

## MERSEN: SOLID RESULTS IN THE FIRST HALF OF 2020 DESPITE UNPRECEDENTED CIRCUMSTANCES

- SALES OF €430 MILLION, DECREASE CONTAINED AT 11% IN THE FIRST HALF
- OPERATING MARGIN BEFORE NON-RECURRING ITEMS OF 8.1% OF SALES
- €220 MILLION IN CASH AND LIQUIDITIES
- THE GROUP CONTINUES TO PRESS AHEAD WITH ITS ROADMAP TO DEVELOP GREEN MARKETS WITH AN EFFICIENT LOCAL PRODUCTION FOOTPRINT

**PARIS, JULY 31, 2020** – Mersen (Euronext FR0000039620 – MRN), a global expert in electrical power and advanced materials, has released its sales figures for the second quarter of 2020 and interim results for the period ended June 30, 2020.

Luc Themelin, Chief Executive Officer, commented: *“Faced with the sudden economic slowdown in April and May linked to the Covid-19 pandemic, Mersen’s teams mobilized to effectively mitigate its social and economic impact. Thanks to the measures we rapidly took to protect the health of our employees and adapt our organization and costs, the Group was able to deliver a respectable performance for the first half of 2020, in terms of both business levels and operating margin. We are pressing ahead with our roadmap to consolidate the leadership positions of the Advanced Materials segment and optimize the industrial base for the Electrical Power segment. Mersen remains active in promising growth markets, including renewable energies, semiconductors and electric vehicles. The acquisition of Americarb will enable the production of insulating felts for the semiconductor and energy efficiency markets to be located on the American continent. In today’s still uncertain climate, we will continue to closely monitor developments in our markets and will communicate on our guidance as soon as visibility improves. I would once again like to thank the teams for their commitment in each of our locations.”*

### KEY FIRST-HALF FIGURES

In millions of euros	H1 2020	H1 2019
Sales	430	484
Operating income before non-recurring items	34.7	53.6
<b>Operating margin before non-recurring items</b>	<b>8.1%</b>	<b>11.1%</b>
EBITDA	61.9	79.0
Net income	17.8	33.7
Cash generated by operating activities	34.7	26.2
<b>Net financial debt/EBITDA ratio</b>	<b>2.0</b>	<b>1.5</b>

## ACTIVITY

### SECOND-QUARTER 2020 SALES

Mersen reported consolidated sales of €205 million for the second quarter of 2020, down 18% at constant scope and exchange rates compared with the same period in 2019. Including the contribution from companies acquired in 2019 or early 2020, sales were down by about 16%.

In millions of euros	Q2 2020	Q2 2019	Organic growth	Scope effect	Currency effect	Reported growth
Advanced Materials	119.4	138.9	-17.8%	4.6%	-0.9%	-14.0%
Electrical Power	85.4	104.3	-18.3%		0.2%	-18.1%
Europe	69.6	83.0	-22.2%	6.4%	-0.4%	-16.1%
Asia-Pacific	64.9	66.7	-2.5%	0.7%	-1.0%	-2.7%
North America	64.7	83.0	-23.5%	0.4%	1.3%	-22.1%
Rest of the world	5.6	10.5	-41.8%	1.7%	-10.7%	-46.3%
<b>Group</b>	<b>204.8</b>	<b>243.2</b>	<b>-18.0%</b>	<b>2.6%</b>	<b>-0.4%</b>	<b>-15.8%</b>

April and May saw a sharp slowdown in activity of around 23% year on year, with Europe and North America hit particularly hard by the health and economic crisis. June was better oriented, with a limited organic sales drop of -6%.

In **Europe**, the slowdown affected all countries, with a slight uptick at the end of the period. In **Asia**, growth continued in China over the second quarter and business in South Korea saw a return to growth over the period, buoyed by the semiconductor market. Lastly, business slowed significantly in **North America** during the quarter, impacted by the lockdown measures.

### FIRST-HALF 2020 SALES

Mersen's consolidated sales amounted to €430 million for the first six months of 2020, down 13.4% on an organic basis compared with first-half 2019. Thanks to a positive currency effect and contributions from companies acquired in 2019 or early 2020, the drop was contained at -11.1%.

In millions of euros	H1 2020	H1 2019	Organic growth	Scope effect	Currency effect	Reported growth
Advanced Materials	248.2	278.1	-14.3%	3.9%	-0.4%	-10.8%
Electrical Power	181.8	205.6	-12.2%		0.8%	-11.5%
Europe	149.0	167.0	-16.3%	5.8%	-0.2%	-10.8%
Asia-Pacific	125.9	130.3	-3.5%	0.7%	-0.5%	-3.4%
North America	142.2	166.7	-16.5%	0.1%	2.0%	-14.7%
Rest of the world	12.9	19.7	-28.8%	0.9%	-8.8%	-34.1%
<b>Group</b>	<b>430.0</b>	<b>483.7</b>	<b>-13.4%</b>	<b>2.2%</b>	<b>0.1%</b>	<b>-11.1%</b>

## PERFORMANCE BY SEGMENT

**Advanced Materials** sales came to €248 million, down 14.3% on an organic basis over the period. With the contributions from AGM Italy acquired in December 2019 and GAB Neumann acquired in March 2020, the decline stood at -10.8%. The renewable energies market remains well oriented, while the process industries, aeronautics and chemicals markets have contracted sharply.

In the **Electrical Power** segment, first-half sales totaled €182 million, down 12%. The process industries market continues to suffer from the economic slowdown in both Europe and North America. Electrical distribution in the United States, significantly affected in April and May, showed a clear improvement in June. The power electronics market posted slight growth due to a low level of activity last year.

Overall, the sustainable development markets were more resilient, with a decrease limited to 3% over the first half of 2020, compared with a 20% drop for other markets.

## PERFORMANCE BY REGION

In **Europe**, conditions deteriorated in April and May due to lockdown measures in all countries and a slowdown in the economy. The aerospace and process industries markets were the worst affected. However, the trend improved towards the end of the quarter.

In **Asia**, China and South Korea posted significant growth of more than 8%, driven by renewable energies and semiconductors, while lockdown measures in India during the second quarter had a significant impact on business levels.

Lastly, in **North America**, the situation deteriorated during the second quarter, primarily for process industries, before picking up again in June.

## EBITDA AND OPERATING INCOME BEFORE NON-RECURRING ITEMS IN FIRST-HALF 2020

Operating income before non-recurring items stood at €34.7 million in the first half of 2020, yielding an operating margin before non-recurring items of 8.1% of sales (down from 11.1% in first-half 2019). Faced with the unprecedented crisis, the Group quickly took measures to reduce costs, and benefited from the furlough schemes set up by governments in some countries.

Operating income before non-recurring items for the Advanced Materials segment was €31.7 million, resulting in an operating margin before non-recurring items of 12.8% compared with 15.0% for the same period in 2019. This decrease is mainly due to an adverse volume effect. Prices had a slightly favorable impact.

In the Electrical Power segment, operating income before non-recurring items came to €11.3 million, representing an operating margin before non-recurring items of 6.2% of sales compared with 10% for the first half of 2019. The segment was impacted by a negative volume effect and higher development costs

linked to electric vehicles. In addition, there was less cost flexibility due to the temporary closure of major sites in Mexico and Tunisia with no subsidies.

Group EBITDA amounted to €61.9 million, 14.4% of sales, a decrease of almost 22% and 200 basis points compared with last year.

#### **NET INCOME**

Non-recurring items represented a net expense of €4.9 million for the first six months of 2020, corresponding to acquisition costs and other charges, mainly provisions for litigation.

The Group reported a net financial expense of €6.1 million for the first half of 2020, which is in line with the first-half 2019 figure.

Income tax expense amounted to €5.9 million for the period, representing an effective tax rate of 25% versus 24% for the first half of 2019.

Net income for the first six months of 2020 came in at €17.8 million, versus €33.7 million as of June 30, 2019.

#### **CASH AND FINANCIAL DEBT**

Mersen's operating activities generated nearly €35 million in cash in the first half of 2020. This figure takes into account an increase in working capital requirement of €21 million, primarily driven by a seasonal effect (€46 million in first-half 2019). The working capital-to-sales ratio stood at 28% of sales, up on the previous year since it was calculated based on second-quarter sales which are abnormally low due to April and May. The Group also built up significant inventories, partly to see it through the crisis and partly to prepare for the planned site transfers.

Capital expenditure totaled €24.0 million over the period, three quarters of which was tied to the Advanced Materials segment and to specific Group development projects, such as the commissioning of the Columbia site in the United States and the increase in production capacity for the silicon carbide (SiC) semiconductors market.

The €7 million outflow related to changes in the scope of consolidation corresponds to the acquisition of GAB Neumann in Germany.

## **SOLID FINANCIAL STRUCTURE**

At June 30, 2020, Mersen's net financial debt came to €228 million, compared with €218 million at December 31, 2019. The Group's strong operating cash flow meant it was able to fund its capex and acquisition program (GAB Neumann). It also repurchased 200,000 shares on the market for a total of around €3.7 million between March and April to cover its employee share plans.

Mersen has a solid financial structure, with €130 million in undrawn credit lines and €90 million in cash at June 30, 2020 to see it through the current health crisis and its consequences. It has no major debt maturities to be met before November 2021.

The Group has not yet noted any drift in payment terms.

In May 2020, for its syndicated banking credit and USPP facilities, the Group obtained greater flexibility as regards the leverage test (ratio of net debt/EBITDA) of its financial covenant at June 30, 2020<sup>1</sup>, taking the ratio to 4.5x versus 3.5x before the amendment. In concrete terms, leverage for the period actually came to 2.0x thanks to profitability levels that held up well, good cash generation and contained capital expenditure over the first half of the year.

## **ACQUISITION OF INSULATION ASSETS OF AMERICAN COMPANY AMERICARB**

On July 24, 2020, the Group signed an agreement to acquire the insulation business assets of American company Americarb, for a total of approximately US\$ 6 million. This acquisition will enable the company to locate insulating felt production in the Americas and thereby strengthen its position in the semiconductor and energy efficiency markets (this announcement is the subject of a separate press release dated July 31, 2020).

## **OUTLOOK**

Mersen's activity was more upbeat in June, with the contraction in sales limited to 6%. However, lack of visibility remains strong in certain markets, particularly chemicals and process industries, and the Group is unable to set financial guidance for 2020.

For the second half of 2020, the Group expects:

- a continued sharp decrease in sales for the aeronautics market;
- probable growth in sales on the semiconductors market;
- a less dynamic performance for its solar activities compared with the first half.

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<sup>1</sup> When calculating the covenant at June 30, EBITDA is taken to mean the EBITDA figure reported for the first six months of the year, multiplied by two.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

<i>In millions of euros</i>	H1 2020	H1 2019
Consolidated sales	430	483.7
Gross income	130.4	152.7
Selling, marketing and other expenses	(38.5)	(41)
Administrative and research expenses	(56.5)	(57.4)
Goodwill amortization	(0.7)	(0.7)
<b>Operating income before non-recurring items</b>	<b>34.7</b>	<b>53.6</b>
<i>As a % of sales</i>	8.1%	11.1%
Non-recurring expenses	(4.9)	(3.2)
Operating income	29.8	50.4
Net financial expense	(6.1)	(6.1)
Current and deferred income tax	(5.9)	(10.6)
<b>Net income for the period</b>	<b>17.8</b>	<b>33.7</b>
- Net income attributable to Group equity holders	16.3	32.8

SEGMENT ANALYSIS EXCLUDING HOLDING COMPANY COSTS

<i>In millions of euros</i>	Advanced Materials (AM)		Electrical Power (EP)	
	H1 2020	H1 2019	H1 2020	H1 2019
Sales	248.2	278.1	181.8	205.6
EBITDA	50.2	59.2	19.3	27.5
<i>As a % of sales</i>	20.2%	21.3%	10.6%	13.4%
Operating income before non-recurring items	31.7	41.6	11.3	20.3
<i>As a % of sales</i>	12.8%	15.0%	6.2%	10.0%

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>In millions of euros</i>	June 30, 2020	Dec. 31, 2019
Non-current assets	701	698
Right-of-use assets	47	50
Inventories	217	207
Trade and other receivables	177	179
Other assets	4	5
<b>TOTAL</b>	<b>1,146</b>	<b>1,139</b>
Equity	571	571
Provisions	12	12
Employee benefits	84	75
Lease liabilities	45	48
Trade and operating payables	168	178
Other liabilities	38	37
Net financial debt	228	218
<b>TOTAL</b>	<b>1,146</b>	<b>1,139</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>In millions of euros</i>	H1 2020	H1 2019
Cash generated by operating activities before change in working capital requirement	59	77
Change in working capital requirement	(21)	(46)
Income tax paid	(3)	(5)
<b>Cash generated by operating activities</b>	<b>35</b>	<b>26</b>
Capital expenditure	(24)	(19)
<b>Cash generated by operating activities after capital expenditure</b>	<b>11</b>	<b>7</b>
Changes in scope of consolidation and acquisitions	(7)	(12)
Lease payments	(7)	(6)
Interest payments	(4)	(4)
Other cash flows (incl. share repurchase)	(5)	(1)
<b>Net cash flow before financing operations</b>	<b>(12)</b>	<b>(16)</b>

*These interim consolidated financial statements were approved for issue by the Board of Directors on July 30, 2020.*

*The half-year report and results presentation are available from the corporate website at [www.mersen.com](http://www.mersen.com).*

#### **FINANCIAL CALENDAR**

*Third-quarter 2020 sales: October 28, 2020, after the markets close.*

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#### **ABOUT MERSEN**

A global expert in electrical power and advanced materials, Mersen designs innovative solutions to address its clients' specific needs to enable them to optimize their manufacturing performance in sectors such as energy, electronics, transportation, chemicals & pharmaceuticals and process industries.

#### **MERSEN IS LISTED ON Euronext Paris – COMPARTMENT B**

##### INVESTOR AND ANALYST CONTACT

Véronique Boca  
Mersen  
Tel.: +33 (0)1 46 91 54 40  
Email: [dri@mersen.com](mailto:dri@mersen.com)

##### MEDIA CONTACT

Guillaume Maujean/Xavier Mas  
Brunswick  
Tel.: +33 (0)1 85 65 83 45  
Email: [mersen@brunswickgroup.com](mailto:mersen@brunswickgroup.com)



## GLOSSARY

Organic growth: determined by comparing sales for the year with sales for the previous year, restated at the current year's exchange rate, excluding acquisitions and/or disposals and the impact of IFRS 15.

Operating income before non-recurring items: as defined in Recommendation 2009.R.03 of the French national accounting board (CNC).

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization.

Free cash flow: net cash generated by operating activities after capital expenditure.

Net financial debt: gross financial debt net of cash and cash equivalents and current financial assets.

Leverage/net debt-to-EBITDA ratio: calculated using the method required by the covenants contained in Mersen's confirmed loans.

Gearing: net debt-to-equity ratio calculated using the method required by the covenants contained in Mersen's confirmed loans.

Working capital requirement (WCR): sum of trade receivables and related accounts, inventories and other current receivables less trade payables and related accounts.

WCR ratio: ratio of working capital requirement to sales for the most recent quarter, multiplied by four.

Capital expenditure: property, plant and equipment and fixed asset suppliers.

## APPENDIX

1 – Working capital to sales ratio

In millions of euros	H1 2020	2019	H1 2019
Inventories	217	207	218
Trade receivables	142	147	164
Other operating receivables	26	22	26
Contract assets	9	10	9
Trade payables	(61)	(61)	(72)
Other operating payables	(86)	(89)	(82)
Contract liabilities	(21)	(29)	(25)
<b>Working capital requirement</b>	<b>226</b>	<b>207</b>	<b>238</b>
Sales (4 x fourth quarter)	820	929	968
<b>WCR as a % of sales</b>	<b>28%</b>	<b>22%</b>	<b>25%</b>