

July 2020

## TeraPlast Group results in the 1<sup>st</sup> half of 2020

### Teleconference for analysts and investors

#### A. Presentation of the results and main speech topics

Presenter: Ioana Birta, Chief Financial Officer

#### TeraPlast Group structure

- TeraPlast SA is a listed company, while the rest of the TeraPlast Group companies are its subsidiaries
- The Group is split into two divisions: Steel division and Plastics division
- The Steel division is comprised of the companies TeraSteel Romania and Serbia and Wetterbest
- The Plastics division is comprised of the companies TeraPlast, TeraPlast Recycling and TeraGlass
- As such, aside from the usual operational activity and the marketing of the products manufactured by the three business lines – Installations, Compounds and PVC Profiles – TeraPlast SA is also an investment vehicle
- The TeraPlast results also reflect the performance of its subsidiaries

#### Construction segment

- The context was favourable for the construction segment, despite a drop in the B2C segments as a result of the logistic restrictions. Fitters working with roof systems and windows and doors, could not travel to the homes of their clients
- This situation started improving in May, with all business segments performing as of this month
- TeraPlast and TeraSteel saw better increases than the industry

#### Results in the 1<sup>st</sup> half of 2020

- The profitability increased significantly, by almost 50%; two months ago, we were estimating a 32% increase in this indicator
- The increase in the turnover is also exceeding expectations and is an organic growth
- The net profit also increased significantly
- The TeraPlast EBITDA doubled by comparison to the same period of 2019, due to the infrastructure works; construction sites remained open

- The development of the TeraPlast Installation business line is remarkable, with almost 60% of the revenue originating from the sewerage, water and gas infrastructure works. This business line represents the segment with the highest added value. At the same time, the other business lines remained almost within the same parameters (e.g. Compounds reached a 12% EBITDA), with Installation exceeding the 17% margin in the past 2 months, which is a record for TeraPlast
- The recycling business saw progress and, since mid-2019, in has remained within the expected operating parameters, with a production of 9,000 tonnes/year. The production of the recycling plant used to be employed by TeraPlast in the production of PVC pipes, namely PVC profiles. However, we've now also started selling recycled products to third parties.
- TeraSteel grew mainly due to the increase in the volumes in Serbia, since the plant in Romania has already reached its full production capacity
- Wetterbest finished relocating to the new production unit in March, following the completion of the investment project partly funded by state aid. At the same time, the production and logistic flows underwent optimisation, and this is reflected in the Wetterbest profitability in the past two months
- Wetterbest is at the start of the peak season, with its largest sales usually taking place in the third quarter, due to the seasonality of the roof system industry. Here we have a larger production capacity than we did last season, thanks to the recently completed investment project.
- TeraGlass saw the biggest percentage increase in revenue, of all Group companies. Despite this, its profitability is below expectations and, as such, the business line will be closely monitored by the management during the following period.

### Sale of the Steel division

- The buyer is the world leading Kingspan Group, which records a market capitalisation of 11 billion pounds
- The estimated value of the Steel division amounts to 410 million RON. This represents the headline price, which will be decreased by the net debts as of the transfer date of the ownership over the sold shares
- It is important to take into account that, upon the sale of this business, a set of debts owed by the Steel division will also be transferred.

*An example of the computation as of June, 30*

- The Steel division achieved 40% of the TeraPlast Group EBITDA and represents 40% of the Group's net assets
- The net debt contracted by the Steel division companies (TeraSteel Romania and Serbia; Wetterbest) amounts to 80 million RON
- The line of interest-bearing debts amounts to 112 million RON, of which 32 million RON represents a loan contracted by TeraPlast for the purchase of Wetterbest shares

- If the price was established on June 30, 2020, we would subtract the net debt amounting to 80 million RON from the headline price of 410 million RON
- The transaction will be completed within 3 to 6 months, since it depends on a series of conditions precedent that are not under our control. The most important such condition is the approval of the competent competition authority.

## B. Q&A

### 1. So, the 112 million representing the debts of the Steel division must be subtracted from the 410 million and that result will be the amount collected for the transaction?

**Ioana Birta, CFO:** As of June 30, the debts contracted by the Steel division amount to 112 million RON, which we present in the consolidated financial statements as such. We must take into account that, of these, the amount of 32 million RON was contracted by TeraPlast SA for the purchase of Wetterbest shares. In conclusion, the headline price of 410 million RON will be adjusted with the net interest-bearing debts, as contracted by the Steel division companies, namely 80 million RON (112 million – 32 million). It is very important to keep in mind that these figures are accurate on June 30, 2020, while the transaction will be completed after a period of 3 to 6 months.

### 2. What is the cross-business volume, given that you sell turnkey buildings and that you are now selling a part of the business that owns the building product portfolio? Is the remaining production, such as pipes, windows, doors, significant?

**Alexandru Stănean, CEO:** The cross-business part does not actually exist, since it is fully immaterial.

**Ioana Birta, CFO:** The turnkey halls are TeraSteel products. These are complete buildings that, alongside the TeraSteel products – sandwich panels and galvanized steel profiles – also have integrated services. The TeraPlast businesses – installations, compounds, PVC profiles – and the TeraGlass businesses – windows and doors – have no ties to the Steel division.

### 3. What are your perspectives for the money resulting from the transaction? Do you have any ideas for expanding the current businesses? What are you plans?

**Dorel Goia, BoD chairman:** We will not be counting on this money for future businesses until the amount is actually present in our account. Until then, we do not take it into account and never have done so. The money will enter our account after the European Commission grants its approval, after a period of 3 to 6 months. This usually takes 3 months.

For now, all our plans are based on state aid. We've used this system before and we believe that the state and the Ministry of Finance understand that the state aid is a refundable loan in the form of taxes and duties and that they will understand the need to support Romanian companies that cut down the dependence on imports and

that manufacture exportable goods with the invested money. I will continue to repeat this until we obtain the state aid. Therefore, we count on other money, not this amount, although it will be welcomed.

**Should I understand that future plans are already drawn and that this money is only an addition? Will it be used for a future purchase or as dividends?**

**Dorel Goia, BoD chairman:** We don't like to talk about future things, because our business philosophy does not appreciate this kind of models. We will inform you of our actual plans when we will apply for state aid. This will take place soon enough, probably within the next two weeks. Since we are a listed company and we must inform the entire market unbiasedly, we will be at your disposal once again after the announcement on the project submission. We've been working on this project for 2 years, as all projects must be well founded.

We will only invest in fields in which our products are equal, in terms of quality, to those manufactured by world leaders and are exportable.

This is why the Steel division was so attractive – because our products are very similar, in terms of quality, to the products manufactured by the world leader.

#### 4. Do you have any plans for the recycling line?

**Dorel Goia, BoD chairman:** The production facility that we built, and that people have yet to ask about, entered directly in the top 7-8 European companies, thanks to its production capacity. We are pleased with the development of this business.

We still import plastic waste, from Italy and the Netherlands, because the legislation in Romania is not sufficiently stringent to aid the purchase of such raw materials from our country. While in Romania this waste is buried, we bring materials from 2,000 km away. Unfortunately, we cannot change this situation, since we are not politicians - we are businesspeople. We will continue to develop this business. It is a field of the future and someone has to do this.

We are already on top of it. We recycle 7 million kilograms, almost half of kilogram per capita in Romania, as finished products. The input amounts to 10 million kilograms.

#### 5. Regarding the drop in the Group diversification at the same time as selling the Steel division - how do you see the decrease in business on this side?

**Dorel Goia, BoD chairman:** If we analyse the figures from the published report, the first semester was the best first semester in the Group's history. Individually, per companies, TeraPlast, TeraPlast Recycling and TeraGlass recorded increases that please us and that we believe also please our shareholders.

The doubling of the TeraPlast EBITDA during the first semester, by comparison to last year's first semester, represents a very good result and I wish that Romania could see such results in all fields.

**What can you tell us about the increase in the dependence on state-owned companies, given that TeraPlast depends on such companies and that investors consider this volatility risk in view of the political environment?**

**Dorel Goia, BoD chairman:** We do not comment on the political environment, but we do benefit from the amounts that the government pays to construction

companies and, if this continues in the same rhythm, all construction and building material companies in Romania will see a lot of work coming their way.

Romania is lagging in terms of water, sewerage and gas infrastructure works. In 2007, upon the accession to the European Union, we were glad that we would be required to expand sewerage works and that we would have work to do until 2033, when we are expected to meet our undertaken obligations, since we will be subject to sanctions should we fail to do this.

Therefore, if the Romanian state pays for the works and complies with its commitments, without taking into account the 70-80 billion EUR that Romania is set to receive, we will all have work to do.

**6. Given that the Steel division also includes the Serbia plant, which is now leaving the Group, do you see the TeraPlast Group as having new plans to invest outside the country?**

**Dorel Goia, BoD chairman:** Why not? How can we not invest outside the country when Szeged, for example, is closer than Braşov? This is about the compass theory, the concentric circles. Where does the merchandise get faster: to Szeged, to Brno or to Constanţa? We entered the EU as a common market that we must benefit from and we understood this.

We must export and, for this, we emphasize the quality of the product. It must be at least at the level of the German/Italian quality, because otherwise we will be unable to sell.

We develop only the business lines where Romania was a net importer, because we must stop imports and start exporting. Why was the sandwich panel plant so attractive? No government provided a dedicated support to sandwich panel plants, but Romania is a net exporter of such products to Hungary, the Czech Republic, Slovakia, and Serbia. In Serbia, we were not up against Serbian manufacturers, but European-wide renowned manufacturers, our main competitors. All Romanian companies should promote exports.

**7. First of all, can you provide more details on the transaction timeline? Did it happen quickly, did you actively seek to sell the division?**

**Then, can you tell us more about the cost of raw materials during the second quarter? I see that it reaches about 65% of the sales, which is well below the past few quarters. Do you think it will remain like this for the rest of the year or that this was simply just a very good quarter?**

**Dorel Goia, BoD chairman:** The transaction lasted about the same as all transactions that involved us. Never below 1 year. We were congratulated for the discretion of the negotiations. We find it natural to announce certain things, to do something and then talk about it.

**Alexandru Stănean, CEO:** Regarding the raw materials and their weight in the turnover, I can tell you that, in this moment, our yard is empty thanks to the volume of the demand. There are many construction sites that continued to operate despite the restrictions that unfortunately affect so many other segments. As a result, our entire industry is facing a very large demand. Given this context, we have no reason to lower our prices. The raw materials are on a slightly ascending trend, but margins these days are sustainable given the extremely large demand during this period.

**8. Will the fact that you are exiting the Serbian market also affect the TeraPlast products?**

**Alexandru Stănean, CEO:** The channels that we use for selling our products and the way we do this are so different that they are not related. We sold in Serbia before opening the plant and we will continue to do so after the transaction. That plant only covers sandwich panels, the sales teams are dedicated to sandwich panels and there are no operational synergies between the TeraPlast Group companies and that plant. The Serbian market remains the same for TeraPlast and will see an increase.

**9. For the Installations segment, can you provide us with an update on the status of the projects backed by European funds? How will these projects continue?**

**Alexandru Stănean, CEO:** We have a very clear history – the other financial year of the European Union that we concluded. This year, POIM (“Large Infrastructure Operational Programme”) agreements will be signed by the end of the year, which will include water, water-sewerage and sewerage works; these works will be performed over the next two years, until the end of 2023. As such, we will work under the agreements that will be signed by the end of this year.