Mersen: 2014 half-year results

- Sales down 1.6 in organic, up 2% excluding chemicals
- Slight improvement in operating margin before non-recurring items
- Net income affected as expected by Transform plan

Paris, July 31, 2014 - Mersen (Euronext FR0000039620 – MRN), a global expert in electrical specialties and graphite-based materials, today published its sales for the second quarter and results for the half-year for the period that ended on June 30, 2014.

Key figures (In millions of euros)	**H1 2014**	**H1 2013**
Sales	**362.1**	**377.0**
Organic growth	*-1.6%*	
Operating income before non-recurring items	**29.8**	**30.6**
% of Sales	*8.2%*	*8.1%*
Net income attributable to Group equity holders	**0.2**	**11.5**
Free cash flow	**1.0**	**4.7**

"Demand showed the first signs of recovery in the first half of the year if we exclude the chemicals business, which is currently at the bottom of an investment cycle. Operating margin before non-recurring items has increased slightly compared with the first half of 2013. Mersen expects demand to be stronger in the second half of the year, with Americas and the electronics market performing well. As a result, our guidance of slight growth in sales and operating margin before non-recurring items remains unchanged, but is more challenging given a sluggish business in the chemicals market. The Transform plan is also being rolled out on schedule and I am confident that it will help to improve the company's position," stated Luc Themelin, Chairman of Mersen's Management Board.

Second quarter 2014 sales

Second quarter 2014 sales were down 2.2% at constant scope and exchange rates compared with the second quarter of 2013. In terms of reported figures, sales were down 4.4%, reflecting a negative exchange rate effect (-3.6%) that was partly offset by the positive impact of integrating Cirprotec. Excluding the chemicals business, which includes the Sabic contract, the Group posted more than 2% growth for the quarter at constant scope and exchange rates. In organic terms, second quarter 2014 sales increased by nearly 1% compared with the first quarter of 2014.

(In millions of euros)	Q2 2014	Q2 2013	Total growth	Organic growth
Materials segment	67.8	76.9	-11.8%	-9.1%
Electrical segment	114.2	113.6	0.6%	2.4%
Total Group	**182.0**	**190.5**	**-4.4%**	**-2.2%**
Europe	69.5	70.6	-1.5%	-3.8%
Asia Pacific	40.8	40.2	1.5%	5.9%
North America	63.2	68.7	-7.9%	-2.6%
Rest of the World	8.5	11.0	-23.5%	-19.7%
Total Group	**182.0**	**190.5**	**-4.4%**	**-2.2%**

First half 2014 sales

In the first half of 2014, Mersen's consolidated sales amounted to €362.1 million. On a like-for-like basis, this figure was in line with the second half of 2013, but down by 1.6% compared with the first half of 2013. Total growth includes a negative exchange rate effect amounting to nearly €14 million compared with the first half of 2013.

Excluding the chemicals business, organic growth was about 2% this half-year, thanks to a good performance by other Group businesses.

(In millions of euros)	H1 2014	H1 2013	Total growth	Organic growth
Materials segment	139.5	153.6	-9.2%	-6.3%
Electrical segment	222.6	223.4	-0.3%	1.8%
Total Group	**362.1**	**377.0**	**-3.9%**	**-1.6%**
Europe	143.0	142.7	0.2%	-1.7%
Asia Pacific	79.3	78.1	1.5%	6.3%
North America	123.2	136.3	-9.6%	-4.8%
Rest of the World	16.6	19.9	-16.5%	-9.9%
Total Group	**362.1**	**377.0**	**-3.9%**	**-1.6%**

Materials segment sales amounted to €139.5 million, an organic contraction of 6.3% for the half-year. This decline related primarily to the situation in the chemicals business. Apart from the Sabic contract, whose deliveries end this quarter, this business has been hurt by a low level of new projects. Excluding this market, organic growth was positive for the segment, by more than 3%, in particular in the solar and electronics businesses.

Electrical segment sales amounted to €222.6 million at the end of June 2014, up 1.8% on a like-for-like basis. The energy business was particularly strong, most specifically in wind power. Electronics and process industries sales were flat, while rail transport showed a slight decline.

In **Europe**, the situation was in line with the second half of 2013. Excluding the chemicals business (of which Sabic), organic growth in the region exceeded 3% compared with the first half of 2013, and performed well in electronics and, more generally, in Germany.

In **Asia,** the trend is positive, particularly in China, in the solar, wind and process industries businesses.

In **America**, the decrease in activity was mainly due to a slowdown in sales in the chemicals industry, particularly related to shale gas extraction. Excluding the chemicals business, sales were in line with the first half of last year, with growth in electronics and wind being offset by a slowdown in activity due to poor weather conditions at the beginning of the year.

First half 2014 results

Group operating income before non-recurring items[1] amounted to €29.8 million, close to the June 2013 level (€30.6 million). Operating margin before non-recurring items was 8.2% of sales, up slightly compared with the first half of 2013 (8.1%).

Materials segment operating income before non-recurring items amounted to €9.6 million, representing an operating margin of 6.9% of sales, compared with 7.7% for the same period in 2013. This decline was due to reduced volume in chemicals, plus a decline in the price of graphite since the beginning of last year, both of which have been partly offset by a positive mix effect and lower depreciations.

Electrical segment operating income before non-recurring items amounted to €27.2 million. Operating margin before non-recurring items was 12.2% of sales, a one point increase compared with last year. This rise was due to good price performance and volume recovery.

Group EBITDA[2] amounted to €47.5 million (13.1% of sales), down compared with June 2013 (€51.0 million and 13.5% of sales). Materials segment EBITDA margin was 15.3% of sales, while Electrical segment EBITDA margin was 14.8% of sales.

[1] In accordance with definition 2009.R.03 of the French accounting standards authority

Net income

Net income attributable to Group equity holders amounted to €0.2 million for the period compared with €11.5 million for the same period in 2013.

Non-recurring income and expenses resulted in a net charge of €22.7 million. For the most part, this consisted of provisions for restructuring and impairment related to the Transform plan, a global industrial reorganization plan announced by the Group last January. Mersen's net financial income totaled €5.2 million for the first half, an improvement compared with the first half of 2013 thanks to a more than €15 million decline in average net debt at constant exchange rates. The tax charge was €2.7 million for the half-year, giving an effective tax rate of 33% adjusted for exceptional items relating to the Transform plan.

Net income from operations sold or discontinued amounted to €1.8 million. This includes an additional payment related to the disposal in 2009 of the automotive brushes business. The net loss of €1.7 million in 2013 had included a contribution from the metal plate heat exchanger and mixer businesses, as well as from the metal pressure vessels business for the nuclear industry sold during the year.

Cash and debt

Cash flows from operating activities before income tax and change in working capital requirements from continuing operations amounted to €43.0 million in the first half of the year, compared with € 47.0 million for the first half of 2013.

Working capital requirements increased by €23.2 million for the period (versus an increase of €12.1 million during the first half of 2013). This change was related to the increase in trade receivables due to the seasonality of sales and billing for certain major anti-corrosion systems, payment for which is scheduled for the second half. Inventory also increased, in line with demand forecasts for the second half of the year.

Capital expenditure amounted to €11.3 million, in line with forecasts.

As a result, **net cash flow from operations after capital expenditure** generated during the first half of the year amounted to €1.0 million compared with €4.7 m in the first half of 2013.

Net debt as of June 30, 2014 was €222.7 million an increase of €11 million compared with the end of 2013 including the purchase of a majority stake in Cirprotec,.

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[2] Operating income before non-recurring items + depreciation charges.

Financial position

The Group is in a sound financial position: net debt/EBITDA leverage was 2.33[3] versus 2.07 at the end of 2013. The net debt to equity ratio was 49%[3] versus 45% at the end of 2013.

Subsequent events

On July 16, 2014, Mersen announced that it had re-negotiated the credit lines which had been arranged in July 2012 into a single €220 million multi-currency syndicated loan.

The maturity of the Group's syndicated loan has been extended by two years, with the new maturity date set at July 2019. The Group is also enjoying improved financial terms taking advantage of the good environment in the credit markets.

With this agreement, Mersen has a total of €365 million of confirmed credit lines, of which more than €145 million are available. The average maturity of the loans is now about five years.

Outlook

Mersen still expects the second half of the year to be better than the first: the Americas are expected to enjoy more positive conditions and the electronics business to continue growing; in addition, sales for the solar market are expected to be higher than those from last year, as expected. However, the Group must also take into account the fact that the chemicals business is unlikely to recover by the end of the year, given the low level of orders registered in the first half. As a result, Mersen believes that its targets for the year, namely slight growth in sales at constant scope and exchange rates and in operating margin before non-recurring items are achievable but more challenging.

The Group also continues to roll out Transform, in line with the initial plan. The estimated cost of this plan is about €30 million over the full year; ultimately, it should improve the Group's operational efficiency and competitiveness prompting an increase in its operating margin before non-recurring items of about 1.5 points (on a level of business comparable with 2013).

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[3] According to the calculation used for the US$100m private placements issued in November 2011 and to the syndicated credit facility of July 2012

Condensed Consolidated Income Statement

(In millions of euros)	*June 30, 2014*	*June 30, 2013*
Consolidated sales	**362.1**	**377.0**
Total gross margin	112.8	110.5
Selling, marketing and other costs	(36.8)	(38.2)
Administrative and research costs	(46.2)	(41.7)
Operating income before non-recurring items	**29.8**	**30.6**
% of Sales	*8.2%*	*8.1 %*
Non recurring income and expenses, net	(22.7)	(4.4)
Amortization of revalued intangible assets	(0.5)	(0.6)
Operating income	**6.6**	**25.6**
Financial income	(5.2)	(5.6)
Current and deferred income tax	(2.7)	(6.3)
Net income from continuing operations	**(1.3)**	**13.7**
Net (loss)/income from assets held for sale or discontinued operations	1.8	(1.7)
Net income for the period	**0.5**	**12.0**
Net income attributable to Group equity holders	***0.2***	***11.5***
EBITDA	**47.5**	**51.0**
% of Sales	*13.1%*	*13.5 %*

Segment analysis excluding corporate expenses

	Materials segment (AMT)		Electrical segment (ECT)	
(In millions of euros)	*June 30, 2014*	*June 30, 2013*	*June 30, 2014*	*June 30, 2013*
Sales	**139.5**	**153.6**	**222.6**	**223.4**
EBITDA	21.4	26.0	33.0	30.9
% of Sales	*15.3%*	*16.9 %*	*14.8%*	*13.9 %*
Operating income before non-recurring items	**9.6**	**11.8**	**27.2**	**25.0**
% of Sales	*6.9%*	*7.7 %*	*12.2%*	*11.2 %*

Condensed Consolidated Statement of Financial Position

(In millions of euros)	*June 30, 2014*	*Dec. 31, 2013*
Non-current assets	620.4	610.7
Inventories	163.9	154.3
Trade and other receivables	147.1	121.5
Other assets	13.6	16.3
TOTAL	**945.0**	**902.8**

Equity	448.0	452.8
Provisions	26.9	13.6
Employee benefits	68.2	66.5
Trade and other payables	127.1	118.0
Other liabilities	52.1	39.9
Net debt	222.7	212.0
TOTAL	**945.0**	**902.8**

Condensed Consolidated Cash-Flow Statement

(In millions of euros)	*June 30, 2014*	*June 30, 2013*
Net cash from operating activities before change in WCR	43.0	47.0
Change in working capital	(23.2)	(12.1)
Income tax paid	(7.6)	(11.7)
Net cash from discontinued operations	0.1	(6.4)
Net cash from continuing operations	**12.3**	**16.8**
Capital expenditure	(11.3)	(12.1)
Net cash from continuing operations after capital expenditure	**1.0**	**4.7**
Impact of changes in the scope of consolidation	(4.1)	0.7
Disposals of non-current assets and other	(0.7)	0.4
Net cash from/(used by) operating and investing activities	**(3.8)**	**5.8**

Mersen's first half 2014 financial statements were reviewed by the Supervisory Board on July 30, 2014. They were closed by the Management Board on the same day.

The half-year report and presentation are available on the website www.mersen.com

Financial calendar

2014 Q3 sales: October 29, 2014 after close of trading

About Mersen

Global expert in electrical specialties and graphite-based materials, Mersen designs innovative solutions to address its clients' specific needs to enable them to optimize their manufacturing process in sectors such as energy, transportation, electronics, chemical, pharmaceutical and process industries.

The Group is listed on NYSE Euronext Paris – Compartment B

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