

## Lecta FY2019 Investors Conference Call of 11 May 2020

### Opening Remarks

Good afternoon or good morning. Welcome to Lecta FY2019 Investors Conference Call. Andrea Minguzzi, Eduardo Querol, and Denis Cramazou host this call.

The agenda for this call includes:

- I. The description of the Transaction concerning Lecta's capital structure and liquidity;
- II. 4<sup>th</sup> Quarter 2019 results;
- III. Update on Industry conditions.

A presentation covering the points above is posted on our website, in the Investors section.

At the end of the presentation, we will not take questions.

Any questions related to Lecta's capital structure can be addressed to Denis Cramazou or Houlihan Lokey, Lecta's financial advisor.

### I. Presentation of the Transaction

Please refer to the file "Transaction – Liquidity Injection agreed with Shareholders and Banks, 11 May 2020".

### II. 4<sup>th</sup> Quarter 2019 results

**Net sales of paper were 305M€ in 4Q2019 against 347M€ in 4Q2018, i.e. lower by -42M€ or -12%.**

This decrease resulted from:

- **Lower sales volume of -42kt** (301kt in 4Q2019 vs 343kt in 4Q2018), due to:
  - **Difficulties** with the new IT system implemented in June 2019 in Garda paper mill. The implementation was more challenging than expected, and resulted in a loss of production and deliveries of CWF from the mill... The mill regained a normal operational level in 4Q2020.
  - **Uncertainties** regarding the outcome of the Recapitalization. Here we refer to the announcements made on 1 Nov (signing of Lock-Up Agreement with key stakeholders in support of proposed Recapitalization).
- **Higher net sales price of +4€/t or +0.4%** (1,016€/t in 4Q2019 vs 1,012€/t in 4Q2018) partially compensated the net sales decline.

**EBITDA was 25.9M€ in 4Q2019 against 25.0M€ in 4Q2018.**

The **increase of 0.9M€, or +4%**, was the result of:

- Lower net energy cost, costs of packaging materials, outsourcing, distribution, selling variable, labor, maintenance, production consumables and overhead
- In a context of higher unit gross margin

Partly offset by

- Lower sales of paper in volume

**Specialties** reported an **EBITDA** of 10M€ in 4Q2019 vs 14M€ in 4Q2018, i.e. a **decrease of -4M€**

This decrease was due to

- Reduction in net sales due to a decrease in sales price partly offset by an increase in sales volume
- Increase in fixed expenses

Partly offset by

- Decrease in variable costs.

**CWF** reported an **EBITDA** of 14M€ in 4Q2019 vs 8M€ in 4Q2018, i.e. an **increase of +6M€**

This increase was mainly due to:

- Decrease in variable costs
- Decrease in fixed expenses

Partly offset by

- Reduction in net sales resulting from a reduction in sales volume and net sales price.

**Net debt** was **649M€ as at 31 Dec 2019** vs 661M€ as at 30 Sep 2019, i.e. a **decrease of -12M€ in 4Q2019**.

**Working capital** decreased by **+26.8M€ in 4Q2019**, from **115.4M€** (7.9% of Net sales) as at **30 Sep 2019** to **88.6M€** (7.3% of Net sales) as at **31 Dec 2019**, as a result of:

- 17.3M€ decrease in inventories
- 17.4M€ decrease in receivables
- +8.0M€ decrease in payables

**Capex** amounted to **-14.6M€ in 4Q2019** (vs -11.0M€ in 4Q2018).

**Organization efficiency program** and **Recapitalization project** payments amounted to **-5.5M€ in 4Q2019**

### III. Industry conditions

**Preamble:** Covid-19 lockdown is affecting all activities with the exception of some economic sectors like Pharma, Food and Beverage, House Care in retailers. Closure of Bars & Restaurants as well as sportive events have penalized all sales in the HO.RE.CA (Hotel Restaurant Café) Sector.

Covid-19 affected European demand as of weeks 10-11 (ending on Fri 6 and Fri 13 Mar respectively).

All **Graphic products (CWF, UWF, Purchased products)** are highly impacted by important reduction in advertising expenditure and by the closure of non-essential industries. Order intake in April is around 25% of prior months. In order to adapt workforce to actual level of activity, Lecta organized temporary short-time working of personnel both in merchandising operations and the mills of Garda, Condat, Sant Joan in Italy, France, and Spain until the end of Q2.

In our plan, the beginning of a recovery is expected in June when lockdown is gradually lifted in most European countries and many activities can start operating again.

Overall forecast in Q2 is -45% in volume in CWF, -50% in UWF and -45% in Purchased products.

**Self-Adhesive:** Demand in reels is very strong thanks to orders coming from Food, Pharma and Logistics applications.

Meanwhile, demand in sheets, driven more by the Graphical Sector, is going down in April by 20% compared to strong sales in Q1.

**Coated 1-side:** Also in this grade, order intake is healthy in all labels applications. Strong demand is coming from food sector and supermarkets. Demand will probably slowdown in the medium term since trade and final consumers seem to be overreacting to the current situation.

**Cast Coated:** Demand is regular and supported by Pressure Sensitive Labels demand.

Overall, for these three grades, we expect to perform in line with plan for the next few months

**Metallized Paper:** One of the main markets for this grade of paper is linked to the consumption of premium drinks and labelling of luxury products. With bars, restaurants and non-essential commerce closed, this market will be suffering as long as the current lockdown stays in place.

**Thermal Paper:** It performed well until April. Demand is expected to slowdown in May and June due to closure of many commercial activities that limits consumption of POS (Point Of Sales). Progressive reopening in commercial activities should improve the outlook in Q3.

**Carbonless:** A declining grade since many years, currently suffers from high level of inventory with merchants.

### 1) Deliveries

**Lecta total third party sales in volume are 15% (-55kt) lower in 1Q2020** (300kt in 1Q2020 vs 355kt in 1Q2019). To be reminded that 3-month worth of Condat line 8 production in 2019 represented circa 50kt.

Lecta total = CWF + Specialties + Purchased products

### 2) Sales prices

**Lecta average Third party sales price** in 1Q2020 (1,016€/t), was -19€/t lower than in 4Q2019 (1,035€/t) and -16€/t lower than in 1Q2019 (1,032€/t).

The series of Lecta average Third party sales price is:

	1Q 2018	2Q	3Q	4Q 2018	1Q 2019	<b>2Q</b>	3Q	4Q 2019	1Q 2020
€/t	937	990	1,019	1,034	1,032	<b>1,052</b>	1,042	1,035	1,016
Index	89	94	97	98	98	<b>100</b>	99	98	97
Delta vs prior quarter €/t	-	+53	+29	+15	-2	+20	-10	-7	-19

Lecta observes a decline in paper prices, driven by a decline in pulp prices, albeit less than proportional, and the consequences of Covid-19 lockdown.

### 3) Pulp prices

Lecta consumes circa 20% of Softwood and 80% of Hardwood.

Its average pulp purchasing price in 1Q2020 was -6€/t lower than in 4Q2019, and -168€/t lower than in 1Q2019.

The evolution of pulp list prices for the European purchasers is uncertain but we do not expect a price hike in the short-term in consideration of the evolution of the demand and Covid-19 lockdown.

The series of Lecta average Pulp purchasing price is:

	4Q 2016	1Q 2018	2Q	3Q	<b>4Q 2018</b>	1Q 2019	2Q	3Q	4Q 2019	1Q 2020
Index	71	91	95	100	<b>100</b>	95	88	76	70	69
Delta vs prior quarter €/t	-	-	+24	+30	+3	-32	-44	-76	-42	-6

#### 4) Chemicals and Energy prices

Chemicals and Energy prices are also suffering from the consequences of the pandemic. Lecta expects partial compensation of weak volumes to come from reduced input costs.

#### 5) Human Resources

Lecta communicated extensively on instructions covering:

- Business contingency & Continuity plan including teleworking, and control of temperature in all industrial sites
- Hygiene Measures and Cleaning
- Personal Protective Equipment
- Work Organization in order to comply with social distancing restrictions
- Internal Communication

Objectives for our employees and collaborators are:

- To insure a healthy and safe work place
- To integrate preventive activity, to reduce the probability of occupational exposure to Covid-19.

In addition, we implemented short-time working as a mean to adapt work force to Covid-19 activity level. Different labor force adjustment plans are deployed in several sites to protect employment and our business, benefitting from the financial support measures made available by the relevant governments.