Lenzing AG

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EANS-Adhoc: Lenzing AG / Lenzing Group: Good Half-Year Results in a Difficult Market Environment

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quarterly report

22.08.2012

-New record fiber shipment volume in Q2
-Earnings at the level of the 2010 financial year
-Guidance adjusted to current market expectations

The Lenzing Group performed very well in the first half of 2012 against the backdrop of a difficult market environment. The ambitious business targets were fully achieved. However, as expected, the record levels generated in the first half of 2011 were not reached again. Due to the changed market expectation the guidance for the full year 2012 has been adapted.

Consolidated sales at EUR 1,061.8 mn in the first half of 2012 remained stable for the most part (H1 2011: EUR 1,076.2 mn, a drop of 1.3%). In spite of lower average fiber selling prices, Lenzing succeeded in maintaining a constant level of sales due to the increased fiber shipment volumes made possible by the recent capacity expansion measures.

Consolidated EBITDA (earnings before interest, tax, depreciation and amortization) in the first half of 2012 totaled EUR 193.6 mn, down from the all-time high of EUR 247.8 mn in the first six months of 2011. Accordingly, the EBITDA margin continued to be at an attractive level of 18.2% (H1 2011: 23.0%). EBIT (earnings before interest and tax) in the first half-year 2012 also amounted to EUR 141.1 mn, a drop of 29.2% from the EBIT of EUR 199.2 mn generated in the first six months of 2011. This corresponded to an EBIT margin of 13.3% (H1 2011: 18.5%). The slightly more pronounced decrease in EBIT in percentage terms in comparison to EBITDA is due to the increased amortization of intangible assets and depreciation of property, plant and equipment within the context of the enhanced investment activity. Thus the EBITDA and EBIT margins in the first half of 2012 were at about the same level as in the 2010 financial year, a year featuring a top performance in a comparison of the last ten years.

"We managed to successfully counteract the weak market conditions throughout the entire first half of 2012. Demand for Lenzing fibers continued unabatedly and all our fiber and pulp production plants were operating at full capacity. We even managed to achieve a new record in the first half-year with a fiber shipment volume of 390,000 tons", says Peter Untersperger, Chief Executive Officer of Lenzing.

In any case, Lenzing remains firmly committed to its long-term objectives, and will invest approximately EUR 1.6 bn by 2015 in order to expand fiber production capacity to about 1.2 mn tons per year. "We think in the long-term and anticyclically," Lenzing CEO Peter Untersperger states. Amongst other projects, construction work began in June 2012 on the first TENCEL® production facility at the Lenzing site within the framework of this expansion program. The new plant also represents the world's largest TENCEL® production line to date.

Investments in intangible assets and property, plant and equipment totaled EUR 130.0 mn in the first half of 2012, compared to EUR 82.1 mn in the prior-year period. The investment focus was on construction of the fifth fiber production line at the Indonesian subsidiary PT. South Pacific Viscose (SPV), the expansion of TENCEL® production capacities in the USA, the remodeling and expansion of the

Paskov pulp plant and as well as infrastructure investments at the Lenzing site.

Adjusted equity1) climbed by 4.6% to EUR 1,096.6 mn (December 31, 2011: EUR 1,048.1 mn). Net financial debt amounted to EUR 268.0 mn in the middle of 2012 (December 31, 2011: EUR 159.1 mn). In particular, the distribution of the dividend to shareholders of Lenzing AG (EUR 66.4 mn) and a tax prepayment (EUR 42.5 mn) in Austria were responsible for the higher net financial debt.

"We were able to finance the investments in the first half-year on our own. With a net gearing below 25% and flexibility on the basis of the available liquidity of EUR 600 mn, we are in a position of carrying out our investments as planned, even under difficult market conditions", says Lenzing's Chief Financial Officer Thomas G. Winkler in commenting on the current half-year results.

Positive development of all segments

In the core fiber segment, the Business Unit Textile Fibers registered an ongoing strong demand in all markets in the light of the expected lower selling prices for fibers. Textile demand for TENCEL® fibers developed particularly gratifyingly, for example for soft denim applications, sportswear and home textiles.

In the first half of 2012, the Business Unit Nonwoven Fibers also succeeded in further increasing sales volumes from the prior-year level, although Lenzing nonwovens were not immune to the downward price trend for viscose fibers. Whereas newly-installed production capacities in Europe for wipes ended up leading to overcapacity, the market in the USA showed itself to be stable. The Asian nonwovens sector, particularly in China, continues to clearly be on a growth path.

The average fiber selling price of the Lenzing Group bottomed out at EUR 2.03 per kilogram in the first half of 2012, which represents a decline of about 12% from the very strong first half of 2011 with all-time high prices in the entire fiber industry. However, compared to the fourth quarter of 2011, the average fiber selling price in the second quarter only dropped by 5%, and remained unchanged compared to the first quarter of 2012.

"The first half of 2012 demonstrated that Lenzing fiber prices develop much less cyclically than cotton prices and spot market prices for viscose fibers produced by our competitors", explains Friedrich Weninger, Member of the Management Board and Chief Operating Officer responsible for the fiber business. "This is the result of our consistent quality orientation, the high share of specialty fibers and the above-average level of service provided by Lenzing", he adds.

The Segments Plastics Products and Engineering developed solidly. The Segment Plastics Products profited from strong demand on the part of the construction industry, for example high-tech multi-layer laminates for the cladding of insulated pipelines and ventilation ducts as well as laminated films for insulating materials. In the Segment Engineering the order intake was at a high level throughout the entire first half of the year.

Outlook

New guidance for EBITDA and EBIT

A continuation of the consolidation phase in the global fiber industry is expected in the second half of 2012. The textile pipeline is well filled due to the limited dynamics provided by private consumption in the industrialized countries. As a consequence, the quick reduction of cotton inventories which are currently at a disproportionately high level will likely take longer than expected.

Hopes of a market upturn as of the middle of the year have not been fulfilled. We expect global fiber prices to decline slightly in the third quarter of 2012. Accordingly, the average selling prices for Lenzing fibers should be lower in the third quarter than in the second quarter, and end up ranging between EUR 1.95 and EUR 2.00 per kilogram.

The Lenzing Group has correspondingly adapted its outlook for the entire year 2012 in the light of the fact that business is no longer expected to develop in a mirror-inverted manner compared to 2012. From today's perspective consolidated sales will likely be at approximately the prior-year level and amount to EUR 2.1 to 2.15 bn. Fiber shipment volumes are expected to reach about 810,000 tons, corresponding to a considerable rise of 14%. On the basis of the early completion of the new fifth production line at its Indonesian subsidiary SPV, Lenzing is confident of already achieving initial sales revenue from this new production facility in the fourth quarter of 2012. Additional fiber volumes will also be derived from the plant optimization program and expansion of the TENCEL® site in Mobile/Alabama (USA).

As a consequence of this ongoing dynamic development, Lenzing now forecasts a new EBITDA range of between EUR 350 mn and EUR 400 mn (previous guidance: EUR 400 - 480 mn). In addition, Lenzing expects EBIT in 2012 to be within a range of EUR 240 - 290 mn (previous guidance: EUR 285 - 365 mn). Capital expenditure in 2012 will likely total approximately EUR 325 mn.

The overall global economic development could have both positive and negative effects on the company's business in the second half of the year. Furthermore, expectations relating to the upcoming cotton harvest in the upcoming 2012/13 cotton crop year comprise an important but still unclear factor impacting further market development. The long-term trend towards man-made cellulose fibers remains intact. This has been underlined by the nascent rally in agricultural raw material prices since June 2012 as well as the recent stable cotton price level which is significantly higher than in past years despite the temporary surplus in the cotton supply. The Lenzing Group is very well prepared to meet these challenges. For this reason, Lenzing will remain committed to its growth path for the coming years.

Key Group indicators (IFRS)

in EUR mn	1-6/2012	1-6/2011
Consolidated sales	1.061.8	1.076.2
EBITDA	193.6	247.8
Earnings before interest and tax (EBIT)	141.1	199.2
Earnings before tax and minority interest (EBT)	138.2	187.7
Profit for the period	100.1	145.3
EBITDA margin in %	18.2	23.0
EBIT margin in %	13.3	18.5
Gross cash flow	114.2	218.7
Investments in intangible assets and property, plant and equipment	130.0	82.1

	30.06.2012	31.12.2011
Adjusted equity ratio* in %	46.7	44.8
Employees at the end of the period	6,724	6,593

*Equity incl. government grants less prop. deferred taxes

Segment reporting in EUR mn	1-6/2012	1-6/2011
Segment Fibers		
Sales	955.9	967.9
EBITDA	182.9	235.8
Earnings before interest and tax (EBIT)	132.6	189.9
Segment Plastics Products		
Sales	86.9	92.2
EBITDA	7.8	8.7
Earnings before interest and tax (EBIT)	4.9	5.3
Segment Engineering		
Sales	58.3	53.7
EBITDA	4.1	4.9
Earnings before interest and tax (EBIT)	3.3	4.2

1) Incl. investment grants, less prop. deferred taxes

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