



Mimizan, 26 March 2020

Annual results 2019

At the meeting on 26 March 2020 chaired by Dominique Coutière, Gascogne's Board of Directors examined the accounts for the 2019 fiscal year. The annual and consolidated accounts were audited. The certification reports will be released once the procedures required to publish the annual financial report have been finalised.

The Group consolidated its turnaround with stable overall profitability at the same level (EBITDA in the region of €28 million) for the 3rd consecutive year. The increased profitability of the Packaging Division, driven by a good market for the Sacks and Flexible activities, more than offset the marked slowdown of the Wood Division, impacted by a lack of business. Generally speaking, the Group's profitability remains strongly impacted by very high wood prices.

The Group pursued its solid investment programme this year (€26 million), one highlight being the commissioning in early November of the new power generation turbines in the Mimizan paper mill, as part of the CRE5 project, which is set to reinforce the site's competitiveness from 2020 onwards.

Gascogne Sacs' 40% stake in the Italian companies Sacchificio Veneto and Lessinia Immobili was sold to the other shareholder (with a 60% stake) in November for €3.3 million, which adds value to the profits generated by this holding since its acquisition in 1998. As a result, this operation generates gains of €1 million in the accounts of Gascogne Sacs, and a more or less neutral effect on the consolidated accounts. The sale of this non-strategic asset is a positive operation for the Group, the result of a long process undertaken by the current governance committee as soon as it took up office in 2014, since it leverages resources for reinvestment in its industrial facilities.

Income statement

In €m	2019	2018
Sales	389.9	402.0
EBITDA	28.5	28.0
Underlying operating profit	14.3	14.8
Operating profit	13.7	10.0
Net financial items	-4.0	-3.6
Pre-tax profit	9.8	6.5
Consolidated net profit	9.7	9.4

Sales are down 3% at €389.9 million.

Sales of the Wood Division (15% of sales) were down by 14%. Sales of the Packaging Division (85% of sales) were practically stable, while the growth of the Sacks and Flexible Activities offset the decline in the Paper Activity.

EBITDA¹ rose slightly from €28.0 million to €28.5 million.

EBITDA includes an impact of +€1.4 million due to the first application of the standard IFRS 16 – Leases.

The **underlying operating profit** decreased by €0.5 million, mainly due to the mechanical increase in amortization due to the major investments made over the past five years.

Operating profit was €13.7 million, a sharp increase of 37% compared with 2018, reflecting the significant reduction in non-recurring expenses this year.

Net financial items stood at -€4.0 million, in line with changes to the debt structure.

The **net profit of the consolidated whole** thus rose from €9.4 million in 2018 to €9.7 million in 2019.

¹ EBITDA: Underlying operating profit + net amortization allowances + net operating allowances and depreciation

Analysis by activity

In €m	WOOD Division		PACKAGING Division		Of which: Paper Activity		Of which: Sacks Activity		Of which: Flexible Activity	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Sales	52.7	61.4	337.1	340.6	101.2	107.0	115.5	115.6	120.4	118.0
EBITDA	-1.5	-0.3	30.0	28.3	11.0	15.2	8.4	5.3	9.8	7.5
Underlying operating profit	-2.3	-2.4	16.6	17.2	5.7	11.5	4.6	1.8	6.0	4.0

Sales for the **Wood Division** fell by 14%. Markets have been lost, namely decorative products sold in supermarkets and DIY stores, because the historically high price of maritime pine from the Landes of Gascony forest (Aquitaine) makes it impossible for the Group to be competitive on the markets in question. Industrial markets (wood for pallets) are also declining due to competition from low-cost damaged timber (mainly timber infested with bark beetles) imported from Central Europe and northeastern France.

The decline in sales, combined with a drop in profit margins due to the difficulty of passing on increases in wood prices, led to a decrease in EBITDA in 2019, limited to €1.2 million thanks to adaptation measures applied to operating costs.

In this context, the Group announced a restructuring plan aimed at tailoring its industrial capacities to the markets accessible to the company. This project was presented to the unions in late February 2020. Specific measures include closure of the Castets site and the elimination of 91 positions.

The **Packaging Division** continued its recovery, with a significant improvement in EBITDA¹ of €1.7 million, although performances varied depending on the type of activity:

- The EBITDA of the **Paper Activity** decreased by €4.1 million, due mainly to the drop in its gross margin caused by the inflation in wood raw materials prices and the regulatory stoppage of production for 3 weeks in May. Additional income from EDF associated with electricity production in the framework of CRE5 began towards the end of the year (November), when the turbines were commissioned.
- **The Sacks Activity** increased its EBITDA by €3.1 million (+58%), thanks mainly to the Mimizan sacks plant, which reaped the rewards of its industrial reorganisation and a refocused business strategy.
The Saint Herblain and Tunisia sites also improved their performance. The sacks plants in Germany and Greece posted stable EBITDA compared with 2018.
- The **Flexible Activity** saw its EBITDA increase by €2.3 million (+32%). Margins were restored by introducing price rises to offset the increases in materials prices in 2018.

Financial structure

Balance sheet	2019	2018
Shareholders' equity (€m)	134.7	126.2
Shareholders' equity per share (€)	5.5	5.3
Net debt (€m)	112.8	102.4
Working capital requirement (€m)	96.7	93.8

Flows	2019	2018
Cash flow from operating activities (€m)	21.7	8.0
Cash flow from investing activities (€m)	-25.9	-22.2
Cash flow from financing activities (€m)	9.3	3.2
Variation in cash flow (€m)	5.0	-10.9

Cash flow from operating activities increased significantly (+ €13.7 million) while EBITDA was held almost constant, due to a slower rise in working capital requirement compared with 2018 and fewer extraordinary payments.

Cash flow from investing activities was higher than in 2018 (+ €3.7 million), due to the ongoing investment programme, marked this year by the finalisation of the CRE5 project.

Cash flow from financing activities stood at €9.3 million, as the Group drew heavily on the capex credit line (€25 million) to finance its investments.

Overall, cash flow variation was positive at + €5 million.

Net debt was contained, given the ambitious investment plan under way since 2014. In 2019, it rose by €10.4 million, including an impact of €4.3 million due to the first application of the standard IFRS 16 – Leases.

The financial commitments were respected on 31 December 2019.

Summary of the crisis due to the COVID-19 pandemic

In view of the exceptional circumstances arising from the Coronavirus (Covid-19) public health emergency and government recommendations, the Gascogne Group is taking a series of measures, in consultation with personnel representatives, in order to ensure business continuity insofar as possible and guarantee the high quality of its services whilst complying with the health rules laid down by the authorities.

The current situation for the various activities is as follows:

The Group's activities are essential and strategic for customers in the human and animal food production industry and the health care sector.

As a result, the Packaging Division is currently continuing its Sacks and Flexible activities. Staff schedules and practices have been reorganised in order to limit contact between people (distancing measures), and the health measures and barrier precautions have been strongly reinforced. Staff and working hours have been cut back in certain workshops to adapt to changes in demand.

Faced with the challenge of maintaining staff, the Paper activity (Mimizan paper mill) was suspended on 19 March, set to resume on 3 April, to allow for the implementation of the health measures essential for the safety of our employees. This period also provides an opportunity to carry out maintenance work on its regenerative boiler, further to a recent incident.

Regarding the Wood Division, production was suspended in the workshops during the evening of 18 March to take into account the drop in customer demand: closure of major DIY stores, suspended trading of building materials and stoppage of construction sites. Only pallet production and wood production for packaging remain operational, though the activity is running at a minimum level.

The Gascogne Group will keep the market informed about any major changes in the situation.

In the current circumstances, it is not possible to estimate the impact on the Group's business and annual results for 2020.

Financial Information Officer

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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, the world's leading producer of machine-glazed natural Kraft paper, the No. 3 European producer of industrial and consumer sacks and one of the world's leading producers of packaging and protection laminates.

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