Ercros

ERCROS EARNINGS RELEASE
FIRST NINE MONTHS OF 2021

(10/11/2021)

Ercros has achieved good results despite the higher cost of energy and raw materials

- **Ercros' profit for the first nine months of 2021 (9M21) amounted to EUR 26.17 million, 5.7 times higher than the EUR 4.58 million obtained in the same period of the previous year.**

- **Adjusted ebitda for 9M21 was EUR 61.27 million compared to EUR 36.95 million in 9M20, an increase of 65.8%.**

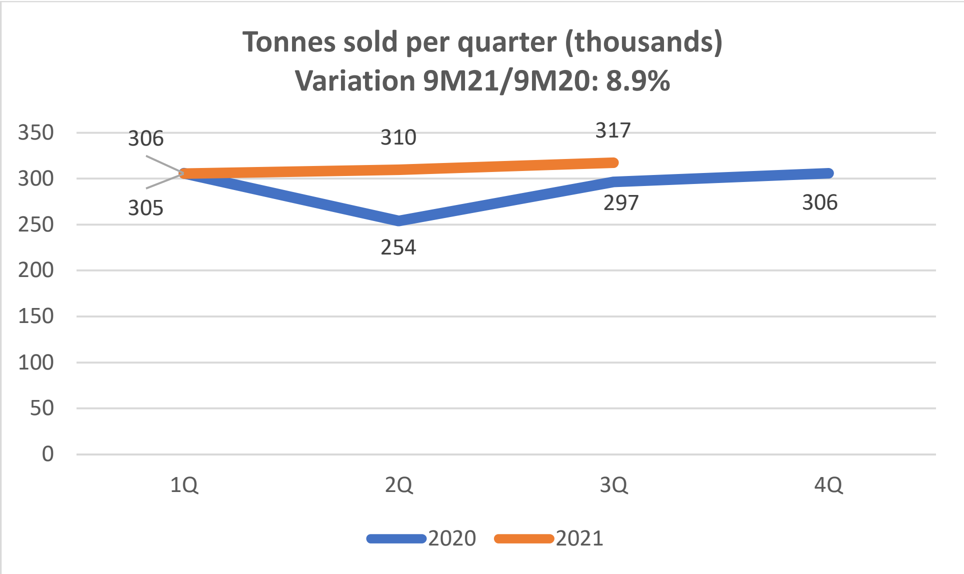
- **The rise in adjusted ebitda was mainly due to the significant increase in the average price of the products sold by Ercros (EUR 96.35 million) and the higher volume sold (EUR 14.63 million). The effect of the average price more than offset the also significant rise in the variable cost per unit (EUR -74.64 million) caused by the increase in raw materials and energy.**

- **Ercros reduced its debt by EUR 12.12 million, bringing it to EUR 72.71 million at 30 September 2021. Despite the increase in the cost of energy, raw materials, and freight, Ercros has maintained a solid financial position with liquidity of more than EUR 98 million.**

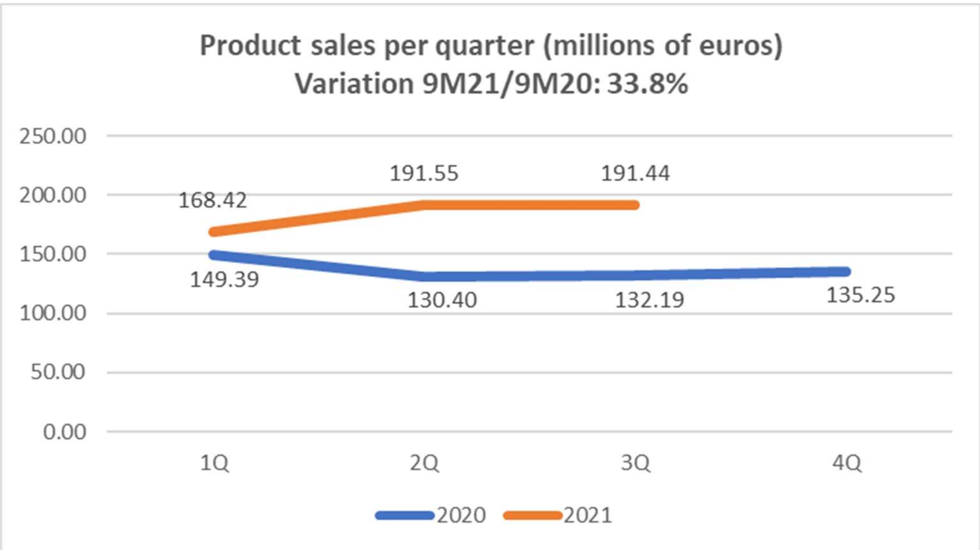
- **2021 will be clearly better than 2020, although we expect the high cost of energy to affect earnings in the second half of the year compared to those obtained in the first half. Our forecasts for 2021 are as follows: Billings: EUR 700 – 750 million; contribution margin: 30% – 35%; ordinary ebitda: EUR 65 – 75 million; and profit for the year: EUR 25 – 30 million.**

A. HIGHLIGHTS OF THE FIRST NINE MONTHS OF 2021 (9M21)

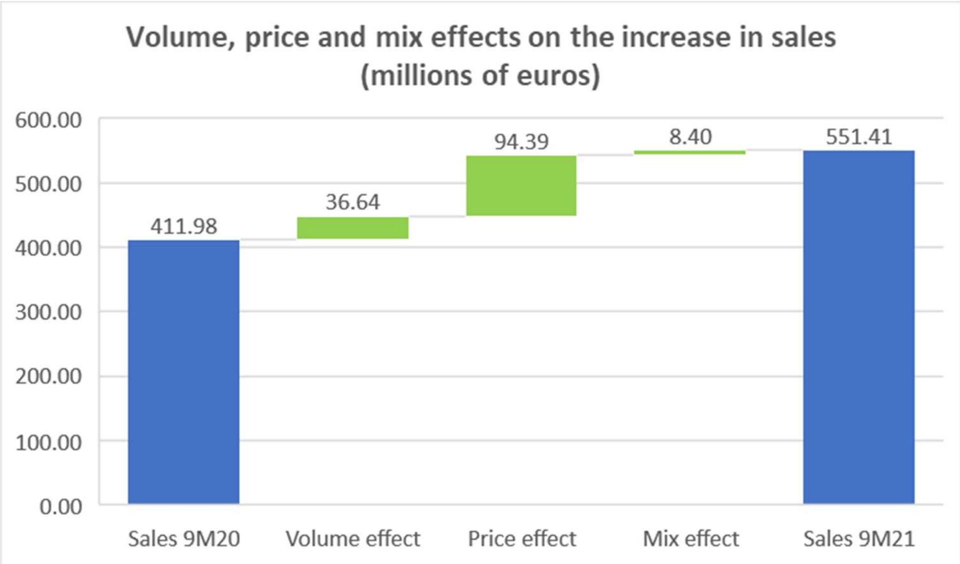
1. In the first nine months of 2021 (9M21) Ercros sold 932 thousand tonnes of manufactured products compared to 856 thousand tonnes sold in the first nine months of 2020 (9M20), an increase of 8.9%. The volume of 317 thousand tonnes in the third quarter of 2021 was 7.0% higher than that of the same quarter of 2020.



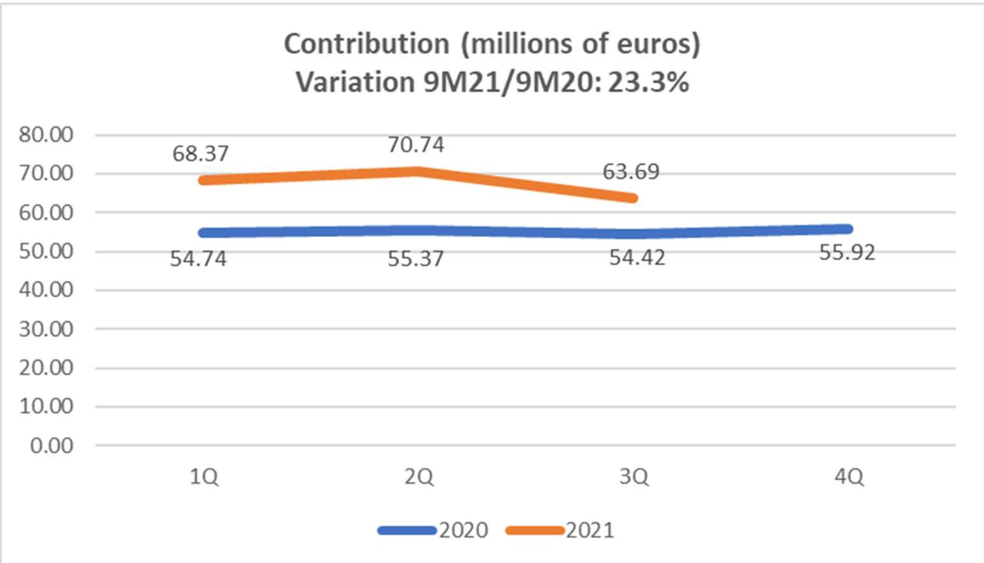
2. Product sales in 9M21 amounted to EUR 551.41 million compared to EUR 411.98 million in 9M20, which is an increase of 33.8%. Sales in the third quarter of 2021 amounted to EUR 191.44 million, up EUR 59.25 million on the same quarter of 2020; a difference very similar to that recorded in the second quarter (EUR 61.15 million), which was the most affected by covid-19.



3. The significant increase in product sales in the first nine months of 2021 compared to the same period in 2020 was due to the fact that between these two periods both the volume sold, and the average price obtained experienced considerable growth. The total increase in sales amounted to EUR 139.43 million, of which the volume effect accounted for EUR 36.64 million (a 26.3%), the price effect for EUR 94.39 million (a 67.7%) and the mix effect for EUR 8.40 million (a 6.0%).

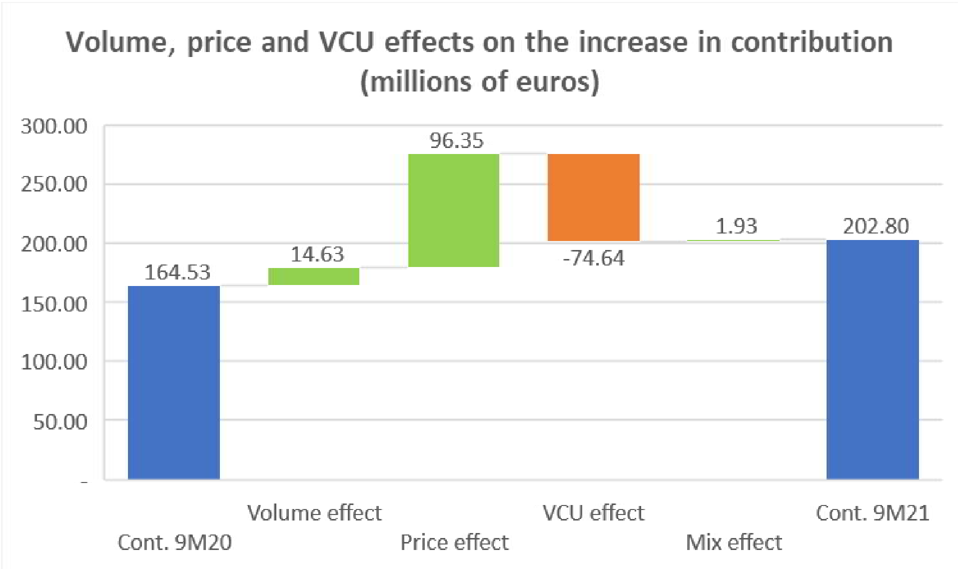


4. In the first nine months of 2021, the contribution generated by product sales and services rendered amounted to EUR 202.80 million, compared to EUR 164.53 million in the same period of 2020, which is an increase of 23.3%. Despite these good results in cumulative terms, the increase in variable costs, and in particular energy supplies, caused a clear decline in the contribution for the third quarter of 2021, which at EUR 63.69 million was down 8.4% on the average for the first two quarters of the year.

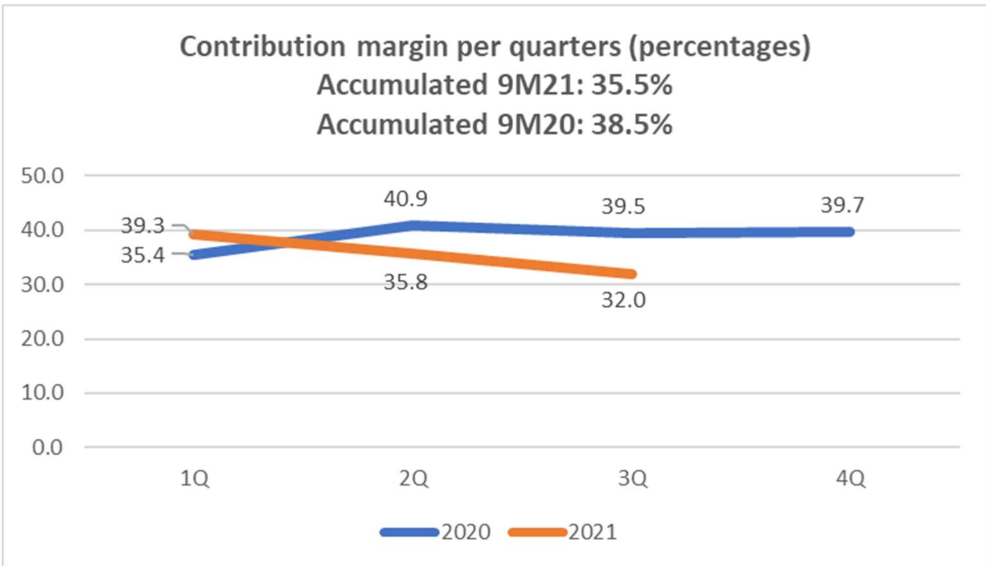


Contribution: (product sales + services rendered - procurements - supplies + change in inventories).

5. In the first nine months of the year, the price effect of EUR 96.35 million on the contribution more than offset (generating an excess of EUR 21.70 million) the negative effect of EUR -74.64 million of the variable costs per unit, caused by the increase in energy and raw material costs. A net positive volume effect (positive as regards the volume of products sold and negative as regards the volume of raw materials and supplies) of EUR 14.63 million and a mix effect of EUR 1.93 million must be added to this excess of EUR 21.70 million. This effect totalled EUR 38.27 million, which raised the contribution from EUR 164.53 million in 9M20 to EUR 202.80 million in 9M21.

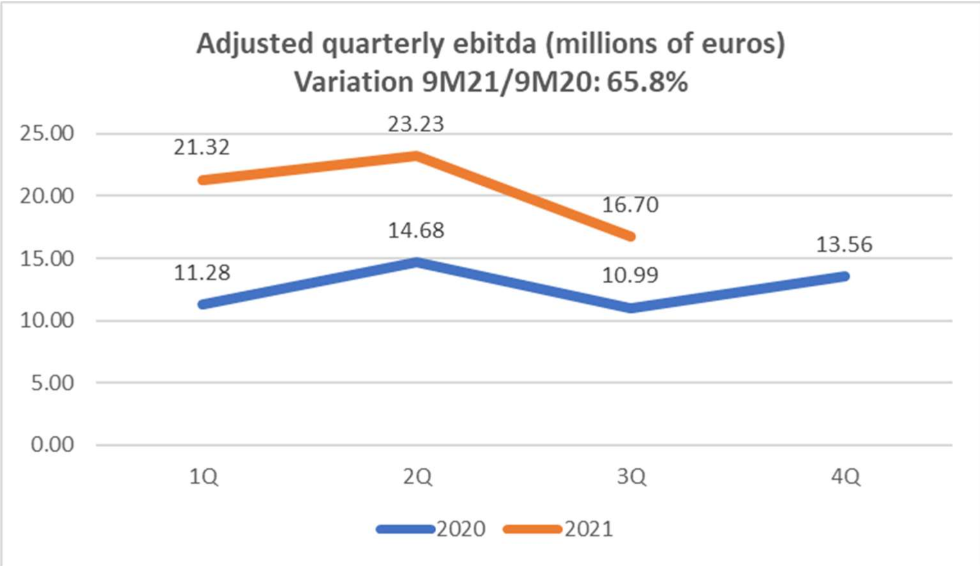


6. Despite the significant increase in absolute contribution documented in points 4 and 5, the contribution margin (contribution over product sales and services rendered) decreased from 38.5% in 9M20 to 35.5% in 9M21. The explanation for this apparent contradiction is that sales increased more than the contribution. The absolute contribution increased by 23.3% between 9M20 and 9M21, while sales plus services rendered rose by 33.4%, which is why the contribution margin decreased by 7.6%. However, the contribution per tonne sold increased by 13.2% in 9M21 compared to 9M20.



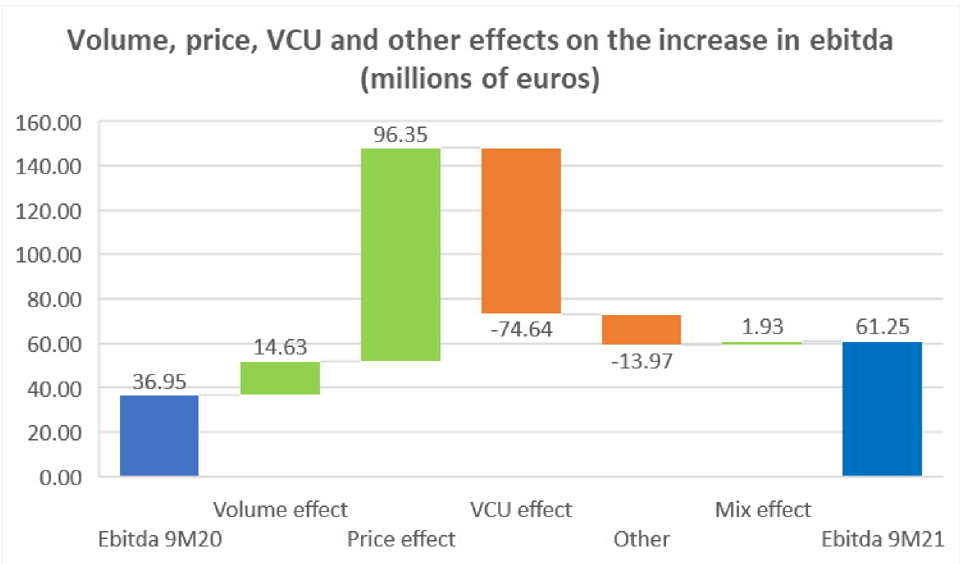
Contribution margin: contribution / (product sales + services rendered).

7. Adjusted ebitda for 9M21 was EUR 61.27 million compared to EUR 36.95 million in 9M20, an increase of 65.8%. Ebitda for the third quarter of 2021 was clearly affected by the higher costs, and amounted to EUR 16.70 million, 25.0% below the average for the first two quarters of that year. In any case, ebitda for the third quarter was 51.9% higher than for the third quarter of 2020 because of strong sales during this period in terms of volume and prices.



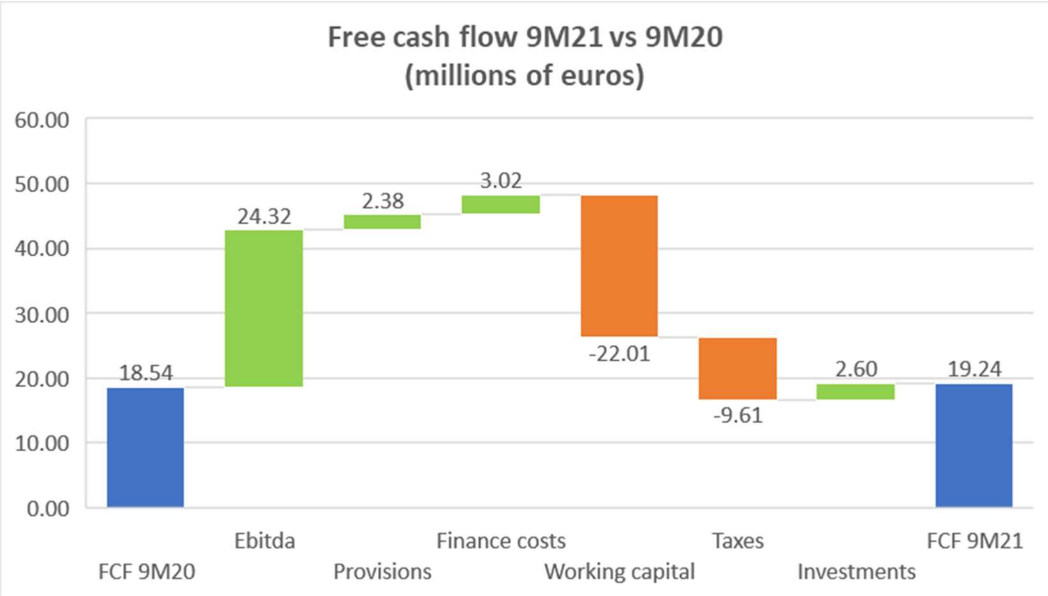
Adjusted ebitda: ebitda excluding atypical items. See the table "Reconciliation of ebitda" in Section D of this earnings release.

8. The increase in adjusted ebitda is mainly due to the significant boost resulting from the increase in the contribution, which in the following graph is represented by the volume, price, VCU and mix effects, with a net contribution to ebitda of EUR 38.27 million, far exceeding the negative impact of EUR 13.97 million caused by the net effect of the increase in other income and other operating costs, including the rise in international freight rates (EUR 7.00 million) and fixed costs (EUR 3.41 million).

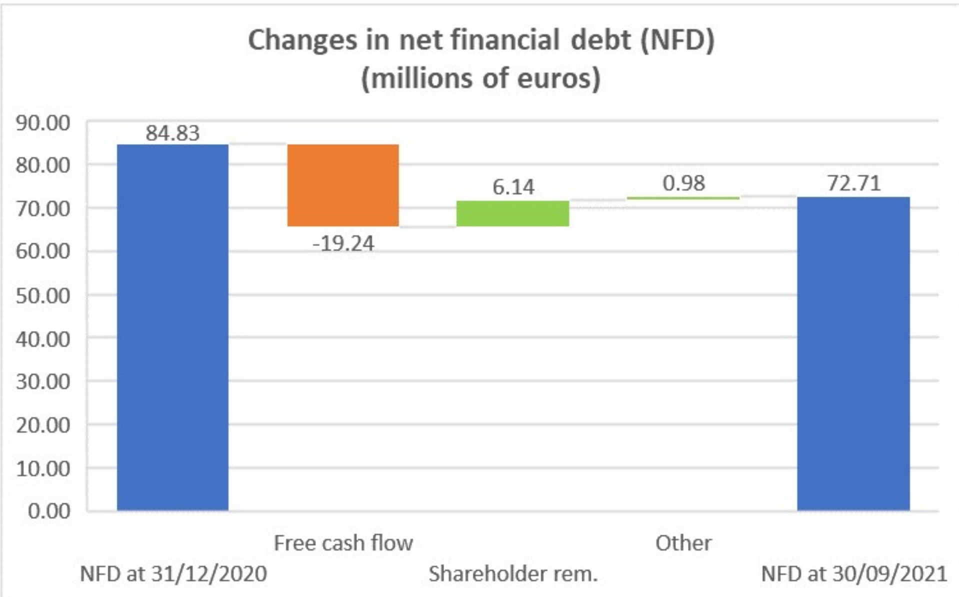


VCU effect: effect of changes in variable costs per unit.
Other: changes in services rendered, other income, fixed and atypical costs.

9. In the first nine months of 2021, Ercros generated free cash flow (FCF) of EUR 19.24 million, EUR 700 thousand more than the EUR 18.54 million generated in the same period of 2020. The reasons for this small change in FCF, starting with those that generate funds, are as follows: i) higher ebitda obtained in 9M21 compared to 9M20, which generated an additional EUR 24.32 million; less provisions, EUR 2.38 million; lower net finance costs, EUR 3.02 million; and fewer investments, EUR 2.60 million. And those that reduce funds are: i) greater need for working capital due to the increase in sales and the rise in the price of inventories, EUR -22.01 million; and ii) decrease in tax refunds, EUR -9.61 million, compared to the same period in 2020.



10. Ercros began 2021 with net financial debt of EUR 84.83 million. In the first nine months of the year, the main debt-reducing effect was the FCF generated in that period amounting to EUR -19.24 million; the increase in debt was caused by shareholder remuneration of EUR 6.14 million and other minor factors for a net value of EUR 0.98 million. In total, during the first nine months of this year, Ercros reduced its debt by EUR 12.12 million, bringing it to EUR 72.71 million at 30 September 2021.



11. Profit for the first nine months of 2021 amounted to EUR 26.17 million, 5.7 times higher than the profit for 9M20, which was EUR 4.58 million.

12. At 30 September 2021, Ercros had liquidity amounting to EUR 98.61 million, of which EUR 47.62 million were in cash and EUR 50.99 million were undrawn financing facilities.

B. COVID-19 PANDEMIC

The covid-19 pandemic in Spain has clearly entered a containment phase, with a low level of infection and a relatively low impact on the healthcare system. This is supported by a high vaccination rate. Official policy continues to insist on maintaining basic precautions regarding individual behaviour, but restrictions on mobility have virtually disappeared. As a result, economic activity has clearly recovered both in Spain and in the rest of Europe.

Throughout the pandemic, Ercros has kept all its facilities active and has been able to meet the needs of all its customers. In addition, through the covid-19 monitoring committee and in close contact with employee representatives, the Company continuously monitors the health of its employees and updates preventive measures in accordance with the standards and recommendations issued by the health authorities. As of 23 October, a total of 1,233 employees at Ercros were fully vaccinated, which is 93% of the workforce.

C. DIVERSIFICATION, DIGITALISATION AND DECARBONISATION PLAN: 3D PLAN

On 28 January, the Company presented its **3D Strategic Plan: Diversification, Digitalisation and Decarbonisation**, which aims to transform Ercros into a sustainable company over time. Sustainable through the diversification of its production structure, which will allow it to smooth out the cyclical volatility inherent to the chemical sector. Sustainable through the digital transformation and automation of its processes, which will make it more competitive. And sustainable because of bringing its environmental performance into line with official European and Spanish requirements to curb climate change.

The 3D Plan contains 20 projects that, over the 2021-2029 period, will entail a cumulative investment of EUR 92 million and also an additional cumulative ebitda of EUR 194 million. The Plan’s investments are being carried out as scheduled.

With regard to diversification, the 15% increase in the dipentaerythritol manufacturing capacity at the Tortosa factory was fully completed at the beginning of April, while the projects to expand the sodium chlorite plant at the Sabiñánigo factory and to build a new extraction plant at the Aranjuez factory for the manufacture of two new antibiotics (vancomycin and gentamicin) are 50% completed, and are expected to come online in the second half of 2022.

Regarding digitalisation, progress has been made on projects to improve infrastructure and cybersecurity; optimisation of the work environment; automation, sensorisation and updating of control systems in the production area; and defining the technical and organisational requirements of the BigData/IoT projects in the production and maintenance areas, and the B2B project in the logistics area.

In the dimension of decarbonisation, the projects of energy efficiency improvement at Tortosa factory (unit of recovery of the residual heat generated in the plant of polyols and replacement of the compression equipment) and of solvents consumptions optimization at Aranjuez factory are expected to be completed in the fourth quarter of 2021.

D. INTERIM FINANCIAL STATEMENTS

The following tables show the financial statements for the first nine months of 2021 on which the highlights described in section A of this earnings release are based: consolidated income statement; reconciliation of adjusted ebitda; and economic analysis of the balance sheet.

Income statement

In relation to the consolidated income statement for the first nine months of 2021, in addition to that indicated in section A of this earnings release, the following should be noted:

Services rendered increased by 22.4% due to higher customer demand. Other income rose by 34.1% mainly due to the increase in the amount of CO_2 emission allowances allocated free of charge.

The total amount of procurements plus the change in finished goods and work in progress increased by 31.4% due to the significant increase in the price of raw materials, including the price of ethylene, EDC, and methanol.

Supplies rose by 73.2% mainly due to the sharp rise in energy prices.

Staff costs increased by 3.0% vs. 9M20 due to the slight increase in the average workforce and the increase in the collective bargaining agreement applicable as from June 2021.

The 20.6% increase in “Other operating expenses” in the first nine months of 2021 is due to the increase in transport expenses, mainly as a result of higher international freight rates and, by symmetry with “Other income”, the CO_2 emission expenses, as the price of emission allowances per tonne of CO_2 emitted has more than doubled compared to the same period of the previous year.

Provisions and other extraordinary expenses remained at a level similar to those of 9M20. The amount of the provisions is updated at each accounting close based on the commitments assumed in relation to environmental remediation and the new information available on other commitments and obligations.

Depreciation and amortisation decreased by 5.4% compared to the same period of the previous year due to lower depreciation of property, plant and equipment and amortisation of rights to use leased assets.

The net finance expense fell by 43.1% due to the lower average cost of debt, exchange rate gains and a decrease in impairment losses recognised for accounts receivable. Finally, the income tax expense increased because of the higher profit obtained.

Balance sheet

Non-current assets increased by EUR 1.88 million, due to the greater weight of investments in relation to depreciation and the reduction of deferred tax assets.

Working capital rose mainly due to the increase in accounts receivable, which in turn resulted from the higher billings, and the increase in the value of inventories due to the higher cost of raw materials.

Equity rose by EUR 20.01 million, which is the net result of the profit of EUR 26.17 million for the first nine months of 2021, and the loss on the treasury share buy-back amounting to EUR 5.82 million, and the premium paid for attending the annual general meeting amounting to EUR 0.34 million.

Net financial debt dropped by EUR 12.12 million. As seen above, this decrease is the result, on the one hand of the free cash flow generated amounting to EUR 19.24 million, and, on the other hand, of shareholder remuneration amounting to EUR -6.14 million, and other non-monetary changes amounting to EUR -0.98 million.

Shareholder remuneration

As part of the shareholder remuneration policy for 2021-2024, at 30 September 2021 the Company had repurchased 1,951,612 treasury shares for EUR 5.82 million, to be redeemed against the 2021 pay-out, which includes the distribution of up to 50% of net profit, subject to the payment of a minimum dividend of 18% and compliance with the conditions set out in the policy, all of which are expected to be met by the end of 2021.

INCOME STATEMENT

Thousands of euros	9M21	9M20	%
Income	**587,074**	**437,685**	**34.1**
Sale of finished products	551,414	411,987	33.8
Services rendered	19,429	15,869	22.4
Other income	11,956	8,913	34.1
Reversal of provisions and other extraordinary income	1,270	916	38.6
Increase in inventories of finished goods and work in progress	3,005	-	-
Expenses	**-527,262**	**-402,660**	**30.9**
Procurements	-279,971	-196,335	42.6
Reduction in inventories of finished goods and work in progress	-	-14,390	-
Utilities and supplies	-91,081	-52,599	73.2
Staff costs	-65,123	-63,217	3.0
Other operating expenses	-88,355	-73,276	20.6
Allocation of provisions and other extraordinary expenses	-2,732	-2,843	-3.9
Ebitda	**59,812**	**35,025**	**70.8**
Depreciation and amortisation	-21,212	-22,428	-5.4
Ebit	**38,600**	**12,597**	**×3.1***
Net finance expense	-3,951	-6,940	-43.1
Profit before tax	**36,649**	**5,657**	**×6.5***
Income taxes	-8,483	-1,080	×7.9*
Profit for the period	**26,166**	**4,577**	**×5.7***

* Times the 2021 figure exceeds the 2020 figure (in absolute terms).

RECONCILIATION OF ADJUSTED EBITDA

Thousands of euros	9M21	9M20	%
Ebitda	**59,810**	**35,025**	**70.8**
Atypical income items	-1,270	-916	38.6
Atypical expense items	2,732	2,843	-3.9
Adjusted ebitda	**61,272**	**36,952**	**65.8**

ECONOMIC ANALYSIS OF THE BALANCE SHEET

Thousands of euros	30/09/21	31/12/20	Change	%
Non-current assets	**358,445**	**356,562**	**1,883**	**0.5**
Working capital	**35,514**	**29,839**	**5,675**	**19.0**
Current assets	199,672	148,609	51,063	34.4
Current liabilities	-164,158	-118,770	-45,388	38.2
Funds used	**393,959**	**386,401**	**7,558**	**2.0**
Equity	**304,227**	**284,215**	**20,012**	**7.0**
Net financial debt	**72,709**	**84,832**	**-12,123**	**-14.3**
Provisions and other borrowings	**17,023**	**17,354**	**-331**	**-1.9**
Origin of funds	**393,959**	**386,401**	**7,558**	**2.0**

BREAKDOWN OF NET FINANCIAL DEBT

Thousands of euros	30/09/21	31/12/20	Change	%
Loans	67,303	66,471	832	1.3
Obligations under finance leases	6,677	9,145	-2,468	-27.0
Working capital financing	48,856	55,794	-6,938	-12.4
Gross financial debt	**122,836**	**131,410**	**-8,574**	**-6.5**
Cash	-47,624	-39,931	-7,693	19.3
Deposits	-2,503	-6,647	4,144	-62.3
Net financial debt	**72,709**	**84,832**	**-12,123**	**-14.3**

E. RESULTS BY BUSINESS

As already mentioned, the recovery in demand that began in the fourth quarter of last year has continued very solidly throughout the first nine months of 2021, although it has been accompanied by a sharp rise in the global price of raw materials, energy, and sea freight. In addition, there have been repeated supply chain failures and events of force majeure in a number of sectors and countries.

With regard to the **chlorine-related businesses**, despite the adverse environment mentioned above and the sharp rise in energy costs, the plants have been able to maintain a steady high operating ratio, which has allowed production and sales to increase significantly. This high utilisation rate, coupled with strong demand and the increase in price of some of the products sold —most notably PVC and, more recently, caustic soda— led to a 35.8% increase in the division’s sales in 9M21 compared to the same period last year. Accordingly, on the whole variable costs, despite the substantial increase in energy —especially from the third quarter onwards— and in raw materials, increased less than sales, causing the division’s adjusted ebitda to grow by 90.0%, from EUR 19.15 million in 9M20 to EUR 36.37 million in 9M21; with an ebitda/sales ratio of 10.7%.

This environment of strong demand and scarce supply has also affected the **intermediate chemicals** division. Its sales grew by 49.3%, an increase higher than that experienced by the costs of energy, sea transport and raw materials, including urea, cellulose, melamine, and methanol. Adjusted ebitda in 9M21 was therefore 2.3 times higher than in 9M20 and the division's ebitda/sales ratio reached 13.8%.

In the first nine months of 2021, the **pharmaceuticals** division was negatively affected both by Filomena, the storm that caused significant property damage and production losses, and by the drop in demand for some of the division's products, most notably fusidic acid, azithromycin, and clarithromycin. The drop in demand is a consequence of the effects of the covid-19 pandemic, the appearance of new strains and the various restrictions put in place in countries that are important destinations for our products. This demand started to pick up again in the third quarter and we expect it to gain further momentum in the coming quarters. However, the division's sales fell by 17.4% in 9M21 compared to 9M20, which, together with the increase in the cost of raw materials and energy, led to an 87.2% drop in adjusted ebitda and an abnormally low ebitda/sales ratio of 2.6%.

In the third quarter of 2021, the pharmaceuticals division began to expand its production capacity of pea salt, an intermediate product used in the manufacture of fosfomycins, which will increase the autonomy of the business in view of potential shortages and market volatility of this intermediate product. During this quarter, the production of high-density fosfomycin trometamol was also developed and the validation batches of two new sterile products were manufactured.

RESULTS BY BUSINESS

Thousands of euros	9M21	9M20	%
Chlorine derivatives division			
Product sales	341,385	251,383	35.8
Adjusted ebitda	36,374	19,147	90.0
Adjusted ebitda/product sales (%)	10.7	7.6	39.9
Intermediate chemicals division			
Product sales	173,095	115,903	49.3
Adjusted ebitda	23,946	10,339	131.6
Adjusted ebitda/product sales (%)	13.8	8.9	55.1
Pharmaceuticals division			
Product sales	36,934	44,701	-17.4
Adjusted ebitda	952	7,466	-87.2
Adjusted ebitda/product sales (%)	2.6	16.7	-84.6

F. OUTLOOK FOR THE REST OF THE YEAR

In our forecast in the earnings release for the first half of the year (28/07/2021) we warned of four risks that should be considered.

The first risk we mentioned was "the continuance or increase in the already high price of electricity, which could erode Ercros' profit to some extent, given the electro-intensive nature of the Company". Unfortunately, this risk has materialised: the average price of electricity in the Spanish wholesale market was EUR 67/MWh last May, while that of December is expected to reach EUR 178/MWh (data from OMIP, 5/11/2021).

The second risk we pointed out was "the acceleration of the increase in the price of raw materials already observed in the first half of the year". This risk has also materialised, mainly due to the recovery process that has taken place after the peaks of the covid-19 pandemic and particularly from the second quarter of 2021.

The third risk was "worsening international logistical conditions and, in particular, the increase in sea freight rates and the growing shortages of containers", which unfortunately has materialised with no improvement currently in sight.

Fortunately, regarding the fourth and last risk, the pandemic did not worsen due to the delta variant of the covid-19 coronavirus and, therefore, its consequent negative impact on the Spanish economic recovery did not take place. But we must remark, not without some concern, the worsening of the infection rate in some European countries that we are presently observing.

Likewise, the rise in the cost of raw materials and supplies has been so widespread and has affected so many countries that markets have had no choice but to accept that these costs would be passed on to product prices.

The combined effect of these problems is already being felt (as we have seen above) in the earnings for the third quarter of this year and will inevitably put pressure on earnings for the last quarter of the year. 2021 will be clearly better than 2020, although we expect the high cost of energy to negatively affect earnings in the second half of the year compared to those obtained in the first half.

Our forecasts for 2021 are as follows: Billings: EUR 700 – 750 million; contribution margin: 30% – 35%; ordinary ebitda: EUR 65 – 75 million; and profit for the year: EUR 25 – 30 million.

Barcelona, November 10, 2021