EANS-Adhoc: Lenzing AG / Sales and Earnings Decline in 2013 - Countermeasures Well Underway

annual result/annual report

-Ongoing good volume demand, new record sales volumes
-Unsatisfactory earnings situation due to very weak fiber selling prices
-Initial effects of cost optimization measures already have a positive impact in H1 2014

The business development of the Lenzing Group in 2013 was characterized by the continuation of good volume demand, new record shipment volumes and full capacity utilization against the backdrop of extremely weak fiber selling prices. Lenzing has moved to counteract this situation on the basis of a comprehensive cost optimization program, a marketing offensive for specialty fibers, adjustments made to the business strategy in order to minimize risk and an optimized organizational structure in the Group.

Consolidated sales[1]in the 2013 financial year fell by 8.7% from EUR 2.09 bn to EUR 1.91 bn, which can be attributed to the drop in fiber selling prices, which declined by 13% year-on-year to EUR 1.70 per kilogram, as well as the divestment of the Business Unit Plastics. Moreover, there was a loss of external sales totaling EUR 61.8 mn as a consequence of the complete conversion of the Paskov pulp plant in 2013 from paper to dissolving pulp which is used within the Lenzing Group.

Consolidated earnings before interest, taxes, depreciation on property, plant and equipment and amortization (EBITDA)[2]totaled EUR 225.4 mn, down from the adjusted figure of EUR 352.4 mn in 2012[3]) but in line with the most recently published guidance for the year. The EBITDA margin amounted to 11.8%, compared to the adjusted level of 16.9% in the previous year. Consolidated earnings before interest and taxes (EBIT)[4]amounted to EUR 86.4 mn in the 2013 financial year, compared to the prior-year level of EUR 231.5 mn (adjusted). The EBIT margin was 4.5%, down from the adjusted figure of 11.1% in 2012.

Comprehensive countermeasures
"We assume that the difficult market environment will continue in 2014 and perhaps far into the year 2015. For this reason, we have implemented timely and comprehensive countermeasures", explains Peter Untersperger, Chief Executive Officer of Lenzing. "We are massively reducing costs at the same time adding impetus to the marketplace by promoting our specialty fibers TENCEL® and Lenzing Modal®. Our market and quality offensive is being supported since the beginning of the year by the newly created functional Group organization. At the same time, our growth strategy is oriented to the current market situation on the basis of a consistent adjustment of risk", CEO Untersperger adds. "The uninterrupted strong volume demand for Lenzing fibers shows that against the backdrop of a difficult business environment we are offering the right products in a sustainably attractive growth market. We are working intensively and resolutely to optimize our competitive strengths".

Resolute implementation of cost optimization program
The first cost optimization program entitled excelLENZ 1.0 was already launched in the beginning of 2013, generating savings of approximately EUR 40 mn. This was followed by excelLENZ 2.0, which was initiated in November 2013 and is now being resolutely implemented. Cost savings from all cost modules and all sites operated by the Group of EUR 120 mn starting in the 2015/16 financial years have been identified. Cost savings generated by this program of about EUR 60 mn have been budgeted for the 2014 financial year. Two-thirds of the cost savings will be derived from cutting material costs, overhead, massively reducing operating expenses and increasing operating efficiency. About one-third of the cost reductions will be related to lower personnel expenditures. In order to cushion these measures, a comprehensive redundancy program was developed at the end of 2013, for which provisions of EUR 19.7 mn were allocated in the consolidated financial statements for 2013.

In the light of current market conditions, the revised Lenzing strategy focuses on risk optimization and further promoting highly profitable specialty fibers.

Construction of the new TENCEL® production plant at the Lenzing site is the only capacity expansion project being implemented by the Lenzing Group at present. No further viscose fiber growth investments will be carried out for the time being. The construction of a viscose fiber facility in India was postponed.

Sales increases for specialty fibers

The focus is now on expanding the share of specialty fibers in relation to total sales volumes. "In 2013 ourspecialty fibers Lenzing Modal® and TENCEL® achieved an
unchanged and attractive price premium of 50%vis-à-visstandard viscose fibers against the backdrop of good volume demand", saysFriedrich Weninger, Member of the Management Board with responsibility for fiber production. "Moreover, we have opened up new sales markets and regions for TENCEL® in preparation for the start-up of production at the new TENCEL® plant in Lenzing, and have further expanded our innovation pipeline", Mr. Weninger adds. However, Lenzing was only able to partially counteract the weak price development for standard viscose fibers by increasing total sales volumes. On balance, fiber sales volumes reached a new record level of about 890,000 tons in 2013, a rise of 10% from the comparable level of 810,000 tons in 2012.

Ongoing high equity ratio, reduced level of investments

The balance sheet total of the Lenzing Group fell considerably in the past financial year, from EUR 2.63 bn to EUR 2.44 bn as at the end of 2013. This can be mainly attributed to the planned reduction in cash and cash equivalents in connection with the completion of current investment projects. The adjusted equity ratio rose from 43.8% to 45.5% of the balance sheet total. Net financial debt of the Lenzing Group climbed to EUR 504.7 mn at the end of 2013 (2012: EUR 346.3 mn).

Investments in property, plant and equipment, intangible assets and non-controlling interests (cash-CAPEX)[5]were significantly cut back in the 2013 financial year to EUR 252.2 mn from the prior-year figure of EUR 346.2 mn. The focal point of the investment activity carried out by the Lenzing Group was construction of the new TENCEL® production plant, urgently needed infrastructure investments at the Lenzing site and completion of the conversion project at the Paskov pulp plant.

Outlook 2014

Hardly any change was perceptible in the difficult business environment impacting the business operations of the Lenzing Group in the first weeks of 2014 compared to the fourth quarter of 2013. No major improvement is in sight with respect to the price situation on the global fiber market. The reasons are the historically high cotton inventories, high cotton production and surplus capacities in China for manufacturing man-made cellulose fibers.

Volume demand for fibers remained strong at the turn of the year 2013/14.

In 2014 the Lenzing Group is counteracting the unfavorable market situation by speedily implementing the cost reduction and efficiency enhancement program excelLENZ 2.0. All required provisions for the non-recurring costs relating to excelLENZ 2.0 were made in the consolidated financial statements for the 2013 financial year. This program is expected to already positively affect earnings in 2014 to the amount of more than EUR 60 mn.

This program together with the new Group organizational structure which took effect at the beginning of 2014 are major contributions towards restoring the global competitiveness of the Lenzing Group.

Key Group indicators (IFRS) in EUR mn	1-12/2013	1-12/2012(1)
Consolidated sales	1,908.9	2,090.4
EBITDA	225.4	352.4
EBITDA margin in %	11.8	16.9
EBIT	86.4	231.5
EBIT margin in %	4.5	11.1
Profit for the period	50.0	180.9
CAPEX (incl. BU Plastics)	252.2	346.2

	Dec. 31, 2013	Dec. 31, 2012

Adjusted equity ratio(2)in %	45.5	43.8
Number of employees at period-end	6,675	7,033

1) The previous year's figures were adjusted due to reporting changes (refer to Note 2 of the consolidated financial statements as per December 31, 2013)
2) Equity incl. government grants less prop. deferred taxes

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[1] All figures including discontinued operations except when explicitly stated otherwise.
[2] Consolidated EBITDA before restructuring amounted to EUR 219.4 mn (2012: EUR 358.7 mn).
[3] The previous year's figures were subsequently partly adjusted (refer to Note 2 of the consolidated financial statements as at December 31, 2013).
[4] Consolidated EBIT before restructuring amounted to EUR 106.5 mn (2012: EUR 255.0 mn).
[5]Incl. the Business Unit Plastics

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