MERSEN: GOOD PERFORMANCE IN AN UNPRECEDENTED YEAR IN 2020, DRIVEN BY SUSTAINABLE DEVELOPMENT MARKETS

- OPERATING MARGIN BEFORE NON-RECURRING ITEMS SLIGHTLY HIGHER THAN EXPECTED, AT 8.1%
- STRONG OPERATING FREE CASH FLOW: €76 MILLION
- SOLID FINANCIAL STRUCTURE: GEARING OF 33% AND LEVERAGE RATIO OF 1.65X
- PROPOSED CASH DIVIDEND OF €0.65 PER SHARE FOR 2020
- SALES ORGANIC GROWTH FOR 2021 EXPECTED TO BE BETWEEN 2% AND 6%
- CONTINUED ROBUST MOMENTUM FOR SUSTAINABLE DEVELOPMENT MARKETS

PARIS, MARCH 11, 2021 – Mersen (Euronext FR0000039620 – MRN), a global expert in electrical power and advanced materials, has released its consolidated results for the year ended December 31, 2020. The Board of Directors met on March 10, 2021 and approved the audited 2020 financial statements.

Chief Executive Officer Luc Themelin said: *"We are very proud of the results that Mersen has achieved in such an unprecedented year. They clearly reflect our agility and our ability to adapt, and they would not have been possible without the unwavering dedication of our teams worldwide. I would like to take this opportunity to personally thank them. Mersen's performance in 2020 also confirms our strategic decision to position ourselves in strong sustainable development markets, and we will be stepping up our investments in these markets – which include renewable energy, electronics and green transportation – as they continue to be driven by solid underlying trends. As we embark on 2021, the economic environment is still uncertain in some regions, but we view the coming year with confidence and expect 2% to 6% growth in organic sales in the full year and an operating margin before non-recurring items of between 8% and 8.8%. In light of our recent performance and the tried and tested resilience of our business model, we will be proposing to our shareholders to resume dividend payments of €0.65 per share for 2020."*

Key figures	2020	2019
Sales (€m)	**847**	**950**
Operating margin before non-recurring items	8.1%	10.8%
Net income attributable to Group equity holders (€m)	**(12.0)**	**57.3**
ROCE	7.8%	11.8%
Net debt (€m)	**180**	**218**
Net debt/EBITDA ratio	1.65	1.5
Dividend per share (€)	**0.65**	**NA**

For the definitions, please refer to the glossary at the end of this press release

ACTIVITY, EBITDA AND OPERATING INCOME BEFORE NON-RECURRING ITEMS

Mersen reported consolidated sales of €847 million in 2020, down 11.4% on an organic basis on 2019. Including the negative impacts of exchange rates for more than €18 million and the first-time consolidation of AGM Italy, GAB Neumann and Americarb, sales fell by 10.8%. Overall, the main sustainable development markets (renewable energies, electronics and green transportation) were stable year on year, while other markets fell by 19%.

Although sales declined year on year, the Group held up well in terms of both EBITDA and operating income before non-recurring items, thanks to its excellent cost flexibility. This flexibility was helped by the Group's use of furlough schemes at certain sites, and to a lesser extent, by government subsidies (principally in China).

EBITDA stood at €122.9 million, representing 14.5% of sales compared to 16.3% in 2019.

Operating income before non-recurring items came to €68.6 million in 2020, or 8.1% as a percentage of sales, down 270 basis points on the 2019 figure, chiefly due to lower business volumes. Productivity gains offset cost inflation, particularly for salaries. The savings made as a result of the operating context (particularly on business travel) more than offset the additional costs it generated (purchase of face masks in particular, etc.).

Advanced Materials segment

Advanced Materials sales totaled €476 million, down by 14.7% on an organic basis on 2019. As expected, the process industries, aeronautics and chemicals markets contracted sharply, while the solar market enjoyed strong growth, driven by demand in China. Activity tied to the SiC semiconductors market was buoyant, particularly in the second half of the year.

Operating margin before non-recurring items for the Advanced Materials segment stood at 12.1% versus 15.1% in 2019. This year-on-year decrease was to a large extent due to the effect of lower volumes (which cut 6 points off the margin figure). Net savings due to Covid-19 restrictions and the segment's productivity plans more than offset cost inflation.

EBITDA came to €94.5 million, accounting for 19.8% of sales versus 21.8% in 2019.

Electrical Power segment

Electrical Power sales came in at €371 million for the year, down 7.1% like-for-like on 2019. The decrease in electrical distribution was limited to 5% year on year thanks to a robust performance from the United States, but, overall, process industries declined.

While the segment's operating margin dropped to 7.5% of sales versus 9.4% in 2019, it was nonetheless able to contain the impact of lower volumes thanks to the productivity plans launched at the beginning of 2020 and the savings achieved.

EBITDA came to €44.0 million, accounting for 11.9% of sales versus 13.0% in 2019.

NET INCOME/(LOSS)

Mersen Group ended 2020 with a net loss of €12 million, versus net income of €57.3 million in 2019.

This negative swing reflects the recognition of a €51.4 million net non-recurring expense in 2020, including (i) €17 million relating to business adaptation plans, (ii) €8 million in write-off of property, plant and equipment, and (iii) €17 million in goodwill impairment losses recognized for the Anticorrosion Equipment business unit, as the Group considers that the chemical industry is affected for a long time (this business unit's principal market).

Mersen's net financial expense came to €12 million in 2020, representing a decrease compared with 2019 stemming from the lower average debt figure for the year (€215 million compared with €220 million), as well as more competitive borrowing rates.

Income tax expense totaled €14.0 million for 2020. The effective tax rate (ETR) was particularly high due to the recognition during the year of (i) significant amounts of non-deductible non-recurring expenses, and (ii) write-off of deferred tax assets, due to the longer recoverability periods for these assets. In 2019 and 2018, the ETR was 23% and 24% respectively.

Income from non-controlling interests essentially includes Mersen Yantai and Mersen Galaxy (China), in which Mersen holds a 60% stake.

CASH AND FINANCIAL DEBT

The Group generated a high level of operating cash flow in 2020, giving it the resources to finance its acquisition and capital expenditure programs. The cash flow conversion rate was 103% versus 79% in 2019.

Net cash generated by operating activities came in at almost €133 million in 2020, up nearly 8% on the €123 million figure for 2019. The 2020 total includes (i) a €6.6 million cash inflow from restructurings (including €5 million related to the adaptation plan announced in late 2020), and (ii) a cash inflow of over €31 million from the change in working capital requirement.

Despite the Covid-19 pandemic, the Group did not suffer any significant payment defaults nor significant increase in its late payments. During the year, the Group reduced its inventories by more than €21 million (like for like), principally during the second half.

WCR represented 20.5% of sales at the end of 2020 compared to 22% at the end of 2019.

Income tax paid was lower year on year due to the decrease in earnings.

The Group's capital expenditure amounted to €56.7 million in 2020, 82% of which was for investments outside France. This outlay concerned the replacement and modernization of industrial equipment as well as investment in new capacity – particularly to serve the SiC semiconductor market – and at the Columbia site in the United States.

Acquisition-related investments amounted to €13.6 million and covered the acquisitions of GAB Neumann in Germany and Americarb's insulation business in the USA as well as earn-out payments on acquisitions carried out in prior years (AGM Italy and LGI).

Consequently, net debt at end-2020 stood at €180.2 million, significantly lower than the year-earlier figure of €218.2 million.

Return on capital employed (ROCE) came to 7.8% versus 11.8% in 2019.

FINANCIAL STRUCTURE

The Group maintained a solid financial structure in 2020, with a leverage ratio (net debt/EBITDA) of 1.65x and gearing (net debt/equity) of 33%.

DIVIDEND

At the Annual General Meeting to be held on May 20, 2021, the Board of Directors will recommend the payment of a €0.65 per share cash dividend. This would represent a total payout of around €13.5 million, corresponding to 39% of net income attributable to Group equity holders adjusted by €35 million to reflect the expenses directly related to the context of 2020 (restructuring costs, asset impairment losses recognized due to sharp market downturns and write-downs of deferred tax assets), in line with the Group's dividend policy (i.e. payout of between 30 and 40% of net income). The dividend payment date will be July 8, 2021.

SUBSEQUENT EVENTS

On February 15, 2021, Mersen announced that it had acquired full control of Fusetech – a company based in Kaposvar, Hungary – by buying out the 50%-stake held by the Hager group.

This operation enables Mersen to strengthen its manufacturing efficiency on Europe's electric fuse market, and to integrate a high-performance site for the manufacture of some of its future product ranges in accordance with European standards (IEC).

The transaction is valued at approximately €4 million, excluding any future earn-out payments. The company currently employs a headcount of around 300 people on a site of 6,000 sq.m. In 2020, Fusetech generated non-Mersen-related sales of approximately €7 million.

OUTLOOK FOR 2021

The Group expects mixed trends in its main markets:

- Momentum should remain strong for the mid-term in the renewable energies market, led by solid growth expected for the solar power segment in 2021 after a good year in 2020.
- The future growth of the electronics market is linked to digitization for silicon semiconductors and the pace of take-up of electric vehicles for SiC semiconductors. The silicon semiconductor market should return to growth in 2021 and the SiC semiconductor market is set to be very buoyant in 2021 and even more so in the following years.
- Power electronics projects are expected to remain stable or increase slightly in 2021 and then return to more pronounced growth driven by robust momentum for energy efficiency projects.
- In the electric vehicles market, Mersen remains well positioned in the premium segment. Growth in this market is continuing and is forecast to accelerate as from 2023. In 2021, the Group will pursue its technical and commercial development plans in order to win new contracts.
- After a year marked by low capacity utilization rates, the rail market should stabilize in 2021 before returning to growth thanks to new capital expenditure programs.
- Sales generated in the chemicals market should remain stable in 2021, as Mersen's customers continue to halt or postpone their capital expenditure projects.
- Having declined sharply in 2020, sales in the aeronautics market will likely continue to decrease in 2021 due to a persistently high comparable base vs first-half 2020 as the slump in sales did not occur until the second half of that year. This market is not expected to return to growth for another three to five years.
- Lastly, sales trends for the process industries are mirroring those for the world's major economies. Due to the current prevailing uncertainty, it is difficult to predict what those trends will be in 2021. However, in view of the indicators for the beginning of the year, the Group estimates that these markets should see at least slight growth on average for 2021 as a whole.

Given the current uncertain climate, and provided the situation caused by the Covid-19 pandemic does not worsen, the Group intends to draw on its solid foundations and is aiming to return to growth in 2021. Consequently, the Group anticipates organic sales growth of between 2% and 6% depending on how quickly the markets pick up in Europe and the United States, particularly in process industries. Operating margin before non-recurring items is expected to represent between 8% and 8.8% of sales, taking into account (i) the positive effects of the adaptation plan, and (ii) the negative impacts of higher depreciation expenses and lower government support measures for furlough schemes. The residual non-recurring costs of the adaptation plan will be in the order of € 5 million; the cash out of the same plan will amount to approximately €17 million, largely resulting from charges already booked in 2020.

The Group will pursue its capital expenditure program with a view to meeting demand and preparing for the future. Altogether, capex is expected to represent a total of between €70 million and €80 million in 2021. Excluding investments for maintenance and productivity, over 40% of capital expenditure in 2021 will be devoted to high growth markets, particularly the SiC semiconductor, electric vehicles and solar power markets, and 35% will be allocated to starting up operations at the Columbia site in the United States.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

In millions of euros	2020	2019
Consolidated sales	847.2	950.2
Gross income	251.6	300.2
Selling, marketing and other expenses	(73.7)	(82.0)
Administrative and research expenses	(107.9)	(114.8)
Goodwill amortization	(1.4)	(1.3)
Operating income before non-recurring items	**68.6**	**102.1**
As a % of sales	*8.1%*	*10.8%*
Non-recurring expenses	(51.4)	(11.2)
Operating income	17.2	90.9
Net financial expense	(12.0)	(13.2)
Current and deferred income tax	(14.0)	(17.9)
Net income for the period	**(8.8)**	**59.8**
- Net income attributable to Group equity holders	(12.0)	57.3

SEGMENT ANALYSIS

In millions of euros	Advanced Materials (AM)		Electrical Power (EP)		*Group*	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Consolidated sales	476.4	545.4	370.8	404.8	847.2	950.2
EBITDA*	94.5	118.9	44.0	52.6	122.9	154.6
As a % of sales	*19.8%*	*21.8%*	*11.9%*	*13.0%*	*14.5%*	*16.3%*
Operating income before non-recurring items	57.7	82.3	27.9	38.0	68.6	102.1
As a % of sales	*12.1%*	*15.1%*	*7.5%*	*9.4%*	*8.1%*	*10.8%*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of euros	**2020**	**2019**
Non-current assets	670.1	698.2
Right-of-use assets	46.2	50.2
Inventories	181.1	207.0
Trade and other receivables	155.7	178.8
Other assets	5.0	4.7
TOTAL	**1,058.1**	**1,138.9**
Equity	533.7	570.6
Provisions	26.8	12.3
Employee benefits	71.7	75.0
Trade and operating payables	167.2	178.3
Other liabilities	31.9	36.4
Lease liabilities	46.6	48.1
Net financial debt	180.2	218.2
TOTAL	**1,058.1**	**1,138.9**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros	**2020**	**2019**
Cash generated by operating activities before change in working capital requirement	112.7	149.1
Change in working capital requirement	31.4	(9.8)
Income tax paid	(11.4)	(16.0)
Cash used in discontinued operating activities	0.0	(0.2)
Cash generated by continuing operating activities	132.7	123.1
Capital expenditure	(56.7)	(62.7)
Cash generated by operating activities after capital expenditure	**76.0**	**60.4**
Change in scope (acquisitions)	(13.6)	(19.4)
Disposals of fixed assets and other	(4.1)	(4.8)
Net cash flow before financing operations	**58.3**	**36.2**

The Group's results for 2020 will be presented on March 11, 2021 at 10:00 a.m. CET in a webcast that will be streamed on Mersen's website.

FINANCIAL CALENDAR

First-quarter 2021 sales: April 28, 2021 after the markets close.

ABOUT MERSEN

Mersen is a **global expert in electrical specialties and advanced materials** for high-tech industries. With more than 50 industrial sites and 16 R&D centers in 35 countries around the world, Mersen develops **custom-built solutions** and delivers key products for clients in order to meet the new technological challenges shaping tomorrow's world. **For over 130 years, Mersen has focused tirelessly on innovation** to accompany its clients and meet their needs. Be it in wind power, solar power, electronics, electric vehicles, aeronautics, space or countless other sectors, wherever technology is progressing, you will always find a bit of Mersen.

The "Mersen IR" app, which is specially designed for investors, is available for both iOS and Android devices and can be downloaded from Apple's App Store or Google Play on your smartphone or tablet.

You can also scan the QR code below:

MERSEN IS LISTED ON EURONEXT PARIS – COMPARTMENT B

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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.

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.

Operating cash flow: cash generated by operating activities.

Cash flow conversion rate: operating cash flow as a percentage of EBITDA.

Net 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.

Payout ratio: ratio of the total amount of dividends paid out to shareholders relative to the net income of the company.

Restated payout: ratio of dividend per share proposed for the year to Group net income per share for the year, restated for non-recurring items, calculated based on the number of ordinary shares excluding treasury shares at December 31 of the current year.

Capital employed: sum of property, plant and equipment and intangible assets, working capital requirement and receivables net of current tax and net derivatives.

Average capital employed: weighted average capital employed for the past five quarters (in order to limit the effects of exchange rate fluctuations at end-of-period versus average).

ROCE (Return On Capital Employed): ratio of operating income before non-recurring items to average weighted capital employed, excluding right-of-use assets.

APPENDICES

1 – Working capital to sales ratio

In millions of euros	**2020**	**2019**
Inventories	181	207
Trade receivables	128	147
Other operating receivables	21	22
Contract assets	7	10
Trade payables	(56)	(61)
Other operating payables	(88)	(89)
Contract liabilities	(24)	(29)
Working Capital Requirement	**170**	**208**
Sales (4 x fourth quarter)	836	929
WCR as a % of sales	**20.5%**	**22%**

2 - ROCE

In millions of euros	**2020**	**2019**
Operating income before non-recurring items	68,6	102,1
Average capital employed	879	862
ROCE	**7.8%**	**11.8%**