
Corticeira Amorim

Net profit increases 7% to €20 million

Highlights

- In spite of the impact of Covid-19 in March, Corticeira Amorim lifted sales by 0.7% to €204 million
- The EBITDA-sales ratio for the first quarter (17.6%) rose in comparison with the same period of 2019 (17.2%)
- The Cork Stopper BU's EBITDA rose to €30 million (+10.4%)
- The Floor and Wall Coverings BU reversed the trend of recent quarters with sales growth of 11%

Sales

Sales in the first quarter of 2020 totalled €203.7 million, an increase of 0.7% compared with the same period of the previous year. It should be noted that year-on-year comparisons were demanding as sales growth in the first quarter was the strongest in 2019 (9.2%). Prior to the impact of Covid-19, the beginning of 2020 was affected by signs of a slowdown related to the US-China trade war and the 25% import tax imposed by the US on European wines with under 14% alcohol content.

In terms of Business Units (BUs), sales by the Cork Stopper BU, which has the greatest weight in Corticeira Amorim's total sales, increased 1.0%. The Floor and Wall Coverings BU reversed the trend of recent quarters, in which its sales had fallen, by registering an 11% increase in sales. Sales by the Raw Materials (-7.7%), Composite Cork (-6.7%) and Insulation Cork (-12.4%) BUs fell in relation to the first quarter of 2019.

Sales by the Raw Materials BU totalled €54.2 million (-7.7% compared with the same period of 2019), due mainly to a reduction in sales to other Group companies as they realigned their inventory levels.

The Cork Stopper BU registered sales €144.8 million (+1.0% compared with the first quarter of 2019). Sales grew in both the still and sparkling wine segments. The Neutrocork stoppers segment continued to register significant sales growth (+16%). The US and Italy were important regions in terms of geographical sales growth, whilst sales in France and Spain fell in comparison with 2019.

Sales by the Floor and Wall Coverings BU totalled €31.5 million (+11.0% compared with the same period of 2019). The WISE product range (1Q20: €3 million) was the main driver of the BU's sales growth. Sales growth in Scandinavia, Germany and North America was also notable.

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The Composite Cork BU registered sales totalling €24.9 million (-6.7% compared with the same period of 2019). Volume sales dropped in spite of the positive effect of prices and exchange rates in offsetting an overall reduction in sales. The BU's main sales increases were in the Auto & Auto Parts, Resilient & Engineering Manufactures and Industrial Packaging segments. In regional terms, the largest drops in sales occurred in India, Russia and Italy.

Performance

Consolidated EBITDA increased 2.8% compared with the first quarter of 2019 to €35.8 million (1Q19: €34.8 million). The increase reflected increased sales prices and operating efficiency gains by the Group's business units, which helped offset the negative impact of higher raw material costs. The Floor and Wall Coverings BU also recorded a positive EBITDA, an indication that the measures taken to reverse its negative performance were beginning to take effect. The EBITDA-sales ratio increased to 17.6% (1Q19: 17.2%).

The EBITDA of the Raw Material and Cork Stoppers BUs rose to €34.5 million. In spite of the impact of the higher cost of cork, EBITDA was lifted by increased activity, operational improvements, particularly in the form of better raw material yields in grinding operations, and the introduction of price increases. The BU's EBITDA-sales ratio increased to 23.2% (1Q19: 22.8%).

The Floor and Wall Coverings BU recorded a positive EBITDA of €1.3 million (1Q19: -€1.0 million). The margin generated by sales growth, together with the rationalisation and optimisation of administrative, industrial, logistical and commercial structures all contributed to this growth, as well as the BU having registered no further expenditures related to the launch of the WISE product range (which had impacted the first quarter of 2019). The BU also improved its sales mix and registered a higher level of manufactured product sales in relation to sales of trading products.

The EBITDA of the Composite Cork BU totalled €2.1 million (-36.2% compared with the same period of 2019), while its EBITDA-sales ratio fell to 8.3% (12.2% in the first three months of 2019). The reduction in sales and a less favourable product mix were the main causes of the fall in EBITDA.

The Insulation BU reversed the losses it recorded in the first quarter of 2019, registering an EBITDA of €0.2 million for the first three months of 2020. The BU registered an EBITDA-sales ratio of 5.2% (1Q19: -1.4%), reflecting an expected reversal of the trend of consuming higher priced cork.

After results attributable to non-controlling interests, Corticeira Amorim's net earnings totalled €19.9 million, an increase of 6.8% over the first quarter of 2019.

At the end of the quarter, net interest-bearing debt totalled €152.3 million (12M19: €161.1 million), showing that, in spite of the need to invest in working capital (€15.1 million) and fixed assets (€8.4 million), it was possible to reduce net debt.

The robustness of Corticeira Amorim's balance sheet, coupled with the support of financial institutions, guarantee the Group an adequate and balanced capital structure. It should be noted that Corticeira Amorim ended the quarter with cash and cash equivalents totalling €74 million, an adequate safeguard against any liquidity limitations that may occur.

Impact of the Coronavirus pandemic

From the outset, Corticeira Amorim allied itself to the collective effort to contain the Covid-19 pandemic in an approach based on responsibility and solidarity focused on protecting its Employees, their Families, Communities and all the Group's Stakeholders.

The goal from the very beginning was to adopt the safest practices, maintain production and continue serving its customers. A Contingency Plan was implemented at the Group's industrial units and throughout its distribution network. This included a broad set of measures considered essential to ensure the permanent well being of all employees, the safe operation of industrial units and the continuity of business. In Portugal (3,200 employees, of whom 120 had to remain within a cordon sanitaire around Ovar in northern Portugal for four weeks) and overseas (1,200 employees), its staff upheld their usual performance standards in working and supporting its customers throughout this period of confinement.

The contingency plan included the installation of isolation rooms, quarantine for employees returning from risk areas and those who had had first-level contact with people confirmed as having coronavirus; restrictions on access to facilities; the redefinition of meal spaces and socialisation rules; the reinforcement of work hygiene measures; restrictions on commuting to work; and the activation of business continuity plans and communication campaigns.

There was no material impact on turnover until the end of March. However, in spite of the fact that industrial activity is almost at full capacity, reductions are expected in April, May and June. It is difficult to measure the direct and indirect effects of Covid-19 at the moment, as they are largely dependent on the spread of the disease and its impact on the global economy. Corticeira Amorim will pay special attention to the question of customer charges, but in a universe of almost 30,000 customers across the world, this risk is widely shared.

Main indicators

		1Q19	1Q20	qoq
Sales		202,323	203,661	0.7%
Gross Margin – Value		102,718	105,663	2.9%
	1)	48.1%	49.9%	+ 1.9 p.p.
Operating Costs - current		77,091	79,091	2.6%
EBITDA - current		34,785	35,768	2.8%
EBITDA/Sales		17.2%	17.6%	+ 0.4 p.p.
EBIT - current		25,627	26,571	3.7%
Net Income		18,609	19,876	6.8%
Earnings per share		0.140	0.149	6.8%
Net Bank Debt		141,736	152,322	10,586
Net Bank Debt/EBITDA (x)	2)	1.07	1.21	0.14 x
EBITDA/Net Interest (x)	3)	92.3	109.8	17.46 x

1) Related to Production

2) Current EBITDA of the last four quarters

3) Net interest includes interest from loans deducted of interest from deposits (excludes stamp tax and commissions)