Mersen 2017 results: on-going positive momentum

- LIKE-FOR-LIKE INCREASE IN SALES OF 8% FOR THE YEAR
- OPERATING MARGIN BEFORE NON-RECURRING ITEMS OF 9.2% FOR THE YEAR, UP 170 BASIS POINTS ON 2016
- VERY STRONG GROWTH IN NET INCOME (X12.5)
- PROPOSED DIVIDEND OF €0.75 PER SHARE FOR 2017 (+50%)
- OUTLOOK FOR 2018: ANOTHER YEAR OF GROWTH

PARIS, MARCH 7, 2018 – Mersen (Euronext FR0000039620 – MRN), a global expert in electrical power and advanced materials, has released its consolidated results for the year ended December 31, 2017.

The Board of Directors met on March 6, 2018 and approved the audited 2017 financial statements.

KEY FIGURES IN 2017

	2017	2016 restated[1]
Sales (€m)	**809.2**	**759.0**
Operating margin before non-recurring items	9.2%	7.5%
Net income (€m)	**40.0**	**3.2**
ROCE	9.8%	7.3%
Net debt (€m)	**178**	**203**
Net debt/EBITDA ratio	1.6	2.1
Dividend per share (€)	**0.75**	**0.5**

[1] Assets held for sale and reclassification of "amortization of revalued intangible assets" under "operating income before non-recurring items.

Commenting on the Group's results, Chief Executive Officer Luc Themelin said:

"2017 was a year of growth for Mersen: like-for-like growth in sales which accelerated during the year, very strong growth in our operating margin before non-recurring items, and remarkable growth in net income. Thanks to this robust performance, the Group is pleased to be able to offer our shareholders a dividend of €0.75 per share that reflects our positive momentum and confidence going forward.

These excellent results reflect the efforts made over the past few years to adapt our business model and fully capitalize on what is currently a favorable economic backdrop.

Today, the Group's buoyant markets and positioning in high-growth regions mean it is firmly on track to another strong performance in 2018. We will continue to pursue our Mersen Excellence Journey, and to deploy it across all Group functions, driving improvement and efficiency at every level and ensuring we rank as the best in our fields of expertise and markets in the years ahead.

ACTIVITY, EBITDA AND OPERATING INCOME BEFORE NON-RECURRING ITEMS

Mersen generated consolidated sales of €809 million in 2017, representing strong like-for-like growth of 8% year on year. The currency effect was a negative €10.7 million for the year, half of which was due to the depreciation of the US dollar against the euro. It was a positive €5 million in the first half of 2017. The scope effect was a positive €1 million and corresponds to sales from the Chinese joint venture established at the end of 2016 with Harbin Carbon.

EBITDA came in at €114.0 million, an increase of close to 20% compared with the prior year adjusted and accounting for 14.1% of sales.

Operating income before non-recurring items amounted to €74.6 million in 2017, resulting in a current operating margin of 9.2%, up 170 basis points on the prior year adjusted (7.5%).

Advanced Materials sales totaled €447 million, representing like-for-like growth of nearly 10% over the year. Growth in electronics, aeronautics and solar was particularly robust and process industries also remained buoyant during the year. After a cyclical trough in 2016, the chemicals market has returned to growth.

The Advanced Materials segment's current operating margin grew by a sharp 340 basis points on 2016 (11.1% vs. 7.7%). This improvement is due to a highly favorable volume effect, gains from the competitiveness plan, and price trends that improved over the year. The increase in prices announced at the end of the year came on the back of a rise in prices for certain carbon materials and was also due to a shortfall in market supply of some grades of graphite since the fourth quarter.

Electrical Power sales climbed 6% like for like and totaled €363 million for the year, thanks to several projects in rail transportation and power electronics. This increase was also driven by strong business levels in process industries.

The Electrical Power segment's current operating margin was stable on 2016 (11.0% vs. 11.1%), with the benefits of the competitiveness plan offsetting the negative effects of pricing/product mix and cost inflation. The segment’s current operating margin nevertheless turned upwards during the year, thanks to an improved product mix.

NET INCOME

Net income amounted to €40 million in 2017, versus a restated €3.2 million in 2016.

Non-recurring income and expenses amounted to a negative €10.3 million and essentially include €8.6 million in expenses related to the competitiveness plan (versus €10 million projected) and €1.7 million in sundry charges.

Net finance costs stood at €10 million, down on 2016 adjusted due to the drop of over €30 million in average debt over the year.

Net tax expense was €15.1 million and included exceptional items of more than €2 million. Exceptional items aside, the tax rate was 32%.

Income from assets held for sale was €0.8 million and essentially reflects the capital gains on the sale of the high voltage switch and contactor business.

CASH AND DEBT

Operating activities generated €64 million in cash during the year, versus €83 million in 2016. This includes an exceptional cash outflow resulting from a voluntary contribution of €5 million to pension funds in the United States and an exceptional cash-out of €14 million primarily linked to the competitiveness plan.

The gap between 2016 and 2017 was mostly due to the change in working capital requirement: after a sharp drop in 2016 (€25 million) as a result of the major action plans set in place to improve the Group's inventories, it increased in 2017 (€14 million) on the back of the robust growth in activity. The Group was nonetheless able to contain the ratio of working capital to sales at 20% in 2017.

Capital expenditure totaled €36.7 million in 2017, with Advanced Materials accounting for more than 80%.

Net cash flow before changes in debt came in at €15.5 million versus €37.7 million in 2016.

Net debt at year-end 2017 stood at €178.1 million, down €24.7 million from the €202.8 million reported at December 31, 2016. At constant exchange rates, the decrease was €15.3 million.

FINANCIAL STRUCTURE

Mersen group improved its financial structure in 2017, with key ratios down on 2016: leverage (net debt/EBITDA) was 1.58 and gearing (net debt/equity) was 37%.

Backed by the confidence and support of its financial partners, the Group was also able to extend the maturities of its multi-currency credit lines from July 2019 to July 2022, lengthening the average maturity of its debt to around 4.5 years.

DIVIDEND

Mersen's Board of Directors will recommend the payment of a cash-dividend of €0.75 per share at the next Annual General Meeting on May 17, 2018. This would represent a payout of approximately €15 million and 38% of net income from continuing operations before non-recurring items and tax.

OUTLOOK

The current favorable economic environment indicates a new year of growth for Mersen in 2018 as the Group benefits from two drivers: growth in its key markets and strong dynamic activity across Asia. The competitiveness plan will be finalized during the year and Mersen will continue to deploy its Excellence Journey to improve its performance.

Accordingly, the Group anticipates like-for-like sales growth of between 3% and 6% in 2018 for a current operating margin of between 9.6% and 10.1% (9.2% in 2017). These forecasts factor in an increase in prices within the Advanced Materials segment.

Given the acceleration in some of its buoyant markets, such as solar and electronics, and the development of new products for the electric vehicles market, capital expenditure in 2018 is expected to reach a high of between €45 million and €50 million (excluding investments scheduled in the competitiveness plan) to meet current demand and prepare for 2019.

SIMPLIFIED CONSOLIDATED INCOME STATEMENT

In millions of euros	2017	2016 restated[2]
Consolidated sales	809.2	759.0
Gross margin	256.0	230.6
Selling, marketing and other expenses	(79.6)	(77.5)
Administrative and research costs	(100.6)	(94.6)
Amortization of revalued intangible assets	(1.2)	(1.2)
Operating income before non-recurring items	**74.6**	**57.3**
As a % of sales	*9.2%*	*7.5%*
EBITDA	**114.0**	**95.2**
As a % of sales	*14.1%*	*12.5%*
Non-recurring income and expenses	(10.3)	(26.5)
Operating income	64.3	30.8
Net financial income	(10.0)	(11.0)
Current and deferred taxes	(15.1)	(11.5)
Net income/(loss) from continuing operations	**39.2**	**8.3**
Net income/(loss) from assets held for sale	0.8	(5.1)
Net income for the period	**40.0**	**3.2**
- Net income attributable to Group equity holders	37.6	1.8

[2]Change in scope of consolidation and reclassification of amortization of revalued intangible assets.

SECTOR BREAKDOWN EXCLUDING HOLDING COMPANY COSTS

In millions of euros	Advanced Materials (AM)		Electrical Power (EP)	
	2017	2016 restated[3]	2017	2016 restated[3]
Sales	446.6	411.8	362.6	347.2
EBITDA	79.9	60.2	49.0	47.6
As a % of sales	17.8%	14.6%	13.5%	13.7%
Operating income before non-recurring items	49.6	31.6	39.9	38.5
As a % of sales	11.1%	7.7%	11.0%	11.1%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of euros	Dec. 31, 2017	Dec. 31, 2016
Non-current assets	605.9	666.1
Inventories	158.8	152.6
Trade and other receivables	140.8	138.7
Other assets	5.1	7.1
TOTAL	**910.6**	**964.5**
Equity	484.0	492.6
Provisions	13.2	21.7
Employee benefits	68.3	73.9
Trade and operating payables	140.7	137.9
Other liabilities	26.3	35.6
Net debt	178.1	202.8
TOTAL	**910.6**	**964.5**

[3]Change in scope of consolidation and reclassification of amortization of revalued intangible assets.

CONSOLIDATED CASH FLOW STATEMENT

In millions of euros	2017	2016 restated[4]
Cash generated by operating activities before change in WCR	94.3	72.4
Change in working capital requirement	(14.5)	25.1
Income tax paid	(15.4)	(14.3)
Net cash generated by continuing operating activities	**64.4**	**83.2**
Cash used in discontinued operating activities	(0.2)	(2.7)
Net cash generated by operating activities	**64.2**	**80.5**
Capital expenditure	(36.7)	(29.5)
Cash generated by operating activities after capital expenditure	27.5	51.0
Change in scope (acquisitions)	0.0	(0.7)
Non operating cash generated by discontinued activities	6.2	6.5
Intangible investments and disposals of fixed assets	(1.2)	0.7
Cash generated by operating and investing activities	32.5	57.5
Increase in share capital and other	3.3	(1.1)
Dividends paid	(12.3)	(10.5)
Interest payments	(8.0)	(8.2)
Net cash flow before the change in debt	**15.5**	**37.7**

[4] Change in scope of consolidation and reclassification of amortization of revalued intangible assets.

The 2017 Reference Document can be downloaded from the Mersen website (www.mersen.com) and has been filed with the French Financial Markets Authority (Autorité des Marchés Financiers, AMF).
The results will be presented in an accessible webcast on the Group's website.

FINANCIAL CALENDAR

First quarter 2018 sales: April 25, 2018 after market close.

ABOUT MERSEN

A global expert in electrical power and advanced materials, Mersen designs innovative solutions to address its clients' specific needs to enable them to optimize their manufacturing performance in sectors such as energy, electronics, transportation, chemicals & pharmaceuticals and process industries.

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GLOSSARY

Like-for-like 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.

Net debt: gross financial debt net of cash and cash equivalents and current financial assets.

Leverage ratio: net debt/EBITDA ratio calculated using the banking covenant method for Mersen's confirmed financing.

Gearing: net debt/equity ratio calculated using the banking covenant method for Mersen's confirmed financing.

WCR (working capital requirement): sum of trade receivables and related accounts, inventories, other current receivables less trade payables and related accounts.

WCR ratio: ratio of working capital requirement to sales for the last quarter multiplied by four.

Restated payout: ratio of dividend per share proposed for the year to Group net income per share for the year, restated for some extraordinary 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 last five quarters (in order to limit the effects of foreign exchange changes at end of period versus average).

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

ANNEXES

1 – Sales and growth 2017 vs. 2016

In millions of euros	2017	Like-for-like growth	Scope effect	Currency effect	Total growth
Europe	263.1	4.6%		-1.1%	3.5%
Asia-Pacific	228.7	19.9%	0.4%	-2.4%	17.9%
North America	282.4	5.1%		-1.8%	3.3%
Rest of the world	35.0	-8.7%		2.6%	-6.1%
Group	**809.2**	**8.0%**	**0.1%**	**-1.4%**	**6.6%**

2 - WCR as a % of sales

In millions of euros	2017	2016
Inventories	159	153
Trade receivables	123	124
Other operating receivables	17	15
Trade payables	-60	-62
Other operating payables	-81	-76
Change in working capital requirement	**159**	**153**
Sales (4 x fourth quarter)	806	751
WCR as a % of sales	**20%**	**20%**

3- ROCE

(in millions of euros)	2017	2016 restated
Operating income before non-recurring items	**74.6**	57.3
Average capital employed	**760**	781
ROCE	**9.8%**	7.3%

4- Additional notes for 2018

Currency effect: based on the accounts for 2017 and the exchange rates below, the Group estimates the currency effect negative at between €25m and €30m on sales, and at around -20 basis points on operating margin before non-recurring items.

Exchange rate:
€1 = USD 1.25
€1 = CNY 7.8
€1 = JPY 130

Tax rate: the positive change in tax rates in the United States is expected to result in a normative tax rate of around 28% for the Group in 2018 vs 33% previously.

Competitiveness plan: the competitiveness plan launched in 2016 (see press releases of March 9, 2016 and September 13, 2016) will be completed in 2018. Given the timing difference between 2017 and 2018 for certain expenses, the Group anticipates a cash outflow of around €14 million in 2018 including some capital expenditure.

IFRS 15: applies to the company's financial statements as from 1 January 2018. The 2017 comparative financial statements provided in the 2018 consolidated financial statements will be restated accordingly. IFRS 15 is expected to have a limited impact on the Group's annual sales with respect to reclassifying certain expenses as a deduction from sales. This only relates to the Electrical Power segment and has been measured at approximately €3 million. Like-for-like growth and operating income will not be impacted.