Corticeira Amorim

Sales fall 5% in a highly unfavourable global context

Highlights

- The Cork Stoppers BU registers a 5.4% drop in sales, but with improved profitability
- Strong sales growth by the Floor and Wall Coverings BU (+ 5.0%), confirming the positive trend observed at the beginning of the year
- EBITDA-sales ratio rises from 16.6% to 16.8%
- Net profit of € 34 million, a decrease of 9.8% (excluding the impact of US Floors in 2019)
- Reduction of net interest-bearing debt to € 116 million

Sales

In the first six months, Corticeira Amorim's sales totalled € 391.6 million, a decrease of 5.0% compared to the same period in 2019. Although industrial activity remained almost at full capacity throughout the first half, the intensification of the health crisis and the measures implemented by different countries to respond to COVID-19, had a negative impact on the turnover of all Business Units (BUs) in the second quarter of the year.

In terms of sales by BU, the sales of the Cork Stoppers BU, responsible for 72% of Corticeira Amorim's consolidated sales, fell 5.4%. The Floor and Wall Coverings BU was the only unit to register sales growth in this period (5.0%), confirming the positive trend observed at the beginning of the year. The Composite Cork, Raw Materials and Insulation BUs registered drops in sales s of 5.9%, 6.3% and 14.3%, respectively, compared to the same period of 2019.

Sales by the Raw Materials BU totaled € 100.2 million (1H19: € 106.9 million), mainly reflecting a lower level of activity resulting from the realignment of inventory levels across the various BUs, as well as a reduction in the prices at which cork was sold.

Sales by the Cork Stoppers BU, which totalled € 279.6 million (-5.4% compared to the same period last year), were mainly penalised by a drop in wine consumption in the HoReCa channel and the temporary closure of some of its customers, particularly in the Champagne and Cognac regions. The cork stoppers segments for sparkling wines (-12%) and spirits (-7%) suffered the largest corrections. The cork stopper segment for still wines showed greater resilience (-2%), particularly Neutrocork stoppers, which recorded sales growth of 13%. All major wine markets saw sales declines, with the exception of the US, which showed a notable performance for the current context.

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Sales by the Floor and Wall Coverings BU totalled € 58.9 million (+5.0% compared to the same period last year). There was noteworthy growth in the sales of manufactured products, in particular the new Amorim WISE product line whose 1H20 sales exceeded total sales in 2019 (€ 6.3 million € vs. € 5.7 million). In geographical terms, North America was a market that showed a good dynamism.

The Composite Cork BU registered sales of € 50.2 million (-5.9% compared to the same period last year). The decrease in sales volumes largely reflected the temporary closure of some of its customers, specifically in Germany, India and Russia. The main sales reductions occurred in the Footwear, Cork & Corkrubber Manufacturers and Construction Specialty Retail segments.

It should be noted that sales by the Composite Cork and Insulation BUs were affected in June by the implementation of SAP, which had an impact on normal operations as the BUs adapted to the new system.

Performance

Corticeira Amorim's consolidated EBITDA totalled € 65.9 million, a 3.4%, a decrease compared to the same period of 2019, lower than the 5.0% drop in sales. The EBITDA-sales ratio improved to 16.8% (1H19: 16.6%), largely reflecting the decrease in the consumption price of raw materials as well as increases in sales prices and operating efficiency gains, which more than offset the drop in turnover and the increase in operating costs (in particular transportation costs and a reinforcement of impairments).

EBITDA for the Raw Materials and Cork Stoppers BUs totalled € 63.0 million, a decrease of 5.4% compared to the same period last year (1H19: € 66.6 million). Despite the unfavorable context in terms of activity, a reduction in the prices of cork consumed, the implementation of price increases and improvements introduced in the operational area, namely better raw material yields in grinding operations, supported the EBITDA growth. The EBITDA-sales ratio increased to 22.1% (1H19: 21.9%).

The Floor and Wall Coverings BU recorded an EBITDA of € 1.0 million, reversing the losses recorded in the same period of 2019 (1H19: € -2.1 million). Sales growth and an improvement in the mix of products sold (supported by higher sales of manufactured products than sales of trading products) contributed decisively to this positive evolution. This performance also reflects the implementation of rationalisation and optimisation measures related to the BU's administrative, industrial, logistics and commercial structure, as well as the non-repetition of expenses related to the launch of the Amorim WISE product range, which affected the first half of 2019. The EBITDA-sales ratio rose to about 2% (1H19: -3.7%).

EBITDA for the Composite Cork BU totalled € 4.1 million (1H19: € 6.1 million), mainly reflecting a drop in sales volumes and a deterioration of the product mix. On the positive side, to highlight a reduction in raw material costs (cork and non-cork) and improvements in operational efficiency and cork yields. The EBITDA-sales ratio adjusted to 8.1% (1H19: 11.5%).

Non-recurring results includes restructuring expenses (€ 1.7 million) mainly resulting from indemnities paid in the Cork Stoppers, Floor and Wall Coverings and Composite Cork BUs.

The reduction in the profits of associated companies essentially reflects the receipt in 2019 of € 2.4 million resulting from the sale of US Floors. This being the final value associated with this operation, its impact only affected the results for the same period of the previous year.

After results attributable to non-controlling interests, Corticeira Amorim ended the first half with a net result of € 34.3 million, a reduction of 15.1% compared to the same period of 2019. Excluding the non-recurring event associated with the sale of US Floors, previously mentioned, the net result would have fallen by 9.8%.

At the end of the first half, net interest-bearing debt totalled € 115.6 million (12M19: € 161.1 million). Despite the increase in investment in fixed assets (€ 18.4 million) and the acquisition of 30% of Elfverson (€ 2.0 million), it was possible to reduce net debt by € 46 million compared with the end of 2019.

The robustness of Corticeira Amorim's balance sheet, coupled with the support of financial institutions, guarantee the Group an adequate and balanced capital structure, safeguarding it against any liquidity limitations that may occur.

Dividends

The General Shareholders' Meeting, held on June 26, 2020, approved the distribution of a gross dividend of € 0.185 per share, paid on July 20.

Considering the consequences of the pandemic and the inherent worsening of the economic and social context in Portugal and globally, and in view of the serious situation of uncertainty regarding the resumption of normal economic activity, the Board of Directors of Corticeira Amorim decided not to propose, in the current year, the attribution of an extraordinary dividend in December, as has been the case since 2012. This decision reflects the deliberately conservative management of the balance sheet that the Group has followed and took into account the increased prudence that the current adverse context requires.

COVID-19

The protection of the health and safety of employees and a determination to continue serving its customers were, from the first moment, the key priorities adopted by Corticeira Amorim in response to the current context of the COVID-19 pandemic.

The Group joined the collective effort to contain COVID-19 and protect its Employees, their Families and Communities. The safest practices were adopted, based on a rigorous Contingency Plan implemented in all industrial units and across the Group's extensive distribution network. This plan included a set of broad-spectrum measures, essential to ensuring the permanent well-being of more than 4,350 employees worldwide, the safe operation of the Group's industrial units and the continuity of business.

The response of Employees was exceptional, ensuring, even in the most difficult times, that normal performance was maintained and its Customers supported. In this way, Corticeira Amorim responded to its strong responsibility to secure the wine sector's supply chain, doing everything possible to maintain production and continue serving its customers, even during confinement periods.

Corticeira Amorim is an international company that benefits from its geographical diversification. However, the spread of the pandemic and the containment measures adopted by different countries had significant impacts on the world economy, inducing profound changes in consumption patterns that necessarily affected its activities. Although there was no material impact on the Group's turnover until the end of March, it suffered a severe impact in the second quarter, particularly in May.

Uncertainty as to the scale, size and duration of the current situation makes it difficult to assess the extent of the direct and indirect impacts of COVID-19 in the future, their measurement being largely dependent on the extent of its dissemination and the impacts on the global economy. After a very challenging second quarter, a gradual recovery is expected in the second half of the year. This evolution, however, will be highly dependent on how this serious health crisis develops and the eventual need for additional containment measures in the future.

Main indicators

		1H19	1H20	yoy	2Q19	2Q20	qoq
Sales		412,243	**391,577**	-5.0%	209,920	**187,916**	-10.5%
Gross Margin – Value		204,219	**203,775**	-0.2%	101,502	**98,112**	-3.3%
	1)	48.0%	**50.8%**	+ 2.8 p.p.	46.4%	**51.7%**	+ 5.3 p.p.
Operating Costs - current		153,929	**156,330**	1.6%	76,838	**77,238**	0.5%
EBITDA - current		68,287	**65,945**	-3.4%	33,503	**30,177**	-9.9%
EBITDA/Sales		16.6%	**16.8%**	+ 0.28 p.p.	16.0%	**16.1%**	+ 0.10 p.p.
EBIT - current		50,290	**47,445**	-5.7%	24,663	**20,874**	-15.4%
Non-current results	2)	-	**-1,652**	n.s.	-	**-1,652**	n.s.
Net Income		40,352	**34,272**	-15.1%	21,742	**14,396**	-33.8%
Earnings per share		0.303	**0.258**	-15.1%	0.173	**0.108**	-37.5%
Net Bank Debt		149,912	**115,625**	- 34,287	-	**-**	-
Net Bank Debt/EBITDA (x)	3)	1.20	**0.94**	-0.26 x	-	**-**	-
EBITDA/Net Interest (x)	4)	81.8	**107.0**	25.25 x	73.1	**103.9**	30.82 x

1) Related to Production
2) Figures refer to restructuring costs
3) Current EBITDA of the last four quarters
4) Net interest includes interest from loans deducted of interest from deposits (excludes stamp tax and commissions)