

PRESS RELEASE

Panariagroup : increase in turnover confirmed also for the third quarter

PANARIAGROUP Industrie Ceramiche S.p.A.: the Board of Directors approves the Draft Financial Statements at 30 September 2019.

- **Consolidated net revenues from sales totalled Euro 292.0 million, marking an increase of 4.0% compared to September 2018.**
- **The gross operating profit was Euro 25.9 million (Euro 24.1 million as at 30 September 2018), marking an increase of 7,2% compared to September 2018.**
- **The net operating profit came to Euro 0.1 million (loss of Euro 0.9 million as at 30 September 2018).**
- **The consolidated net result was a loss of Euro 1.8 million (loss of Euro 2.4 million as at 30 September 2018).**

The Board of Directors of Panariagroup Industrie Ceramiche S.p.a, specialized in the production and distribution of ceramic material for high-end floor and wall coverings, today approved the Financial Statements at 30 September 2019, drafted in accordance with International Financial Reporting Standards (IFRS).

The trend in the first nine months of the year was characterised by an increase in turnover (Euro 11.2 million, +4.0%), accompanied by an improvement in the Gross Operating Profit (Euro 1.8 million, +7.3%).

The increase in turnover is positive, in particular, if compared with the figure for Italian competitors for whom, in the same period, a slight contraction was noted compared to 2018 (-0.3%, source: Confindustria Ceramica).

The Italian Business Unit (+3.5%) and the US Business Unit (+8.8%) reported growth in turnover, while the Portuguese Business Unit reported a slight decrease (-2.0%).

The Group obtained good growth results in Europe (+4.1%), USA (+7.9%) and Asia (+11.6%), while the turnover in Africa was aligned to 2018, and revenues in decrease were recorded on the Italian market (-1,5%), and in Oceania (-7,8%).

The economic results of the third quarter are aligned with those of the same quarter of 2018, maintaining the positive differential on the operating margin that had accumulated in the first half of 2019 compared to the same period of the previous year.

With reference to the main Balance Sheet parameters, we note a substantial alignment of the Net Financial Position (prior to IFRS 16) and Net Working Capital with respect to September 2018.

In a context of stronger competition in the third quarter, the sales strategy was based on an increase in turnover in the USA and the safeguarding of contribution margins in the Italian Business Unit.

In addition, the quarter also includes all the expenses incurred for participation in Cersaie, the most important trade fair in the sector, held in September, where we presented our programme of large formats and large slabs in the new stands for a total of 1,800 square metres of exhibition space, with aesthetic and application innovations that allow us to remain in a highly competitive position with respect to the increasingly aggressive competitors, including the ones from emerging countries.

After a first quarter characterised by a further tightening of energy tariffs, already at particularly high levels in 2018, in the second and third quarters there was a progressive reduction that should lead us to a substantial alignment with last year's energy costs at the end of the current year.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(thousand Euros)

	30/09/2019	30/09/2018 (*)	Change €
Revenues from sales and services	292,041	280,793	11,248
Value of production	303,249	295,098	8,151
Gross operating profit	25,909	24,140	1,769
Net operating profit	139	(919)	1,058
Consolidated net result	(1,800)	(2,414)	615

“The Ceramic Industry is showing in 2019 a light slow down, particularly marked in the last quarter – said Emilio Mussini, Chairman of Panariagroup – On the other hand, our Group shows an increase of 4% in the 9 months”.

“We started to see the benefits of the careful management activity on the Italian Business Unit, and we foresee that the improvement will move on – continued Mussini – There is still a delay in the recovery of margins for the US Business Unit, but we are confident to obtain positive results in the next year, thanks to the acquired full usage of the manufacturing capacity.”.

Consolidated Revenues

Net revenues from sales totalled EUR **292.0 million**, increasing by Euro 11.2 million compared to the first half of 2018, with a positive change of 4.0%

In the main reference markets we note the following trends:

EUROPA - European markets grew on the whole by 4.1%, higher than the figure recorded by Italian competitors in the period (+1.6%).

The best performances were achieved in Germany, United Kingdom, Austria and in the Eastern European markets.

Solid growth was recorded again in the Portuguese market, further proof of the consolidated leadership of our company Gres Panaria Portugal on the domestic market.

The impact of the European markets on total revenues was **37%**.

USA - Turnover on the **US market** grew by 7.9% in Euros.

Within the context of a general slowdown in the construction sector and extremely fierce competition, this result is to be viewed in a positive light and attributed to the regional presence that the Group, through its organisations Florida Tile, Panariagroup USA and Lea North America, has established over the years.

For Italian exporters, the result was generally overall, with a drop in volumes of around 6%.

The impact of the US market on total revenues was **33%**.

ITALIA - On the **Italian market**, there was a reduction in turnover of approximately 1.5% in the nine months.

The consumption of ceramic materials in Italy has settled for several years at a level that undergoes minimal variations; over this period of time, however, the Group has always effectively monitored its market shares.

The impact of the Italian market on total revenues was **19%**.

ASIA, CANADA, SOUTH AMERICA, OCEANIA E AFRICA - In the **other markets** growth was 4% overall, thanks mainly to the driving force of the Asian markets.

Positive emphasis is to be given to the result, given that Italian competitors in these areas have suffered a decrease of 7%.

The main area of growth was the Far East, with good performances in particular in South Korea, Singapore, Hong Kong, Taiwan and Japan.

The impact of the “other markets” on total revenues was **11%**.

The turnover of the Group's **foreign markets** is therefore equal to **81%** of the total, with the share of **non-European markets** equal to **44%** of total turnover.

OPERATING RESULTS

Gross operating profit came to **Euro 25.9 million**, representing 8.5% of the Value of production (Euro 24.1 million as at 30 September 2018, equal to 8.2% of the Value of production).

The improvement in the operating result is mainly attributable to the **Italian Business Unit**, thanks to the initiatives put in place to recover the profit margins that had suffered a significant drop in 2018.

In a context of fierce competition, the commercial policies adopted have generated positive results, with an increase in turnover, combined with stable sales prices,

Also on the expenditure front, effective measures have been adopted in all company areas (commercial, logistics, production) that have allowed savings on operating costs.

The rise in energy tariffs, which had heavily impacted the whole of 2018 and the first part of 2019, has also been halted; the contracts signed suggest a significant reduction for the next quarter and for all 2020.

The **Portuguese Business Unit**, although recording a slight decrease in operating margins, maintained a solid level of profitability.

The worsening of the margins is mainly due to the decrease in sales, not enough balanced by savings on the commercial costs side.

The Portuguese BU will also benefit from the expected fall in energy prices in the coming quarters.

The economic result of the third quarter of the European Business Units is, also in 2019, affected by highly significant seasonal factors.

On the one hand, the month of August saw a significant slowdown in both sales and production, while on the other hand, the month of September included the costs for participation in Cersaie in Bologna, the most important trade fair in the sector.

The **US Business Unit** achieved results in line with 2019 and therefore still remains at unsatisfactory levels of profitability.

The result of the American BU was heavily shaped by only partial use of production capacity, until the month of August, which made it possible to significantly reduce the level of inventories.

The important growth of the Home Centres, with a very significant impact on sales volumes, will make it possible, from the fourth quarter of 2019, to ensure optimal use of the Lawrenceburg site, with an expected economic benefit, thanks to the greater absorption of fixed costs.

Net operating profit amounted to Euro 0.1 million (loss of Euro 0.9 million as at 30 September 2018).

Net financial debt prior to IFRS 16

Net financial debt (prior to the application of IFRS 16) is equal to EUR 111,5 million essentially in line with the figure as at 30 September 2018 and the previous quarter.

In the last quarter, we expect a gradual improvement in the NFP due to the expected reduction in Net Working Capital, through the reduction of inventories and the maintenance of a policy of limited investments.

Liabilities for Leased Assets - IFRS 16

This item was included in accordance with IFRS 16 and represents the value of the contractual commitments relating to leasing contracts in force at the closing date of the period and corresponds, in general, to the present value of future lease payments.

It is important to underline that about 95% of the value refers to property leases which mainly concern instrumental buildings (factories, warehouses and offices) used by Panariagroup Industrie Ceramiche S.p.A. and those used by Florida Tile Inc., including the 24 branches for direct sales.

The amount as at 30 September 2019 was down by Euro 6.0 million compared to 30 September 2018.

Equity

Shareholders' equity rose from Euro 162.6 million as at 31 December 2018 to Euro 163.9 million as at 30 September 2019, marking an increase of Euro 1.3 million.

BUSINESS OUTLOOK

The year 2019, for the Italian ceramics sector, was characterised by substantial stability in consumption with a regular trend over the quarters; in respect of this trend, the Group was able to achieve a 4% increase in turnover.

The increase in turnover, together with these policies, has allowed a recovery of margins, especially in the Italian Business Unit, where additional tools for improving results have been implemented, both in terms of commercial organisation and production and logistics activities.

We also expect benefits for the coming quarters from the trend in energy tariffs, for which we are already confident, on the basis of the contracts signed, that we can achieve significant savings.

The Portuguese Business Unit, while confirming its significant profitability, has ample margins for improvement. In particular, the sales performance was good on the domestic market, but without reaching the objectives of growth in turnover set for the foreign market;; we believe that this is the main key to improving profit margins, convinced that all the conditions are in place, in terms of product, price and sales network, to ensure the success of the sales activities undertaken.

The US Business Unit is probably the one that is competing in the most difficult market context, due to the simultaneous presence of a slight contraction in consumption and intense competition, both from local producers and importers.

Despite this, we are beginning to reap important benefits in the "Home Centres" sales channel, where in the past the presence was very marginal; this result is testament to the credibility that, in particular Florida Tile, has been able to build up in recent years, given that this type of customer requires very high standards of quality and service.

The most important positive impact will soon be evident with the full use of the production capacity of the American plant in Lawrenceburg, whose slowdown in the last two years has heavily penalised the economic results.

With reference to the main balance sheet items, the improvement of the Net Financial Position remains one of our priority objectives, and in this sense the policy of investment containment, strict cost control and careful management of the level of Net Working Capital will continue in the last quarter of 2019.

The improvements achieved are only the first step in the right direction; we are confident that, already in the short-term, signs of a greater recovery in profit margins can become even more evident as a result of the numerous actions undertaken and which have involved all the Business Units of the Group and all the company functions.

We are even more convinced of the possibility of achieving ambitious goals in the medium-term, thanks to the solid foundations on which the Group has been built: an organisation that operates on all major international markets, a logistics and production structure positioned in various locations in Italy and abroad, a wealth of technology and know-how of the highest order, a prestigious competitive position and an experienced and reliable staff.

DECLARATION OF THE FINANCIAL REPORTING MANAGER

The Financial Reporting Manager, Mr. Damiano Quarta, hereby certifies pursuant to article 154-bis, paragraph 2 of the Consolidated Law on Finance that the accounting information contained in this press release corresponds to the document results, books and accounting records.

PANARIAGROUP

Panariagroup Industrie Ceramiche S.p.A. is a multinational Italian group, worldwide leader in the production and distribution of ceramic tiles for floors and walls. With more than 1,700 employees, 10,000 customers, 6 production facilities (3 in Italy, 2 in Portugal and 1 in the United States), and a turnover of 385 million € in 2017, Panariagroup is one of the main producers of flooring and wall covering ceramic tiles for the upper and luxury segment of the market. Specialised in the production of porcelain and laminated stoneware, the group has focused on the top level and luxury segments of the market that it caters for by means of nine brands: Panaria, Lea, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margres, Love Tiles and Bellissimo, which fulfil the needs of diverse customers that however share the same concern for the aesthetic and technical quality of products. Panariagroup is an international-scale reference point, counting on production facilities in Italy, Portugal, United States, India and an extensive sales network in over 130 countries all over the world.

web www.panariagroup.it |

social: [facebook.com/panariagroup](https://www.facebook.com/panariagroup) <https://www.linkedin.com/company/panariagroup/>

Contact:

Panariagroup – Foreign Relations Office

relazioniesterne@panariagroup.it

T. +39 0522 773 530

Finale Emilia, 15th November 2019

Attachments: Consolidated and Separate Balance Sheet and Income Statement.

Note on the Financial Statements

IFRS 16 (Leases) came into force on 1 January 2019.

Panariagroup has adopted the "Full retrospective" approach, so the previous year's figures have also been restated, with retroactive application of the new accounting standard.

CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET

	30/09/2019	30/06/2018	31/12/2018	30/9/2018
Inventories	164.236	165.363	159.948	158.519
Receivables from customers	70.064	82.184	64.954	81.024
Other current assets	15.225	15.234	13.819	14.167
CURRENT ASSETS	249.525	262.871	238.721	253.710
Payables due to suppliers	(79.422)	(91.870)	(88.342)	(84.928)
Other current liabilities	(31.743)	(31.853)	(28.234)	(33.146)
CURRENT LIABILITIES	(111.165)	(123.723)	(116.576)	(118.074)
NET WORKING CAPITAL	138.360	139.148	122.145	135.636
Goodwill	8.139	8.139	8.139	8.139
Intangible assets	17.537	17.002	15.553	15.406
Right of Use - Leasing Assets	102.179	104.064	107.631	109.035
Tangible assets	118.964	119.683	124.840	125.195
Equity Investments and other financial assets	258	124	161	239
FIXED ASSETS	247.077	249.012	256.324	258.014
Receivables due after following year	571	429	564	543
Liabilities for employee benefits	(4.957)	(5.016)	(5.066)	(5.447)
Provision for risk and charge	(4.532)	(4.318)	(4.506)	(4.609)
Deferred tax assets	7.888	7.266	6.814	5.972
Other payables due after the year	(1.431)	(2.161)	(2.906)	(1.404)
ASSET AND LIABILITIES DUE AFTER THE YEAR	(2.461)	(3.800)	(5.100)	(4.945)
NET CAPITAL EMPLOYED	382.976	384.360	373.369	388.705
Short term financial assets	(13.496)	(4.628)	(16.910)	(3.607)
Short term financial debt	58.704	53.670	34.279	28.942
Mid/Long term financial debt	66.264	62.532	81.102	85.516
NET FINANCIAL DEBT ANTE IFRS16	111.472	111.574	98.471	110.851
Short term debt - Leasing Assets	9.974	10.114	10.212	9.133
Long term debt - Leasing Assets	97.606	99.039	102.130	104.411
DEBT FOR LEASING ASSETS	107.580	109.153	112.342	113.544
NET FINANCIAL POSITION POST IFRS16	219.052	220.727	210.813	224.395
Group Shareholder's Equity	163.924	163.633	162.556	164.310
SHAREHOLDERS' EQUITY	163.924	163.633	162.556	164.310
TOTAL SOURCES OF FUNDS	382.976	384.360	373.369	388.705

Income statement: 2019 performance Year-to-date (in thousands of Euro)

	30/9/2019	%	30/09/2018	%	var.	var. %
Revenues from sales and services	292.041	96,30%	280.793	95,15%	11.248	4,01%
Change in inventories of finished products	3.268	1,08%	6.862	2,33%	(3.594)	-52,38%
Other revenues	7.940	2,62%	7.443	2,52%	497	6,68%
Value of Production	303.249	100,00%	295.098	100,00%	8.151	2,76%
Raw, ancillary and consumable materials	(92.011)	-30,34%	(89.540)	-30,34%	(2.471)	2,76%
Services, leases and rentals	(110.686)	-36,50%	(108.630)	-36,81%	(2.056)	1,89%
Personnel costs	(71.942)	-23,72%	(70.576)	-23,92%	(1.366)	1,94%
Other operating expenses	(2.701)	-0,89%	(2.212)	-0,75%	(489)	22,11%
Cost of production	(277.340)	-91,46%	(270.958)	-91,82%	(6.382)	2,36%
Gross operating Profit	25.909	8,54%	24.140	8,18%	1.769	7,33%
D&A expenses	(15.941)	-5,26%	(15.473)	-5,24%	(468)	3,02%
Right of Use Depreciation	(8.299)	-2,74%	(8.015)	-2,72%	(284)	3,54%
Provisions and other impairments	(1.530)	-0,50%	(1.571)	-0,53%	41	-2,61%
Net operating profit	139	0,05%	(919)	-0,31%	1.058	
Financial income and expense	(2.814)	-0,93%	(2.630)	-0,89%	(184)	
Pre-tax profit	(2.675)	-0,88%	(3.549)	-1,20%	874	
Income taxes	876	0,29%	1.135	0,38%	(259)	
Net profit (loss) for the period	(1.800)	-0,59%	(2.414)	-0,82%	615	

Income statement: 3rd quarter of 2019 compared to 3rd quarter of 2018

	Q3 2019	%	Q3 2018	%	var.
Revenues from sales and services	90.770	100,21%	88.560	97,13%	2.210
Change in inventories of finished products	(2.757)	-3,04%	(177)	-0,19%	(2.580)
Other revenues	2.568	2,84%	2.798	3,07%	(230)
Value of Production	90.581	100,00%	91.181	100,00%	(600)
Raw, ancillary and consumable materials	(27.633)	-30,51%	(28.207)	-30,94%	574
Services, leases and rentals	(34.573)	-38,17%	(35.080)	-38,47%	507
Personnel costs	(22.277)	-24,59%	(22.101)	-24,24%	(176)
Other operating expenses	(1.018)	-1,12%	(599)	-0,66%	(419)
Cost of production	(85.501)	-94,39%	(85.987)	-94,30%	486
Gross operating Profit	5.080	5,61%	5.194	5,70%	(114)
D&A expenses	(5.487)	-6,06%	(5.348)	-5,87%	(139)
Right of Use Depreciation	(2.749)	-3,03%	(2.689)	-2,95%	(60)
Provisions and other impairments	(88)	-0,10%	(103)	-1,01%	15
Net operating profit	(3.244)	-3,58%	(2.496)	-3,23%	(298)
Financial income and expense	(649)	-0,72%	(887)	-0,97%	238
Pre-tax profit	(3.893)	-4,30%	(3.833)	-4,20%	(60)
Income taxes	1.280	1,41%	1.333	1,46%	(53)
Net profit (loss) for the period	(2.614)	-2,89%	(2.500)	-2,74%	(113)

Income statement: 2019 performance by quarter (in thousands of Euro)

	Q1 2019	%	Q2 2019	%	Q3 2019	%	30/9/2019	%
Revenues from sales and services	96.357	94,43%	104.914	94,84%	90.770	100,21%	292.041	96,30%
Change in inventories of finished products	3.249	3,18%	2.776	2,51%	(2.757)	-3,04%	3.268	1,08%
Other revenues	2.435	2,39%	2.937	2,65%	2.568	2,84%	7.940	2,62%
Value of Production	102.041	100,00%	110.627	100,00%	90.581	100,00%	303.249	100,00%
Raw, ancillary and consumable materials	(31.172)	-30,55%	(33.206)	-30,02%	(27.633)	-30,51%	(92.011)	-30,34%
Services, leases and rentals	(37.885)	-37,13%	(38.228)	-34,56%	(34.573)	-38,17%	(110.686)	-36,50%
Personnel costs	(24.757)	-24,26%	(24.908)	-22,52%	(22.277)	-24,59%	(71.942)	-23,72%
Other operating expenses	(757)	-0,74%	(926)	-0,84%	(1.018)	-1,12%	(2.701)	-0,89%
Cost of production	(94.571)	-92,68%	(97.268)	-87,92%	(85.501)	-94,39%	(277.340)	-91,46%
Gross operating Profit	7.470	7,32%	13.359	12,08%	5.080	5,61%	25.909	8,54%
D&A expenses	(5.154)	-5,05%	(5.300)	-4,79%	(5.487)	-6,06%	(15.941)	-5,26%
Right of Use Depreciation	(2.786)	-2,73%	(2.764)	-2,50%	(2.749)	-3,03%	(8.299)	-2,74%
Provisions and other impairments	(234)	-0,23%	(1.208)	-1,09%	(88)	-0,10%	(1.530)	-0,50%
Net operating profit	(704)	-0,69%	4.087	3,69%	(3.244)	-3,58%	139	0,05%
Financial income and expense	(815)	-0,80%	(1.350)	-1,22%	(649)	-0,72%	(2.814)	-0,93%
Pre-tax profit	(1.519)	-1,49%	2.737	2,47%	(3.893)	-4,30%	(2.675)	-0,88%
Income taxes	525	0,51%	(929)	-0,84%	1.280	1,41%	876	0,29%
Net profit (loss) for the period	(994)	-0,97%	1.808	1,63%	(2.614)	-2,89%	(1.800)	-0,59%