Mimizan, 28 March 2019

Annual results 2018

The Board of Directors of Gascogne, chaired by Dominique Coutière, met on 28 March 2019 to examine the accounts for fiscal year 2018. The annual and consolidated accounts were audited. The certification reports will be issued once the required procedures have been finalised for publishing the annual financial report.

2018 saw a continued improvement in the results of the Gascogne Group, despite the rise in prices of the two main raw materials purchased by the Group (wood and paper) and rising energy costs.
With respect to wood, the price of standing timber increased by 35% over the past 18 months. This had a very significant impact on the Group’s accounts, particularly the Wood Division, which has been able to pass on only part of this increase.

The Group pursued its investment programme (€24 million in 2018), with the launch of investments in the CRE 5 paper mill project and the installation of a printer in a new building in the Mimizan sack plant, in addition to the Single Lip sack line, which started up at the end of 2017.

On the financial front, the increase in capital, with preemptive subscription rights maintained for shareholders for a gross amount of €9.8 million, proved successful in July. It received a 98.2% take-up rate and an over-subscription rate of 1.5, demonstrating investor confidence in the Group’s turnaround.

The company now has more equity to support the €110 million loan signed at the end of December 2017, making it possible to finance the ambitious 2018-2020 investment programme that aims to reinforce production facilities. Thanks to these new funds, the total amount of investments over the 2014-2020 period will be increased to €200 million, of which €70 million remain to be invested.

Income statement

In €m	2018	2017
Sales	402.0	406.4
EBITDA	28.0	27.5
Underlying operating profit	14.8	16.1
Operating profit	10.0	11.6
Net financial items	-3.7	-3.1
Pre-tax profit	6.5	8.7
Consolidated net profit	9.4	8.3

Sales fell slightly by 1% to €402 million, while the €3.0 million growth of the Packaging Division only partially offset the decrease in activity of the Wood Division, down by €7.5 million.

EBITDA[1] rose slightly from €27.5 million to €28 million. The Group continues to reduce its operating costs, allowing it to absorb the increase in the cost of raw materials and energy.

The **underlying operating profit** decreased by €1.3 million, mainly due to the mechanical increase in depreciation due to the major investments made over the past five years.

Operating profit was €10 million, including a provision for impairment of €5 million on the assets of the Wood Division, which was booked as other non-operating income and expenses.

Net financial items stood at -€3.7 million.

Corporate tax amounted to +€3.0 million in 2018, compared with -€0.5 million in 2017, due in particular to the activation of deficit carry-overs on foreign subsidiaries.

The **net income of all consolidated accounts** thus rose by 15%, from €8.2 million in 2017 to €9.4 million in 2018.

[1] EBITDA: Underlying operating profit + net depreciation allowances + net operating allowances and impairment

Analysis by Division

In €m	WOOD Division		PACKAGING Division		Of which: PAPER Activity		Of which: SACKS Activity		Of which: FLEXIBLE Activity	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Sales	61.4	68.9	340.6	337.5	107.0	105.9	115.6	111.0	118.0	120.6
EBITDA	-0.3	1.0	28.3	26.5	15.2	10.2	5.3	7.3	7.5	8.8
Underlying operating profit	-2.4	0.2	17.2	15.9	11.5	6.8	1.8	3.7	4.0	5.7

The **Wood Division** saw its EBITDA fall by €1.3 million in 2018.

The "Wood plan" launched at the end of 2017 helped to limit the impact of the very sharp and sudden increase in the price of timber (+35% in 18 months, of which +21% in 2018), combined with insufficient supply in the Aquitaine forests, which complicated the supply process.

These material price increases, which are difficult to pass on to the decorative products sold in supermarkets and DIY stores, affected profitability, but also forced the group to stop or reduce the manufacture of certain products, which cannot be sold without significant losses.

In the first quarter of 2019, wood prices continued to rise to historic levels and supply difficulties continued, making it necessary to import wood from outside the region and to continue partial lay-off measures in the sawmills.

The Group is working on ideas to adapt its operating costs to the circumstances.

The **Packaging Division** continued its recovery, with an improvement in EBITDA[1] of €1.8 million, despite rising paper prices, which favoured the Paper Activity and penalised the Sacks and Flexible processing activities.

- **Paper Activity** increased its EBITDA by €5.0 million in 2018 (+ 50%), thanks to rising retail prices and a broadly favourable business environment for paper makers, with strong demand, despite rising wood supply costs and production levels below nominal capacity.

- **Sacks Activity** saw its EBITDA fall by €2 million, penalised by increases in the price of paper, especially for the two French sack plants in Mimizan and Saint-Herblain.
  The 3 foreign sack plants (Germany, Tunisia and Greece) improved their profitability by 10%.

- **Flexible Activity** recorded a €1.3 million decrease in EBITDA for the same reasons as Sacks Activity, namely the failure to pass on all the material cost increases.

Financial structure

Balance sheet	2018	2017
Shareholders' equity (€m)	126.2	108.1
Shareholders' equity per share (€)	5.3	5.3
Net debt (€m)	102.4	90.3
Working capital requirement (€m)	93.8	84.2

Flows	2018	2017
Cash flow from operating activities (€m)	8.0	23.6
Cash flow from investing activities (€m)	-22.2	-16.8
Cash flow from financing activities (€m)	3.2	12.4
Variation in cash flow (€m)	-10.9	19.2

Cash flow variation was negative at -€10.9 million in 2018, in view of the rise in finished product stocks of €9 million to normal levels, and a high level of investment.

Financing flows included the capital increase of €9.8 million and the repayment of the current account advance made by Attis 2 at the end of 2017, for €7.2 million, i.e. a positive net balance of €2.7 million.

In 2018, the financial structure was further strengthened. Net debt was contained to just over €100 million, equity increased by more than €18 million to €126.2 million, thanks to the 2018 profit (€9.4 million) and the capital increase (€9.8 million).

In terms of liquidity, the Group is placed in a comfortable situation to continue financing its investment programme over the next two years (€70 million), with €11.5 million of cash and €50 million of unused credit lines from the refinancing deal signed at the end of 2017.

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About the Gascogne Group:
The Gascogne Group is the leading player in the wood industry in France, operating at every stage of the processing of forest resources, and the only player in France that is totally integrated along the complete wood-paper-processing chain. With its four close-fitting activities, the Gascogne Group is the leading multi-specialised operator in the wood industry in France, Europe's leading producer of machine-glazed natural Kraft paper, the third European producer of industrial and consumer sacks and one of the world's leading producers of packaging and protection laminates.

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