

## **Ercros obtained ebitda totalling EUR 61 million and a profit of EUR 31 million in 2019**

- **The volume of products sold rose by 14.4%**
- **Free cash flow amounted to EUR 28.1M**
- **Net financial debt dropped by EUR 16M**
- **The ratios for shareholder remuneration were met: the board proposed a dividend of EUR 0.05/share**
- **Ebitda for the year reached EUR 61M**
- **Ebitda in Q4 19 was up EUR 4.5M on Q4 18**

### **Summary**

The income generated by Ercros in 2019 amounted to EUR 689.1 million, up EUR 4.3 million on the previous year, representing growth of 0.6%; accordingly, expenses amounted to EUR 628.2 million, up EUR 14.5 million on 2018, equal to an increase of 2.4%. This gave rise to a gross operating profit (“ebitda”) of EUR 60.9 million, which is 14.4% less than the ebitda for 2018, and a profit for the year of EUR 31 million, compared to the EUR 44.6 million obtained the previous year.

Despite this reduction in profit, and the still high payment for investments and provisions, the free cash flow generated in 2019 was EUR 28.1 million, thanks mainly to the significant ebitda and working capital management. The funds generated have enabled the Company to reduce its net financial debt from EUR 126.5 million at the end of 2018 to EUR 110.2 million at the end of 2019, a reduction of EUR 16.4 million, and to pay out shareholder remuneration of EUR 11.2 million.

The difference between the profit for 2019 and that for 2018 was reduced as the year progressed, so that ebitda for the second half of the year was EUR 1.5 million higher than for the first half. This is an exceptional circumstance because traditionally the second half of the year, for seasonal reasons, tends to present lower profit than the first half.

Thanks to the improvement in the second half of 2019, Ercros fulfilled the conditions established for shareholder remuneration and, therefore, the board of directors will propose a dividend of EUR 0.05 per share at the shareholders meeting. The Company has also begun repurchasing its treasury shares for redemption, in order to comply with the obligation to allocate 45% of profit to shareholder remuneration.

### **Performance of quarterly ebitda**

Quarterly performance in 2019 was much more stable than that of 2018, a year in which quarterly ebitda was very high in the first two quarters of the year and very low in the last two, as a result of the strong contraction of the international industrial sector. The quarterly profile of 2019 is essentially flat, with very little seasonal variation in the first and fourth quarters. The aggregate gross profit for the second half of 2019 is not only clearly higher than that achieved in the same period in 2018 (EUR 31.2 million vs. EUR 24.9 million), but also slightly higher than that of the first half of 2019 (EUR 31.2 million vs. EUR 29.7 million), which is an exception to the historical profile of Ercros’ quarterly ebitda. The main reason for this is the

implementation of capacity expansions at various plants and the resulting increase in sales and the associated margin, against a backdrop of a weak caustic soda market but relatively favourable conditions in the markets for the intermediate chemicals and pharmaceuticals divisions.

### **Consolidated profit for the year**

In 2019, product sales were affected by the continuation of the downswing in the chemical cycle resulting from the slowdown in industrial activity in the developed world. After four years of uninterrupted escalation, the second half of 2018 saw the beginning of a downward trend in the presence of most raw materials and, by translation, the price of the final products, which were pressured by weak demand and abundant supply. The general drop in the sales price of the main products marketed slightly reduced turnover (-0.1%), despite the higher volume sold (+14.4%). Sales reached EUR 638.7 million in 2019 compared to EUR 639.5 million in the previous year.

Other income to be taken into account is the reversal of provisions for EUR 2.2 million (mainly from the sale of scrap metal from the dismantling of the mercury plants) and the net profit from the sale of land for EUR 3.1 million.

With regard to expenses, in 2019 there was an increase in all line items that make up this heading compared to 2018, with this increase being more moderate in the case of procurements and supplies and higher in other items. Procurements and supplies increased by 0.4%, mainly as a result of the increase in production (+10%), as the price of the main consumables (methanol, electricity and ethylene) fell.

Expenses also includes staff costs, which amounted to EUR 83.1 million, an increase of 4.1%. The reason for this increase is the rise in social security contributions (due to the increase in the contribution base) and wages. In 2019, Ercros' average workforce was composed of 1,297 employees, seven more than in 2018. This heading also includes period provisions and other extraordinary expenses, amounting to EUR 7.8 million (EUR 6.4 million in 2018), which is mainly explained by the provisions for the dismantling of the mercury electrolysis facilities and for the remediation of land at several of the Company's factories.

The aggregate performance of revenue and expenses just described generates an ebitda of EUR 60.9 million, 14.4% less than the EUR 71.1 million obtained in 2018.

This ebitda less depreciation and amortisation, amounting to EUR 26.6 million (EUR 26.4 million in 2018), and the impairment of investment properties, amounting to EUR 5.6 million, result in an ebit of EUR 28.7 million.

The finance costs, which amounted to EUR 6.5 million, were 20.3% lower than in 2018, and the income tax revenue of EUR 8.4 million recognised was EUR 1.5 million higher than in 2018. At 31 December 2019, the Company still had unrecognised deferred tax assets amounting to EUR 65.1 million.

Profit for 2019 amounted to EUR 31 million, 30.4% less than the EUR 44.6 million obtained in 2018. Earnings per share were EUR 0.2924 compared to EUR 0.4085 in 2018.

## **Business results**

The chlorine derivatives division has been the most affected by the drop in the price of the final products and the resulting deterioration of business margins, in particular with regard to caustic soda and PVC. The drop in margins was mitigated by lower costs, especially in the case of electricity, the main raw material of the business, and by the increase in the volume sold. Against this backdrop, the operating profit of the business, which reached EUR 21.8 million, fell by 43.9% compared to 2018.

The intermediate chemicals division gradually improved its contribution as the year progressed, so that for the year as a whole the operating profit of the business, which reached EUR 7.4 million, was up 32.6% on the previous year. This business moved in a scenario of stable market demand and falling raw material costs, a combination that allowed margins to improve. The appreciation of the dollar against the euro, which favoured exports, also played an important role.

The pharmaceutical division is continuing its upward path of recent years. Almost all parameters of this business were favourable: a solid market; the general rise in prices of the final products; the increase in sales volume, especially in the case of products with greater added value; and the appreciation of the dollar against the euro, the currency in which 43.2% of its sales are denominated. The only negative point was the increase in the cost of intermediate raw materials, although even this effect could be partially offset by the significant drop in energy costs. The combination of these factors gave rise to an operating profit of EUR 7.6 million, which is 54.7% higher than in 2018.

## **Markets**

In 2019, the foreign market performed better than the domestic market, thanks in part to the favourable average dollar exchange rate, which boosted exports to areas that operate with this currency. The slight decrease in Ercros' sales is therefore the result of a 2% increase in exports and a 2.1% reduction in sales in Spain. The appreciation of the dollar led to additional profit of EUR 2.8 million, distributed as follows: EUR 2.6 million for the intermediate chemicals division; EUR 0.8 million for the pharmaceutical division and EUR -0.6 million for the chlorine derivatives division.

The Spanish market accounted for 52% of sales, with a total of EUR 329.9 million (EUR 336.9 thousand in 2018). The remaining 48% of sales corresponded to the foreign market, with a total of EUR 308.8 million (EUR 302.7 million in 2018). The pharmaceutical division exports 91% of its sales, the intermediate chemicals division 65% and the chlorine derivatives division 34%.

The European Union ("EU") is the main destination for Ercros' exports and accounts for 28% of its consolidated sales; turnover in this area remained stable compared to 2018. Sales to other OECD countries, which represent 9% of consolidated sales, increased by 14%, supported by sales to the US. The area with the worst performance was the rest of the world, with India and China leading the way, which absorbed 11% of consolidated turnover and reduced its sales by 5%.

## **Balance sheet**

The most significant figure on the balance sheet at the end of 2019 was the reduction in net financial debt from EUR 126.5 million in 2018 to EUR 110.2 million in 2019. This reduction, as indicated in the summary of this note, was possible thanks to the substantial free cash flow generated of EUR 28.1 million, which has allowed not only the reduction of net financial debt by EUR 16.4 million, but also the shareholder remuneration of EUR 11.2 million.

The high volume of investments made in 2019 had an impact on the changes in non-current assets, which increased by EUR 12.5 million (up 3.6% on 2018 year-end). Working capital dropped by EUR 27 million (-29.4%), due mainly to the reduction in inventories and trade receivables.

In 2019, the actions envisaged in the 2016-2020 Act Plan, which totals EUR 100,000 thousand, were virtually completed. During the previous year, investments totalling EUR 33.6 million (EUR 31.6 million in 2018) were recognised, of which EUR 16.3 million (EUR 23.7 million in 2018) related to actions to expand production capacity and the remaining EUR 17.3 million (EUR 7.9 million in 2018) to investments to improve energy efficiency and modernise and automate plants.

Equity, which amounted to EUR 292.1 million, rose by EUR 19.8 million (+7.3%). This change is less than the profit generated during the year due to the funds paid for shareholder remuneration, which amounted to EUR 11.2 million: EUR 4.5 million to acquire treasury shares for their redemption; EUR 6.3 million for dividends; and EUR 0.4 million as a bonus for attending meetings.

Provisions and other payables were reduced by EUR 18 million as, among others, the historical liability corresponding to the cleaning of the Flix reservoir, amounting to EUR 11.3 million, and the contribution to the Spanish Treasury for the 2013 collective redundancy procedure, amounting to EUR 3.1 million, were settled.

## **Shareholder remuneration**

In 2019, the three conditions established in the Ercros shareholder remuneration policy were met, since earnings per share were EUR 0.2924 and, therefore, higher than the minimum required earnings of EUR 0.10/share; the solvency ratio (net financial debt/ordinary ebitda) was 1.74 and, therefore, lower than the maximum allowed ratio of 2; and the leverage ratio (net financial debt/total equity) was 0.38 and, therefore, lower than the maximum allowed ratio of 0.50.

In accordance with the current shareholder remuneration policy, this compensation is made through the buyback of treasury shares for their redemption and payment of a dividend. Consequently, the board of directors has agreed to propose at the shareholders meeting the distribution of a gross dividend of EUR 0.05 per share, which entails a payment of EUR 5.3 million and represents 16.9% of the profit for 2019. Ercros has also launched a new programme to buy back its treasury shares to reach a total of EUR 8.7 million, equal to 28.1% of profit. The sum of both components amounts to 45% of profit, which is the percentage envisaged in the shareholder remuneration policy for 2019.

## Foreseeable evolution

In line with forecasts of slower growth in most developed economies, and particularly in Europe, Ercros estimates that business performance in 2020 will not vary significantly from that of 2019. The scenario is more optimistic for the intermediate chemicals and pharmaceutical businesses, which have more solid markets, than for the chlorine derivatives business, due to its strong links to the performance of the European industrial sector.

All specialist publications forecast that in 2020, in line with expected demand, the prices of final products will tend to remain at the levels of 2019 year-end. Faced with the difficulty of obtaining better prices, in order to defend its turnover, Ercros has chosen to focus its commercial strategy on maintaining sales volume and concentrating activity on the applications and countries with the best return. A positive aspect of these forecasts is the expectation of stability in the price of supplies and procurements, which should mean that margins will be maintained.

As regards the exchange rate, the forecast for 2020 is for a slight devaluation of the dollar against the euro, which would somewhat reduce Ercros' return, although the US currency has appreciated against the euro since the end of the year.

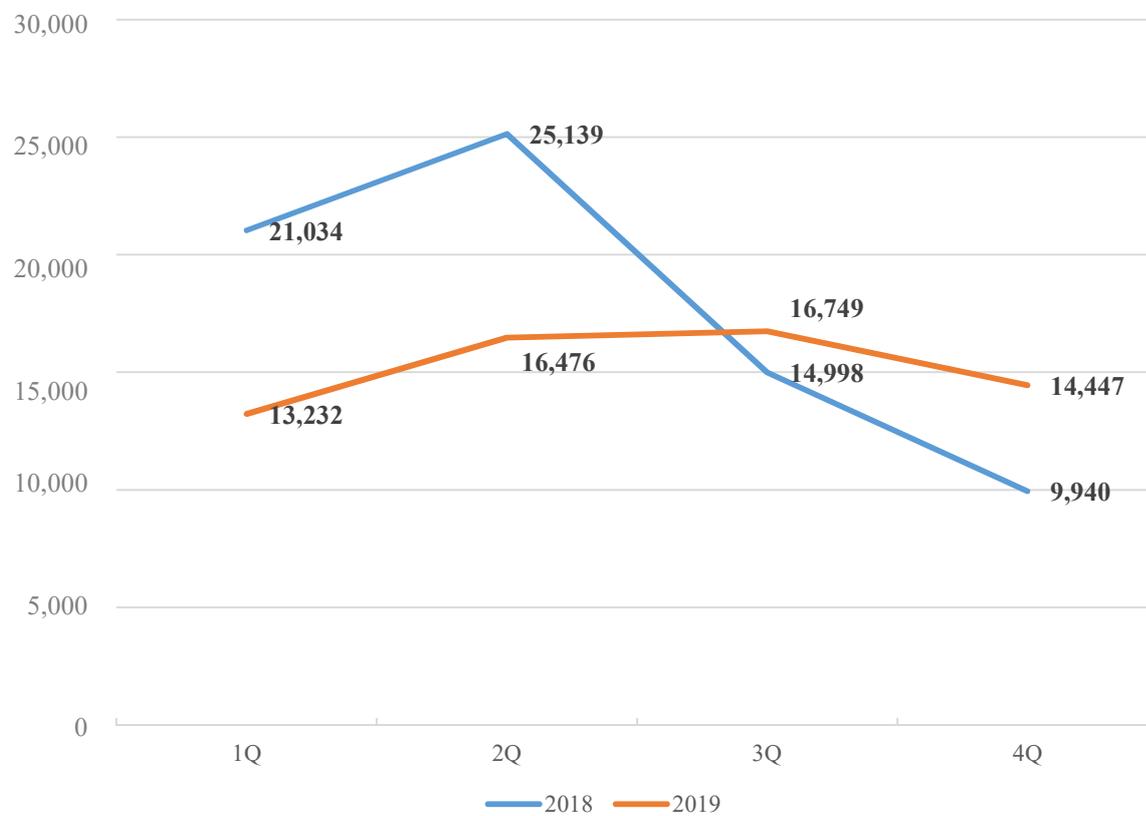
In the medium term, Ercros' challenge is to add new products or specialities to the Company's portfolio; to open up new markets and consolidate its position in certain geographical areas; and to increase the production of its own products in order to replace third-party products marketed, thereby increasing its margin.

Ercros is therefore moderately optimistic about a possible improvement in margins throughout 2020, which should be achieved by an increase in sales, a greater volume of products sold, maintaining low prices in the main raw materials and reducing energy costs.

Barcelona, 28 February 2020

## Ebitda evolution by quarters

EUR thousand



## Statement of profit or loss

EUR thousand	FY 2019	FY 2018 restated <sup>1</sup>	Variation (%)
<b>Revenue</b>	<b>689,073</b>	<b>684,802</b>	<b>0.6</b>
Sales of goods	638,737	639,543	-0.1
Rendered services	31,045	32,397	-4.2
Other operating income	13,466	8,364	61.0
Reversal of provisions and other extraordinary income	2,233	1,821	22.6
Change in inventory	444	2,677	-83.4
Net result from divested properties	3,148	-	-
<b>Expenses</b>	<b>-628,169</b>	<b>-613,690</b>	<b>2.4</b>
Procurements	-343,573	-341,780	0.5
Supplies	-96,171	-96,027	0.1
Employee benefit expenses	-83,127	-79,870	4.1
Other operating expenses	-97,461	-89,659	8.7
Provisions and other extraordinary expenses	-7,837	-6,354	23.3
<b>Ordinary ebitda</b>	<b>60,904</b>	<b>71,112</b>	<b>-14.4</b>
Amortisation	-26,576	-26,365	0.8
Impairment of investment properties	-5,615	-	-
<b>Ebit</b>	<b>28,713</b>	<b>44,747</b>	<b>-35.8</b>
Finance cost and exchange rate differences	-6,502	-8,161	-20.3
Share in associates profit	414	1,132	-63.4
<b>Earnings before tax</b>	<b>22,625</b>	<b>37,718</b>	<b>-40.0</b>
Income tax expense	8,418	6,876	22.4
<b>Profit for the year</b>	<b>31,043</b>	<b>44,594</b>	<b>-30.4</b>
<b>Profit per share (euros)</b>	<b>0,2924</b>	<b>0,4085</b>	<b>-28.4</b>

<sup>1.</sup> The profit and loss account for fiscal year 2018 has been restated to include the application of NIFF 16 in order to make it comparable with that corresponding to fiscal year 2019.

### Economic analysis of the balance sheet<sup>1</sup>

EUR thousand	31-12-19	31-12-18 <sup>2</sup>	Variation (%)
<b>Non-current assets</b>	<b>359,713</b>	<b>347,234</b>	<b>3.6</b>
<b>Working capital</b>	<b>64,870</b>	<b>91,865</b>	<b>-29.4</b>
Current assets	184,470	217,044	-15.0
Current liabilities	-119,600	-125,179	-4.5
<b>Capital employed</b>	<b>424,583</b>	<b>439,099</b>	<b>-3.3</b>
<b>Equity</b>	<b>292,083</b>	<b>272,256</b>	<b>7.3</b>
<b>Net financial debt<sup>3</sup></b>	<b>110,171</b>	<b>126,541</b>	<b>-12.9</b>
<b>Provisions and other debts</b>	<b>22,329</b>	<b>40,302</b>	<b>-44.6</b>
<b>Source of funds</b>	<b>424,583</b>	<b>439,099</b>	<b>-3.3</b>

1. These balance sheets have been prepared by the management to allow a better understanding of the use of resources made by the company.
2. The economic analysis of the balance sheet for fiscal year 2018 has been restated to include the application of NIFF 16 in order to make it comparable with that corresponding to fiscal year 2019.
3. All debts of a financial nature with non-bank entities as well as creditors for leases are included in the net financial debt (in 2019: 13,378 thousand euros, and in 2018: 19,234 thousand euros). Also, in addition to cash and other equivalent liquid means, those deposits that guarantee debt commitments have been considered as lower financial debt (in 2019: 11,247 thousand euros, and in 2018: 9,078 thousand euros).

## Reconciliation of adjusted ebitda to ebitda and sales by business segment

EUR thousand

Reconciliation of adjusted ebitda	FY 2019	FY 2018	Variation (%)
<b>Reported ebitda</b>	<b>60,904</b>	<b>71,112</b>	<b>-14.4</b>
Extraordinary income items	-5,381	-1,821	-
Extraordinary expense items	7,837	6,354	23.3
<b>Adjusted ebitda</b>	<b>63,360</b>	<b>75,645</b>	<b>-16.2</b>

Adjusted ebitda by business segment	FY 2019	FY 2018	Variation (%)
Chlorine derivatives	37,944	54,903	-30.9
Intermediate chemicals	14,708	12,696	15.8
Pharmaceuticals	10,708	8,046	33.1
<b>Total adjusted ebitda</b>	<b>63,360</b>	<b>75,645</b>	<b>-16.2</b>

Sales of products by business segment	FY 2019	FY 2018	Variation (%)
Chlorine derivatives	391,635	394,388	-0.7
Intermediate chemicals	189,587	193,992	-2.3
Pharmaceuticals	57,515	51,163	12.4
<b>Total sales</b>	<b>638,737</b>	<b>639,543</b>	<b>-0.1</b>