in € million)	H1 2018	H1 2019
Shareholders of the parent company	7,1	(1,3)
Non-controlling interests	0,4	0,1

Earnings per share distributable to the shareholders of the parent company (in €):	H1 2018	H1 2019
Normal earnings per share	0,05	(0,01)
Diluted earnings per share	0,05	(0,01)

Annex 2: Consolidated statement of financial position

(in € million)	31 December Audited	30 June Unaudited
Assets		
Intangible fixed assets	5,5	4,7
Goodwill	10,6	10,6
Tangible fixed assets	268,8	303,5
Financial fixed assets	0,1	0,1
Investment in a joint venture	9,4	9,5
Deferred tax assets	8,6	8,7
Long-term receivables	1,0	1,0
Non-current assets	**304,1**	**338,2**
Inventories	117,4	125,2
Trade receivables	88,7	82,1
Other receivables	10,9	11,3
Cash and cash equivalents	65,8	45,6
Fixed assets held for sale	3,0	3,1
Current assets	**285,9**	**267,4**
Total assets	**590,0**	**605,6**

Equity and liabilities		
Issued capital	53,9	53,9
Share premiums	88,2	88,3
Consolidated reserves	218,6	213,6
Actuarial gains / losses	(4,3)	(4,8)
Treasury shares	(0,1)	(0,1)
Treasury shares held in subsidiaries	(0,7)	(0,3)
Currency translation adjustments	(102,6)	(104,9)
Equity excluding non-controlling interest	**253,0**	**245,8**
Non-controlling interest	2,6	2,2
Equity including non-controlling interest	**255,6**	**248,0**
Interest-bearing loans including lease liabilities	124,2	143,5
Other long term liabilities	7,7	5,2
Long-term provisions	24,5	24,9
Deferred tax liabilities	3,2	2,4
Non-current liabilities	**159,5**	**176,0**
Interest-bearing loans including lease liabilities	35,3	52,3
Trade payables	113,9	101,9
Tax liabilities	5,2	4,9
Employee related liabilities	11,7	13,9
Short-term provisions	1,2	1,2
Other liabilities	7,6	7,4
Current liabilities	**174,9**	**181,6**
Total equity and liabilities	**590,0**	**605,6**

Total net debt	**93,7**	**150,2**

Annex 3: Consolidated statement of Cash Flows

For the 6 month period ended per 30 June (in € million)	**2018 Unaudited**	**2019 Unaudited**
Profit (+) / loss (-)	7,5	(1,2)
Depreciations & Impairment	15,0	20,1
Net financial charges	10,3	11,1
Income taxes	3,6	(0,6)
Inventory write-off (+ = cost / - = inc)	0,4	0,4
Trade AR write-off (+ = cost / - = inc)	(0,5)	0,1
Long term provisions (+ = cost / - = inc)	(0,3)	0,4
Gain / Loss on disposal of (in)tang. FA (+ = cost / - = inc)	(0,1)	(0,1)
Fair value adjustments equity accounted investees	0,0	(0,1)
GROSS OPERATING CASH FLOW	**35,9**	**30,0**
Decr / (incr) in inventories	(26,4)	(8,2)
Decr / (incr) in trade AR	(18,7)	5,1
Incr / (decr) in trade AP	29,3	(6,2)
Decr / (incr) in other operating assets/liabilities	2,8	5,7
Income taxes paid (-) / received (+)	(0,8)	(2,6)
Interest received (+)	0,6	3,2
CASH FLOW FROM OPERATING ACTIVITIES	**22,6**	**27,1**
Purchases of (in)tangible FA (-)	(28,7)	(16,0)
Acquisitions of investment in joint venture	(0,0)	0,0
Proceeds from sale of (in)tangible FA (+)	0,4	0,3
CASH FLOW FROM INVESTMENT ACTIVITIES	**(28,3)**	**(15,8)**
Capital incr (+) / decr (-)	0,1	0,5
Dividends paid (-) / received (+)	(4,1)	(4,1)
Interest paid (-)	(3,1)	(5,1)
Net financial result, excl interest	0,1	(17,6)
New (+) / repayments (-) of long-term debts	6,6	(10,0)
New (+) / repayments (-) of short-term debts	7,4	8,8
CASH FLOW FROM FINANCING ACTIVITIES	**6,9**	**(27,4)**
Net increase / (decrease) in cash and cash equivalents	**1,2**	**(16,1)**
Cash and cash equivalents as per beginning of period	**42,0**	**65,8**
Net increase / (decrease) in cash and cash equivalents	1,2	(16,1)
Impact of exchange rate fluctuations	(1,1)	(4,1)
Cash and cash equivalents as per end of period	**42,0**	**45,6**

Financial calendar

20 August 2019	H1 2019 results

Glossary

EBIT	Earnings before interests and taxes
EBT	Earnings before taxes
Adj. EBITDA	Recurring earnings before interest, taxes, depreciation / impairments of fixed assets as well as amortisation/impairment of goodwill and effect of negative goodwill = EBITDA excluding non-recurring costs/benefits, e.g. restructuring costs = recurring operating cash flow
Adj. EBITDA-margin	Adj. EBITDA compared to sales
LTM Adj. EBITDA	Adj. EBITDA realized over the last twelve months
AR	Accounts Receivable
AP	Accounts Payable
Net debt	Financial debts – cash and cash equivalents

End of press release

About Deceuninck

Founded in 1937, Deceuninck is a top 3 independent manufacturer of PVC and composite profiles for windows and doors. Headquartered in Hooglede-Gits (BE), Deceuninck is organized in 3 geographical segments: Europe, North America and Turkey & Emerging Markets. Deceuninck operates 15 vertically integrated manufacturing facilities, which together with 21 warehousing and distribution facilities guarantee the necessary service and response time to Customers. Deceuninck strongly focuses on innovation, ecology and design. Deceuninck is listed on Euronext Brussels ("DECB").

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