

February 18, 2020

2019 preliminary unaudited results – Analysts & Investors Conf-call Transcript

A. Presentation (chapter & main infos):

1. Short recap of the Group structure

- The Group's structure has changed a bit over the last year.
- At the same time, we are trying to be more transparent and offer more quantitative data as well, not only financial figures
- TeraPlast, the mother company, is the no.1 player on the compound market, no2 on interior sewage, no3 in water & gas systems and no1 on the exterior sewage market
- TeraSteel Romania and Serbia are market leader in Southern and Eastern Europe area for sandwich panels and galvanized steel purlins
- Wetterbest, the largest acquisition of the Group yet, is no2 on the Romanian complete roof systems and drainage systems
- TeraGlass, the windows & doors producer of the Group is the largest exporter of the Group by its exports' as share of the revenue
- TeraPlast Recycling was spun off as of April 2019 and is the largest rigid PVC recycler in Romania and in top 10 in Europe
- Last but not least, TeraPlast Hungary is one of the Group's distribution hubs in Hungary and is specialized mostly in PVC window profiles

2. TeraPlast Group markets

- The Group has a large footprint across the construction sector in Romania.
- Visible or not, according to the Group's calculations, there is a 72% probability of a person living in Romania to interact with the TeraPlast Group products in a day.
- The reason for that is that our products are placed in a residential market where we supply drainage, roofing, interior sewage, electrical cables that go through buildings. Also, we have fluids storage & treatment products, doors and windows, that address the residential market.
- In terms of nonresidential market, we have galvanized purlins, sandwich panels, corrugated sheets, windows & doors. We also address the infrastructure market where we are market leaders for exterior sewage, we also supply pipes and fittings for water & gas, manholes, pumping, visiting & inspection manholes and all the related accessories
- Thanks to the wide coverage of the construction sector, again, it is very likely that during a day, people in Romania have 72% chances to interact with our Group's products

3. Main events of 2019

- We have consolidated our share in Wetterbest, with 32% acquisition from our partner there, and 49% acquisition of Cortina
- At the beginning of this year, the last percent of Wetterbest was acquired, so right now TeraPlast Group owns Wetterbest and Cortina – the Wetterbest subsidiary – in whole.
- We started the activity in TeraPlast Recycling as an independent company

- We prepared for what is going to be one of the largest developments that this Group is going to have. This preparation means the 98 million lei invested, out of which almost 70 million represent the state-aid projects
- Out of this 70 million, 30 million represent subsidies, and another 30 million on top of that from our own funds
- Through this investment, we managed to have a brand-new factory for Wetterbest, which means 15.000 square meters of industrial buildings. It also means a new factory for TeraGlass, which incorporates 30 trucks of top German technology for windows and doors manufacturing. In TeraPlast we have the HFFR Compounds, which are going to boost the compound division, we have the polyethylene pipes with PP protection, the multi-layered PP pipes for interior sewage
- In order to better manage all this investment, we also were joined in the management team of the Group by two highly experienced executives, Marian Pirvu, who joined Wetterbest at the beginning of last year, and Bela Varga, who joined TeraGlass mid-2019. They are basically in charge of the development we expect for this year

4. The construction sector outlook

- For 2019 we were helped by the evolution of the construction sector, we have almost 28% increase of the construction works, this increase went throughout all our fields.
- What this meant for us, is that we increased the sales of virtually all our products, in pipes we exceeded 16 million linear meters, in fittings and rotomolded products we increased to 8 million pieces, with a 10% increase. For this line we were severely limited by our production capacity. Therefore, this was in our focus last year and we are going to commission a new production line for this type of products in the second quarter of this year.
- For window profiles we had a fairly flat evolution. The same for Compounds, but in TeraSteel we increased by 34% to over 3 million square meters of sandwich panels produced, which was due primarily to the Serbian factory, the ramp up of which is over, and now we are progressing towards reaching its production capacity - we hope to achieve that this year. The metallic roof tiles segment also increased by 12%, we increased by almost 50% on the small trapezoidal sheets, to almost 2 million square meters.
- In terms of Recycling, we also increased by almost 13%.
- The production of windows and doors remained fairly flat due to the commissioning of the new investment that was completed in late December.

5. 2019 Key figures & 2020 Budget

- The increase that we had in sales was due to the increase of the finished goods, it was basically an organic growth throughout the portfolio we have.
- This brought us close to 1 billion lei in revenue, with a 21% increase, with a 41% increase in EBITDA, and 85% increase in net profit.
- We finished the implementation of all these investment projects, the expectations for this year are much higher as you will be able to see in the near future, namely at the budget section
- TeraPlast had the biggest increase in profitability (EBITDA), basically an 18% increase
- TeraSteel continues to be the most profitable business we have in our portfolio and it also increased its EBITDA by 42%
- Wetterbest focused on finishing the investment, therefore, the profitability increase is not extremely spectacular, but the new sales team, the distribution centres and

showrooms that we've been setting up last year are showing their results with a 22% increase in turnover. The expectations for this business line are the highest in 2020, because once we're going to function in the new factory, all the production flows will be optimized and we'll be able to increase without new head count, just due to the optimization of the processes

- In TeraGlass, in terms of revenue we were fairly flat and had a decrease in the EBITDA due to the costs associated with the investments and also preparing the market. Starting with the middle of the last year we started to employ a larger sales force in order to have them ready and in position once we start the new production lines. All these lead us to 2020 where the major challenge for the management team is the ramp up of the investments made
- The shareholders did their job, allocated the capital, we have the new tools, we have the new factories for TeraGlass and Wetterbest, we have the new products in TeraPlast, so it's time for all these investments to bring results. Wetterbest and TeraGlass have the most ambitious prospects, as well as TeraPlast, where we expect an increase in the infrastructure projects with European funds
- We are at the end of the financial cycle from the EU, and Romania is still pretty far behind in accessing the EU Funds, further than it was at the last European budget so we estimate that it will catch up because the signals are positive and we will have a lot of investments in this sector
- The increase of TeraSteel Serbia and Romania will be a little bit more moderate, but it will have excellent results, since we're getting closer to the full capacity
- Another important factor we have as a budgetary assumption is the increase in raw material prices throughout our portfolio, for both steel and, generally speaking, plastics or petrochemical products.
- Considering all this, we are aiming for 29% increase in revenue to 1.26 billion lei, 60% increase in EBITDA, up to 145 million lei and an EBITDA margin of 11.6%
- Wetterbest is going to contribute the most to the increase of sales and to the EBITDA.
- In terms of percentage, TeraGlass is also growing strong, but for now the size of the TeraGlass business is smaller so the overall impact won't be that big
- Based on the previous budget exercise, we expect to see some good years for the Installation division, and this reflects in the budget. We also expect much more from the Window Profiles business line.
- For TeraSteel, although in terms of percentage their growth is not as impressive as it is for the other business lines, in terms of figures we are talking about an extraordinary business of the TeraPlast Group.
- It is also important to highlight a few key figures. We were very close of reaching the threshold of 1 billion lei in turnover last year. That is double compared to the turnover of 2017. We have more than doubled the net profit and the EBITDA in 2019 versus 2017. This increase last year is purely organic: 85% increase in net profit and 41% increase in EBITDA, compared to 2018. All this was achieved with a 20% increase in headcount. Another important information to note is that the return on capital employed is up to 15%, that means a fairly good interest rate
- I cannot stress enough the fact that we start 2020 with a very different group structure comparing to 2019, the new investments will prove to be groundbreaking for the activities in the group, especially what in Wetterbest and TeraGlass.

6. The evolution of net sales and the main KPIs

- We are looking closely to EBITDA because this is our main indicator for the operational performance of the companies. We are looking at net profit as well, and at the return of the invested capital
- On the summary slide you can find the evolution from 2017 to present day. These figures have more than doubled in terms of turnover, EBITDA and net profit. The evolution reflects both the organic growth in the past two years as well as the acquisitions made in 2017. By acquisitions we refer to the new businesses included in our portfolio. We started the acquisition of Wetterbest in 2017 and at present we own 100% of the company. In 2017 we acquired TeraSteel Serbia, which was an asset acquisition, and Politub – the producer of polyethylene systems for water & gas. We also started investing in the recycling business in 2017.
- 2018 was a consolidation year and now we can fully see the results of the 2017-2018 strategy in the EBITDA and net sales of these businesses.
- In 2019 we made 98 million lei worth of investments, the results of which will be visible in 2020, since the investment projects were already commissioned by the end of last year.
- We performed a little bit better than the industry, with a 27% Organic CAGR. Taking into account the acquisitions as well, our CAGR is 44%.
- The main drivers for this year:
 - Wetterbest, that has a new production facility that will bring upon two important benefits: increased production capacity and efficiency in internal logistical flows as an effect of the relocation.
 - We will have an increase on the sandwich panels segment, coming from TeraSteel Serbia. The Serbian production unit will reach maturity this year in terms of the employment of the production capacity.
 - The Installation segment will continue to be a high sales and high profit margin business line for us since we still have the infrastructure projects going on this year.
- We also grew strong in EBITDA during 2007-2019 and we aim a strong increase for 2020 as well. One of the significant contributors to the EBITDA increase will be the Installation segment, where the use of recycled PVC is reflected. We recycled 9.000 tons of rigid PVC as we promised. The recycling factory reached its maturity and the expected productivity. 65% of the recycled PVC is currently used to produce PVC pipes. The rest of it is used in windows profiles.
- Benchmarked to the production capacity, the Compounds business is mature. We are currently using in full the production capacity. This is one of the reasons we invested in this business line last year through the state-aid project. Therefore, we will produce HFFR compounds for electric cables. The investment was commissioned at the end of last year and at present we are in the process of testing and certifying the product with our clients.
- We aim an improvement in sales and EBITDA for the windows & doors segment as a result of rethinking and redesigning our products and as a result of the 3.5 million euros investments in increasing the production capacity. In 2020, TeraGlass will also benefit from doubling its production capacity and using only 50% more employees in its activity.

- The Serbian facility will reach its full capacity, and this will reflect in further increase in EBITDA, TeraSteel Serbia and Romania keeping their position as the best performers of the Group from this point of view.
- For this year, we plan on keeping the Installation and Sandwich panels segments in the high profitability area and bringing the other business lines there as well.
- We will keep increasing our market share on the roof systems segment.
- We decreased the gearing compared to last year because we used the 76 million lei in cash, generated from operations for investing activities. The rest of the amount was financed from banks and state-aid.
- From the beginning of this year we moved 20 million lei from short term debt to long term debt since we already drawn from EBRD the investment loan for the Wetterbest factory. The following step is filling in the last application file for the state-aid, when we will receive the remaining 16 million lei that represent a decrease in debt.
- The return on capital employed and return on equity are balanced and increased significantly to 15% last year. The balance reflects our attention to both the interests of the shareholders and the financing banks.

B. Q&A:

1. Dividends.

Alexandru Stanean, CEO: As you know, so far, we don't have a dividend policy. The dividends are at the shareholders decision, but as we can see from our financial statement, we can afford to pay dividends virtually in any amount that is decided by the general assembly.

2. What are the investments planned for 2020?

Alexandru Stanean, CEO: Right now, the management's focus is to ramp up the investments made last year. Therefore, this year is not going to be as rich in investments. Again, the focus will be the ramp up of the last years' investments and work towards our objective of 1.25 billion lei in sales.

3. Do you plan any future acquisitions?

Alexandru Stanean, CEO: We have proven in the past years that we can acquire and integrate operations in Romania as well as abroad. Furthermore, if we talk about acquisitions abroad, we did it in a non-EU country. We are very confident that we have the know how to take advantage of any opportunity that may arise in this field. We are open to any opportunity that might arise on the M&A field.

4. What do you think about the emerging political risk in Romania?

Alexandru Stanean, CEO: To some extent, we are used to having political fluctuations in Romania. The general business environment, including us, do business regardless what is happening in politics. As long as political authorities take action in Romania's best interest, namely get European funds and keep a fairly predictable business environment, we know how to manage the usual environment and do our business. The fact that the

government recently changed, and everyone talks about snap elections brought upon instability but, again, we are used to doing business in "Romania conditions".

5. In the market there is a rumor, that TeraPlast is on the radar of the Pavel brothers, the owners of Dedeman. What can you tell us about this?

Alexandru Stanean, CEO: First of all, we are not aware of this information, so it is the first time we hear it. Second, Dedeman is a very important customer of ours, we appreciate the strong relationship that we have with them, but that's it.

Since TeraPlast is a public company, anyone can buy and sell shares, there has been no report that they are buying, and we don't have any information on that so far.

6. Considering the market making contract with BRK Financial Group to improve liquidity: what are the tools or ways you think would be necessary for the increase of liquidity and, as an effect, the value of the company? Why only now? Is there a desire to increase liquidity? Is there a possibility to transfer the majority shares to someone else?

Alexandru Stanean, CEO: We consider that we are doing a good job in manufacturing pipes, sandwich panels, compounds and all the products in our portfolio, but maybe we did not pay enough attention to this non-operational matter. I am sorry that we did not do it sooner, because in the end the company needs to provide value to its shareholders and one of these components of this value is liquidity.

As we have proven by this year's results, we are very good at delivering EBITDA and increase the turnover. Now we are learning and implementing ways to increase the value we offer to our shareholders, which is this contract. On the other hand, this contract's purpose is to increase liquidity. We don't have information regarding a possible transfer of the majority stake in TeraPlast Group, therefore we will not comment on that.

7. Do you use of recycled plastics in your products?

Alexandru Stanean, CEO: Yes, as Ioana said earlier, we use recycled PVC in our products, namely in pipes, and we actually have patents for that, which we are now registering worldwide - to use recycled material and other technical improvements to the classic PVC pipes for sewage. We also use recycled material in window profiles. All major producers of window profiles, starting with the world leader Veka, or name anyone in the top like Profine, Gealan, Salamander, Aluplast... all major players use it. It's a matter of responsibility to the environment and recycling plastic and PVC fits the same category. We are part of this initiative, we are a member of Recovinyll Association, which promotes the use of recycled materials, we are heavily involved and we are proud to be a part of all these initiatives which in the end lead to a more sustainable product, with reduced carbon foot print. We are proud that we managed to replace 7.000 tons of virgin raw material with recycled PVC.

8. The government said that there are a lot of money for infrastructure, from new funds available, around 4 billion Euro. Regarding the Installation Division of your business, the gross estimation, from 240 million RON up to 286 million RON for this year, do you have a limit in capacity, or do you have a conservative estimation? The 4 billion Euro in Infrastructure is a lot of money and it seems like a huge opportunity.

Alexandru Stanean, CEO: It is a huge opportunity, but we also need to take into account that there has been a lot of buzz in the press in a negative context. The investments in Infrastructure have started ever since Q4 in 2018 with European money or with the famous PNDL program, which is government money. The 4 billion that is mentioned, represent the amount available from the EU, for which the contracts need to be signed by the end of this year, and we have another two years to do the works and get the money.

It is the T+2 rule for getting the money, so these projects will not come all at once. Here we are talking about the POIM projects where we also need to take into account that the money is not exclusively addressed to the sewage and water supply works. The funds are also directed to motorways and other big investment projects.

We already had a very nice 2019 in terms of infrastructure works, where we expect the increase to go on for the next three years. We are not limited so much by our production capacity, but by the capacity of the construction companies to execute the works. They don't have manpower and tools to do 4 billion Euro worth of construction works in one year, so it is going to be phased on probably three years.

9. You did not mention anything about 2020 net profit. Why?

Alexandru Stanean, CEO: We generally take EBITDA as a KPI and as a benchmark to evaluate our profitability but you can see that the net profit goes in line with EBITDA, the debt structure or the debt is decreasing relatively to EBITDA and turnover, so the net profit is going follow the same trend as EBITDA.

10. Somehow related to what you mentioned previously: you expect some increase in raw materials price?

Alexandru Stanean, CEO: We expect to increase in turnover let's say 70% generated by the goods sold and the rest generated by the increase in prices of those goods. We import most of our raw materials, and that means we need to increase the prices due to the currencies exchange rates - EUR versus RON - and also taking into account that the raw materials' prices have been at a minimum in the past year and all our suppliers estimate that they are unsustainable and that they are going to have to increase their prices. Therefore, we are forced to transfer this into the market.