

October 29, 2019

Q3/2019 results – Analysts & Investors Conf-call Transcript

A. **Presentation** key points (chapter & main infos):

1. **Short recap of the Group structure**

- TeraPlast reached 99% stake in Wetterbest in May 2019, while Wetterbest reached 100% stake in its subsidiary Cortina WTB (top player on the roof segment in south-western Romania)
- TeraPlast Recycling started its activity as an independent company within TeraPlast Group in April 2019

2. **Summary of the evolution of the construction sector**

- 20,6% increase in output during the first 8 months of 2019, compared to the same period of 2018
- TeraPlast Group results increased by 22% in the first nine months of 2019

3. **Key figures & Highlights**

- 22% increase in revenue; the first nine months of 2019 are the best in the history of the Group in terms of profitability and investments
- A good improvement in EBITDA
- The 9.5% EBITDA margin reflects a better use of the production facilities, more effective internal processes and a consolidation of the client portfolio
- More than EUR 20 million in investment projects, part of them co-financed through state-aid
- The Group completed what it planned for the first nine months.
- The Installation segment had the best improvement compared to the same period of 2018
- Compounds and PVC window profiles registered roughly the same levels as in the first nine months of 2018. On both segments the Group is developing new products that are expected to improve revenue and profitability during next year
- Significant increase in revenue and EBITDA for the sandwich panels – reflect that the Group completed the ramp-up of the Serbian facility
- The roof systems segment increased its revenue, continues its strategy of increasing its presence in the Northern and Central areas of Romania
- Next year, Wetterbest will increase its production capacity by 30% and relocate within the current investment project, setting the ground for its further strategy
- The windows & doors segment relied more on the DIY so far in 2019, that meaning a lower margin
- Regarding the 2019 Budget, the Group is at 73,6% completion – that gives us all the reasons to believe we will accomplish this year's target

4. **Companies' Highlights**

- TeraPlast's evolution comes mainly from the infrastructure projects and the revenue from the polyethylene systems.
- TeraPlast Recycling started its independent activity within TeraPlast Group starting April 2019. The production was used to produce PVC systems for Installation and window profiles in TeraPlast. This was reflected in nearly LEI 1,5 million in EBITDA.

- TeraGlass is on track with the investment project that will double the production capacity with a new completely automated production flow for the next year. This will be reflected in increasing the EBITDA margin.
- For TeraSteel, the increase in EBITDA is the result of economies of scale, meaning that all the support functions are coordinated at Group-level. The purchasing of the main raw materials is also coordinated and negotiated at group-level.
- Wetterbest will relocate its current facility and will complete the relocation by the beginning of the 2020 season.

B. Q&A:

1. What can you say about the sustainability of the Installation Division? Is the growth on this segment sustainable for the following 1 or 2 years?

CEO, Alexandru Stanean: We feel it is sustainable and we also feel that there still is room for some improvement. Not by a margin as large as this year's, but there still is room for some improvement.

The mix of the water and sewage networks installed this year was mostly done through the so-called PNDL – basically, through government money. That will go on for a little while more, but as we see in the SICAP public purchasing system, the bulk of the construction works for networks that are currently auctioned, is made mostly through the POIM funds. We can also see that the volume of this works is a little bit higher than it was a year ago.

Basically, we will have a little shift in financing in the future, from the Romanian government to European money.

We consider the Installation division sustainable at least until 2022 when the deadline of payments of the funds in the current EU budget is due.

2. Is the profit margin improvement only from the increase in sales or you also managed to increase a little bit the prices?

CEO, Alexandru Stanean: If you look at the detailed financial statements, you will see that the increase in the EBITDA comes from several sources. One of them comes from what we call the gross margin, namely the difference between raw materials' costs and sales price. This was due to a mix of factors: increase in sales price and better purchasing policies. This is valid for most of our businesses. Some of them are not within these parameters, but most of them are.

So, you managed to purchase cheaper raw materials?

CEO, Alexandru Stanean: We increased the prices in the market, we purchased raw materials in a more efficient way and last but not least, we also revised part of our production recipes in order to make them more cost-effective without influencing the quality of the products.

The gross is concentrated in two business lines. The other business lines are kept or limited at this level or can you see improvements for them in the future?

CEO, Alexandru Stanean: There are two business segments that are clearly developing as we consider they should, namely the Installation and TeraSteel businesses. Then, there are others that are somehow lagging these two. The explanation varies from one business to the other, so I'll just give you some highlights:

- We consider that the EBITDA margin depreciation in compounds minimal and so it doesn't concern us very much.
- Regarding the PVC window profiles, where the depreciation in EBITDA margin is somewhat more consistent, we come across several factors such as: some non-recurring operations that impacted this year's results and the refurbishment of the systems that came with some ramp-up costs at the beginning of the year and impacted the EBITDA margin of this business line.
- For the roof segment we have totally different factors. The depreciation is due to increased costs generally associated to preparing the new production facility and the expansion of the company's geographical footprint. We have detailed analyses with market shares at county-level and, as of last year, our strategy focused on increasing the presence of Wetterbest in the northern area of Romania, that brought up increased logistics costs. These costs will be diluted next year once the new production unit and the new production capacity will come into place.

So, you see a margin improvement or a margin comeback for the roof systems?

CEO, Alexandru Stanean: Absolutely. The biggest expectations that we have come from the roofing systems in the upcoming years. We made significant investments, so the company will be completely different after the first quarter of the next year compared to the present, regarding the production facility, the production capacity etc. Basically, we will take the game to a whole different level and this is the base to our statement regarding its expected evolution.

Regarding the windows and doors division, for the first three quarters we have some projects we have contracts for and that were phased a little bit, so they did not start until September. Therefore, their impact is not visible in this report. TeraGlass will also benefit of a significant transformation of the business with the investment in the production facility and of the client structure.

How do you see the competition outside Romania for the roof segment? Could you sell its products in the neighboring countries?

CEO, Alexandru Stanean: The short answer is yes, we can surely sell the roof segment products in the neighboring countries. We started forming up the exports department within Wetterbest recently, during this year, since for the former shareholders this area was not in focus. We have started developing on the export markets. We already have some results, not yet significant, that were determined mainly by the lack in production capacity. The former is due to be solved once the new production facility is operational.

So, you are selling roof systems at full capacity?

CEO, Alexandru Stanean: Considering the Wetterbest business model, at present, during the season we cannot serve more customers than the ones we currently have. We can deliver more if we get a higher volume of orders during January-May, but if those orders come in full season (June-September) we cannot efficiently serve more customers with the current production capacity. Therefore, the need of increasing it.

3. Could you provide us a brief overview of the current investment projects in the three companies? Where are you standing and when do you expect those investment projects to be completed and start the production?

CEO, Alexandru Stanean: We are in line with the schedule for the investment projects. Some of them are up and running and currently we are in the process of approving new products with our customers and here I am referring to the Compounds business line with the new compounder for the HFFR compounds. If we are talking about the multi-layered pipes, the equipment is installed and we have started the production so, basically, we are in the process of homologating the products. In injection we are waiting for the delivery of the injection tools during this year. The above are for TeraPlast.

For Wetterbest we expect to finalize the investment in the new production facility during next week and run the trials so that everything is set for the next season. Regarding the relocation of the production capacities, we are in line with our plan to start relocating somewhere around the end of January so that everything will be ready as well by the start of the next season.

The lines for TeraGlass have been delivered and are currently being installed. They will be operational within the next four to five weeks.

4. Do you see any slowdown in the market regarding the public sector and the private sector? Is anything developing differently in these two sectors? Also, do you have difficulties in identifying labor force or are you satisfied with the current one for the new investment projects?

The results are proving that there is no slowdown in demand. The macroeconomic data also supports this opinion and for now we don't see a clear perspective for a slowdown in the next period. Of course, there is the broad discussion about the crisis that is coming or is about to come, and that only makes us more careful about how we manage the cash. Other than that, we don't think we can talk about a slowdown based on what we see as financial results.

Regarding the workforce, the problems come from two directions: the quality of the workforce decreased, and the availability of workforce in numbers decreased, as well as their willingness to work at an industrial level, meaning sometimes having to work in shifts around the clock. We have a good standing as an employer, so we cannot say that so far, the general workforce crisis has generated a lack in revenue for us. On the other hand, the new legislative conditions for bringing non-EU workers are more favorable to this approach and we are on track for doing that.

5. In respect to the revenue from services, you have a significant increase from 1.8 million to 9.2 million. Can you detail it a little?

CFO, Ioana Birta: The revenue from services represents mainly the turnkey halls of TeraSteel.

CEO, Alexandru Stanean: We also had some upgrade of our ERP and they are counted a little bit different. Last year we were counting them as materials sold and now they are shown more like a construction company would and not like a construction materials producer would, namely everything, including the materials we produce, is counted in this chapter as opposed to sales of finished goods as it was up until last year.

CFO, Ioana Birta: This is due to the increased significance of this segment in the financial statement as well as its position in our portfolio development strategy.

C. Questions received via email:

1. To what extent has the company been impacted by the lack of payments through PNDL?

CEO, Alexandru Stanean: Our experience in getting the money from the Ministry of Finance for our current investment projects that are co-financed through state aid, as well as the payment behavior of our customers, got us to see no indication that this kind of payments do not exist or have been delayed. We are getting our money in time, every time, for the state-aid projects, and again, we don't feel any problem among our customers in getting payed or them paying us when these programs are involved. Therefore, we think this is a false flag.

2. What is the international strategy of the Group and what information can you give on TeraPlast Recycling?

CEO, Alexandru Stanean: Regarding the international strategy, we are increasing exports and the Serbian factory is the main reason in TeraSteel business segment increase. We are planning to continue this direction of increasing the exports, and we still have some production capacity still available in Serbia.

Regarding TeraPlast Recycling, it is significant to know that we started selling to third-parties. If we look strictly to EBITDA, we can see it is the business with the highest EBITDA ratio of all the companies so far. The business is smaller, but we are quite happy with the way it develops.

3. What is the long- and medium-term strategy in relation with the press release from May 31st regarding the strategic options for the Steel division?

CEO, Alexandru Stanean: We cannot comment further on these proceedings. We are in the same situation and further news will be available in accordance to the applicable legislation.

4. What can you tell us about dividends?

CEO, Alexandru Stanean: The company does not have a formal dividend policy. We get more and more questions about dividends, so this topic is in the Board's attention, but the final decision is up to the General Assembly.