

TeraPlast Group 9M2023 results

Investors & analysts' teleconference

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[Presentation available here.](#)

Key takeaways:

- The results show a clear improvement in our Group's activity, based in particular on a faster pace of the infrastructure projects for water, sewage and gas.
- We have been waiting for these infrastructure projects to start since last year. They came later than expected, but we are glad and hope to see the pace increasing in the amount of work for these projects.
- Currently, these projects are evolving at a satisfactory pace but there is room for improvement, given the available funds.
- At the moment, they are mainly financed by POIM and Anghel Saligny. We see too little movement from PNRR on the water, sewage and gas projects.
- I will not get into too much detail regarding the structure and activity of TeraPlast Group since most of you are familiar with it.
- I'd like nonetheless to point out some key information: the Group is comprised of the parent-company TeraPlast and our subsidiaries TeraPlast Recycling, TeraBio Pack and TeraGlass, to which are added two subsidiaries that are integrated in different business segments, like TeraPlast Hungary and Somplast.
- The total number of employees as of September 30 is 939, slightly less than the same period of last year or the beginning of this year.
- Construction works had a good evolution, carried out especially by infrastructure works (classified as engineering works by the National Institute of Statistics). What changed from the middle of the year when we saw a similar dynamic is that in addition to the highway works, the water, sewage and gas projects start to enter the execution phase. Those are the works that imply mainly the products in TeraPlast Group's portfolio.
- On the SICAP platform water, sewage and gas projects worth 26.5 billion lei were auctioned – consistently over double as amount compared to the same period last year.

- The raw materials' deflation was above our expectations especially for the 1st and 2nd quarters, reaching a certain maximum in the 3rd quarter, which was followed by a rather stable trend and during the fourth quarter we expect a normal evolution of raw material prices.
- For some business lines we have signals from our customers, especially from the compounds area, about a strong contraction of the demand for cables, possibly caused by the residential buildings that recorded a decrease. This is also goes for our export clients, thus for the compounds business we are witnessing an overall contraction of demand.
- An internal event which is worth mentioning: We signed a financing contract through PNRR for a new 4.5 MW photovoltaic plant that will be placed in our industrial park in Saratel.
- Also, under the Opal brand, the stretch films will enter the market starting this quarter (Q4). Currently we are running tests on the first production line so we can start the production and trade of these products according to plan.
- Part of our strategy implies consolidating our exports which reached 17% of the consolidated turnover, with a value of 87 million lei.
- We have exported to 20 countries in Europe. Obviously, our main focus are the countries that are near Romania for logistical purposes.
- The Group's results translate into a 517.4 million lei turnover in the first 9 months of this year, with an 8% decrease compared to 9M2022, an EBITDA of 45 million lei, 7% below the one at 9M2022, an EBITDA margin of 8.7%, already above the EBITDA margin in the same period last year and 60,594 tons sold.
- I'd point out that we are on a trend of recovering the gaps from the beginning of the year compared to the same period last year, mainly due to the the infrastructure projects that were delayed, but now have started.
- The consolidated net result is already on the positive side as we have recovered the loss that we have registered during the first trimester.
- Looking exclusively at the third quarter, compared to the same quarter of the last year (Q3 2023 vs Q3 2022) EBITDA increased by 70% and the turnover increased by 4%.
- It is important that we mention that even though the turnover has increased by only 4% this is to be correlated to an increase in quantities sold of 15%.
- Looking at the Q3 2022, we are seeing 20,000 tons in sold volumes, compared to 23,000 tons of all products in the Group's portfolio in the same quarter of 2023. The difference comes from the price deflation during this year.
- The difference is due to the price deflation recorded during this year.

- Also in the third quarter, the consolidated EBITDA margin reached 11%. It is approaching the territory in which we feel comfortable, despite the fact that except for the infrastructure part, for the rest of the Group's segments, there is still room for improvement.
- On the Installation side, it would be worth pointing out that the margin in the quarter was 13.4% and we expect the trend to continue favourably for the end of 2023, amid the auctions announced through SICAP. And I refer only to the end of 2023 since we haven't yet published any key figures for 2024; the latter will be published together with the preliminary results for the current year.
- Regarding the TeraGlass line we have an increase in domestic sales. However, growth has failed to compensate for the contraction in export sales, but we have a slightly improved profitability level.
- The Compounds, although they retain an EBITDA margin of 9.2% which is somewhat gratifying, we have significant volume contractions, coming from the contraction of demand for the products that are manufactured with these materials.
- On the Flexible packaging side, we had a fluctuating evolution. It is clear that we have an improvement in profitability, but in terms of reducing the operating loss, not in the sense that we were hoping for, respectively reaching a positive EBITDA.
- We still have work to do to reach the critical mass. Although the increase in sales is evident, it is still not enough to cover the fixed costs.
- Overall, Installations, which have always been our main business, reached an even larger share in the Group's consolidated turnover, approaching 75%.
- We have a slight increase of the Flexible packaging share, from 5 to 6.5%, which still reflects the longer ramp-up process in which we are.
- On the other hand, we have a significant contraction in the turnover share of the Compounds, including the recycled compounds, and TeraGlass remains constant in this regard.
- For the whole of 2023 we estimate a turnover that will be 5% lower than last year, the increasing quantities being impacted by deflation. Based on our estimates, quantitatively we expect this year to be a record year for the TeraPlast Group.
- We still expect an increase in the operating margin from 7.4% to 8.3%, which will lead EBITDA to 56 million lei, 6% higher than in 2022.
- On the background of the demand for public works, Installations will remain the engine of this growth since we do not expect significant improvements in Compounds in terms of demand.
- Also, the time is too short for anything significant to happen for the Flexible packaging business.
- Although the operating profit will be higher, the interest costs will reflect into the consolidated net profit level and generate a decrease on the net profit side compared to last year.

- On the other hand, we hope, however, that we will see a normal trend in the coming quarters, which will make it much easier to manage operationally. The normal trend means not having either an inflation or a deflation of the raw materials' prices, but to evolve within the usual annual price curves, and all indications show that this will be the case.
- This evolution of EBITDA and turnover come from keeping volumes at a level similar to last year.
- Although we had increasing volumes in most segments of the Installations division, there were also drops in volume for the recycled PVC and windows and doors, which led us to similar volumes to last year.
- The decrease in the selling price is due to the decrease in the prices of raw materials.
- However, it should be noted that the share of raw materials in turnover has decreased to 64%, which is historically the lowest share we've registered, but against the backdrop of increased operational costs, particularly energy and wages, this increase in the raw materials' gross margin was only sufficient to keep EBITDA at a level similar to last year.
- Regarding the costs for the last 9 months and for the whole year, we have significant increases in other operational expenses. These are due to the increase in energy costs, the depreciation also registered a significant growth due to the new investments commissioned in 2022-2023. These are the expenses compensated by the gross margin in raw materials so that the EBITDA for the whole year to be 6% higher than 2022.
- The significantly higher financial result this year is due to interest.
- The Installations and Recycling segment, which accounts for 75% of the Group's revenues, performs better than last year due to the increase in volumes and of the operating performance.
- We still have work to do on the Windows & Doors and Flexible packaging.
- There is a drop in demand for both Windows & Doors and Compounds, and on flexible packaging – although we have constantly increased volumes throughout the year – we still do not have the quantities needed to reach the profitability threshold.
- We had significant investments this year for a new stretch film factory that will be operational at the end of this year. This determined the increase in net debt that on the background of an EBITDA similar to last year, led to a gearing ratio temporarily higher than what we are targeting, namely 3.5.
- Next year we will receive 5 million euros from the state aid within the investment in the stretch film factory.
- The Group's receivables as a share in turnover are in a slight increase compared to last year. We continue to have a very strict tracking of the clients' credit worthiness and their financial position.
- Some of our clients who are working on infrastructure projects are facing delays in payment, but based on strict monitoring rules and additional guarantees we sometimes grant extended payment

terms. What is important to point out is that 78% of the group receivables are insured, which is more than we had historically, the insurance percentage being 70-75%. Thus, we have taken additional measures to ensure that we collect all receivables.

- As for the investment payments, the almost 100 million lei are for the stretch film factory, while the income from subsidies during this year represent the last instalment for the investments commissioned last year, respectively for the capacity expansion in TeraPlast SA.
- For the investment in the stretch film factory, we are going to receive the entire subsidy next year.
- In conclusion, infrastructure works are already at a satisfactory level. A level we wanted since last year.
- The evolution of these infrastructure works have a visible impact on our businesses, namely if we look at volumes.
- Next, our focus is on export growth and expanding the regional footprint and we have a positive outlook for the last 3 months of this year on the background of the infrastructure works.

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