deceuninck group

Press Release | FY 2019 Financial Results

Regulated Information
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Turkey and strategic repositioning in Europe weigh on results

Sales	Adj. EBITDA	Net Result
€ 633.8m (-6.0%)	€ 60.6m (-26.0%[1])	€ (14.7)m

Executive Summary

Following a strong 2018, 2019 proved to be much more challenging, with Net Result amounting to a loss of € 14.7m (FY 2018: profit of € 15.6m). This is entirely explained by 1) lower volumes and 2) continued high interest rates in Turkey and 3) one-off restructuring costs in Europe.

1) Sales decreased 6.0% mainly because of **lower volumes in Turkey**. Unlike earlier corrections, this one lasts longer most likely due to a sequence of economic and geopolitical challenges which negatively impacted consumer confidence, with only towards the very end of 2019 signs of macro-economic improvement. These lower sales volumes are the main reason for the decrease in Adjusted EBITDA to € 60.6m or 9.6% on sales (FY 2018: € 81.9m[2] or 12.1% on sales), as Gross Profit margin remained relatively stable at 28.7% (FY 2018: 30.0%).
2) Financial expenses remained high at € 22.5m as **TRY interest rates** remained at peak levels throughout most of 2019 with only since January 2020 a significant decrease.
3) The strategic repositioning of Europe is well on track, but some larger projects currently generate transition costs while benefits will gradually materialize in the next 18 months. An important element is the downsizing of the production facility in Germany and the transfer of production volumes to Poland where additional capacity has been put in place over the last 3 years. The costs of this **one-off restructuring** have been entirely accrued for in 2019, resulting in a non-recurring expense of € 9.0m.

Net financial debt increased by € 14.4m[2] to € 140.2m primarily due to timing differences and the decision to pay certain suppliers faster. The lower Adj. EBITDA was compensated by structural improvements of working capital and the finalization of the larger investment programs we have been running for the past 3 years.

The Board proposes to the AGM to maintain the dividend at € 0.03 per share.

The Annual Report 2019 is available on our website at www.deceuninck.com/Investors

Quote of the CEO, Francis Van Eeckhout

"2019 has been a very challenging year for our company, and although results are disappointing these do not question the strategic plan we are implementing which will result in a stronger and more sustainable Deceuninck community. Our business model and market position in Turkey, Emerging Markets, and US remains - despite the temporary slowdown - very strong. In Europe, our business model was not efficient enough but we are on the right track to structurally address this. Many projects like the launch of the new award winning Elegant platform, recycling, the optimization of our footprint and the strengthening of our brand are now being rolled out in parallel. This is

[1] On a like for like basis (FY 2018 Adj. EBITDA adjusted for impact of IFRS 16 (Leasing))
[2] Adjusted for impact of IFRS 16

challenging, and it currently puts pressure on earnings, but we remain convinced about the long term benefits not only for us but also for our customers."

Figure 1 : Summary of consolidated Income Statement

(in € million)	FY 2018	FY 2019	%yoy
Sales	**674.2**	**633.8**	***(6.0%)***
Gross profit	202.3	181.9	*(10.1%)*
Gross-margin (%)	*30.0%*	*28.7%*	*-1.3pp*
EBITDA(*)	82.4	51.6	*(37.3%)*
Adj. EBITDA(*)	**81.9**	**60.6**	***(26.0%)***
Adj. EBITDA-margin (%)	*12.1%*	*9.6%*	*-2.6pp*
EBIT	**43.9**	**11.2**	***(74.5%)***
Financial result	(23.0)	(22.5)	*(2.1%)*
EBT	20.9	(11.3)	*(153.9%)*
Income taxes	(5.4)	(3.5)	*(35.5%)*
Net profit / (loss)	**15.6**	**(14.7)**	***(194.7%)***

(*) FY 2018 adjusted for IFRS 16 to allow for like for like comparison.

Figure 2: Summary of consolidated Balance Sheet

(in € million)	FY 2018	FY 2019	%yoy
Total assets	584.9	575.4	*(1.6%)*
Equity	255.6	233.1	*(8.8%)*
Net debt(*)	125.8	140.2	*11.4%*
Capital expenditure	62.1	35.5	*(42.8%)*
Working capital	92.3	94.5	*2.4%*

(*) FY 2018 adjusted for IFRS 16 to allow for like for like comparison.

Management comments

Sales

Consolidated FY 2019 sales decreased by 6.0% to € 633.8m, compared to € 674.2m in FY 2018.

Sales in **Turkey & Emerging Markets** decreased 18.8% to € 166.1m (FY 2018: € 204.5m) due to the continued slowdown in Turkey. Price increases to compensate for inflation and higher raw material costs have been implemented. The Emerging Markets have continued to report strong growth albeit on a relatively small basis.

In **North America** sales increased 3.1% to € 135.4m (FY 2018: € 131.3m) thanks to the stronger USD (+5.3%). Volumes however were lower due to harsh winter conditions and the loss of a customer early in the year. This is largely offset by new strategic customer wins but these new customers only started to contribute materially towards the end of 2019.

Sales in **Europe** decreased 1.8% to € 332.3m (FY 2018: € 338.4m). This is mainly explained by the further rationalisation of our commercial footprint and product range, combined with a slowdown in the French market.

Income statement

Adjusted EBITDA[3] decreased to € 60.6m or 9.6% on sales (FY 2018: € 81.9m or 12.1% on sales). This decrease is primarily explained by the lower volumes in Turkey. Also start-up expenses related to multiple strategic projects in Europe weigh on Adjusted EBITDA while benefits will gradually materialize in the next 18 to 24 months.

Depreciations increased to € 40.5m (FY 2018: € 29.0m) because of the implementation of IFRS 16 and the high level of investments in the last 3 years.

Non-recurring costs and provisions for restructuring amount to € 9.0m and mainly include the costs of the restructuring of our operations in Central Europe.

As a consequence of the above the **Operating Result (EBIT)** decreased to € 11.2m (FY 2018: € 43.9m).

The **Financial result** remained with €(22.5)m stable but at a very high level as TRY interest rates continued to peak throughout most of 2019, and only started to decrease materially as of January 2020.

Despite negative Earnings Before Taxes, **Income tax expenses** amount to a cost of € (3.5)m and were negatively impacted by the ongoing restructuring of Europe which reduces the amount of tax assets which are likely to be utilized in the immediate future.

As a consequence of the above the **Net Result** decreased from a profit of € 15.6m in FY 2018 to a loss of € 14.7m in FY 2019, representing a loss per share of € 0.11 (FY 2018: gain of € 0.11). The net effect of IFRS16 on Net Result is estimated at € (0.6)m.

Cash Flow and Balance sheet

The **Free Cash Flow** decreased from € 32.2m in FY 2018 to € 21.7m in FY 2019. This decline is mainly explained by the decision to pay certain suppliers faster. The lower Adjusted EBITDA was compensated by structural improvements of working capital and the finalization of the larger investment programs we have been running for the past 3 years.

[3] On a like-for-like basis (adjusted for the implementation of IFRS 16)

The **Cash Flow from Financing Activities** excluding the effect of new or repaid loans and dividends and including interests received amounted to a cost of € 29.9m (FY 2018: cost of € 13.6m) due to continued high TRY interest rates in 2019 and timing differences between 2018 and 2019 which negatively impacted 2019.

As a consequence, **Net debt** on 31.12.2019 increased to € 140.2m (31.12.2018: € 125.8m[4]), resulting in a leverage ratio of 2.3x (31.12.2018: 1.5x).

Strategic projects

The various strategic projects are on track, but have not yet contributed to our results. Although the most important part of the required investments have been made already, the implementation of these projects weighs on our FY2019 results with benefits materializing gradually over the next 18months.

One of the most important strategic projects in Europe is the **transition to the new platform** based on the iCOR-concept which allows different frames and sashes to be combined with a universal core. Without concessions on ecological performance or design, this will lead to important complexity reductions and will increase the operational efficiency for both our company and our customers. This transition started and will be further rolled out during the next 24 months.

In addition we continue to optimize our **manufacturing footprint and recycling capabilities in Europe**. The investment in the new recycling plant is largely done and gradually we are increasing output. In parallel, over the last 3 years we increased the capacity in Poland which now allows us to downsize activities in Germany.

Other projects such as the **strengthening of the Deceuninck brand** supported by the cycling sponsorship, the unification of the Western and Central European **organisations** and the further rollout of **SAP** are on track and will gradually start to contribute to our results.

Outlook

Although some economic indicators recently have improved, it remains difficult to predict the timing of an economic recovery in Turkey. We remain however convinced that the long term fundamentals of Turkey remain solid (young fast growing population in need for housing).

In the US, thanks to new customers, we expect to resume sales growth after a temporary decrease in 2019. Also the favorable mortgage rates, historically low unemployment and accelerating wage growth should be supportive for our business, although labor shortages might be preventing a more robust growth.

In Europe the main challenge relates to the execution of our “5 pillar strategy” with the implementation of our different strategic projects. Although we are convinced that these projects will structurally strengthen our position in Europe, the larger projects currently mainly generate transition costs while benefits will gradually materialize in the next 18 months.

[4] Includes adjustment of € 32.1m for the implementation of IFRS 16 (Leasing)

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 2018	H2 2019	FY 2018	FY 2019
Sales	**332.7**	**321.3**	**674.2**	**633.8**
Cost of goods sold	(232.7)	(232.2)	(471.9)	(451.9)
Gross profit	**100.0**	**89.1**	**202.3**	**181.9**
Marketing, sales and distribution expenses	(52.1)	(53.9)	(106.9)	(110.1)
Research and development expenses	(3.7)	(3.6)	(8.0)	(7.5)
Administrative and general expenses	(21.5)	(22.0)	(43.8)	(45.5)
Other net operating result	(0.2)	(7.7)	0.4	(7.6)
Operating profit / (loss) (EBIT)	**22.6**	**1.9**	**43.9**	**11.2**
Financial result	(12.7)	(11.5)	(23.0)	(22.5)
Profit / (loss) before taxes (EBT)	**9.8**	**(9.5)**	**20.9**	**(11.3)**
Income taxes	(1.8)	(4.0)	(5.4)	(3.5)
Net profit / (loss)	**8.1**	**(13.5)**	**15.6**	**(14.7)**
Adj. EBITDA(*)	**40.7**	**30.5**	**81.9**	**60.6**

(*) 2018 adjusted for IFRS 16 to allow for like for like comparison.

The net profit / (loss) is attributable to: (in € million)	H2 2018	H2 2019	FY 2018	FY 2019
Shareholders of the parent company	7,613	(13,670)	14,745	(15,011)
Non-controlling interests	459	151	823	272

Earnings per share distributable to the shareholders of the parent company (in €):	FY 2018	FY 2019
Normal earnings per share	0.11	(0.11)
Diluted earnings per share	0.11	(0.11)

Annex 2: Consolidated statement of financial position

(in € million)	31.12.2018	31.12.2019
Assets		
Intangible fixed assets	5.5	3.7
Goodwill	10.6	10.6
Tangible fixed assets	268.8	299.2
Financial fixed assets	0.1	0.0
Investment in a joint venture	4.3	2.9
Deferred tax assets	8.6	4.5
Long-term receivables	1.0	0.9
Non-current assets	**299.0**	**321.8**
Inventories	117.4	109.1
Trade receivables	88.7	78.1
Other receivables	10.9	12.0
Cash and cash equivalents	65.8	52.8
Fixed assets held for sale	3.0	1.6
Current assets	**285.9**	**253.6**
Total assets	**584.9**	**575.4**
Equity and liabilities		
Issued capital	53.9	53.9
Share premiums	88.2	88.3
Consolidated reserves	218.6	200.4
Actuarial gains / losses	(4.3)	(7.6)
Treasury shares	(0.1)	(0.1)
Treasury shares held in subsidiaries	(0.7)	(0.5)
Currency translation adjustments	(102.6)	(103.8)
Equity excluding non-controlling interest	**253.0**	**230.7**
Non-controlling interest	2.6	2.4
Equity including non-controlling interest	**255.6**	**233.1**
Interest-bearing loans including lease liabilities	124.2	140.5
Other long term liabilities	2.6	0.1
Long-term provisions	24.5	27.3
Deferred tax liabilities	3.2	0.7
Non-current liabilities	**154.4**	**168.6**
Interest-bearing loans including lease liabilities	35.3	52.4
Trade payables	113.9	92.7
Tax liabilities	5.2	3.7
Employee related liabilities	11.7	12.0
Short-term provisions	1.2	8.3
Other liabilities	7.6	4.7
Current liabilities	**174.9**	**173.7**
Total equity and liabilities	**584.9**	**575.4**
Total net debt(*)	**125.8**	**140.2**

(*) 2018 adjusted for IFRS 16 (Leasing)

Annex 3: Consolidated statement of Cash Flows

For the 12 month period ended per 31 Dec (in € million)	FY 2018	FY 2019
Profit (+) / loss (-)	15.6	(14.7)
Depreciations & Impairment	29.0	40.5
Net financial charges	23.0	22.5
Income taxes	5.4	3.5
Inventory write-off (+ = cost / - = inc)	0.6	(0.7)
Trade AR write-off (+ = cost / - = inc)	(1.7)	(0.5)
Long term provisions (+ = cost / - = inc)	0.2	6.4
Gain / Loss on disposal of (in)tang. FA (+ = cost / - = inc)	(0.1)	(0.1)
Fair value adjustments equity accounted investees	0.0	1.4
GROSS OPERATING CASH FLOW	**72.2**	**58.1**
Decr / (incr) in inventories	(10.1)	8.9
Decr / (incr) in trade AR	2.2	10.7
Incr / (decr) in trade AP	35.1	(16.1)
Decr / (incr) in other operating assets/liabilities	(2.2)	0.2
Income taxes paid (-) / received (+)	(0.9)	(2.7)
Interest received (+)	2.4	4.5
CASH FLOW FROM OPERATING ACTIVITIES	**98.7**	**63.5**
Purchases of (in)tangible FA (-)	(62.1)	(35.5)
Acquisitions of investment in joint venture	(2.0)	(2.5)
Proceeds from sale of (in)tangible FA (+)	(0.0)	0.5
CASH FLOW FROM INVESTMENT ACTIVITIES	**(64.1)**	**(37.4)**
Capital incr (+) / decr (-)	(0.2)	0.4
Dividends paid (-) / received (+)	(4.2)	(4.3)
Interest paid (-)	(9.6)	(12.8)
Net financial result, excl interest	(6.2)	(21.9)
New (+) / repayments (-) of long-term debts	1.3	(9.8)
New (+) / repayments (-) of short-term debts	8.1	13.3
CASH FLOW FROM FINANCING ACTIVITIES	**(10.8)**	**(35.2)**
Net increase / (decrease) in cash and cash equivalents	**23.8**	**(9.0)**
Cash and cash equivalents as per beginning of period	**42.0**	**65.8**
Net increase / (decrease) in cash and cash equivalents	23.8	(9.0)
Impact of exchange rate fluctuations and transfers	(0.0)	(4.0)
Cash and cash equivalents as per end of period	**65.8**	**52.8**

Financial calendar

28 April 2020	Annual General Meeting
18 August 2020	H1 2020 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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