deceuninck group

Press Release | Full Year 2018 Financial Results

Regulated Information
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Deceuninck cycles to an adjusted EBITDA of € 72.4m or 10.7% on sales, the highest level in a decade

Highlights

- **Sales:** FY 2018 sales decreased by 1.9% to € 674.2m (FY 2017: € 687.2m). Solid sales growth in North-America and the Emerging Markets has been offset by lower volumes in Turkey due to challenging market conditions in H2. Sales in Europe remained fairly stable, however with different dynamics across end markets.
- **Adjusted EBITDA:** Adj. EBITDA increased to € 72.4m (FY 2017: € 68.1m[1]). The Adj. EBITDA Margin expanded by 0.8pps to 10.7% on sales (FY 2017: 9.9%) driven by operational efficiencies resulting from process improvements and investments in equipment and infrastructure. Price increases compensated higher raw material prices, devaluation and inflation.
- **Net profit and EPS**: Net profit increased to € 15.6m (FY 2017: € 13.8m) as the € 5.8m higher EBIT and € 2.8m lower taxes have been partially offset by € 6.9m higher financial charges, primarily explained by higher interest rates in Turkey. EPS increased 18% from € 0.09 to € 0.11.
- **Net debt and leverage:** Net debt on 31 December 2018 improved to € 93.7m compared to € 118.3m on 31 December 2017, despite a continued high level of investments, resulting in a leverage ratio of 1.3x (31/12/2017: 1.7x). Part of this improvement is expected to reverse, depending on market circumstances, over the course of 2019.
- **Dividend:** The Board will propose to the AGM to maintain the dividend at € 0.03 per share.
- **Strategic projects** including the new recycling plant, new product developments, initiatives to further strengthen our brand and the roll out of SAP are on track.
- **Annual Report 2018**: available on our website at www.deceuninck.com/Investors

Quote of the CEO, Francis Van Eeckhout

"2018 was a good year for Deceuninck with Adjusted EBITDA increasing to € 72.4m, the highest level in a decade. The year also confirmed the value of our balanced geographical spread: confronted with challenging market conditions in Turkey we managed to offset this with strong growth in North America and in the Emerging Markets. I am also very pleased with our new recycling capability in Belgium, which confirms the ecological ambition of both Deceuninck and our customers. Finally, with the cycling sponsorship, we have started important initiatives to take the brand awareness of Deceuninck to the next level."

[1] FY 2017 Adj. EBITDA and Financial Result have been restated from € 66.7m to € 68.1m and from € (14.7)m to € (16.1)m, following the reclassification of certain FX results from operating result to financial result as these are economically to be considered as financing charges. The impact of this restatement on FY2018 Adj. EBITDA was €1.9m positive or 0.2% on sales, which is offset by a decrease of the Financial Result by the same amount.

Figure 1 : Summary of consolidated Income Statement

(in € million)	FY 2017[1]	FY 2018	*% yoy*
Sales	**687.2**	**674.2**	***(1.9%)***
Gross profit	196.7	202.3	*2.8%*
Gross-margin (%)	*28.6%*	*30.0%*	*+1.4pp*
EBITDA	68.6	73.0	*6.3%*
Adj. EBITDA	**68.1**	**72.4**	***6.4%***
Adj. EBITDA-margin (%)	*9.9%*	*10.7%*	*+0.8pp*
EBIT	**38.1**	**43.9**	***15.3%***
Financial result	(16.1)	(23.0)	*42.9%*
EBT	22.0	20.9	*(4.9%)*
Income taxes	(8.2)	(5.4)	*(34.6%)*
Net profit	**13.8**	**15.6**	***12.7%***

[1] € 1.4m FX results and hedging costs restated from EBIT to Financial result

Figure 2: Sales breakdown

Sales (in € million & % yoy)	Total	Western Europe	Central & Eastern Europe	Turkey & Emerging Markets	North America
FY 2017[1]	**687.2**	**171.1**	**163.4**	**223.6**	**129.1**
Volume	(0.3%)	1.3%	(4.4%)	(7.9%)	5.4%
Exchange rate	(10.9%)	(0.2%)	(1.5%)	(29.7%)	(4.5%)
Other (price & mix)	9.4%	3.4%	3.6%	29.1%	0.8%
Total	**(1.9%)**	**4.5%**	**(2.3%)**	**(8.5%)**	**1.7%**
FY 2018	**674.2**	**178.8**	**159.6**	**204.5**	**131.3**

[1] FY2017 sales to certain smaller end markets re-allocated from CEE to TR&EM to reflect FY2018 allocation of countries to regions.

Figure 3: Summary of consolidated Balance Sheet

(in € million)	FY 2017	FY 2018	*% yoy*
Total assets	558.6	590.0	*5.6%*
Equity	257.6	255.6	*(0.8%)*
Net debt	118.3	93.7	*(20.8%)*
Capital expenditure	54.2	62.1	*14.7%*
Working capital	135.9	92.3	*(32.1%)*

Management comments

Sales

Consolidated FY 2018 sales decreased by 1.9% to € 674.2m, compared to € 687.2m FY 2017.

Sales in **Western Europe** increased by 4.5% to € 178.8m (FY 2017: € 171.1m) thanks to strong business development in certain countries and price increases necessary to offset increasing raw material prices. Although the dynamics are very different across end markets, overall market growth across Europe is flat.

In **Central and Eastern Europe** sales decreased 2.3% to € 159.6m (FY 2017: € 163.4m). This is explained by a loss in volume and the weakening of the Russian rouble (-12%). This is partially compensated by price increases which are necessary to compensate for higher raw material prices and inflation.

Sales in **Turkey & Emerging Markets** decreased 8.5% to € 204.5m (FY 2017: € 223.6m) due to the difficult market environment in Turkey since the summer. In H2 volumes in Turkey dropped by 21% y-o-y as the impact of the market contraction was partially compensated by market share gains. The impact of the weaker Turkish lira (-38%) and inflation has been compensated by price increases. Strong volume growth in Emerging Market countries (mainly Chile, Colombia and Brazil) boosted sales in EM, albeit mitigated somewhat by unfavourable FX.

'In the past months we have strengthened our market position in Turkey'

Ergün Cicekci
Director Turkey & EM

Ergün Cicekci, Director Turkey & EM: *"In an uncertain economic environment, window fabricators are looking for a trusted partner they can fully rely on for the long term. Thanks to our strong brands and solid financials, we have been able to acquire new customers and new projects and as such in the past months we have further strengthened our market position."*

In **North America** sales increased 1.7% to € 131.3m (FY 2017: € 129.1m). Volumes grew 5.4% thanks to strong business development and new customers joining Deceuninck. Volume growth was however almost completely offset by the weakening of the USD (-4.5%).

Income statement

Adjusted EBITDA increased to € 72.4m (FY 2017: € 68.1m) driven by higher operational efficiencies thanks to process improvements and investments in equipment and infrastructure, as well as price increases necessary to compensate for higher raw material prices, devaluation and inflation. Furthermore, in Turkey we have benefited from some opportunistic buying of raw materials. This is partially offset by higher fixed costs necessary to support growth in the US. As a result of the foregoing, Adj. EBITDA-margin increased to 10.7% versus 9.9% in FY 2017.

The **Operating Result (EBIT)** amounted to € 43.9m (FY 2017: € 38.1m), which is entirely explained by the evolution of Adjusted EBITDA. Non recurring income and expenses amount to a gain of € 0.5m.

Depreciations and impairments decreased to € (29.0)m (FY 2017: € (30.5)m) as the impact of higher investments is compensated by FX effects and a one-off positive € 1.6m adjustment of historical depreciation charges.

The **Financial result** amounted to € (23.0)m (FY 2017: € (16.1) million). The € 6.9m decrease is mainly explained by higher interest rates in Turkey which is only partially offset by a decrease in overall[2] financial debt and by the one-off impact which the merger of Ege Profil and Pimas and the liquidation of Enwin had on both the 2017 and 2018 financial results.

Income tax expenses normalized to € (5.4)m in 2018 after one-off tax expenses related to fiscal reforms in Belgium and the US negatively impacted tax expenses in 2017.

As a consequence of the above, **net profit** for the year increased from € 13.8m in FY 2017 to € 15.6m in FY 2018. Earnings per share increased to € 0.11 (FY 2017: € 0.09).

Balance sheet

Working capital on 31 December 2018 shrunk to 13.7% of LTM sales compared to 19.8% on 31 December 2017. Trade receivables decreased by € 20.3m, explained by several initiatives to reduce DSO's, increased use of commercial finance[3] (€36.2m vs €31.5m in 2017) and by lower volumes in Turkey. Inventories increased by about € 3m mainly due to the increase in raw material prices. Trade payables increased by € 26.4m as a result of longer payment terms agreed with raw material suppliers, part of which might reverse depending on 2019 market circumstances.

Capital expenditures in FY 2018 amounted to € 62.1m (€ 54.2m in FY 2017) and include the investment in a new recycling plant in Diksmuide (BE), the construction of a new logistical centre in Poznan (PL), the development of new products[4] and the further modernisation of our equipment.

Net debt on 31 December 2018 amounted to € 93.7m compared to € 118.3m on 31 December 2017, resulting in a net debt / LTM Adj. EBITDA ratio of 1.3x (31/12/2017: 1.7x). Part of this improvement relates to the evolution of trade payables and is, depending on market circumstances, expected to reverse over the course of 2019.

Strategic projects

A state of the art **recycling** line has been put into service in Diksmuide (BE) which will allow Deceuninck to recycle over time up to 45.000 tonnes PVC per year. On top of this fourfold increase of capacity, the new line is capable to recycle post-consumer as well as post-industrial PVC waste. This will further reduce the ecological footprint of our products and will in addition reduce dependency from virgin raw material.

The rebranding of Inoutic into Deceuninck has been initiated. This will allow us to leverage on our investments in marketing and in new product developments. In parallel the Group is strengthening its **Deceuninck brand** globally by becoming title sponsor of the world's number one cycling team.

Investments in innovative **new product ranges** continue. Elegante, an award-winning window platform characterised by its ultra slim design highly appreciated by end consumers and architects, is being introduced across Europe. The Group also entered into a JV with So Easy, a designer and manufacturer of innovative aluminium window systems active in Eastern Europe.

The **rollout of SAP** in Western Europe is in its final phase. The implementation in other regions is being prepared.

[2] The overall financial debt includes bank financing and commercial finance solutions like factoring
[3] Commercial finance solutions include factoring in Europe and the United States and PayNet or Commercial Direct Debit in Turkey
[4] Mainly the costs of creating, producing or making ready of tools.

Outlook

2019 is likely to be a year of great opportunities and important challenges. We remain positive about the long term growth potential of our industry, but will have to manage the downturn in Turkey. Although we prepare for a further deterioration of the Turkish market during H1, we believe that over time this crisis represents an opportunity to strengthen our position and we remain confident about Turkey's long term potential.

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)	H2 2017 (*)	H2 2018	FY 2017(*)	FY 2018
Sales	**348.4**	**332.7**	**687.2**	**674.2**
Cost of goods sold	(250.4)	(232.7)	(490.5)	(471.9)
Gross profit	**98.0**	**100.0**	**196.7**	**202.3**
Marketing, sales and distribution expenses	(27.7)	(26.6)	(107.4)	(106.9)
Research and development expenses	(4.0)	(3.7)	(8.3)	(8.0)
Administrative and general expenses	(22.6)	(21.5)	(44.8)	(43.8)
Other net operating result	(0.0)	(0.2)	1.8	0.4
Operating profit (EBIT)	**18.1**	**22.6**	**38.1**	**43.9**
Financial result	(7.6)	(12.7)	(16.1)	(23.0)
Profit before taxes (EBT)	**10.5**	**9.8**	**22.0**	**20.9**
Income taxes	(4.9)	(1.8)	(8.2)	(5.4)
Net profit	**5.6**	**8.1**	**13.8**	**15.6**
Adj. EBITDA	**33.8**	**36.0**	**68.1**	**72.4**

(*) € 1.4m (FY 2017) and € (0.1)m (H2 2017) FX results and hedging costs reclassified from EBIT to Financial result.

The net profit is attributable to: (in € thousand)	H2 2017	H2 2018	FY 2017	FY 2018
Shareholders of the parent company	4,624	7,613	12,453	14,745
Non-controlling interests	953	459	1,362	823

Earnings per share distributable to the shareholders of the parent company (in €):	H2 2017	H2 2018	FY 2017	FY 2018
Normal earnings per share			0.09	0.11
Diluted earnings per share			0.09	0.11

Annex 2: Consolidated statement of financial position

At 31 December (in € million)	FY 2017	FY 2018
Assets		
Intangible fixed assets	6.1	5.5
Goodwill	10.7	10.6
Tangible fixed assets	252.9	268.8
Financial fixed assets	0.1	0.1
Investment in a joint venture	0.0	9.4
Deferred tax assets	10.7	8.6
Long-term receivables	1.8	1.0
Non-current assets	**282.3**	**304.1**
Inventories	114.3	117.4
Trade receivables	109.0	88.7
Other receivables	9.4	10.9
Cash and cash equivalents	42.0	65.8
Fixed assets held for sale	1.5	3.0
Current assets	**276.3**	**285.9**
Total assets	**558.6**	**590.0**

Equity and liabilities		
Issued capital	53.8	53.9
Share premiums	87.9	88.2
Consolidated reserves	207.9	218.6
Actuarial gains / losses	(6.3)	(4.3)
Treasury shares held in subsidiaries	(0.2)	(0.7)
Treasury shares	(0.1)	(0.1)
Currency translation adjustments	(88.0)	(102.6)
Equity excluding non-controlling interest	**255.0**	**253.0**
Non-controlling interest	2.6	2.7
Equity including non-controlling interest	**257.6**	**255.6**
Interest-bearing loans	129.6	124.2
Other long term liabilities	0.0	7.7
Long-term provisions	27.8	24.5
Deferred tax liabilities	1.7	3.2
Non-current liabilities	**159.1**	**159.5**
Interest-bearing loans	30.7	35.3
Trade payables	87.5	113.9
Tax liabilities	5.0	5.2
Employee related liabilities	13.1	11.7
Short-term provisions	1.6	1.2
Other liabilities	3.9	7.6
Current liabilities	**141.9**	**174.9**
Total equity and liabilities	**558.6**	**590.0**

Total net debt	**118.3**	**93.7**

Annex 3: Consolidated statement of Cash Flows

For the 12 month period ended per 31 December (in € million)	**FY 2017**	**FY 2018**
Profit (+) / loss (-)	13.8	15.6
Depreciations & Impairment	30.5	29.0
Net financial charges	16.1	23.0
Income taxes	8.2	5.4
Inventory write-off (+ = cost / - = inc)	0.1	0.6
Trade AR write-off (+ = cost / - = inc)	(1.1)	(1.7)
Long term provisions (+ = cost / - = inc)	0.5	0.2
Gain / Loss on disposal of (in)tang. FA (+ = cost / - = inc)	(0.1)	(0.1)
Fair value adjustments equity accounted investees	0.0	0.2
GROSS OPERATING CASH FLOW	**68.1**	**72.2**
Decr / (incr) in inventories	(21.9)	(10.1)
Decr / (incr) in trade AR	(8.9)	2.2
Incr / (decr) in trade AP	(1.5)	35.1
Decr / (incr) in other operating assets/liabilities	1.4	(2.2)
Income taxes paid (-) / received (+)	(1.5)	(0.9)
Interest received (+)	1.5	2.4
CASH FLOW FROM OPERATING ACTIVITIES	**37.1**	**98.7**
Purchases of (in)tangible FA (-)	(54.2)	(62.1)
Acquisitions of investment in joint venture	0.0	(2.0)
Proceeds from sale of (in)tangible FA (+)	4.5	(0.0)
CASH FLOW FROM INVESTMENT ACTIVITIES	**(49.6)**	**(64.1)**
Capital incr (+) / decr (-)	(0.5)	(0.2)
Dividends paid (-) / received (+)	(4.1)	(4.2)
Interest paid (-)	(9.9)	(9.6)
Net financial result, excl interest	(4.8)	(6.2)
New (+) / repayments (-) of long-term debts	6.6	1.3
New (+) / repayments (-) of short-term debts	1.0	8.1
CASH FLOW FROM FINANCING ACTIVITIES	**(11.7)**	**(10.8)**
Net increase / (decrease) in cash and cash equivalents	**(24.2)**	**23.8**
Cash and cash equivalents as per beginning of period	**72.4**	**42.0**
Impact of exchange rate fluctuations	(6.0)	(0.4)
Transfers	(0.3)	0.4
Cash and cash equivalents as per end of period	**42.0**	**65.8**

Financial calendar

21 February 2019	FY 2018 results
23 April 2019	General Assembly of Shareholders
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 4 geographical segments: Western Europe, Central & Eastern 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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