Press release
Regulated / Inside information
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Ontex Q1 2022 results: Revenue turnaround and continued savings delivery offset by impact of raw material cost inflation

Q1 results of continuing operations (Core Markets) [1]

→ **Revenue** was €385 million, up 13% like for like versus last year, driven by 11% volume growth following significant contract wins and solid momentum from high-growth products, and by the first benefits of pricing, which were up 2%. This marks four consecutive quarters of sequential growth and confirms the turnaround after the decline in sales in prior years. Additional price increases have already been agreed to take effect in the coming months.

→ **Adjusted EBITDA** was €21 million, down 49% year on year, as a result of the impact of cost inflation. Revenue growth and continued cost reduction delivery had a positive impact, driving EBITDA up 46% and 30% respectively. These benefits were offset, however, by the unprecedented raw material and operating cost increase as well as forex, which impacted EBITDA negatively by 118% and 7% respectively.

→ **Adjusted EBITDA margin** was 5.4%, 6.7pp down year on year, and 2.9pp sequentially versus the last quarter of 2021.

Q1 Group results (including discontinued Emerging Markets) [1]

→ **Revenue** was €553 million, 15% higher like for like, with volume and mix up 9%, fueled primarily by Core Markets, and pricing up 7%, mainly as a result of the double-digit increase achieved in the discontinued Emerging Markets.

→ **Adjusted EBITDA** was €25 million, 50% lower year on year. The contribution from discontinued Emerging Markets was €4 million, with price-driven revenue growth and savings partly offsetting cost inflation and adverse forex.

→ **Adjusted EBITDA margin** was 4.5%, 5.9pp down year on year and 1.4pp lower sequentially. In the discontinued Emerging Markets it was 2.2%, 3.8pp lower year on year, but up 1.9pp sequentially, marking a turning point.

→ **Net debt** was at €833 million at March 31, up €108 million over the quarter, mainly as revenue growth and higher raw material prices drove working capital higher. The leverage ratio rose to 5.7x from 4.2x at the start of the period.

Outlook

Given the very uncertain geo-political environment and an inflationary macro-economic situation with continued volatility in commodity and energy prices, visibility remains low. Taking into consideration these factors, Ontex is currently reviewing the impact on its mid-term financial roadmap. For the full year 2022, Ontex expects the following.

→ **Revenue** of continuing operations is expected to grow high single digits like for like, based on development of growth drivers and gradual price increases.

→ **Adjusted EBITDA margin** of continuing operations is expected to improve sequentially in H2.

- Raw material and operating costs for the year are expected to increase by around €200 million year on year, compared to €160-170 million as expected earlier. The step-up is expected to impact as from Q2.
- On top of price increases secured already, further increases are being rolled out, aimed at recovering incurred and expected cost inflation.
- The cost reduction program is expected to generate more than €60 million of savings in continuing operations.

→ Adjusted EBITDA margin of **discontinued operations** is expected to improve sequentially in H2.

→ **Cash flow** discipline to remain a focus, with working capital to sales ratio to normalize over the year and capital expenditure to return gradually to around 4% of sales.

CEO quote

Esther Berrozpe, Ontex CEO said "*It is very encouraging to deliver top line growth, particularly in Europe. This is a direct result of the significant efforts by our teams to rebuild customer confidence, improve service reliability and propose high growth products. We have continued to roll out our cost reduction programs and these are delivering a solid momentum of structural savings. These are key building blocks to turn around our financial performance. At the same time, the results of the quarter show the full extent of the unprecedented raw material and input cost inflation causing a significant decline in margins. As a consequence, we have put in place price rises to help offset this unprecedented situation and we will continue to do so step by step throughout the year.*"

[1] As from 2022, Emerging Markets, representing 30% of revenue in 2021, are reported as assets held for sale and discontinued operations, following the strategic decision to divest these businesses. Continuing operations encompass Core Markets, which represented 70% of revenue in 2021.

Key Q1 2022 financials

Total group

Key indicators in € million	First 3 months 2022	2021	%	% LFL
Core Markets (continuing operations)				
Revenue	384.7	339.9	*+13%*	*+13%*
Adj. EBITDA	20.9	41.2	*-49%*	
Adj. EBITDA margin	5.4%	12.1%	*-6.7pp*	
Emerging Markets (discontinued operations)				
Revenue	168.7	139.8	*+21%*	*+22%*
Adj. EBITDA	3.7	8.4	*-55%*	
Adj. EBITDA margin	2.2%	6.0%	*-3.8pp*	
Group (total)				
Revenue	553.4	479.7	*+15%*	*+15%*
Adj. EBITDA	24.7	49.6	*-50%*	
Adj. EBITDA margin	*4.5%*	*10.3%*	*-5.9pp*	

Core Markets (continuing operations)

Revenue in € million	First 3 months 2022	2021	%	% LFL
Baby Care	176.4	149.0	*+18%*	*+18%*
Adult Care	149.1	141.8	*+5%*	*+5%*
Feminine Care	52.6	43.6	*+21%*	*+19%*
Other	6.6	5.6	*+19%*	-

Revenue in € million	2021	Volume/ mix	Price	2022 LFL	Forex	2022
First 3 months	339.9	*+11%*	*+2%*	13%	*+0%*	384.7

Adj. EBITDA in € million	2021	Volume/ mix/price	Raw materials	Operating costs	Operating savings	SG&A net savings	Forex	2022
First 3 months	41.2	*+46%*	*-88%*	*-29%*	*+27%*	*+3%*	*-7%*	20.9

Unless otherwise indicated, all comments in this document on changes in revenue are on a like-for-like (LFL) basis (at constant currencies and scope). Definitions of Alternative Performance Measures (APMs) in this document can be found further in the document.

Q1 2022 review of Core Markets (continuing operations)

Revenue

Revenue was €385 million, up 13% overall and like for like versus last year, supported by volume growth across Ontex's strategic growth drivers following significant contract wins, and by the first benefits of pricing to mitigate raw material cost inflation. This marks four consecutive quarters of sequential growth and confirms the turnaround after the decline in sales in prior years. Forex fluctuations had no net impact, as the US dollar and British pound appreciation offset the Russian ruble devaluation.

Revenue was up double digit across most geographies, especially in North America, where these were well above 30%, strongly delivering on Ontex's strategic growth objective of double-digit growth in the region.

Volume and mix were the main drivers with an 11% impact. Significant contract gains were secured in 2021 both in Europe and North America, which combined with healthy underlying growth drivers, represent about half of the increase. The volume growth was also boosted by some forward buying ahead of price increases and helped by a low comparison base in the first quarter of last year.

In **baby care** revenue grew 18% like for like, with more than half of the increase generated by baby pants, benefitting from the increased production capacities, as one of Ontex's strategic growth axes. In an overall stable baby care market, pants continue to outperform, especially in retail brands in Europe resulting in market share gains. In **adult care** revenue grew 5% like for like. While growth in the institutional channel was subdued, retail and on-line channels grew consistently double digit. **Feminine care** products grew 19% like for like, primarily in tampons, where retail brands also gained market share. New re-usable products were launched in this category.

Prices were up 2% on average, gradually improving over the quarter. This price increase reflects the first benefits of contract negotiations. Whilst implementation is lagging inflation, more pricing has already been secured to positively impact the coming months. Additional pricing actions are planned to respond to the continued inflation of input costs.

Adjusted EBITDA

Adjusted EBITDA was €21 million, 49% lower year on year, as a result of the full impact of the cost increase. Revenue growth translated into an EBITDA increase of 46% and unrelentless delivery of cost reduction contributed 30%. Forex had a 7% adverse impact, mainly from the US dollar appreciation impacting input costs and the Russian ruble depreciation impacting sales. The adjusted EBITDA margin was thereby 5.4%, 6.7pp down year on year and 2.9pp lower sequentially versus the last quarter of 2021.

Cost inflation weighed heavily on the year-on-year comparison, with a negative impact of 88% from raw materials and 29% on operating costs. The commodity purchasing contracts now reflect the full impact of the commodity cost increases that started in the second quarter of last year. Compared to the first quarter of 2021, index-based raw materials were up some 30% year on year, mainly on super absorbent polymers, while other raw materials and packaging costs were up about 20%. Other operating costs were up, such as for logistics and energy, while wages reflected the inflationary environment.

Total cost **reduction measures** had a positive contribution of 30%. Gross savings in operations represented the largest share, benefitting from reduced scrap rates, improved production efficiencies and the result of design-to-value initiatives. Representing a major step in the optimization of Ontex's production footprint in Europe, the plant in Mayen, Germany stopped production at the end of March. After last year's significant efforts, strict cost control continues to be applied in SG&A, especially in marketing & sales, allowing to offset inflation and resulting in SG&A costs to near 10% of sales. Overall, the momentum to reduce costs annually by 4% of revenues continues.

Q1 2022 review of total Group (including discontinued operations)

Revenue

In the discontinued **Emerging Markets** revenue was up 21%, almost entirely driven by higher prices across all geographies. As Ontex serves consumers mostly through own brands in these markets, price increases to pass-through inflation are more rapid to implement. In Central America, and to a lesser extent in South America, prices were raised across categories, with little impact on volumes. In the Middle East, volumes were up as well, despite significant price increases. The net impact from forex fluctuations was negative with the appreciation of the Brazilian real and Mexican peso more than offset by the devaluation of the Turkish lira, the latter having been compensated by price increases.

Revenue of the **total** Group was thereby €553 million, 15% higher like for like, with volume and mix up 9%, fueled primarily by Core Markets, and pricing up 7%, mainly from the discontinued Emerging Markets. Including forex fluctuations, revenue was up 15%.

Adjusted EBITDA

Adjusted EBITDA in the discontinued **Emerging Markets** was €4 million, down from €8 million a year ago. The price-driven revenue increase and savings offset most of the cost inflation and adverse forex effects. Structural cost reduction actions continued, including the closure of the Ethiopian plant, with the local market now supplied from Turkey. Net forex impacts were negative as sales decreased with the Turkish lira devaluation, while costs increased with the appreciation of the US dollar. This brought the adjusted EBITDA margin to 2.2%, 3.8pp lower. Despite representing a year-on-year decrease, the quarter results mark a sequential improvement, with adjusted EBITDA margin up 1.9pp.

Including the discontinued Emerging Markets, **total** adjusted EBITDA was €25 million, 50% lower year on year. Cost reduction measures contributed 37%. The margin was thereby 4.5%, 5.9pp lower year on year and 1.4pp sequentially.

Balance sheet

Net debt at the end of the period was €833 million, €108 million higher than at the start of the period. This was mainly due to the increase in working capital driven by top line growth, especially in March, higher raw material prices, and measures to secure the supply chain to minimize the impact of disruption. Capex management remained disciplined, in line with 2021. In combination with lower adjusted EBITDA, this resulted in negative free cash flow. Moreover, during the period the half-year coupon on the €580 million bond issued in Q2 2021 was paid out, increasing the financing cash-out versus 2021. The leverage ratio thereby rose to 5.7x from 4.2x at the start of the period.

From January 1, the Group's Emerging Markets activities have been transferred to **assets held for sale**. The divestment process is well underway.

Additional information

Alternative Performance Measures

Alternative performance measures (non-GAAP) are used in this press release since management believes that they are widely used by certain investors, securities analysts and other interested parties as supplemental measure of performance and liquidity. The alternative performance measures may not be comparable to similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results, our performance or our liquidity under IFRS.

Like-for-like revenue (LFL)

Like-for-like revenue is defined as revenue at constant currency excluding change in scope of consolidation or M&A.

Non-recurring Income and expenses

Income and expenses classified under the heading "non-recurring income and expenses" are those items that are considered by management not to relate to transactions, projects and adjustments to the value of assets and liabilities taking place in the ordinary course of activities of the Company. Non-recurring income and expenses are presented separately, due to their size or nature, so as to allow users of the consolidated financial statements of the Company to get a better understanding of the normalized performance of the Company. Non-recurring income and expenses relate to:

- acquisition-related expenses;
- changes to the measurement of contingent considerations in the context of business combinations;
- changes to the Group structure, business restructuring costs, including costs related to the liquidation of subsidiaries and the closure, opening or relocations of factories;
- impairment of assets and major litigations.

Non-recurring income and expenses of the Group are composed of the following items presented in the consolidated income statement:

- income/(expenses) related to changes to Group structure; and
- income/(expenses) related to impairments and major litigations.

EBITDA and Adjusted EBITDA and related margins

EBITDA is defined as earnings before net finance cost, income taxes, depreciations and amortizations. Adjusted EBITDA is defined as EBITDA plus non-recurring income and expenses. EBITDA and Adjusted EBITDA margins are EBITDA and Adjusted EBITDA divided by revenue.

Net financial debt/LTM Adjusted EBITDA ratio (Leverage)

Net financial debt is calculated by adding short-term and long-term debt and deducting cash and cash equivalents. LTM adjusted EBITDA is defined as EBITDA plus non-recurring income and expenses for the last twelve months (LTM).

Disclaimer

This report may include forward-looking statements. Forward-looking statements are statements regarding or based upon our management's current intentions, beliefs or expectations relating to, among other things, Ontex's future results of operations, financial condition, liquidity, prospects, growth, strategies or developments in the industry in which we operate. By their nature, forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual results or future events to differ materially from those expressed or implied thereby. These risks, uncertainties and assumptions could adversely affect the outcome and financial effects of the plans and events described herein.

Forward-looking statements contained in this report regarding trends or current activities should not be taken as a report that such trends or activities will continue in the future. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on any such forward-looking statements, which speak only as of the date of this report.

The information contained in this report is subject to change without notice. No re-report or warranty, express or implied, is made as to the fairness, accuracy, reasonableness or completeness of the information contained herein and no reliance should be placed on it.

In most of the tables of this report, amounts are shown in € million for reasons of transparency. This may give rise to rounding differences in the tables presented in the report.

Corporate information

The above press release and related financial information of Ontex Group NV for the three months ended March 31, 2022 was authorized for issue in accordance with a resolution of the Board on May 11, 2022.

Audio webcast

Management will host an audio webcast for investors and analysts on May 12, 2022 at 14:00 CEST / 13:00 BST. A copy of the presentation slides will be available at ontex.com.

Click on the link below to attend the presentation from your laptop, tablet or mobile device. Audio will stream through your selected device, so be sure to have headphones or your volume turned up.

https://channel.royalcast.com/ontexgroup/#!/ontexgroup/20220512_1

A full replay of the presentation will be available at the same link shortly after the conclusion of the live presentation.

Financial calendar

- → **Q2 & H1 2022** July 29, 2022
- → **Q3 2022** November 10, 2022
- → **Q4 & FY 2022** March 1, 2023

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