

EANS-Adhoc: Lenzing AG / Ongoing Difficult Market Situation in the First Half of 2014

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Mid Year Results/6-month report
21.08.2014

- New record half-year fiber sales volume with all plants operating at full capacity
- Successful start-up of large-scale TENCEL® production plant in Lenzing
- Further intensification of the cost optimization program excelLENZ
- Significantly lower average fiber selling prices burden consolidated sales and earnings

The business development of the Lenzing Group in the first half of 2014 was impacted by the ongoing difficult market conditions featuring considerably lower average fiber selling prices. The cost reduction program excelLENZ successfully initiated in 2013 was only able to partially offset the decline in sales and earnings in the first six months of 2014.

Consolidated sales in the first half-year 2014 declined by 9.1% to EUR 900.0 mn from the prior-year level of EUR 989.9 mn. More than half of this sales decrease can be attributed to the one-off effects relating to the divestment of the Business Unit Plastics towards the end of the second quarter of 2013 (H1 2013 sales of Lenzing Plastics: EUR 49.9 mn). On a like-for-like basis involving a year-to-year comparison of continuing operations, consolidated sales were down by 4.3% to EUR 900.0 mn from EUR 940.0 mn in the previous year. The significantly lower average fiber selling prices could not be offset by higher fiber shipment volumes and an improved product mix. Average fiber selling prices of the Lenzing Group in the first half of 2014 equaled EUR 1.54/kg, comprising a drop of 12.5% from the level of EUR 1.76/kg in the first half of 2013.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations in the first half-year totaled EUR 91.9 mn (H1 2013: EUR 129.1 mn). This represents a decrease of 28.8% from the first half of 2013. The consolidated half-year earnings before interest and taxes (EBIT) from continuing operations amounted to EUR 32.4 mn, a drop of 56.1% from EUR 73.8 mn in the previous year.

Further intensification of the cost optimization program excelLENZ 2.0
Due to the continuing tense price development on the global market for viscose fibers, additional cost savings were initiated within the context of the efficiency enhancement program excelLENZ 2.0. In light of the current level of fiber prices, the originally planned savings of about EUR 60 mn in 2014 are not sufficient for Lenzing to be able to profitably manufacture fibers, especially at its European sites. "The previously implemented measures have already proven to be effective. Once again we were able to increase the savings generated in the year 2014. In light of the continuing market weakness we have to further sharpen the targeted annual cost savings of up to EUR 160 mn. Moreover, we want to reach these targets more quickly", explains Chief Executive Officer Peter Untersperger. Cost savings of up to EUR 90 mn are now expected for the current financial year, one-third higher than originally budgeted.

"At the same time, in light of the current market distortions, we have cut back investments to a minimum", adds Lenzing's Chief Financial Officer Finanzvorstand Thomas Riegler. CAPEX totaled EUR 64.2 mn in the first half of 2014, below the comparable figure of EUR 134.4 mn in the prior-year period. The focal point of the investment activity was the completion of the new TENCEL® production

plant in Lenzing as well as modernization work on existing fiber production lines. "Another priority is proactive cash management in addition to a selective investment policy. Accordingly, non-current liabilities could be reduced by 5.6% to EUR 758.1 mn (H1 2013: EUR 803.0 mn). Trade working capital could be improved thanks to a strict working capital management", Riegler says.

Specialty strategy to counter the price decline

Lenzing is counteracting the sharp drop in fiber selling prices by more intensively focusing on specialty fibers and the more stable nonwovens business at the expense of the more cyclically sensitive textile sector. Both Lenzing Modal® as well as TENCEL® reported ongoing high demand and very good sales volumes throughout the entire first half of 2014, also generating attractive price premiums at the same time.

The resolute optimization of the customer structure and sales regions ensures that Lenzing will continue to obtain premium prices, even for its standard viscose fibers, which are higher than the level for other viscose fiber manufacturers. Other specialty fibers such as Lenzing Modal® have also profited from an active shift towards sales markets with attractive contribution margins.

Successful start-up of the TENCEL® plant in Lenzing

In the first half of 2014 the Lenzing Group completed and successfully initiated production at its new TENCEL® jumbo production facility, the largest in the world, at the Lenzing site. The plant is in the midst of a stable ramp-up phase. The feedback on the part of the market is very positive. Thanks to the new plant, annual nominal TENCEL® production capacity of the Lenzing Group will rise from 155,000 tons p.a. to about 220,000 tons. In this way Lenzing will further expand upon its global market leadership for TENCEL® fibers.

This facility comprises the first time in which a single production line with an annual nominal capacity of 67,000 tons was installed. Previous TENCEL® production lines were usually only one-quarter as large. The new plant design incorporates lessons learned from the longstanding experience of the three existing Lenzing Group TENCEL® production plants located in Austria, USA and Great Britain. As a consequence, the new TENCEL® plant in Lenzing represents the world's leading generation of TENCEL® technology.

Outlook

There are no perceptible signs of any easing of the situation on the global fiber market in the second half of 2014. The expectation of a cotton harvest which is lower than in the previous year but still exceeds annual consumption is triggering further pressure on global cotton prices and thus on all fiber prices.

In spite of good volume demand, a further price decline for man-made cellulose fibers cannot be excluded. The excess supply of standard viscose fibers will continue to prevail in the second half of the year. As a consequence of the high world market share of Chinese cellulose fiber manufacturers (60%), the resulting low fiber selling price levels impact other important sales markets and repeated measures initiated to stabilize prices are bound to fail. Only a slight improvement in price levels is expected during the course of the year 2015 at the earliest. Lenzing is counteracting this situation by intensifying its excellENZ cost reduction and efficiency enhancement program, which should enable higher savings to be achieved in 2015. The selective investment policy and cash optimization measures will be further pursued.

In its operating business, Lenzing will continue to determinedly promote its specialty fibers Lenzing Modal® and TENCEL®. In this case, the focus will be on ramping up the new TENCEL® plant at the Lenzing site to achieve a production volume of 30,000 tons in 2014, and to sell these additional fiber volumes.

Key Group indicators (IFRS) in EUR mn

Continuing operations ("like for like")¹⁾

1-6/2014

1-6/2013

Consolidated sales	900.0	940.0
EBITDA	91.9	129.1
EBITDA margin in %	10.2	13.7
EBIT	32.4	73.8
EBIT margin in %	3.6	7.9
Profit for the period	15.2	45.2
CAPEX2)	64.2	134.4

	June 30, 2014	Dec. 31, 2013
Adjusted equity ratio3)in %	46.3	45.5
Number of employees at period-end	6,392	6,675

1) Taking account of the Business Unit Plastics divested in the first half of 2013, consolidated sales declined 9.1%, EBITDA fell by 43.3% and EBIT was down 68.5%.

2) Relates to investments in intangible assets and property, plant and equipment and non-controlling interests 01-06/2013 including the Business Unit Plastics.

3) Adjusted equity in relation to total assets.

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