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We bring paper back to life

PRO-GEST GROUP

Financial Highlights FY 2018

9th May, 2019

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Introducing Pro-Gest

Presenters



Francesco Zago

- ➡ Managing Director and Owner
- ➡ Joined Pro-Gest in 2007



Paolo Facchin

- ➡ Chief Financial Officer
- ➡ Joined Pro-Gest in 1988

Agenda

1. Key developments
2. Market update
3. Antitrust proceedings update
4. Update of Mantova
5. FY / Q4 18 results update

Key developments

Financial performance

- Achieved total revenues of €485m (-3% compared to €502m in 2017) and EBITDA of €88m (-24% compared to €114m in 2017). The adjusted EBITDA, not considering the provision of €8m related to Antitrust proceeding, is equal to €96m (-17% compared to EBITDA 2017).
- ✓ Industry leading EBITDA margins of 18% in 2018 (compared to 23% in 2017). The EBITDA adjusted margin is 20% on total revenues.

Key operational elements

- During Q3 2018 the Carbonera plant has stopped the production for over a month due to a machinery revamp, with a reduction in sales estimated in about €8m.
- In Q4 2018 there has been a decrease of other revenues (-€10m compared to Q4 2017), due to reduced extraordinary items and no revenues from Energy Efficiency Certificates (EEC).
- No revenues from Mantova plant but related cost of services equal to €5m and personnel cost of €1m in Q4 2018.

Financial Position

- Closed 2018 with Net Financial Indebtedness of €330m.

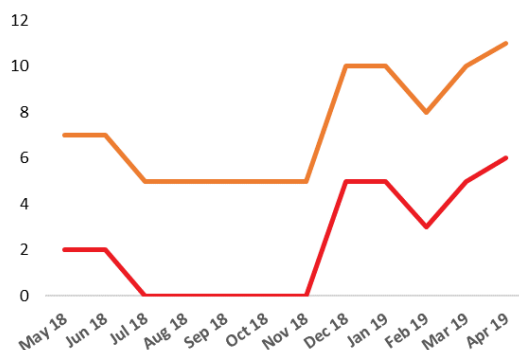
Interest Expense

- Increased to €19m in 2018 from €12m in 2017: it reflects the impact of €250m notes.

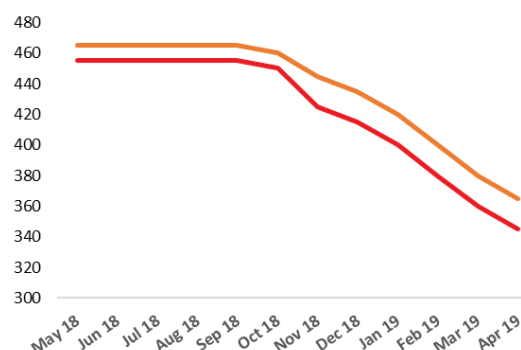
Market update

Wholesale prices – min/max

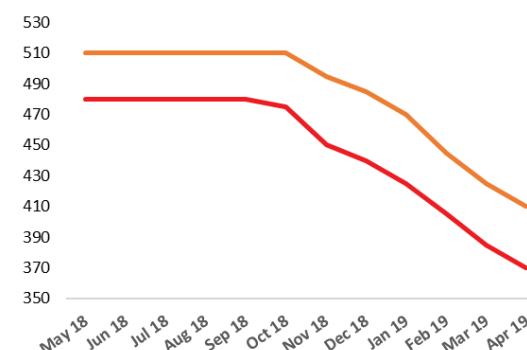
Waste paper (€/ton)



Medium carton for corrugators in rolls (€/ton)



Testliner Avana (€/ton)



The wholesale prices of the raw material (waste paper) show a large increase during last six months, while the prices of the main finished products decrease.

Antitrust proceeding update

- Proceeding initiated in March 2017 against Pro-Gest S.p.A. (and other companies of the Group) and most of major players in the market of corrugated cardboard sheets and corrugated cardboard packaging in Italy.
- Pro-Gest has received from the Italian Antitrust Authority (AGCM) the communication of the results of investigations.
- Pro-Gest S.p.A. Board of Directors deems likely that the AGCM will issue a monetary sanction against Pro-Gest S.p.A and other subsidiaries.
- At the date hereof it's not possible to determine with certainty the amount of the sanction.
- Pro-Gest, in agreement with the auditing company and the lawyers, deemed to be reasonable a total amount of €8m in the provision for risks and charges in the consolidated financial statements.
- The Group, with the support of its legal advisors, reserves the right to adopt any initiative to protect its own reasons.

Update of Mantova

About the plant

- Completed Industrial investment in Paper mill, for a total amount of €225m.
- In the end of 2018, according to the auditing company, €3m of costs related to Q1-Q3 2018 have been capitalized (Costs of services for €2m and Personnel expenses for €1m).
- Some ancillary works remain to be performed outside the plant.
- The paper produced has a good quality compared to the current level of testing phase.
- At the moment, the paper mill is still in testing phase after the Group obtained the AIA environmental authorization from the Province of Mantova (200k tons yearly).

Update of Mantova

About legal procedure:

A. GENERAL PRODUCTION AUTHORIZATION

- The Group assumes that the authorization (VIA) for the production of 400k tons yearly will be obtained in september 2019.

B. ORDINANCE AGAINST ODORS

- The mayor of Mantova City proceeded to issue an order concerning the odors complained by various residents of the neighboring districts of the paper mill.
 - ✓ 4 different reliefs carried out by Arpa (Regional agency for environmental protection) in the squares of Mantova plant have given negative results.

Update of Mantova

C. PROBLEMS WITH WASTE PAPER STOCKED

Fire department's prescriptions

- Fire department has requested interventions in the yard where the waste paper is stored, given the non-completed fire prevention system: passages of six meters between waste paper and the presence of some tank trucks.
- ✓ the Group is working to fulfill these requirements.

Mantova Province formal notice

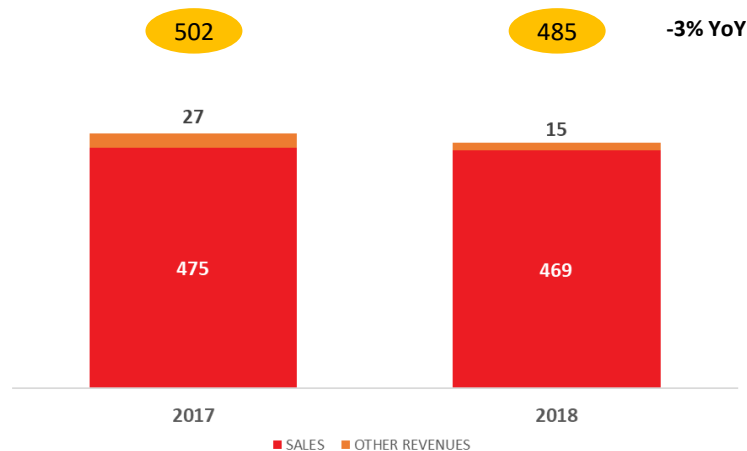
- The Province of Mantova has presented a formal notice for the excess quantity of waste paper stocked in the factory yards compared to the AIA authorization.
- ✓ The Group has presented a schedule of how it will solve this criticality, using the waste paper without new purchases.

Seizure of waste paper bales

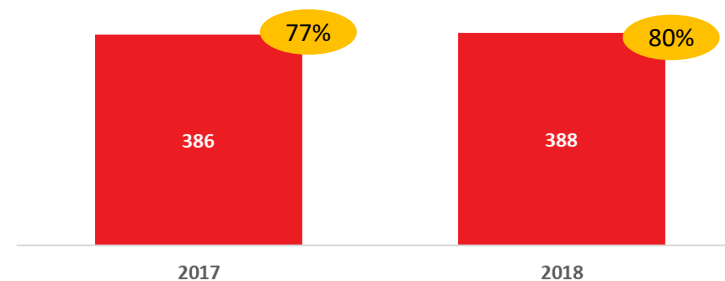
- The Prosecutor's Office of Mantova intervened on the quality of waste paper outside the plant due to the high % of impurities.
- ✓ The Group intends to request the release of seizure from the Review Court.
- ✓ However, the Group has the authorization to treat waste for 60k tons yearly.

FY 18 results update

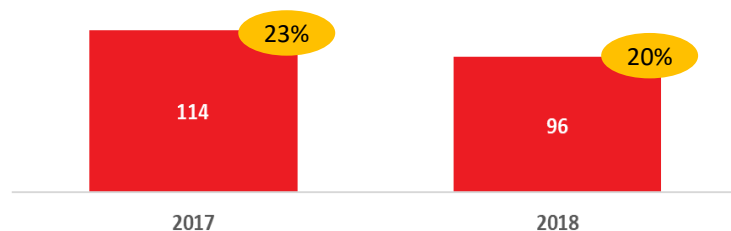
Total Revenues (€m) and Var % YoY



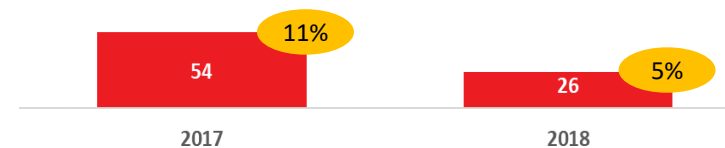
Operating expenses (€m, excluding D&A)* and % on revenues



EBITDA Adj. (€m) and EBITDA Adj. %



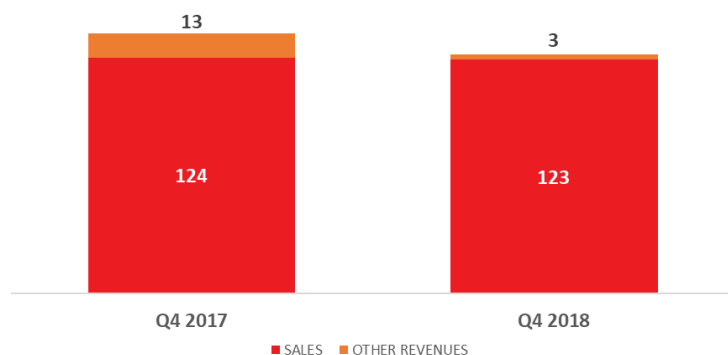
Net Income (€m) and Net Income %



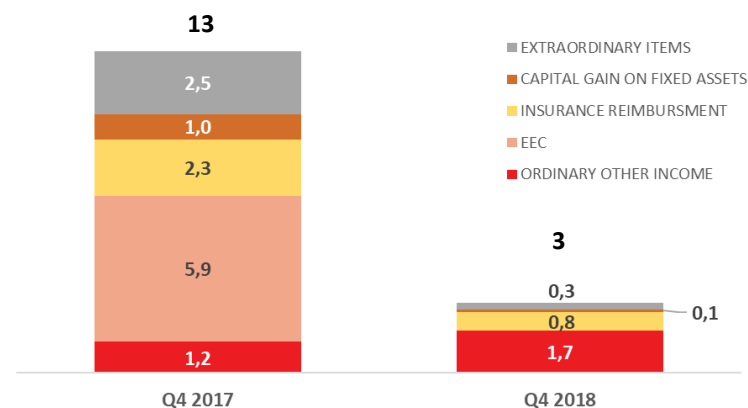
* Not considered €8m of provisions related to Antitrust proceeding

Q4 18 results update

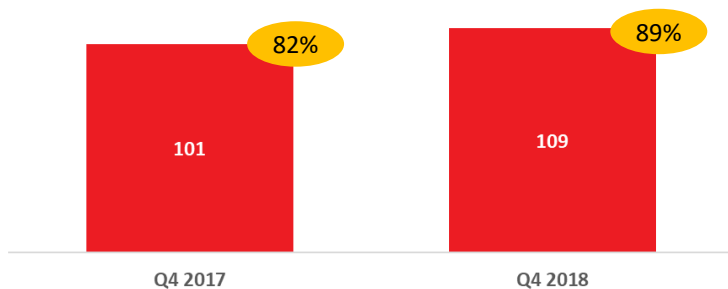
Total Revenues (€m)



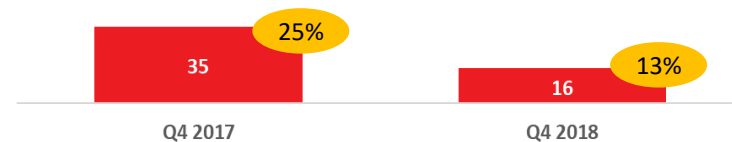
FOCUS Other Revenues (€m)



Operating expenses (€m, excluding D&A)* and % on sales



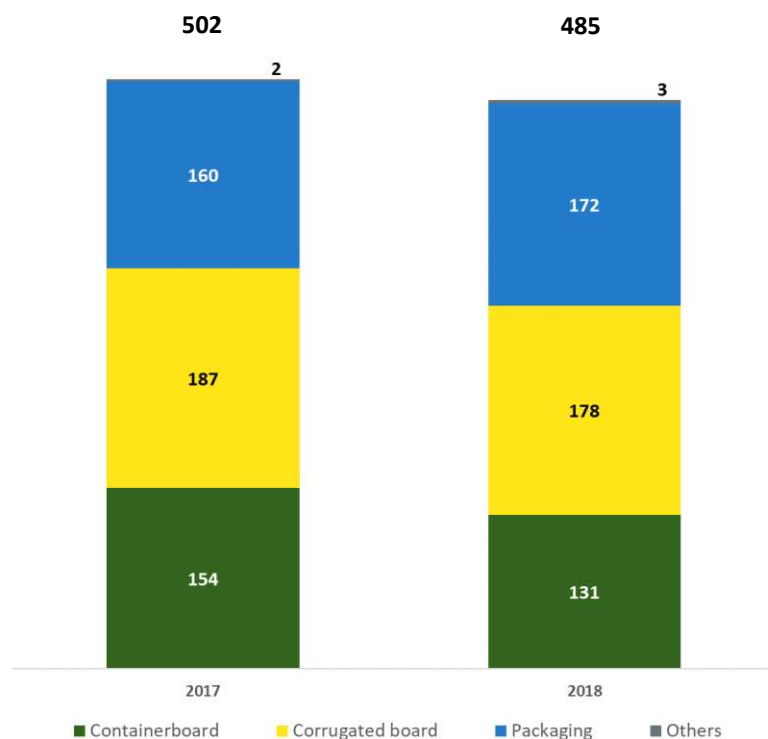
EBITDA Adj. (€m) and EBITDA Adj. % on tot. revenues



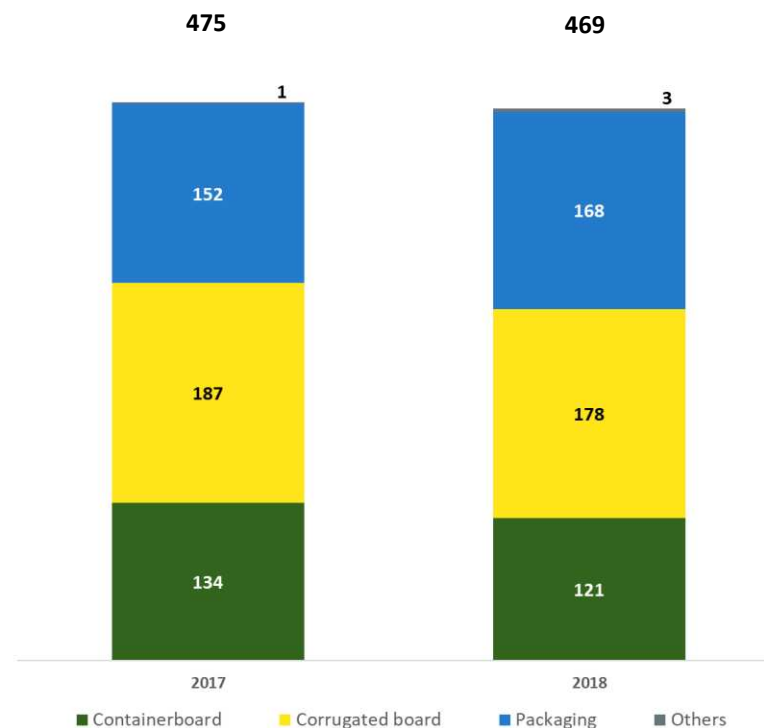
* Not considered €8m of provisions related to Antitrust proceeding

Revenues Performance

Total Revenues (€m)



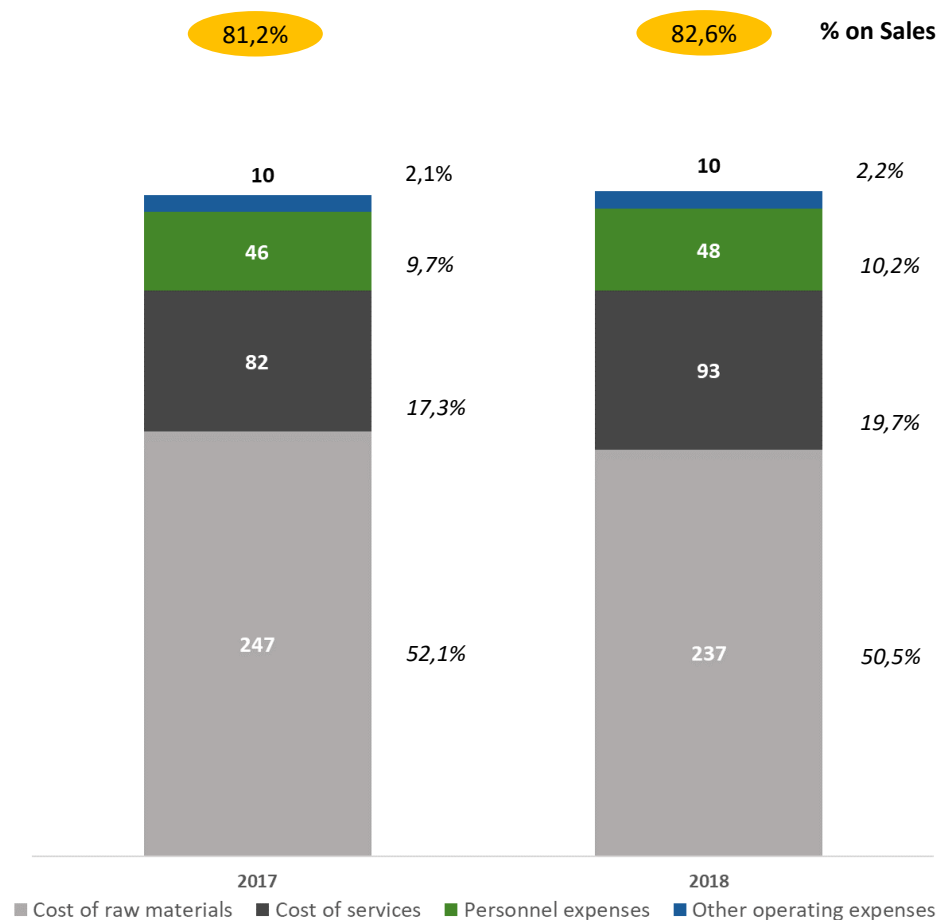
Sales (€m)



- Sales decreased to €469m in 2018 compared to €475m in 2017, mainly driven by:
 - ✓ temporary production stoppage of Carbonera Plant with lower revenues of about €8m

FY 18 Cost structure

Operating expenses evolution (€m, excluding D&A)



■ The operating expenses, as percentage on sales, increased by 1,4% compared to 2017

■ Cost of raw materials:

✓ equal to 50,5%, decreased by 1,6% as percentage on sales due to the Chinese import ban for low quality waste paper

■ Cost of services:

✓ increased by €11m related mainly to:

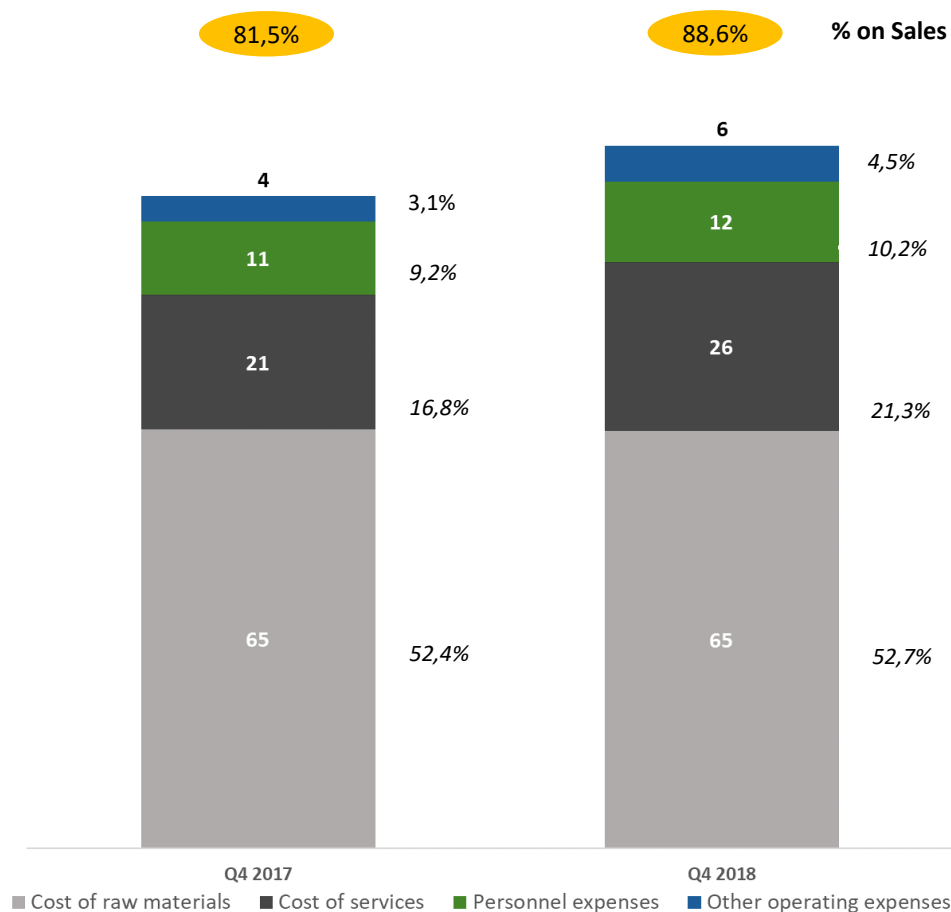
- over €2m cost of renting related to buildings sold at the end of 2017 (plants of Altopascio and Sesto Fiorentino)
- €5m ramp up of Mantova plant
- €2m about maintenance (€10m in 2018 vs €8m in 2017)

■ Personnel expenses:

✓ increased by €2m of which €1m related to Mantova Plant

Q4 18 Cost structure

Operating expenses evolution (€m, excluding D&A)

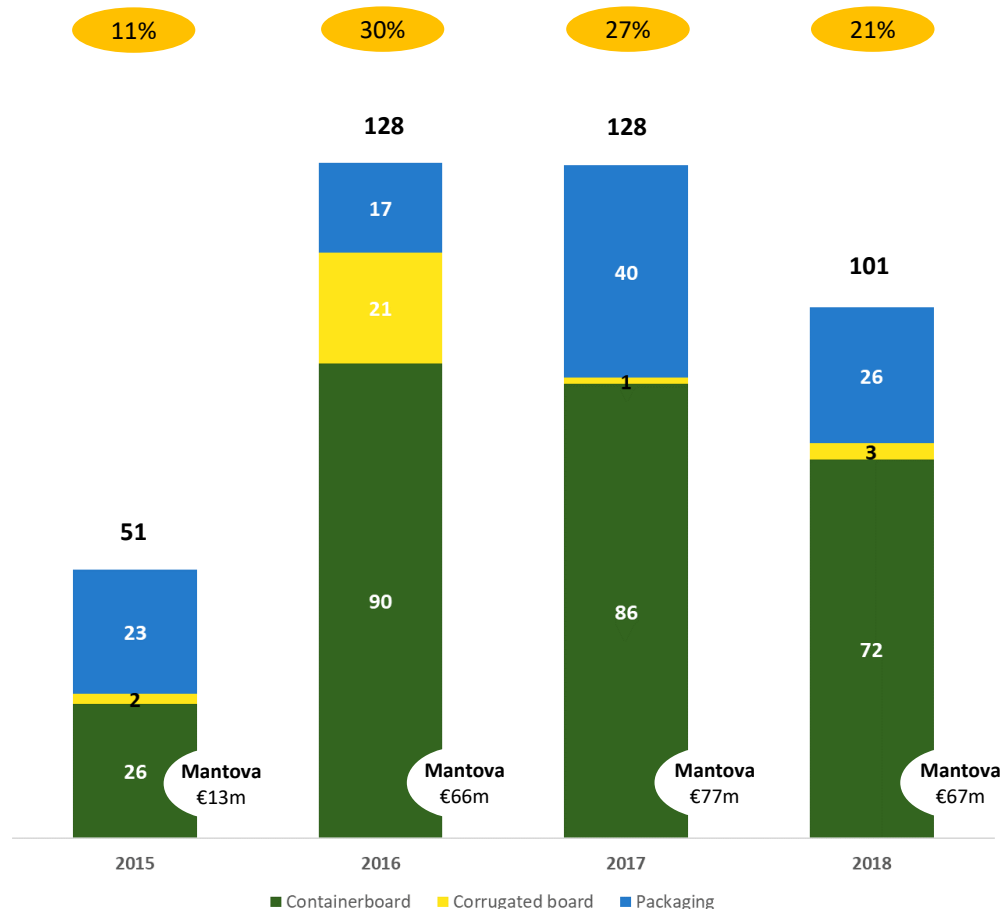


- The operating expenses, as percentage on sales, increased by less than 5,0% compared to 2017.
- Cost of raw materials:
 - ✓ equal to 52,7% on sales, with a slight increase compared to Q4 2017
- Cost of services:
 - ✓ increased by €5m related mainly to €5m of ramp up costs of Mantova plant
- Personnel costs:
 - ✓ increased by €1m due to about €1m of labour cost in Mantova plant
- Other operating expenses:
 - ✓ equal to €6m in Q4 2018, of which €4m related to emission costs (not present in Q4 2017)

Breakdown of capital expenditure

Capex (€m)

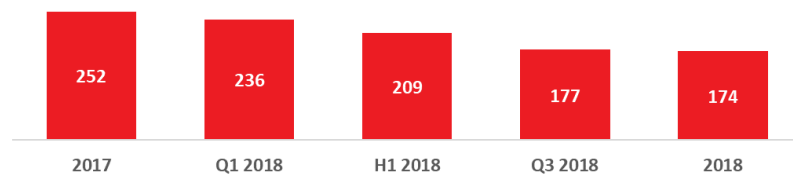
Sales (%)



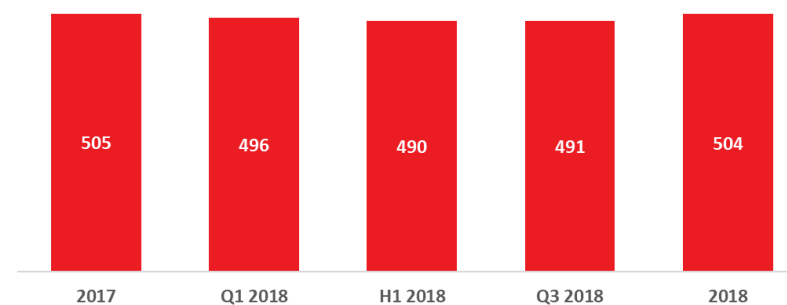
- The investments for the Mantova paper mill production site continued in 2018, regarding ancillary machinery and equipment necessary for the launch of the new Paper Production Line, for a total of €67m in 2018.
- The investments in the packaging sector are related to:
 - ✓ completion of investments of prior years in Modugno plant amounting to €8m
 - ✓ new manufacturing lines for paper bags for an amount of €4m
 - ✓ advance payments related to the buildings under construction in Grezzago and Altopascio plants for a value of €12m

Summary of Net Financial Indebtedness

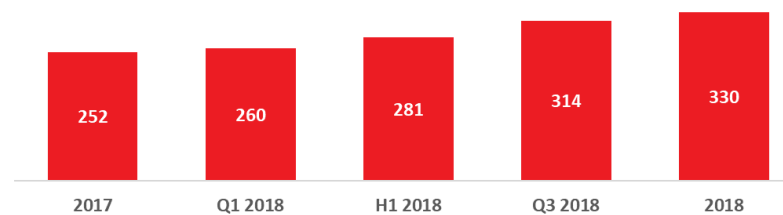
Cash (€m)*



Financial Debts (€m)



Net Financial Indebtedness (€m)*



* Not included securities (€14m) regarding related parties and bank bonds (€2m)