

October, 2020

TeraPlast Group results for the period January-September 2020

Teleconference with analysts and investors

A. Presentation of the results and main speech topics

Presenters: Alexandru Stănean, CEO of TeraPlast; Ioana Birta, CFO at TeraPlast; Alexandra Șica, IRO at TeraPlast

TeraPlast Group Structure

- TeraPlast is the parent company of the TeraPlast Group, with holdings in Wetterbest, TeraSteel, TeraSteel Serbia, TeraPlast Recycling, TeraGlass, TeraPlast Hungary
- TeraPlast Group is split into two divisions: Plastics Division and Steel Division
- The Steel Division is subject to sale to the Kingspan Group.
- It can therefore be observed who will remain and who will leave the TeraPlast Group, following the completion of the transaction.

Main Events of 2020

- After the onset of the sanitary crisis, we offered good news: the inclusion of TeraPlast shares in the BET reference index of the Bucharest Stock Exchange
- We have granted one free share for every 3.3 shares held by TeraPlast shareholders
- We have announced the transaction with Kingspan Group with regard to the Steel Division, respectively TeraSteel Romania, TeraSteel Serbia and Wetterbest
- We have announced the implementation of a real estate project, which will be carried out at the former location of the TeraPlast factory, in Bistrita city
- We have published the preliminary proposal for dividends distribution, while the final proposal for dividends distribution has been recently published for approval by shareholders at the General Meeting of Shareholders on November 27
- We have announced investments of over EUR 20 million
- TeraPlast shares have been included in the FTSE Russell's Total Cap & MicroCap indices
- We have submitted the first investment project, worth a total of EUR 7.9 million, within the state aid scheme meant to stimulate investments that have a major impact on the economy
- Since January 2020, TeraPlast shares have showed a positive development of +98.43%.

Local Construction Sector



- The construction sector is one of the few sectors in Romania that had a good evolution in 2020, despite the onset of the sanitary crisis
- According to the latest data available from the INS (the National Institute of Statistics), the number of constructions increased by 19.2% as an adjusted series in the first 8 months of 2020, as compared to the same period last year
- In the context of the 14% increase in turnover and the 19.2% increase in the sector in which we operate, we can say that we had an increase in line with the sector, taking into account the limitations of production capacity that we faced
- The evolution of maintenance and capital repairs works in the first 8 months of 2020, together with the evolution of engineering works, reflects the evolution of the infrastructure works in Romania.

Key Figures for the First 9 Months of 2020

- The TeraPlast Group's financial results reached historical levels in the first 9 months.
- We have a 14% increase in turnover, up to RON 816 million and an increase of almost 50%, more precisely 46% of EBITDA, up to RON 99 million, which represents an organic growth.
- This is the result of the measures that we have adopted in recent years, of the investments made by means of state aid schemes in the last two years, especially by means of the Wetterbest project. The latter started to bear fruit from the perspective of registered profitability in the 2nd and 3rd quarters of this year.
- We have reached an EBITDA rate of 12% at Group level, which creates the prospects for the development that we anticipate in the coming years.
- The main growth driver was TeraPlast, which has almost doubled its EBITDA as compared to the same period last year. We can see a significant increase in the area of installations, environmental infrastructure works, sewage, which have had a very good evolution in Romania.
- We can finally access the money that the European Union has made available to Romania, which can be observed in our sales.
- The evolution of sales volumes, which reaches 20% in the case of installations for example, is observed to have doubled in EBITDA as compared to the same period last year.
- We have also benefitted from the decreases in the price of raw materials due to the health crisis, as the prices for raw materials are currently returning to the levels before the health crisis
- Demand in the construction sector is high all over Europe.
- Growth is lower in the compounds area, but profitability has improved significantly.
- The window profiles division has felt the effects of the pandemic - sales have significantly decreased during the lock-down period.
- TeraGlass has experienced a 24% increase in volumes with the segment of PVC doors and windows, but we still have to make improvements in the area of profitability.

- We have to work on the workflow area of the new factory, as a result of the investment made through the state aid scheme
- The Steel Division has showed a positive development, with a cumulative 12% increase and a 15% increase in EBITDA
- Here, we can also see an improvement in profitability. Even though there has been a slight decrease in the roofing segment during the pandemic, it can be observed in the financial results for the 9 months that this decrease was remedied quickly.
- Shareholders understood that the approval of the financial statements was taking place during a difficult time, when the pandemic was causing a great deal of uncertainty with regard to the future development of the TeraPlast Group's businesses and thus agreed to receive only free shares, which practically represents a reward without cash outflow from the Group
- We are now in a position to propose a dividend with a 6% yield, which we will vote on and pay by the end of this year.
- If we consider the high figures of the degree of indebtedness, we see that the degree of indebtedness is very low against the background of the very good results registered this year, as we are talking about a net indicator of around 1.1 on EBITDA

Market Prospects

- We have announced an investment plan of over EUR 20 million and received questions about the development plans following the sale of the Steel Division.
- We have very good development prospects for the infrastructure area regarding all aspects related to the TeraPlast systems.
- The degree of access of the population to sewerage networks in Romania is approximately 54.2% and about 53% of the population has access to sewerage networks with treatment plants, notwithstanding that, at the time of accession, Romania guaranteed that the connection rate should reach 80% by 31.12.2015.
- Regarding access to water networks, we are talking about an access degree of just under 71%, given that Bulgaria has a degree above 95%, according to a statement given in a report by the European Commission 3-4 years ago. It should be noted that the comparison refers to Bulgaria and not Germany.
- If we talk about gas networks, only 35% of homes in Romania are connected to a gas network, Hungary having a degree over 90%.
- In the area of agriculture, we are net importers of agricultural products
- One of the explanations would be the way we exploit Romania's agricultural potential, respectively the access to the irrigation zone.
- Out of the 15 million hectares of Romania, more than half represents irrigated land, ie it has a water deficit during the year and we have therefore contracted only 11.5% of it.
- The Government allocates significant funds in order to cover these gaps through its programs, namely POIM and PNRR.
- There are projects both on the sewage and the irrigation area between Romania and the countries of the European Union, whereas a budget of approximately EUR 700 thousand has been separately announced for the gas projects
- Therefore, the prospects for the businesses which will remain in the TeraPlast Group are very good.

- We have already submitted a project in order to expand the capacity of the sewer pipe area
- We are going to submit three more projects, which we will announce publicly as soon as we submit them
- Why do we invest? For how much work Romania still has to do
- According to our calculation, we have over 15 years' worth of works in the sewage area ahead of us
- An article in *Ziarul Financiar* stated that it would take us 80 years to have the same degree of gas network accessibility as Hungary.
- Therefore, the market prospects of the TeraPlast Group are particularly good.
- We still have EUR 6.4 billion available on POIM that represent signed but unpaid projects and on the PNRR side another round of funds. According to the documents, the available funds must be accessed in the next 3 years. From this perspective, we are optimistic about what the market will look like at least in the following 3 years.

Financial Performance

- Thus, we have the Plastics Division and the Steel Division. The first will remain in the TeraPlast Group in the next year and is the one which we are going to develop through the 4 projects that we will submit.
- We have increased turnover by 14%.
- The Steel Division represents approximately 60% of the Group's turnover at present
- Together with the Plastics Division, the Steel Division represents the Group's turnover as it was in 2017, before investing in Wetterbest and Serbia
- Through the following investments, we aim for significant increases in the next 2-3 years
- We have seen almost a doubling of EBITDA for the Plastics Division, respectively RON 55 million in the first nine months of the year and we expect to make another RON 18 million, so that the EBITDA margin will reach 16% by the end the year, which is a very good margin for the sector in which we operate
- Therefore, we will reach the end of this year with a turnover of over RON 450 million for the Plastics Division
- The EBITDA performance is mainly due to the savings on raw materials and several other factors. Firstly, it is due to the investments made in order to increase the production capacities of high value-added products and, secondly, to the improvements achieved through the procurement policy. Of course, all these have been possible in the favourable context offered by the infrastructure market.
- The significant increase in EBITDA in the first 9 months of the year is mainly due to the Installations business line, which also had the largest contribution to the turnover of the Plastics Division. This is one of the reasons for the increase in production capacity for both PVC and polyethylene products.
- In the last teleconference, we were saying that we expected to complete the transaction for the Steel Division at the end of this quarter (4th), sometime in December
- The Steel Division has a headline price of RON 410 million, which will be adjusted with the net financial debts at the date of completion of the transaction, ie at the date of completion of the transfer of ownership over the shares.
- From the point of view of the Group's consolidated annual financial statements, they will also show the results of the Steel Division

- Therefore, we consolidate our financial statements until the transfer of ownership, but when this takes place, we will have cash and profit from this transaction at the date of the transfer
- The most significant increase in EBITDA in absolute terms comes from Wetterbest. We can see the results of the operational improvement plans implemented in the new location. Even though Wetterbest recorded decreases during the state of emergency, being a B2C segment, now the company has reached an EBITDA of 8%. There is still room for improvement, but the evolution is very good, + 20% as compared to last year.
- Regarding the balance sheet, we would like to emphasize the improvement of net working capital and the degree of indebtedness.
- The net working capital represents 15% of the turnover, due to the constant optimizations made in the last 2 years. The optimal level we are planning to maintain is between 15% and 17% of turnover.
- Net debt significantly decreased this year to 1.1. Throughout the year, we consolidated the investments made in 2019 and generated cash, which we used mainly to reduce the degree of indebtedness.
- We have seen a small improvement in the cash conversion cycle - we are at an optimal level. The 60-day cash conversion cycle is the result of 60-day collection deadlines, which are normal for the industries in which we operate. We have longer collection terms for installations and shorter ones for B2C businesses.
- We still have a good level of revenue, we have no problems in this area, but we are cautious and carefully monitor the risks we are exposed to within the relations with our customers.
- We generated almost RON 92 million cash from the operational area in the first 9 months of 2020, with RON 15 million more than last year.
- We used RON 38 million of this sum for investments, which were mostly payments to complete the investments planned in 2019, whereas RON 57 million were used to reduce debt.

B. Q&A

1. How will the money be invested after the sale of the Steel Division?

Alexandru Stănean, CEO of TeraPlast: We have investment projects of over EUR 20 million that we will submit for co-financing within the state aid scheme. These investments will increase our production capacity to better meet the demand in the markets in which we operate. We will also access new product groups. We will discuss this in more detail after we collect the money from the transaction.

2. What are the company's plans for the next 3 years?

Alexandru Stănean, CEO of TeraPlast: We believe that we will be quite busy in the next three years following the recently announced investment projects, both in terms of implementation and ramping them up. The figures we will generate are likely to be made public along with next year's budget.

3. Is the increase in the Plastics Division mainly due to the expansion of the sewerage networks financed by European funds? If so, do you have an estimate of how long the current European program that finances these enlargement works will last?

Alexandru Stănean, CEO of TeraPlast: Yes, the increase is mainly due to the development of the infrastructure works, ie the sewage networks. We have another 2 years for the implementation of POIM and 3 years for the implementation of PNRR, which gives us very good prospects for the next period. If all the current plans are achieved, the plastic pipe market will reach new highs in the next 3 years.

4. Could you give us some details about the shareholder reward policy?

Alexandru Stănean, CEO of TeraPlast: We have to take into account two issues in this regard. The first is that we already have a GMS convening notice for the approval of dividends for this year. The second is that, as far as the money we are going to collect from Kingspan is concerned, we prefer to collect it first and then discuss about how to distribute it.

5. How are the investments allocated in the 4 remaining segments of TeraPlast?

Alexandru Stănean, CEO of TeraPlast: We have not yet made this information public. We will invest in the installations area and in some new segments. This is the information currently available.

6. How much is a reduced tax of 9% on VAT applied to agriculture for the main and secondary irrigation system in your favour?

Alexandru Stănean, CEO of TeraPlast: I would start with a clarification. It is very important for us that money is allocated for such projects. Romania needs to increase the irrigated area in the hope that we will become net exporters and not net importers of agricultural products. As far as the 9% tax is concerned, we hope that this will contribute even more to the increase in demand in this sector, because there is a need for this increase.

7. Are you considering taking over smaller players that operate in the plastics industry?

Alexandru Stănean, CEO of TeraPlast: As I said before, we are always open to do M&A operations, both in Romania and outside Romania.

8. Could you tell us how much Net Debt was for the Steel Division on September 30 and how much you expect it to be at the end of the transaction?

Ioana Birta, CFO at TeraPlast: On September 30, the net debt of the Steel Division amounts to RON 42 million. Therefore, using the formula, we calculate from the fixed and agreed

headline price of RON 410 million. It should be taken into account that the net debt of the Steel Division will be less than RON 42.2 million at the date of completion of the transaction, because the surplus value of EBITDA that we will generate in the coming months, respectively until the date of completion of the transaction, will be translated into a debt reduction. At the same time, the formula is adjusted with a difference of net working capital, between an agreed target and the actual working capital. On September 30, the net working capital amounts to RON 73 million, which is very close to the target.

9. How do you explain that the value of the immediate liquidity rate on 31.12.2019 is 0.53? Is it related to the fact that stocks have an important share in the structure of current assets? The optimal value is 0.7.

The current liquidity rate shows a decreasing trend from 2.05 (2016) to 1.09 (2019). Does the TeraPlast Group have an indebtedness policy? Can you cover payable interest on operating income by adding shareholder value?

Ioana Birta, CFO at TeraPlast: We had a lower liquidity rate on 31.12.2019 due to significant investments made last year. Towards the end of 2019, we financed part of these investments from our own sources, whereas in March 2020 we took out the loan related to those payments for capex. Therefore, liquidity has improved significantly due to the investment financing from long-term loans and to the related state aid.

Alexandru Stănean, CEO of TeraPlast: Here I would like to add that a comparison of the TeraPlast Group in 2016 with the current situation of the Group is a bit far fetched. During this time, the Group has changed significantly - we bought Wetterbest, we bought TeraSteel Serbia, we made 3 investments with state aid in the expansion of production capacities. Therefore, from our point of view, we cannot compare 2016 with the current period. The return on these investments is evidenced by the transaction with Kingspan and its price.

10. Do you estimate that you will have problems with capacity limitations in Q4'2020 or have you found a solution? What about 2021?

Alexandru Stănean, CEO of TeraPlast: Traditionally, there is a decline in sales in the 4th quarter as compared to the 3rd quarter, which is usually the most productive period of the year. Thus, we want to reach up to date with the order backlog in Q4. In addition, we already have slight increases in capacity for the investments made in 2019, especially in the PVC pipe area. The limitation only affected the installations area. This lack of capacity has been felt throughout the industry due to the pace of the work, which makes us even more confident in the projects meant to expand the production capacity. If all the investments announced through POIM and PNRR are made and the Romanian industry does not increase its production capacity, we will also become net pipe importers.

11. In the future, will you follow the policy of obtaining state aid because you cannot find bank loans with a convenient interest rate?

Alexandru Stânean, CEO of TeraPlast: State aid is a mechanism through which the state provides half of the value of the investment, while the company undertakes to contribute with additional taxes to the state budget within 5 years, at least in the amount received as state aid. Basically, it is a 5-year loan with zero interest. Indeed, we cannot find zero-interest bank loans, but this is not the reason why we are resorting to state aid. We do this because, from our point of view, the fact that the state subsidizes half of the investment brings added value for our shareholders.

12. The financial statements mentions "Potential sale of the Window Profile business line". Could you tell us more about that? Do you already have discussions with any interested parties?

Alexandru Stânean, CEO of TeraPlast: At the moment, there is no definite additional information on this topic, so we have no other remarks to make. We will report, of course, all the necessary information when it materializes in one way or another, according to our obligations.

13. How much has the production capacity been affected due to the current pandemic context?

Alexandru Stânean, CEO of TeraPlast: The production capacity was not affected by the pandemic. The last time the factory was shut down was on Easter, and since then we have been working in a continuous flow of 24 hours/day and 7 days/week. The limitations of the production capacity that we have encountered are solely technological.

14. Do you intend to increase the profit distribution rate?

Alexandru Stânean, CEO of TeraPlast: This aspect depends on the shareholders' decisions. The financial statements show that we are a solid and liquid company, so if the shareholders want dividends, there is the possibility of allocating them.