Q1 2019 Results

deoleo

Contents

H2 Highlights

Markets

- The IOC's forecasts of a 3,1 mm tons 2018-2019 harvest have been confirmed, Spain being the main producer with an output of 1.7 million tons, representing 55% of world production.
- The consumption of olive oil in the retail channel, according to data from Nielsen and IRI, shows a tendency towards recovery in the first quarter of the fiscal year, mainly as a consequence of the reduction of sales prices to the consumer, associated to the reduction of prices of raw material at source. Our market share during this period improves in the Spanish and American markets, while Italy continues in negative evolution.
- The wholesale prices of raw materials continue falling since the start of the present harvest, and they are currently around 25% below prices a year ago. This reduction in prices occurs in all varieties of olive oil.

H2 Highlights

- After the last two quarters of the last fiscal year being very negative in terms of outcome, we observe a change in trend in this first quarter of 2019, both at a gross margin as well as EBITDA levels, that produce an outcome above our initial estimates.
- The sales volume has been in line with budget in all of the business units (BU) except Southern Europe (due to the situation in the Italian market), although the sales figure in euros is lower than the corresponding 2018 quarter, because of pass-through to customers of lower raw material prices.
- The mentioned reduction of raw material prices, along with the work done in WC optimization, has allowed us to post positive cash-flow generation during this period.
- At the end of this quarter, the Group has a solid cash position (€79 million) and has reduced its net financial debt by €3.3 million.

Outcome summary

Raw Material

	31-Mar-19	31-Mar-18	YTD
	€/Tn	*€/Tn*	*%*
Extra Virgin	2.413	3.069	*-21,4%*
Virgin	2.150	2.817	*-23,7%*
Lampante	2.007	2.710	*-25,9%*

Source: Pool Red

- Raw material prices at source consolidate at levels around 25% lower.
- Prices are currently stable, except those pertaining to extra virgin quality where there is less supply.

Profit and Loss

	31-Mar-19	31-Mar-18	YTD
	m€	*m€*	*%*
Net Sales	132.233	161.506	*-18,1%*
EBITDA	6.068	8.574	*-29,2%*
Net Results	(7.511)	(1.471)	*-410,5%*

- Significant recovery of EBITDA in comparison to the last quarter of 2018. In the first quarter of the fiscal year, we have reached an EBITDA of €6.1 million relative to the €2.2 million of the second half of the previous fiscal year.
- EBITDA is €2.5 million lower than in the same period in the previous fiscal year, mainly due to the increase in advertising investment to support our brands of €1.6 million, and the consolidation of our strategy of value and quality versus volume.
- The sales figure is reduced by 18% due to the 12% decrease in unit sale price (associated with the drop in price of raw material), while the unit cost has been reduced by 17%, leading to an improvement of 9% in gross unit margin versus the same period of 2018.

Other financial data

	31-Mar-19	31-Dec-18	YTD
	m€	*m€*	*%*
Net. Financ. Debt.	552.877	556.218	*-0,6%*
Working Capital	86.528	93.755	*-7,7%*

- The positive EBITDA, along with the optimization of working capital, has allowed us to generate positive cash-flow during this first quarter, thereby reducing the net debt of the Group and maintaining a solid liquidity position.

Raw materials and evolution of consumption

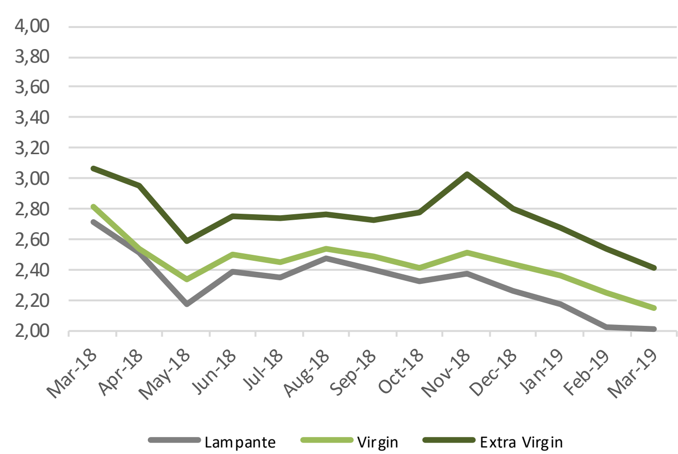
Evolution of the Raw Material

- The estimates to date of the 2018–2019 harvest issued by the IOC for the current harvest are 5% lower than the previous.
- As we anticipated in our previous reports, the current year the prices of olive oil have fallen mainly due to higher supply in Spain.

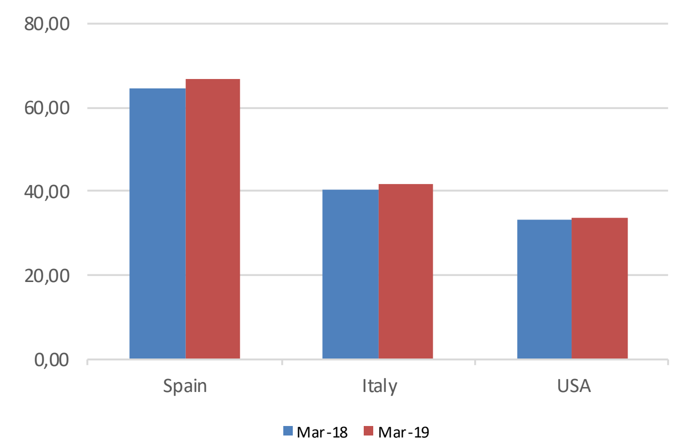
Evolution of consumption

- The consumption of olive oil in the retail channel, according to the data from Nielsen and IRI, shows a trend of consumption recovery for the first quarter of the fiscal year, mainly as a consequence of lower retail prices associated to price reductions of raw material at source.
- Our market share during this period improves in the Spanish and American markets, while Italy continues in negative evolution.

Olive Oil Price Evolution *(€/Tn)*



Olive Oil Consumption Evolution *(MMl)*



Profit and loss statement

	31-Mar-19	31-Mar-18	YTD
	m€	*m€*	*%*
Net Sales	**132.233**	**161.506**	***-18,1%***
Gross Margin	23.700	23.378	*1,4%*
OPEX	(17.632)	(14.805)	*19,1%*
EBITDA	**6.068**	**8.574**	***-29,2%***
EBITDA/Sales	*4,6%*	*5,3%*	
Net Results	**(7.511)**	**(1.471)**	***-410,5%***

- In the first quarter of 2019 sales volume, in relation to the same period of the former fiscal year, is lower mainly due to the situation of the market position of the BU's in North America and Southern Europe (Italy). This situation, along with the drop in sales prices due to passing through reductions in raw materials prices at source, causes a decrease in the sales figure by 18%.
- However, the aforementioned decrease in raw materials prices, the positive evolution of the €/$ exchange rate, the consolidation of the change of distribution model in India and the efficiency measures implemented, allow us to improve gross margin, both in absolute and relative terms (from 14% in the first quarter of 2018 to 18% in the current first three months this year).
- The operating expenses have increased as a consequence, mainly, of greater investment in advertising and marketing expenses in support of our brands.
- The net negative outcome for the quarter is particularly greater than last year's due higher negative financial outcome as well as for increased expenses for Corporate Tax.

Results per business units

BU	Sales Q1 2019	Sales Q1 2018	Sales YTD	EBITDA Q1 2019	EBITDA Q1 2018	EBITDA YTD	Margin Q1 2019	Margin Q1 2018
	m€	m€	%	m€	m€	%	%	%
SE	60.930	79.447	-23%	3.300	4.546	-27%	5,4%	5,7%
NE	16.254	15.579	4%	402	368	9%	2,5%	2,4%
NA	27.712	34.988	-21%	3.136	3.854	-19%	11,3%	11,0%
International	25.669	26.381	-3%	4.170	3.644	14%	16,2%	13,8%
Operative, Corporate & Others	1.668	5.111	-67%	(4.939)	(3.839)	-29%	-296,0%	-75,1%
Total	132.233	161.506	-18%	6.068	8.574	-29%	4,6%	5,3%

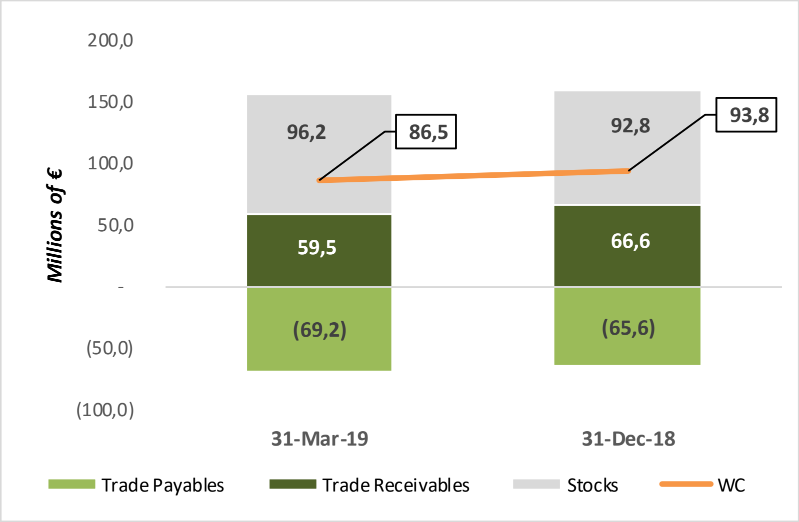
- In the South Europe BU, Spain holds sales in volume terms, increases gross margin, and its EBITDA is financing the increase in advertising expenses. On the other hand, in Italy we continue to have a situation of loss of volume and unit margin.
- In Northern Europe, we see the consolidation of the recovery that began in the last fiscal year, that is apparent in the first quarter where we increased volumes, sales, margins and EBITDA, in comparison to the same period of the last fiscal year.
- International Markets shows notable improvement in comparison to the first quarter of 2018 as a consequence of the implementation of the new business model in India, that is already starting to generate the expected positive results, and due to the good performance of other markets, especially in Middle East.
- In the BU of North America, especially in the United States, margins improve because of our orientation to value and the positive evolution of the exchange rate. However, in this market, we observe a reduction in sales in comparison to the same period of the previous fiscal year (as a consequence of the "high volumes at low prices, at the cost of quality strategy" followed by some competitors). Nonetheless, sales volumes have stabilized for several months.

Balance Sheet

Balance Sheet data

	31-Mar-19	31-Dec-18	YTD
	m€	*m€*	*%*
Non Currents Assets	583.801	583.914	*0,0%*
Working Capital	86.528	93.755	*-7,7%*
Equity	29.366	35.310	*-16,8%*
Net Financial Debt	552.877	556.218	*-0,6%*

Working Capital



- The reduction in raw material prices at source, the lower volume of sales and the improvement in the management of working capital in comparison to the previous fiscal year, has allowed us to significantly reduce our investment in working capital, significantly helping the generation of cash-flow in this quarter.
- The lower working capital requirements lead to a reduction in net financial debt, lower by €3.3 million in comparison to the close of the 2018 fiscal year.

Cash generation

Cash generation management analysis

	Q1 2019	Q1 2018	YTD
	m€	*m€*	*%*
Cash at the begining	47.947	23.424	
EBITDA	6.068	8.574	*-29,2%*
Changes in WC	7.214	(16.172)	*-144,6%*
Interest Payment	(6.592)	(6.896)	*-4,4%*
Tax Income Payment	1.783	(1.563)	*-214,0%*
NRI and others	608	(1.730)	*-135,1%*
CF Investment Activities	(1.817)	(600)	*202,8%*
CF Financing Activities	23.775	20.938	*-13,5%*
YTD Cash generated	**31.038**	**2.551**	***1116,7%***
Cash at the end	78.985	25.975	

- In the first quarter of the fiscal year, we generated €13.3 million of operational cashflow and €7.3 million of cashflow after payment of interests, taxes and investments. This generation of cashflow is due to the EBITDA obtained and the good management of working capital. At the end of the quarter, we have a solid cash position (€79 million).
- We comply with our financial covenants due on or by March 31, 2019.

Conclusions

- After the unsatisfactory results of the last two quarters of the 2018 fiscal year, it seems we have reversed this trend, closing the first quarter of the fiscal year above our initial estimates.

- Highlights are the recovery of the BU of North America (where we have obtained an EBITDA of €3.1 million in this first quarter, while the EBITDA of the second semester of 2018 amounted to €1.8 million only), and the BU International (where the EBITDA obtained in the first three months of 2019 has climbed to €4.2 million, in comparison to €5.5 million in the last six months of the former fiscal year).

- In the BU of Northern Europe, where we have generated €0.4 million of EBITDA (in the last quarter of 2018 the EBITDA in this BU was zero), we are gaining distribution through agreements reached with the main retail chains and improving our turnover levels, while in Spain we continue to consolidate a business model that has been giving us good results for several years.

- As indicated in the reports in the filings of the last fiscal year, the oil markets in the United States and Italy continue to show a negative trend in terms of volume, quality of product and loss of profitability in that category. The investment and time necessary to revert this trend in these markets will be greater than initially estimated.

- During the first quarter of the fiscal year, we have generated €13.3 million of operational cashflow and €7.3 million of cashflow after payment of interests, taxes and investments. This generation of cashflow has only been possible thanks to the €6.1 million of EBITDA obtained and the good management of working capital. At the end of the quarter, we have a solid cash position (€79 million) and we have reduced our net financial debt by €3.3 million.

- The Board of Directors that met on April 25, 2019, with the objective to restore the equity balance of the parent company of the group, has proposed to the shareholders a reduction of share capital, by reducing the nominal value of each and every one of the shares that comprise the share capital of the company. Pursuant to this agreement, the proposed reduction will be of 137,676 thousands of euros, which will leave the nominal value per share at 0.2 cents of euro, an mount the management considers more adequate based on the current equity situation of the company. It is expected that this reduction of capital will be approved at the General Shareholder Meeting to be held on June 3, 2019, which will be used to compensate the losses of the previous fiscal years and the fiscal year of 2018. Once these measures are adopted, Deoleo, S.A. will have overcome the situation described in article 363 of the Texto Refundido de la Ley de Sociedades de Capital as a cause for liquidation.

Annex I: Profit and loss statement

Profit and Loss Statement
(Thousand of €)

	Q1 2019	Q1 2018	YTD
Net Sales	**132.233**	**161.506**	**-18,1%**
COGS	(108.533)	(138.128)	-21,4%
Gross Margin	**23.700**	**23.378**	**1,4%**
Staff Costs	(11.482)	(10.662)	7,7%
OPEX	(6.150)	(4.143)	48,5%
Operating Expenses	**(17.632)**	**(14.805)**	**-19,1%**
EBITDA	**6.068**	**8.574**	**-29,2%**
% Sales	***4,6%***	***5,3%***	
Amortization and Depreciation	(3.812)	(3.960)	-3,7%
EBIT before NRI	**2.256**	**4.614**	**-51,1%**
NRI	(490)	(213)	129,7%
EBIT	**1.766**	**4.401**	**-59,9%**
% Sales	***1,3%***	***2,7%***	
Financials Results	(8.073)	(6.231)	29,6%
Profit (Loss) for the period	**(6.307)**	**(1.830)**	**-244,6%**
Income Tx	(1.204)	359	435,2%
Profit (Loss) before Tax	**(7.511)**	**(1.471)**	**-410,5%**
Attributable Profit (Loss) for the period	**(7.511)**	**(1.471)**	**-410,5%**

Annex II: Balance Sheet

Balance Sheet
(Thousand of €)

	31-Mar-19	31-Dec-18
Non-Current Assets	583.801	583.914
Stocks	96.221	92.783
Payables	59.479	66.552
Other current assets	15.680	17.475
Cash and Cash Equivalents	78.985	47.947
Total Assets	**834.166**	**808.671**
Equity	29.366	35.310
Financial liabilities (preferred shares)	42.453	42.453
Long Term Debt	569.927	542.037
Provisions	17.243	17.420
Deferred tax liabilities	85.653	85.305
Short Term Debt	19.482	19.675
Receivables	69.172	65.580
Other current liabilities	870	891
Total Liabilities	**834.166**	**808.671**

Annex III: Net Financial Debt

Net Financial Debt
(Thousand of €)

	31-Mar-19	31-Dec-18	YTD
	m€	*m€*	*%*
Long Term Debt	**612.380**	**584.490**	***4,8%***
Syndicated Loan	*567.988*	*541.302*	*4,9%*
Preferred Shares	*42.453*	*42.453*	*0,0%*
Other Debt	*1.939*	*735*	*163,7%*
Short Term Debt	**19.482**	**19.675**	***-1,0%***
Financial Debt	**631.862**	**604.165**	***4,6%***
Cash and Cash Equivalents	(78.985)	(47.947)	*-64,7%*
Net Financial Debt	**552.877**	**556.218**	***-0,6%***

Disclaimer

- *This document contains future statements on intentions, expectations and forecasts of Deoleo, S.A. or its management on the date on which it was written.*
- *These future statements or forecasts are not guarantees of future fulfilment, as they are conditioned by risks, uncertainties and other relevant factors which could cause the developments and end results to differ materially from those expressed in these intentions, expectations or forecasts.*
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- *The documentation and public information shared or registered by Deoleo in the supervisory organisations and in particular in the Spanish National Securities Market Commission may be viewed.*
- *This document contains unaudited financial information, so it is not definitive information and may be modified in the future.*
- *In accordance with the European Securities and Markets Authority (**ESMA**), below we include a **description of the key indicators (APMs) used in this report**. These indicators are used recurrently and consistently by the Group to explain the evolution of its activity, and their definition has not been changed:*
    - ***EBITDA:** The earnings before depreciation, amortisation and earnings due to disposals and transfers of real estate and non-current assets maintained for sale and corresponding impacts as well as other non-recurring income and expenses (the elements considered non-recurring are those primarily associated with the comprehensive redesign of the Group's global model affecting processes, systems and structures that allow a more solid company and growth to be maintained).*
    - ***Net Financial Debt:** Gross financial debt minus cash and other equivalent liquid assets.*
    - ***Working capital (rolling fund):** Part of the non-financial working capital which is financed by permanent resources. It is calculated as: Stocks + Commercial debtors and other accounts payable – Commercial creditors and other accounts due.*