Corticeira Amorim

Resilient sales, EBITDA margin improves

Highlights

- Sales decrease 5%
- Gross margin expands to 51.4% and EBITDA margin to 16.6%
- Net profit totals €49 million, down 6.8% (excluding the US Floors impact in 2019)
- Net interest-bearing debt falls to €118 million, a reduction of €43 million (compared to the end of 2019)

Sales

Corticeira Amorim's sales totalled €571.4 million in the first nine months of 2020, a 5.2% decrease in comparison with the same period of 2019. Adverse conditions resulting from the COVID-19 pandemic and the measures taken by different countries to contain its spread negatively affected the turnover of all Business Units (BU), with activities in the second quarter being the most penalised.

All BUs registered sales declines compared to the same period of 2019, except for the Floor and Wall Coverings BU, which maintained the positive trend it registered at the beginning of the year. However, sales already evolved more favourably in the third quarter (-5.5%) than in the second quarter (-10.5%). It should also be noted that, in contrast to the beginning of the year, sales were affected by an adverse evolution of exchange rates. If this factor is excluded, sales would have fallen 4.4% in the first nine months (-3.5% in the third quarter).

Sales by the Cork Stoppers BU, which accounted for 70% of Corticeira Amorim's consolidated sales, fell to €407.9 million (-5.6% y-o-y), having been negatively impacted by a decrease in wine consumption, mainly in the HoReCa channel, as well as by the temporary closure of some of its customers. The cork stoppers for sparkling wines segment suffered the biggest reduction in sales (-10%), having been particularly penalised by the champagne and cider segments. Sales of Neutrocork stoppers remained robust (+13%), standing out in the still wine stoppers segment, where the evolution of sales was similar to that in the first half of the year (-4%). Cork stoppers for spirits showed notable growth in the third quarter, reversing the drop in sales registered at the beginning of the year. Sales in the main wine markets continued to decelerate with the exception of the US and Argentina.

The Floor and Wall Coverings BU recorded sales of €86.2 million (+4.0% y-o-y), driven mainly by increased sales of manufactured products, specifically the Amorim WISE product range (sales of €9.6 million). Sales of new products were

AMORIM

Corticeira Amorim, SGPS, S.A.
Edifício Amorim I
Rua de Meladas, 380
4536-902 Mozelos, Portugal

www.corticeiraamorim.com

IRO:
Ana Negrais de Matos, CFA
T: + 351 227 475 423
F: + 351 227 475 407

ana.matos@amorim.com

Sociedade Aberta
Capital Social: € 133,000,000.00
Pessoa Coletiva e Matrícula: PT500077797
C.R.C. de Santa Maria da Feira – Portugal

instagram: amorimcork

particularly dynamic, totalling €3.4 million in the first nine months of 2020. The Scandinavian, Portuguese and North American markets continued to evolve positively.

Sales by the Composite Cork BU totalled €72.6 million (-7.8% y-o-y), having been particularly penalised by the temporary closure of some of its customers, namely in Germany, India and Russia. The BU's implementation of SAP in June also greatly disrupted its normal operations, significantly affecting sales in July and August. The Footwear, Construction and Speciality Retail segments continued to suffer the largest sales decreases.

Performance

Corticeira Amorim's consolidated EBITDA totalled €94.9 million, a reduction of 2% compared to the same period last year. This mainly reflects a reduction in the consumption prices of raw materials, increased sales prices and operational efficiency gains, which offset most of the negative impact of lower activity levels. The decrease in EBITDA, however, was substantially lower than the reduction in sales, resulting in an improvement in the EBITDA-sales ratio to 16.6% (9M19: 16.1%).

The Raw Materials and Cork Stoppers BUs registered EBITDA of €88.8 million, a decrease of 4.8% compared with the same period of 2019 (9M19: €93.2 million). A highlight was the positive performance of the Cork Stoppers BU, whose EBITDA was in line with that of the first nine months of the previous year, despite a 5.6% drop in sales. A reduction in cork consumption prices, sales price increases and operational improvements (namely in grinding yields), mitigated the impact of lower activity levels. The EBITDA-sales ratio rose to 21.4% (9M19: 21.0%).

The Floor and Wall Coverings BU recorded EBITDA of €1.0 million compared with -€2.2 million in the same period of 2019. This growth in EBITDA was mainly due to an improvement in the mix of products sold (supported by a greater weight of manufactured product sales), the implementation of structural rationalisation and optimisation measures and the non-repetition of expenses associated with the launch of the Amorim WISE product range. The EBITDA-sales ratio increased to 1.2% (9M19: -2.7%).

The Composite Cork BU recorded EBITDA of €7.1 million (9M19: €9.0million), reflecting its drop in sales. Operational efficiency gains, raw material cost reductions (cork and non-cork) and improved cork yields were insufficient to prevent the drop in EBITDA. The EBITDA-sales ratio decreased to 9.8% (9M19: 11.4%).

The Insulation BU showed a significant improvement in its operational activities. Although sales fell by 15.6%, EBITDA recovered the losses recorded in the same period of 2019, essentially reflecting the reduction in the consumption price of cork, which is the only raw material used by this BU. The EBITDA-sales ratio rose to 6.9% (9M19: -0.4%).

In terms of non-recurring results, the BU recorded restructuring expenses (€1.7 million) that mainly resulted from indemnities paid to the Cork Stoppers, Floor and Wall Coverings and Composite Cork BUs.

The reduction in earnings of associate companies mainly reflects the receipt in 2019 of €2.3 million 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 earnings attributable to non-controlling interests, Corticeira Amorim ended the period with a net profit of €49 million, a 10.8% reduction compared with the same period of 2019. Excluding the previously mentioned non-recurring event associated with the sale of US Floors, net earnings would have fallen 6.8%.

At the end of September, net interest-bearing debt totalled €117.8 million (12M19: €161.1 million). Despite increased investment in fixed assets (€29 million), dividends payment (€25 million) and the acquisitions of 10% of Bourrassé (€5 million) and of 30% of Elfverson (€2 million), the Group was able to reduce net debt by €43 million compared to the end of 2019.

The robustness of Corticeira Amorim's balance sheet, coupled with the support of financial institutions, guarantees an adequate and balanced capital structure.

COVID-19

Corticeira Amorim's main priorities in the context of COVID-19 have remained unchanged since the pandemic began: protecting the health and safety of Employees coupled with a determination to continue serving our Customers.

The safest practices were adopted, based on a rigorous Contingency Plan implemented in all our industrial units and throughout its extensive distribution network. The plan includes a set of broad-spectrum measures essential to ensuring the permanent well-being of more than 4,350 employees worldwide, the safe operation of all industrial units and business continuity.

During these months, Corticeira Amorim has not failed to meet its important responsibilities in the wine sector supply chain, doing everything possible to maintain production and to continue serving its Customers. The response of Employees was exceptional, ensuring, even at the most difficult times, the usual assistance and close support of its Customers.

After a second quarter severely affected by highly unfavourable market conditions, Corticeira Amorim's activities improved in July-September, also benefiting greatly from its geographical diversification. However, uncertainty and unpredictability remain high, making it difficult to assess the scale of the future direct and indirect impacts of the COVID-19 pandemic. The evolution and extent of the dissemination of the virus, as well as the possible need to implement additional containment measures, will determine how it affects the global economy and consumption patterns and, consequently, the activities of Corticeira Amorim.

Main indicators

		9M19	9M20	yoy	3Q19	3Q20	qoq
Sales		602,625	**571,421**	-5.2%	190,383	**179,843**	-5.5%
Gross Margin – Value		295,344	**290,765**	-1.6%	91,125	**86,990**	-4.5%
	1)	48.1%	**51.4%**	+ 3.3 p.p.	45.8%	**52.8%**	+ 7.0 p.p.
Operating Costs - current		224,872	**223,013**	-0.8%	70,943	**66,683**	-6.0%
EBITDA - current		96,806	**94,886**	-2.0%	28,519	**28,941**	1.5%
EBITDA/Sales		16.06%	**16.61%**	+ 0.5 p.p.	15.0%	**16.1%**	+ 1.1 p.p.
EBIT - current		70,472	**67,752**	-3.9%	20,182	**20,307**	0.6%
Non-current results	2)	-1,039	**-1,652**	n.s.	-1,039	**0**	n.s.
Net Income		54,410	**48,511**	-10.8%	14,057	**14,239**	1.3%
Earnings per share		0.409	**0.365**	-10.8%	0.106	**0.107**	1.3%
Net Bank Debt		161,282	**117,805**	-43,477	-	-	-
Net Bank Debt/EBITDA (x)	3)	1.32	**0.96**	-0.36 x	-	-	-
EBITDA/Net Interest (x)	4)	91.3	**114.8**	23.44 x	126.9	**137.5**	10.63 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)

Mozelos, Portugal, 5th November, 2020

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