Lenzing

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Interim Report 01-03/2019
Lenzing Group

Selected Indicators of the Lenzing Group

Key earnings and profitability figures

EUR mn	01-03/2019	01-03/2018	Change
Revenue	560.0	550.3	1.8%
EBITDA (earnings before interest, tax, depreciation and amortization)	92.0	101.6	(9.5)%
EBITDA margin	16.4%	18.5%	
EBIT (earnings before interest and tax)	54.4	68.9	(21.1)%
EBIT margin	9.7%	12.5%	
EBT (earnings before tax)	53.6	64.9	(17.4)%
Net profit for the year (/the period)	42.8	50.0	(14.5)%
Earnings per share in EUR	1.65	1.89	(12.7)%

Key cash flow figures

EUR mn	01-03/2019	01-03/2018	Change
Gross cash flow	83.7	85.1	(1.7)%
Cash flow from operating activities	73.6	108.6	(32.2)%
Free cash flow	28.0	50.4	(44.5)%
CAPEX	45.7	58.9	(22.4)%
EUR mn	**31/03/2019**	**31/12/2018**	**Change**
Liquid assets	276.8	254.4	8.8%
Unused credit facilities	355.8	341.6	4.2%

Key balance sheet figures

EUR mn	31/03/2019	31/12/2018	Change
Total assets	2,749.8	2,630.9	4.5%
Adjusted equity	1,611.6	1,553.0	3.8%
Adjusted equity ratio	58.6%	59.0%	
Net financial debt	218.1	219.4	(0.6)%
Net debt	321.5	322.8	(0.4)%
Net gearing	13.5%	14.1%	
Trading working capital	441.1	444.4	(0.7)%
Trading working capital to annualized group revenue	19.7%	20.6%	

Key stock market figures

EUR	31/03/2019	31/12/2018	Change
Market capitalization in mn	2,535.5	2,109.4	20.2%
Share price	95.50	79.45	20.2%

Employees	31/03/2019	31/12/2018	Change
Number (headcount)	6,876	6,839	0.5%

The above key financial figures are derived primarily from the condensed consolidated interim financial statements and the consolidated financial statements of the previous year of the Lenzing Group. Additional details are provided in "Notes on the Financial Performance Indicators of the Lenzing Group", available at the following link https://www.lenzing.com/Notes-Financial-Performance-Indicators-Lenzing-Group-2019-Q1, and in the condensed consolidated interim financial statements, resp. the consolidated financial statements of the previous year of the Lenzing Group. Rounding differences can occur in the presentation of rounded amounts and percentag rates.

Management Report 01-03/2019

After strong growth in the past years, global economic activity slowed down significantly in the second half of last year. The International Monetary Fund expects growth of 3.3 percent for 2019, compared with 3.6 percent in 2018. The slowdown of growth this year is primarily attributable to the ongoing unresolved trade conflict between the USA and China. The risk of a no-deal Brexit also continues to be a source of uncertainty. In Germany, a decline in production in the automotive sector following the introduction of new emission standards had a negative impact on the economic performance.

The global fiber markets saw a varied development in the first quarter of 2019: After a decrease in cotton prices last fall following a particularly high-yield harvest and the resulting oversupply, the market recovered in the first quarter of 2019. Both supply and demand are currently at a historic high level. Demand on the polyester market was strong at the beginning of the year, slowing down again significantly before the Chinese New Year. Subsequently, demand also fell short of expectations. During the remaining quarter, prices recorded a relatively stable development. Having started at a level of 13,560 CNY/to, the prices for standard viscose continued to decrease at the beginning of the year due to new capacities and the seasonal decline in demand. Following the Chinese New Year, the prices continued to fall below 12,200 CNY/to. The decline in prices was only stopped towards the end of the first quarter after production capacity in China had been reduced.

Against this background, the Lenzing Group had a very good start to the 2019 financial year. Revenue and earnings recorded a very satisfactory development in the first quarter thanks to the successful development in the specialty fiber business. The company continues to implement the sCore TEN strategy with its focus on specialty fibers and intensified customer intimacy with great discipline. The basic engineering for the construction of a new lyocell plant in Thailand is making equally good progress as the planned establishment of the pulp plant in Brazil. Lenzing also continues to intensify its collaboration with next generation fashion designers in Asia. Recently, with the TENCEL™ Studio, a design center featuring fashion from TENCEL™ fibers was opened in Singapore. The center is the next step in the effort to give consumers an insight into innovations and new applications. In the area of nonwovens, another milestone was set with the start of the establishment of an innovation center in Germany. The new test facility, which is being set up in cooperation with the Hof University of Applied Sciences, enables Lenzing to work even more closely with its customers and partners in the hygiene, cosmetics and medical industries.

At the site in Heiligenkreuz a fire occurred on February 1, 2019 causing a shutdown of the lyocell production for several weeks. Material damage and the damage resulting from the interruption of operation are covered by insurance. Production at the site is now running at full capacity again.

Revenue increased by 1.8 percent in the first quarter of 2019 and amounted to EUR 560 mn. The persisting decline in prices for standard viscose and production downtime in Heiligenkreuz were more than offset by higher prices for lyocell fibers and more favorable exchange rates.

The increase in other operating income is primarily attributable to the insurance proceeds resulting from the fire in Heiligenkreuz. Cost of material and other purchased services were also higher than in the comparative period of the previous year. This was mainly due to currency effects, which caused an increase in the cost of pulp. Personnel expenses also rose because of currency effects as well as increases in collective agreements and the hiring of new employees.

EBITDA (earnings before interest, tax, depreciation and amortization) dropped by 9.5 percent to EUR 92 mn in the first quarter 2019, mainly due to declining prices for standard viscose. EBIT (earnings before interest and tax) fell by 21.1 percent to EUR 54.4 mn. EBT (earnings before tax) decreased by 17.4 percent to EUR 53.6 mn and net profit was down 14.5 percent to EUR 42.8 mn during the reporting period. Earnings per share amounted to EUR 1.65 compared with EUR 1.89 in the first quarter of the previous year.

The Lenzing Group's total assets rose by 4.5 percent to EUR 2.75 mn as of March 31, 2019. The main changes are related to an increase in property, plant and equipment due to continued investment activities, and to higher trade receivables.

CAPEX (acquisition of property, plant and equipment) dropped by 22.4 percent to EUR 45.7 mn in the first quarter of 2019. This decline is attributable to the completion of the expansion project in Heiligenkreuz (Austria) in 2018 and the ongoing planning for the major projects in Brazil and Thailand, which will only have an effect on the investment volume in the coming quarters. Gross cash flow declined by 1.7 percent to EUR 83.7 mn. Liquid assets rose by 8.8 percent to EUR 276.8 mn compared with December 31, 2018. Net financial debt amounted to EUR 218.1 mn as of March 31, 2019, remaining nearly unchanged (December 31, 2018: EUR 219.4 mn).

The 75th Annual General Meeting of Lenzing AG resolved to distribute a dividend of EUR 3.00 per share as well as a special dividend totaling EUR 2.00 per share.

Outlook

The International Monetary Fund expects a slowdown of global economic growth to 3.3 percent in 2019, mainly driven by increasing protectionist tendencies and growing geopolitical tensions. The currency environment in the regions relevant to Lenzing will remain volatile.

Demand on the global fiber markets is still positive. According to preliminary calculations, cotton inventory levels should decline slightly again in 2019. Over the past months, the polyester market recovered from slower growth at the beginning of the reporting year. The price levels for cotton and polyester are expected to remain stable. Capacity expansions for standard viscose should remain at a similar level as in the 2018 financial year. Despite strong demand, this will result in growing oversupply, which will cause even higher pressure on prices. The Lenzing Group expects the positive development of its specialty fiber business to continue.

Caustic soda prices in Asia have already declined significantly over the past months; however, there are no signs of such a development in Europe yet. Overall, Lenzing does not expect any significant changes for key raw materials that would be relevant to earnings.

Based on the current exchange rates, the Lenzing Group continues to expect its results for 2019 to reach a similar level as in 2018 despite a much tighter market environment for standard viscose. These developments reassure the Lenzing Group in its chosen corporate strategy sCore TEN. Lenzing is very well positioned in this market environment and will continue its consistent focus on growth with specialty fibers.

Lenzing, May 8, 2019
Lenzing Aktiengesellschaft

The Management Board

Stefan Doboczky
Chief Executive Officer
Chairman of the
Management Board

Robert van de Kerkhof
Chief Commercial Officer
Member of the
Management Board

Thomas Obendrauf
Chief Financial Officer
Member of the
Management Board

Heiko Arnold
Chief Technology Officer
Member of the
Management Board

Lenzing AG

Consolidated Income Statement (condensed)

for the period from January 1 to March 31, 2019

EUR mn

	01-03/2019	01-03/2018
Revenue	560.0	550.3
Change in inventories of finished goods and work in progress	(5.6)	(15.0)
Own work capitalized	10.1	15.1
Other operating income	25.0	12.8
Cost of material and other purchased services	(334.7)	(308.6)
Personnel expenses	(100.5)	(91.0)
Other operating expenses	(62.3)	(62.1)
Earnings before interest, tax, depreciation and amortization (EBITDA)[1]	**92.0**	**101.6**
Amortization of intangible assets and depreciation of property, plant and equipment and income from the release of investment grants	(37.6)	(32.7)
Earnings before interest and tax (EBIT)[1]	**54.4**	**68.9**
Financial result	(0.8)	(3.8)
Allocation of profit or loss to and measurement result of puttable non-controlling interests	0.0	(0.3)
Earnings before tax (EBT)[1]	**53.6**	**64.9**
Income tax expense	(10.8)	(14.8)
Net profit for the period	**42.8**	**50.0**
Net profit for the period attributable to shareholders of Lenzing AG	43.8	50.1
Net profit for the year attributable to non-controlling interests	(1.0)	(0.1)
Earnings per share	**EUR**	**EUR**
Diluted = basic	1.65	1.89

1) EBITDA: Operating result before depreciation and amortization, resp. earnings before interest, tax, depreciation on property, plant and equipment and amortization of intangible assets and before income from the release of investment grants.
EBIT: Operating result, resp. earnings before interest and tax.
EBT: Earnings before tax.

Consolidated Statement of Comprehensive Income (condensed)

for the period from January 1 to March 31, 2019

		EUR mn
	01-03/2019	**01-03/2018**
Net profit for the period as per consolidated income statement	**42.8**	**50.0**
Items that will not be reclassified subsequently to profit or loss		
Financial assets measured at fair value through other comprehensive income	1.0	0.6
Income tax relating to these components of other comprehensive income	(0.2)	(0.1)
	0.7	**0.4**
Items that may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences	15.1	(8.4)
Financial assets measured at fair value through other comprehensive income	(0.1)	(0.1)
Cash flow hedges	(6.0)	(0.9)
Income tax relating to these components of other comprehensive income	1.2	0.1
Investments accounted for using the equity method - share of other comprehensive income (net of tax)	0.2	(0.1)
	10.4	**(9.4)**
Other comprehensive income – net of tax	**11.2**	**(9.0)**
Total comprehensive income	**53.9**	**41.1**
Attributable to shareholders of Lenzing AG	54.3	42.0
Attributable to non-controlling interests	(0.4)	(0.9)

Lenzing AG

Consolidated Statement of Financial Position (condensed)

as at March 31, 2019

EUR mn

Assets	31/03/2019	31/12/2018
Intangible assets, property, plant and equipment and right-of-use asset	1,573.7	1,516.7
Investments accounted for using the equity method and financial assets	49.8	50.0
Deferred tax assets	4.6	5.1
Other non-current assets	29.2	23.6
Non-current assets	**1,657.2**	**1,595.4**
Inventories	395.0	396.5
Trade receivables	322.1	299.6
Other current assets	114.1	95.5
Cash and cash equivalents	261.5	243.9
Current assets	**1,092.6**	**1,035.5**
Total assets	**2,749.8**	**2,630.9**

Equity and liabilities	31/03/2019	31/12/2018
Equity attributable to shareholders of Lenzing AG	1,556.1	1,501.7
Non-controlling interests	31.7	32.2
Equity	**1,587.7**	**1,533.9**
Financial liabilities	388.4	307.6
Deferred tax liabilities	44.6	50.4
Provisions	126.4	126.5
Other non-current liabilities	23.3	21.0
Non-current liabilities	**582.7**	**505.5**
Financial liabilities	106.4	166.2
Trade payables	275.9	251.7
Provisions	113.3	107.9
Other current liabilities	83.7	65.7
Current liabilities	**579.4**	**591.5**
Total equity and liabilities	**2,749.8**	**2,630.9**

Consolidated Statement of Changes in Equity (condensed)

for the period from January 1 to March 31, 2019

EUR mn

	Share capital	Capital reserves	Other reserves	Retained earnings	Equity attributable to shareholders of Lenzing AG	Non-controlling interests	Equity
As at 01/01/2018 (previously)	**27.6**	**133.9**	**(1.6)**	**1,316.4**	**1,476.3**	**31.6**	**1,507.9**
First-time adoption of IFRS 9 (Financial Instruments)[1]	0.0	0.0	4.0	0.0	4.0	0.0	3.9
As at 01/01/2018 (adjusted)	**27.6**	**133.9**	**2.4**	**1,316.4**	**1,480.3**	**31.6**	**1,511.8**
Total comprehensive income	0.0	0.0	(8.1)	50.1	42.0	(0.9)	41.1
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	(0.2)	(0.2)
As at 31/03/2018	**27.6**	**133.9**	**(5.8)**	**1,366.5**	**1,522.2**	**30.5**	**1,552.7**
As at 01/01/2019	**27.6**	**133.9**	**7.5**	**1,332.8**	**1,501.8**	**32.2**	**1,533.9**
Total comprehensive income	0.0	0.0	10.5	43.8	54.3	(0.4)	53.9
Acquisition/disposal of non-controlling interests and other changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.1)
As at 31/03/2019	**27.6**	**133.9**	**18.0**	**1,376.6**	**1,556.1**	**31.7**	**1,587.7**

1) The first-time adoption of IFRS 9 as of January 1, 2018 resulted in an increase in equity with no effect on profit or loss arising primarily from the reclassification and measurement of equity instruments that were previously measured at cost and are now measured at fair value through other comprehensive income. Additional details are provided in note 2 to the consolidated financial statements 2018.

Lenzing AG

Consolidated Statement of Cash Flows (condensed)

for the period from January 1 to March 31, 2019

EUR mn

		01-03/2019	01-03/2018
Net profit for the period		**42.8**	**50.0**
+	Amortization of intangible assets and depreciation of property, plant and equipment	38.3	33.4
−/+	Other non-cash income / expenses	2.6	1.6
Gross cash flow		**83.7**	**85.1**
+/−	Change in inventories	(0.8)	4.3
+/−	Change in receivables	(30.2)	(28.6)
+/−	Change in liabilities	21.0	47.9
Change in working capital		**(10.0)**	**23.5**
Cash flow from operating activities		**73.6**	**108.6**
−	Acquisition of intangible assets, property, plant and equipment (CAPEX)	(45.7)	(58.9)
−	Acquisition of financial assets and investments accounted for using the equity method	(0.1)	(0.6)
+	Proceeds from the sale of intangible assets, property, plant and equipment	0.0	0.7
+	Proceeds from the sale/repayment of financial assets and the sale of investments accounted for using the equity method	3.1	1.8
Cash flow from investing activities		**(42.8)**	**(57.0)**
−	Distribution to shareholders	(0.1)	(0.2)
+	Investment grants	0.0	0.2
+	Increase in other financial liabilities	53.4	6.5
−	Repayment of bonds and private placements	0.0	0.0
−	Repayment of other financial liabilities	(70.0)	(10.7)
Cash flow from financing activities		**(16.7)**	**(4.2)**
Total change in liquid funds		**14.2**	**47.4**
Liquid funds at the beginning of the year		243.9	306.5
Currency translation adjustment relating to liquid funds		3.5	(1.3)
Liquid funds at the end of the period		**261.5**	**352.5**
Additional information on payments in the cash flow from operating activities:			
Interest payments received		0.6	0.4
Interest payments made		1.0	0.9
Income taxes paid		15.5	13.5

The condensed consolidated interim financial statements as at March 31, 2019 were prepared based on IAS 34 (Interim Financial Reporting). They are based on the consolidated financial statements as at December 31, 2018 and should therefore always be read in conjunction with these statements.

The reporting currency is euro (EUR). The figures shown in these condensed consolidated interim financial statements and in the notes, unless stated otherwise, have been rounded up to the next million ("mn") to one decimal place. Arithmetic differences due to rounding effects can occur when adding up rounded amounts and percentages using automatic tools.

These condensed consolidated interim financial statements of the Lenzing Group have undergone neither a full audit nor a review by an auditor.

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Note:
This English translation of the condensed interim report was prepared for the company´s convenience only. It is a non-binding translation of the German condensed interim report. In the event of discrepancies between this English translation and the German original the latter shall prevail.

This condensed interim group report also contains forward-looking statements based on current assessment and assumptions made by Lenzing Group to the best of its knowledge. Statements using the words "should", "may", "will", "expected", "intended", "assume", "suppose", "estimate", "plan", "anticipate", "is of the opinion", "to my knowledge", "in my estimation" or similar formulations indicate such forward-looking statements. The forecasts relating to the future development of the Lenzing Group are estimates based on the information available at the time of this condensed interim group report going to print.

If the assumptions on which the forecasts are based do not occur or risks arise at a level that was not anticipated, actual results may deviate from forecasts.

Rounding differences can occur when adding up rounded amounts and percentages. The condensed interim group report was prepared with the utmost care to ensure the accuracy and completeness of information in all sections. Nonetheless, errors due to rounding, typesetting and printing cannot be completely ruled out