Mersen: 2013 full-year results

Paris, March 6, 2014 - Mersen (Euronext FR0000039620 – MRN), a global expert in electrical specialties and graphite-based materials, has today reported its full-year results for 2013.

Mersen's Supervisory Board met on March 5, 2014 and reviewed the audited 2013 financial statements. The Management Board met on the same day to close them.

2013 key figures

Results in line with expectations:

- Reported sales of €739 million, down 6% on a like-for-like basis
- EBITDA[1] of €100 million, or 13.5% of sales
- Operating income before non-recurring items of €59.8 million or 8.1% of sales
- High level of operating cash flow, leading to a reduction in net debt (€212 million)

Exceptional charges[2] of €55 million, related primarily to impairment losses, resulting in a net loss (Group share) of €29.2 million

A proposed dividend of €0.45 per share, representing a payout ratio (excluding exceptional charges[2]) in line with previous years

A solid financial structure, with a net debt to EBITDA ratio of 2.1x[3].

Highlights

Execution of adaptation plans in response to difficult economic conditions

Effective disposals of non-strategic and unprofitable businesses

Decision to launch the "Transform" plan in 2014

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[1] Operating income before non-recurring items + depreciation and amortization.

[2] At the end of January 2014, the Group reported the recognition of €55 million in one-off items. This amount corresponds to €45 million in non-recurring charges (beyond the €4 million in charges recognized in the first half-year) and €10 million in impairment of deferred tax assets in France.

[3] Ratio calculated using the covenant method for the USD350 million syndicated loan.

Outlook

In 2014, in an environment which should remain contrasted, Mersen anticipated a slight increase in sales on a like-for-like basis and in the operating margin before non-recurring items.
In five years, given a return to a more favorable economic environment, Mersen has the ambition to achieve sales close to €1 billion. With this level of momentum, the Group could exceed an operating margin before non-recurring items of 12% of sales before the end of this period.

Luc Themelin, Chairman of the Management Board, commented:

"The year 2013 was characterized by a difficult environment, even though the situation improved for the Group on certain markets – as solar and electronics - at the end of the year. Notwithstanding this unfavorable environment, particularly in Europe, Mersen performed well by achieving an EBITDA margin of 13.5% and generating a high level of operating cash-flow. We took into account significant exceptional charges mainly related to impairment losses, which significantly altered the Group's net income, but not its financial structure. In 2014, we will launch the "Transform" plan, an initiative that will optimize the Group's competitiveness by improving its flexibility in order to better respond to the challenges of the global economic environment. I am confident about our ability to transform the Group as we develop its strengths: technological innovation, close relationship with our customers, a leadership position in our businesses and a global presence."

Business activities, operating income and EBITDA

The Group's **consolidated sales** totaled €738.8 million, representing a 6.0% drop like-for-like compared with 2012. The effect of the depreciation of most currencies against the euro reduced the year's sales by nearly €26 million.

EBITDA[4] totaled €100.0 million, or 13.5 % of sales, compared with 14.5% in 2012[5].

The Group's **operating income before non-recurring items**[6] came to €59.8 million in 2013, i.e. a current operating margin of 8.1 % of sales, down 1.5 points compared with 2012[2].

Sales in the **Materials** segment (AMT) posted an organic contraction of 11.2 % for the year as a result of weak sales in the solar market. Excluding solar (-4.4% organic), the Group's sales were strong in aerospace and electronics. Sales in the chemical market remained at 2012 levels. However, process industries decreased.

Despite this significant decline in business, the EBITDA margin on the Materials segment remained solid, at 15.9% of sales. The decline compared to 2012 (18.2%) resulted primarily from the contraction in business activity. It is also the result of a negative product mix effect with strong sales on the lower-margin chemicals market and price reductions over the year in the graphite business, particularly in Asia. These factors were offset in part by the adaptation plan.

Sales in the **Electrical** segment (ECT) experienced a limited decline of 2.1% in 2013. The energy and transportation markets were in line, overall, with 2012. After a disappointing start to the year, electronics rebounded during the second half. Process industries contracted, particularly in Europe.

The EBITDA margin for the Electrical segment was close to last year's (14.3% vs. 14.4%). In spite of the top-line contraction, this healthy resilience was largely attributable to the adaptation plan and the steady sales prices on these markets.

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[4] Operating income before non-recurring items + depreciation and amortization.
[5] The 2012 data published were restated to take into account the application of revised IAS 19 (employee benefits).
[6] Based on the definition laid down in CNC regulation 2009.R.03.

Net income

Non-recurring income and expenses for 2013 stood at €49.3 million[7]. This mainly includes impairment of assets and provisions of approximately €37 million, primarily in the Materials segment, related to forecasted business contraction on the chemicals market and the under-utilization of certain graphite equipment, and restructuring costs of approximately €8 million.

Mersen's 2013 net **financial expense** was €11.0 million, down from the previous year. This decline is attributable to the €20 million reduction in the average debt compared to the previous year.

The **tax expense** totaled €23.1 million and includes €12 million in impairments of deferred tax assets, primarily in France[7]. The effective tax rate, calculated on the basis of income restated to take into account non-deductible expenses and impairment of deferred tax assets, was 33%, equivalent to the 2012 rate.

The **net loss from assets held for sale and discontinued operations** came to €3.8 million, compared to €27.7 million in 2012. It includes the operating results of the two facilities that the Group sold in 2013 (Grésy and Brignais - France).

Accordingly, the **net income** came to -€28.6 million. The net income (Group share) came to -€29.2 million.

Cash and debt

Cash flow from operating activities stood at €86.3 million in 2013. It takes into account an improvement in working capital requirements of more than 0.5 point of sales. It was down compared to 2012, which benefited from significant advance payments on a major contract.
Cash flow from discontinued operations (-€9.6 million) concerns business activities disposed of in July and December 2013.
Capital expenditures reduced sharply, as expected, compared to 2012: €27.8 million vs. €42.2 million in 2012.
Disposals of fixed assets and others (-€6.6 million) included cash flow from the disposal of the discontinued operations.
As a result, 2013 net cash flow was positive, at more than €22 million, compared to nearly zero in 2012.

Net debt at year-end 2013 came to €212 million, down by nearly €30 million compared to year-end 2012 (€241.5 million).

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[7] When it published its 2013 sales, the Group discussed the recognition of €55 million in one-off items. This amount corresponds to €45 million in non-recurring charges (beyond the €4 million in charges recognized in the first half-year) and €10 million in impairment of deferred tax assets in France.

Financial structure

The Group's finances remained solid. The net debt/EBITDA ratio (leverage) was 2.07[8] and the net debt/equity ratio (gearing) was 45%[8], equivalent to the 2012 level.
At December 31, 2013, Mersen had nearly €400 million in confirmed financing, of which approximately 50% was drawn down. The average maturity of drawn-down financing is 4.3 years.

Dividend

At the forthcoming AGM on May 15, the Supervisory Board is set to propose payment of a **dividend** of €0.45 per share. This would represent a payout ratio of 36% of the Group's net income before the impact of one-off items[9] recognized and announced in January 2014.

Outlook for 2014 and the medium term

The Group should see slightly higher sales on a like-for-like basis in 2014 with a second half more favorable than the first. Solar and electronics markets are expected to be more favorable while the chemical market should decrease because of a negative base effect due to strong sales in 2013. The operating margin before non-recurring items should also show a slight improvement.

As announced last January, Mersen is launching in 2014 its "Transform" plan, which is part of its short- and medium-term development strategy. This global plan seeks to optimize the Group's operational efficiency by directing its efforts to the most promising geographic regions and improving the Group's flexibility to better respond to its economic environment. It will not have a significant impact in 2014 but should ultimately improve the operating margin by 1.5 points.

Given a return to a more favorable economic climate, Mersen, therefore transformed and focused on growth, has the ambition to achieve sales close to €1 billion in five years. With this level of momentum, the Group could exceed an operating margin before non-recurring items of 12% of sales before the end of the period.

[8] Ratio calculated using the covenant method for the USD350 million syndicated loan.

[9] When it published its 2013 sales, the Group reported the recognition of €55 million in one-off items. This amount corresponds to €45 million in non-recurring charges (beyond the €4 million in charges recognized in the first half-year) and €10 million in impairment of deferred tax assets in France.

Simplified consolidated income statement

In € million	Dec. 31, 2013	Dec. 31, 2012*
Sales	738.8	810.7
Gross income	213.4	243.4
Selling costs & other	(72.4)	(79.3)
Administrative & research costs	(81.2)	(86.5)
Operating income before non-recurring items	**59.8**	**77.6**
in % of sales	*8.1%*	*9.6%*
EBITDA	**100.0**	**117.3**
in % of sales	*13.5%*	*14.5%*
Non-recurring income and expense	(49.3)	(11.3)
Amortization of revalued intangible assets	(1.2)	(0.9)
Operating income	**9.3**	**65.4**
Financial costs	(11.0)	(13.0)
Current and deferred income tax	(23.1)	(17.5)
Net income from assets held for sale	(3.8)	(27.7)
Net income from the year	**(28.6)**	**7.2**
- Attributable to Mersen's shareholders	(29.2)	6.5

Segmental analysis excluding corporate expenses

In € million	Materials (AMT)		Electrical (ECT)	
	Dec. 31, 2013	Dec. 31, 2012*	Dec. 31, 2013	Dec. 31, 2012*
Sales	**300.3**	**346.3**	**438.5**	**464.4**
EBITDA	47.7	62.8	62.8	66.7
in % of sales	*15.9%*	*18.2%*	*14.3%*	*14.4%*
Operating income before non-recurring items	19.7	35.5	51.0	54.6
in % of sales	*6.6%*	*10.3%*	*11.6%*	*11.7%*

* The 2012 financial statements were restated to take into account the application of the revised IAS 19

Simplified balance-sheet

In € million	Dec. 31, 2013	Dec. 31, 2012*
Non-current assets	610.7	667.8
Inventories	154.3	173.6
Trade and other receivables	121.5	126.7
Other assets	16.3	14.9
TOTAL	**902.8**	**983.0**
Liabilities and equity	452.8	499.2
Provisions	13.6	3.3
Employee benefits	66.5	77.1
Trade and other payables	118.0	119.2
Other liabilities	39.9	42.7
Net debt	212.0	241.5
TOTAL	**902.8**	**983.0**

Simplified statement of cash-flow

In € million	Dec. 31, 2013	Dec. 31, 2012*
Operating cash-flow before change in WCR	90.1	103.8
Change in WCR	13.9	27.7
Income tax paid	(17.7)	(22.6)
Net cash generated by continuing operating activities	**86.3**	**108.9**
Cash generated by discontinued operations	(8.6)	(7.1)
Operating cash-flow	**77.7**	**101.8**
Capital expenditure	(27.8)	(42.2)
Operating cash-flow after capex	49.9	59.6
Change in scope (acquisitions)	(3.2)	(30.0)
Disposal on fixed assets and other	(6.6)	0.9
Net cash generated/(used) by operating and investing activities	40.1	30.5
Increase in the share capital and other	(3.4)	0.0
Dividends paid	(3.7)	(19.4)
Interest payments	(10.7)	(12.3)
Net cash flow before the change in debt	**22.3**	**(1.2)**

* The 2012 financial statements were restated to take into account the application of the revised IAS 19

The reference document is available for download from the Mersen website

Financial calendar

2014 Q1 sales: April, 29 2014 (after market)

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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