Lecta - Q2 2019 Investors Conference Call

held on 3 September 2019

Introductory Statement from Andrea Minguzzi

I. Opening Remarks

Good morning and welcome to Lecta's 2Q investor call. I am Andrea Minguzzi, Executive Chairman and Chief Financial Officer of Lecta, and I am joined by Denis Cramazou.

As per our previous calls, we will start by highlighting Lecta's business performance in the last quarter, and will subsequently take any questions that you may have.

We nevertheless encourage you to review our public disclosure documents available on our website. Please note that in the Q&A session we will only address questions directly related to the financial results, the performance of the business and its operations.

On this call, we will not take questions related to the Company's decision to explore strategic alternatives, which the Company disclosed in its press release dated August 29th. This decision relates to a desire, shared by our shareholders, to open a constructive dialogue with noteholders prior to making any announcements about how the process may evolve.

In order to facilitate such dialogue, we encourage noteholders to appoint a financial adviser. In this regard, we are in the preliminary stages of engaging with a financial advisor representing a group of noteholders, who have expressed a constructive stance to support the strengthening of the capital structure. Lecta will continue to update its stakeholders on the progress of its strategic review, as and when appropriate.

Let me please remind you that this conference-call (including the Q&A session) may contain financial or operating forecasts and estimates based on assumptions regarding plans, objectives and expectations related to different matters. All these forward-looking statements involve uncertainties and contingencies, which are beyond the Company's control.

I would like to open the call by making the following remarks:

- In the last week of August we completed the successful start-up of a new self-adhesive machine in Almazán. This new capacity, will give us further room to grow in one of our most profitable segments. The growth was limited up to now by the old capacity.
- In Spain at the Leitza facility we invested 23M€ on a thermal line that came on stream in 3Q2018 continuing the company's transition in to added value specialties.
- We have also seen a very good order entry for metallized, whose orders cover capacity practically up to year-end.
- The decline in market pulp prices is expected to benefit the Group as we purchase circa 440 kt of pulp from third party suppliers. Nevertheless, in the short-term it has an adverse impact on stock valuation of CWF and Specialties.
- On the CWF side, customers are speeding up negotiations for 2020 agreements, as recent capacity closures and conversions, point toward a new supply scenario for 2020, which could represent an opportunity for our business.
- The CWF & Thermal paper destocking process is close to an end. In fact, during August, CWF orders for European producers are well above those of the same month of last year.
- Lecta backlog of orders to be manufactured increased by 4 days since the beginning of 2019

- We are nearly back to normal levels of activity at Garda, after resolving the performance issues caused by the implementation of the new ERP system. Both production and deliveries are practically back to normal rates and no customer loss is expected.
- Lecta Organization Efficiency Program continues. The headcount decreased by -83 heads from 2Q2018.

Let me now turn to 2Q results and Industry conditions:

II. 2Q2019 results

- **Net sales of paper were 321M€ in 2Q2019** against **348M€ in 2Q2018**, i.e. **lower by -27M€ or -8%**. This decrease resulted from lower sales volume of -46kt or -13% (312kt in 2Q2019 vs 358kt in 2Q2018), of which -32kt production decrease (190kt x 2/12 = 32kt) was due to idling the Condat Line 8 as of the end of April. The decrease in sales volume was partly offset by higher net sales price of +59€/t or +6% (1,030€/t in 2Q2019 vs 971€/t in 2Q2018).
Net sales of Specialties slightly increased by +1% in value and +1% in volume.

- **EBITDA was 26.8M€ in 2Q2019** against **39.9M€** in **2Q2018**. The **decrease of 13.1M€** was the result of lower sales of paper in volume, higher unit gross margin, higher outsourcing cost, partly offset by lower net energy cost, costs of packaging, distribution, and overhead.

CWF suffered **two specific negative Ebitda impacts**:

- **-2.0M€ less gain on the sale of White certificates** with 5.4M€ in 2Q2019 vs 7.4M€ in 2Q2018;
- A **negative EBITDA impact of -1.9M€ in June 2019.** It was due to the more challenging than expected implementation of a **new ERP in Garda** paper mill, resulting in a loss of production and deliveries of CWF from the mill, as well as extra cost.

Specialties reported a **decrease in EBITDA of -3.6M€** . It was **mainly due to an increase in Other Raw Materials** (particularly those used **for the production of thermal and carbonless paper**), also but to a lesser extent distribution, and fixed costs, as well as a negative impact on stock valuation due to the pulp price decrease.

- **Net debt** was **631M€ as at 30 Jun 2019** vs 640M€ as at 31 Mar 2019, i.e. a **decrease of -9M€ in 2Q2019.**

- **Working capital** decreased by **-13.6M€ in 2Q2019**, from **114.9M€** (8.0% of Net sales) **as at 31 Mar 2019** to **101.1M€** (7.9% of Net sales) **as at 30 Jun 2019**.

The decrease of -13.6M€ consists of

+6.3M€ unfavorable increase in inventories *temporarily impacted by the problem of deliveries in Garda*
-12.7M€ favorable decrease in receivables mostly due by a decrease in revenue
-7.3M€ favorable increase in payables net of prepayments thanks to a favorable increase in DPO partly offset by a decrease in consumption of purchased products, raw materials (wood/BP/pulp and ORM), purchase of energy and other variable costs

- **Capex** (cash outflow) amounted to -**16.7M€ in 2Q2019**.

- **Organization efficiency program payments (CF)** amounted to -**1.1M€ in 2Q2019**

III. Industry conditions

1) Order entry for CWF (weekly statistics)
Euro-Graph statistics: -7% All markets at the end of week 34 (Fri 23 Aug)
Lecta: -10% CWF at the end of week 34 (Fri 23 Aug); impacted by Condat Line 8 idling as of end of April

2) Deliveries for CWF and Specialties until the end of July (monthly statistics)
CWF + Specialties + Purchased products
-11% (-99kt) Lecta total third party sales (866kt Jul 2019 YTD vs 766kt Jul 2018 YTD), of which +2% for the Specialties.

Self-Adhesive in June 2019 YTD
FINAT statistics: deliveries of European producers to Europe were flat (-0.1%) in June 2019 YTD; in Almazán, Lecta is limited by the existing production capacity; the ramp-up of the new machine successfully started in 3Q2019.

Thermal in June 2019 YTD
ETPA statistics: deliveries of European producers decreased by -7.1% in June 2019 YTD
There was a stock building process in 2018 due to the gradual increase of raw materials prices (pulp and chemicals) until the peak was reached in 4Q2018. Destocking process in 4Q2018 and 1H2019. Normal growth is expected to resume in 2H2019.

3) Orders to be manufactured (= Backlog) by Lecta.
From January to July 2019, Lecta improved its backlog by 4 days.

4) Sales prices
Lecta average Third party sales price in 2Q2019 (1,052€/t) was +62€/t higher than in 2Q2018 (990€/t), and +20€/t higher than in 1Q2019 (1,032€/t). In light of declining pulp prices, in 3Q2019 Lecta observes a slight decline in paper prices, less than proportional to decline in pulp price.

5) Pulp prices
Lecta consumes circa 20% of SW and 80% of HW.
Its average pulp purchasing price in 2Q2019 was -45€/t lower than in 2Q2018, and -40€/t lower than in 1Q2019.
Lecta expects this trend to continue in the short-term. Beyond the evolution of pulp list prices in USD/t for the European purchasers is uncertain. Operating rates are low, there are large stocks of HW in the European ports, but the European prices will also depend on the evolution of the Chinese demand. In SW, the demand in Europe continues weakening and the prices are decreasing

6) Ebitda guidance
2019F is expected to be a bit higher than 100M€ with stable Specialties and Purchased products, suffering in CWF (lower volume, negative impact in Garda due to the implementation of the new ERP, less gain on the sale of White certificates)

7) Working Capital guidance
Based on the current payment terms and coverage by trade credit insurers, Lecta has the objective to reduce Working Capital by 25 to 30M€ from 31 March to 31 Dec 2019 thanks to (i) Lower inventories in volume, and (ii) Lower sales and purchasing prices
A reduction of 13.6M€ was achieved in 2Q2019.

8) Capex guidance
2019F is expected to be circa 60M€. This amount does not consider the Condat's project.

9) Liquidity
Before we move on to the Q&A session, let me finish with a comment on Lecta's liquidity position and, in particular, our trade payables balance, as some of you have expressed concerns about our supplier relationships in light of the 1Q results. As shown in our disclosure documents, we have experienced a cash inflow of 14M€ from working capital in 2Q, of which 8M€ are the result of an increase in our trade payables

balance. And so far in the 3Q, we have experienced business as usual trading conditions with our suppliers. Overall, the Group's cash balance was 79M€ on 30 June 2019 vs. 63M€ on 31 March 2019. That said we have decided to take a prudent approach to cash management and recently decided to fully draw our RCF to ensure adequate liquidity during discussions with our noteholders. Also, we are actively pursuing a number of initiatives to optimize our working capital investment and to further strengthen our liquidity position we have engaged with financial institutions to extend factoring.
We are of course in compliance with all our financial obligations, and our operations remain business as usual.

A full recording of the Q2 2019 Investors Conference Call including the Q&A session is available for playback for 1 week upon request.