

PRESS RELEASE

A LOSS FOR PANARIAGROUP, BUT WITH A GROWTH IN TURNOVER AND GROSS OPERATING MARGIN

PANARIAGROUP Industrie Ceramiche S.p.A.: the Board of Directors approves the Draft Financial Statements at 31 December 2019

- **Consolidated net revenues amounted to Euro 382.0 million (Euro 371.0 million as at December 31 2018, with an increase of 3,0%.**
- **Gross operating profit amounted to Euro 32.4 million (Euro 31.7 million as at December 31 2018, with an increase of 2,2%).**
- **Consolidated net loss amounted to Euro 6.4 million di euro (loss of Euro 5.1 million as at December 31 2018).**

The Board of Directors of Panariagroup Industrie Ceramiche S.p.a, Group specialized in the production and distribution of ceramic material for high-end and luxury floor and wall coverings, today approved the Financial Statements at 31 December 2019, drafted in accordance with International Financial Reporting Standards (IFRS).

At the same time, Panariagroup also approved its fourth Non-Financial Statement, related to 2019 financial year. The Sustainability Report also for this year has seen the achievement of numerous objectives and the confirmation of important parameters and initiatives in the field of economic, social and environmental responsibility. The official presentation of the report will be scheduled in the summer.

In financial year 2019 the Group achieved growth in business volumes (equal to Euro 11.0 million, +3.0%), accompanied by a slight improvement in the Gross operating profit.

The increase in sales is more significant if compared with the performance of Italian competitors which, as a whole, saw a decrease of 0.7% in turnover, according to recent surveys by Confindustria Ceramica.

The growth in turnover regarded the Italian Business Unit (+2.0%) and the US Business Unit (+7.3%), while the Portuguese BU recorded a slight drop (-2.8%).

Different trends were reported in the various geographical markets, with growth in Europe (+2.6%), in the US (+7.1%) and in Asia (+8.0%), while sales dropped on the Italian market (-2.8%), and on the markets of Africa and Oceania (-9% as a whole), which, however, are marginal for the Group.

Gross operating profit increased by Euro 0.7 million, rising by 2,2%.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(thousand euros)

Nature	31/12/2019	31/12/2018	Var. € (000)
Revenues from sales and services	382,019	370,995	+11,024
Value of production	400,774	391,566	+9,208
Gross operating profit	32,427	31,724	+ 703
Net operating profit	-4,882	-4,177	- 705
Consolidated net profit	-6,386	-5,084	- 1,302

“In 2019 – said Emilio Mussini, Chairman of Panariagroup – we operated in a very fluctuating macroeconomic context; despite this our Group reached an increase in turnover, demonstrating the appreciation of our products on domestic and international markets and a slight improvement of the Gross Operating Margin”.

“The negative economic result – continued Mussini – disregards our expectations and so, we feel more engaged to pursue a strong improvement of the efficiency on both manufacturing and distributive levels, through actions aimed to reduce costs and increase productivity in order to go quickly toward a positive net result. These actions are still more necessary with the new scenario coming up from the Covid-19 virus diffusion. The infection spreading, now pandemic, will probably impact even our abroad Business Units that are already alerted and where we are preparing the same protection measures adopted for the Italian Business Unit”.

CONSOLIDATED REVENUES

In 2019, the Group achieved total revenues of Euro 382.0 million, up (+3.0%) from the prior year, recovering its process of growth, which had been interrupted in 2018.

The turnover of the Group's **foreign markets** is equal to 81% of the total, with the share of **non-European markets** equal to 45% of the total turnover.

In terms of turnover the following trends are noted in the main areas of reference:

EUROPE – The Group achieved an increase in business volumes compared to the prior year, with total growth of 2.6%.

In EU countries, the best performance was achieved in Germany, the United Kingdom and Portugal. On the Portuguese market, for several years now the Group has managed to affirm its position as the most important player in the sector, and continues to grow at a fast pace. The French market, another reference market, recorded turnover in 2019 substantially in line with 2018.

Positive progress was also recorded in Eastern European countries, with overall growth of 8%.

The impact of the European markets on total revenues was **36%**.

USA - Turnover on the **US market** grew by 7% in Euro. This performance was partly due to the strengthening of the US Dollar against the Euro (+5%) and partly to an increase in actual business volumes (+2%).

We reiterate that in a market where consumption of ceramics was decreasing, the pressure from Spanish and Chinese competitors took its toll, though to a lesser extent than in 2018, which penalised both other exporter countries and local manufacturers, especially in the channel of large distributors.

The impact of the US market on total revenues was **35%**.

ITALIA - On the **Italian market**, Group sales fell by 2.8%, in a market scenario that remains stagnant. Despite the slight decrease recorded in 2019, we remain a leading player on the domestic market.

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

ASIA, CANADA, SOUTH AMERICA, OCEANIA E AFRICA – Other markets recorded growth of around 1%. In Asia, good results were achieved overall. The decrease in sales in the Middle East, due to political and economic tensions, was more than offset by the excellent results of the markets of the Far East. The impact of other markets on total revenues was **10%**.

OPERATING RESULTS

The **consolidated gross operating profit** came to Euro **32,4 million**, representing 8,1% of the value of production (Euro 31.7 million as at 31 December 2018 and 8.1% of the value of production).

The improvement in the operating profit derives from the different dynamics among the Business Units, with growth in the Italian and US Business Units and a drop in the Portuguese Business Unit.

As regards the **Italian Business Unit**, the initiatives aimed at recovering profitability, which fell significantly in 2018, began to show their first visible effects.

Though we operate in a difficult, competitive market context, the commercial policies adopted provided positive results, with an increase in business volumes along with sales prices remaining strong.

The rise in energy rates which had a harsh impact on all of 2018 and the first part of 2019 was also halted. Based on the contracts signed, a significant reduction is expected for all of 2020.

The **Portuguese Business Unit** maintained positive income, with a significant drop compared to the prior year. The worsening of profitability is attributable to the drop in business volumes, on the one hand, which were not sufficiently offset by the savings achieved on commercial costs, and, on the other hand, by an additional aggravation of energy rates, which had already significantly burdened 2018.

On this front, however, the Portuguese BU will also benefit from expected significant savings in 2020.

The **US Business Unit** achieved improved results compared to 2018, though maintaining unsatisfactory profitability levels.

The economic result of the US BU was harshly impacted by only partial use of its production capacity up to August, which also made it possible to significantly reduce the level of inventory.

Significant growth in sales on the Home Center channel, with a sharp impact on sales volumes, will make it possible to fully use the Lawrenceburg plant in 2020, with optimal usage, with expected economic benefits, due the greater absorption of fixed costs.

The **consolidated net operating loss** was equal to Euro 4,9 million (loss of Euro 4.2 million in 2018).

Amortisation and depreciation, including that deriving from rights-of-use, and provisions increased by Euro 1.4 million on 2018, with a significant weight on the net operating profit.

The negative variance on Financial Costs is largely due the “exchange rate management”, which had a very positive result in the past year.

The **consolidated net loss** came to Euro 6,4 million (loss of Euro 5.1 million as at 31 December 2018).

NET FINANCIAL POSITION

The net financial indebtedness (prior to application of IFRS 16) grew by Euro 7,1 million compared to 31 December 2018, but improved by Euro 5,9 million compared to the previous quarter.

SHAREHOLDERS' EQUITY

Group equity amounted to Euro 157,3 million as at 31 December 2019 compared to Euro 163,1 million as at 31 December 2018.

BUSINESS OUTLOOK

For the second year in a row, the Group operated in a very contrasted market scenario subject to harsh competition. Concurrent with the policy of coverage of traditional channels, the opening and development of alternative channels such as the “Home Centers” and “Private Labels” is allowing for an increase in volumes which, enabling more intense use of production capacity, may contribute to a positive correction of profitability.

Having partially changed the make-up of sales, featuring an increasing weight of these channels, we must necessarily act to rationalise and simplify overheads, on which we have already begun decisive work. With just as much determination, we are carrying out the systematic optimisation of all the Business Units and all company areas.

Specific attention is focused on product development and on improvement projects, aimed at increased standardisation of processes, eliminating inefficiencies and reducing costs, with the objective of guaranteeing the utmost industrial efficiency.

Another important factor for improvement will be the reduction in energy rates which, following two particularly burdensome years, will allow for a significant drop in production costs.

Another external positive factor is the entry into force of the anti-dumping duties in the US on Chinese products, whose application, which began in the last quarter of 2019, will free up a significant market share previously overseen by the Chinese.

These positive elements were unfortunately added to the recent events linked to the spread of the COVID-19 virus, considered in these hours as pandemic. The scenario is not fully predictable, but these events will likely generate repercussions on the entire economic system.

In compliance with the directives issued by Italian government, the Group has so far taken all the measures of responsibility in order to guarantee the employee health.

In this highly uncertain scenario, we will strengthen the activities implemented to recover profitability, coordinating them with the necessary actions to safeguard the Group's equity and financial situation.

We have always believed, and remain confident that our strategic positioning, along with the high level of internationalisation, our continuous technological upgrading and updating of the range of always innovative products, will allow us to counteract this difficult time, making us ready to promptly capture the opportunities deriving from the hoped for resolution of this global emergency.

CALLING OF THE SHAREHOLDERS' MEETING

Panariagroup's Board of Directors approved the resolutions and conferred the necessary powers to call the company's ordinary Shareholders' Meeting, by means of a notice that will be published no later than 18 March 2020 on the company's website at www.panariagroup.it, on the authorised storage mechanism "1Info" at www.1info.it, on the website of Borsa Italiana S.p.A. and, in extract form, in the Official Journal and in the Official Gazette of the Italian Republic, which will be held at the company's registered office in Finale Emilia (Modena) in Via Panaria Bassa 22/A on single call, at 10:00 on 28 April 2020. The Shareholders' Meeting will be called to resolve on the following agenda:

1. Presentation of the Panariagroup Group consolidated financial statements and approval of the annual financial statements as at 31 December 2019; related and consequent resolutions;
2. Resolutions regarding the report on the remuneration policy and on compensation paid in relation to members of the administration and control bodies, general managers and executives with strategic responsibilities of the Company.
 - 2.1 Binding vote on the policy on remuneration relating to 2020 illustrated in the first section of the report; related and consequent resolutions;
 - 2.2 Consultation on the second section of the report relating to the indication of the compensation paid in 2019 or relating to it; related and consequent resolutions.
3. Determination of the number and appointment of the members of the Board of Directors for the three-year period 2020-2022; determination of the related compensation; related and consequent resolutions.
4. Renewal of the authorisation to purchase and sell own shares; related and consequent resolutions.

Panariagroup's Board of Directors resolved not to propose the distribution of dividends to the Shareholders' Meeting.

RENEWAL OF THE AUTHORISATION TO PURCHASE AND SELL TREASURY SHARES

At the same meeting, the Board of Directors resolved to submit to the next ordinary Shareholders' Meeting the proposal to renew the authorisation to purchase and dispose of treasury shares. As of today the Company directly holds 432,234 treasury shares (equal to 0.953% of share capital) with a par value of 0.50 Euro per share. If authorised, the purchase transactions may be carried out for a maximum number of ordinary shares represented, on the whole, by no more than 20% existing share capital, less treasury shares held, in observance of articles 2357 et seq. of the Italian Civil Code, art. 132 of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented ("**Consolidated Finance Act**"), art. 144-*bis* of the Issuer's Regulation adopted by Consob by means of resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented ("**Issuers' Regulation**") and any other applicable regulation, including therein the rules pursuant to Regulation (EU) 596/2014 and Delegated Regulation (EU) 1052/2016, as well the current permitted market practices in force, where applicable, and the Regulations issued by Borsa Italiana S.p.A., before the Shareholders' Meeting that shall approve the financial statements as at 31 December 2020. The purchases shall be made (i) at a price that does not deviate by over 20% more or less than the share's quoted price on the trading day prior to each transaction, and in any case (ii) at a consideration that does not exceed the higher of the price of the last independent transaction and the price of the highest current independent purchase bid in the trading venue where the purchase is made. The maximum number of treasury shares that can be purchased each day may not be more than 25% of the daily average volume of Panaria shares traded on the market. The potential maximum purchase disbursement cannot exceed the available reserves reported in the last set of duly approved financial statements.

The reasons for which authorisation has been requested are:

- fulfilling the obligations arising from share option plans or other allocations of shares to employees or members of the administration or control bodies of the Company or its subsidiaries or affiliates;
- fulfilling the obligations arising from debt instruments that are convertible into equity instruments;
- carrying out transactions in support of market liquidity, as well as to facilitate the smooth conduct of trading and avoid movements in prices not in line with the market trend; or

Panariagroup Industrie Ceramiche S.p.A. – Registered Office: No. 22/a, Via Panaria Bassa, - 41034, Finale Emilia (MO) - Italy

- implementing sales transactions, swaps, exchanges, transfers or other act of disposal of treasury shares for acquisitions of shareholdings and/or property and/or the conclusion of agreements (including commercial agreements) with strategic partners, and/or for the realisation of industrial projects and corporate finance transactions, which fall within the expansion targets of the Company and of the Panaria Group.

The report drafted by the Board of Directors pursuant to art.73 of the Issuers' Regulation will be made available, in accordance with the terms and methods set forth by law, at the Company's registered office, at Borsa Italiana S.p.A., on the Company's website at www.panariagroup.it, as well as on the authorised storage mechanism 1Info at www.1info.it.

CORPORATE GOVERNANCE AND REPORT ON THE REMUNERATION POLICY AND ON THE COMPENSATION PAID

At the same meeting, the Board of Directors approved the annual report on corporate governance and ownership structures pursuant to articles 123-*bis* of the Consolidated Finance Act and 89-*bis* of the Issuers' Regulation.

The Board of Directors also approved the report on the remuneration policy and on compensation paid pursuant to articles 123-*ter* of the Consolidated Finance Act and 84-*quater* of the Issuers' Regulation.

Both the report on corporate governance and ownership structures and the report on the remuneration policy and on compensation paid will be made available to the public, in accordance with the methods and terms of law, at the Company's registered office, at Borsa Italiana S.p.A., on the Company's website at www.panariagroup.it, as well as on the authorised storage mechanism 1Info at www.1info.it.

Declaration of the Financial Reporting Manager

The Financial Reporting Manager, Damiano Quarta, hereby declares that, pursuant to paragraph 2 of art. 154-*bis* of the Consolidated Finance Act, that the accounting disclosure contained in this press release corresponds to the documentary results, the books and the accounting records.

Attachments: Consolidated Statement of Financial Position and Income Statement for the year. It should be noted that, in relation to the documents attached hereto, the audit has still not been completed.

Note to the attached Financial Statement Reports:

Starting from 1st January 2019 it was applied the new accounting principle IFRS 16.

Panariagroup adopted the "fully retrospective method", so the 2018 data have been restated applying the new principle.

PANARIAGROUP

Panariagroup Industrie Ceramiche S.p.A. is an Italian multinational group that is a world leader in the production and distribution of ceramic surfaces for floor and wall coverings. With over 1,700 employees, more than 10,000 professional customers, 6 production plants (3 in Italy, 2 in Portugal and 1 in the USA), Panariagroup is one of the leading players in the high-end and luxury segment of its sector and boasts geographical distribution of sales that is 80% focused on foreign markets.

Specialized in the production of porcelain and laminated stoneware, through its commercial brands (Panaria Ceramica, Lea Ceramiche, Cotto D'Este and Blustyle in Italy, Margres and Love Tiles in Portugal, Florida Tile in the United States and Bellissimo in India), Panariagroup offers high-quality, prestigious solutions for all the needs of residential, commercial and public architecture.

Panariagroup is an international company present in Italy, Portugal, the United States and India. It operates in over 130 countries worldwide with a large and widespread sales network.

web www.panariagroup.it |

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Finale Emilia, 13 March 2020

CONSOLIDATED FINANCIAL STATEMENT INCOME STATEMENT

		31/12/2019		31/12/2018	
		eur (000)	%	eur (000)	%
R05	Revenues from sales and services	382.019	95,3%	370.995	94,7%
R10	Change in inventories of finished products	6.989	1,7%	9.426	2,4%
R20	Other revenues	11.766	2,9%	11.145	2,8%
	Value of production	400.774	100,0%	391.566	100,0%
C10	Raw materials	(124.857)	-31,2%	(117.203)	-29,9%
C20	Services, leases and rentals	(143.730)	-35,9%	(145.908)	-37,3%
C30	Personnel costs	(96.225)	-24,0%	(93.705)	-23,9%
C40	Other operating expenses	(3.535)	-0,9%	(3.026)	-0,8%
	Production costs	(368.347)	-91,9%	(359.842)	-91,9%
	Gross operating profit (loss)	32.427	8,1%	31.724	8,1%
A10	Depreciation and amortisation	(22.285)	-5,6%	(21.605)	-5,5%
A20	Right of Use Depreciation (IFRS 16)	(11.341)	-2,8%	(10.820)	-2,8%
A30	Provisions and writedowns	(3.683)	-0,9%	(3.475)	-0,9%
	Net operating profit (loss)	(4.882)	-1,2%	(4.176)	-1,1%
F10	Net Financial income (expense)	(2.340)	-0,6%	(1.027)	-0,3%
F20	Financial Expense - IFRS 16	(2.229)	-0,6%	(2.330)	-0,6%
	Pre-tax profit (loss)	(9.451)	-2,4%	(7.533)	-1,9%
I10	Income Tax Expenses and Benefits	3.065	0,8%	2.450	0,6%
	Net profit (loss)	(6.386)	-1,6%	(5.083)	-1,3%

CONSOLIDATED FINANCIAL STATEMENT **RECLASSIFIED BALANCE SHEET**

	31/12/2019	31/12/2018
Inventories	164.290	159.949
Receivables from customers	58.844	64.954
Other current assets	13.301	13.819
CURRENT ASSETS	236.435	238.722
Payables due to suppliers	(82.102)	(88.342)
Other current liabilities	(27.368)	(28.551)
CURRENT LIABILITIES	(109.470)	(116.893)
NET WORKING CAPITAL	126.965	121.829
Goodwill	8.464	8.139
Intangible Assets	17.111	15.553
Tangible Assets	115.458	123.891
Diritto di utilizzo per beni in locazione	101.451	108.112
Equity investments and other financial assets	32	360
FIXED ASSETS	242.516	256.055
Receivables due after following year	388	564
Liabilities for employee benefit	(5.046)	(5.066)
Provision for risk and charge	(4.441)	(4.506)
Deferred tax assets	10.626	7.799
Other payables due after the year	(1.644)	(2.583)
ASSET AND LIABILITIES DUE AFTER THE YEAR	(117)	(3.792)
NET CAPITAL EMPLOYED	369.364	374.092
Short term financial assets	(8.179)	(16.910)
Short term financial debt	54.740	34.279
Mid/Long term financial debt	59.049	81.102
NET FINANCIAL DEBT ANTE IFRS 16	105.610	98.471
Short term lease liabilities (IFRS16)	9.388	10.111
Long term lease liabilities (IFRS16)	97.043	102.357
LEASE LIABILITIES	106.431	112.468
NET FINANCIAL DEBT POST IFRS 16	212.041	210.939
Group Shareholder's Equity	157.323	163.153
SHAREHOLDERS' EQUITY	157.323	163.153
TOTAL SOURCES OF FUNDS	369.364	374.092

SEPARATE FINANCIAL STATEMENT INCOME STATEMENT

		31/12/2019		31/12/2018	
		eur	%	usd	%
R05	Revenues from sales and services	201.485	93,0%	196.809	93,7%
R10	Change in inventories of finished products	7.247	3,3%	4.310	2,1%
R20	Other revenues	7.888	3,6%	8.894	4,2%
	Value of production	216.620	100,0%	210.013	100,0%
C10	Raw materials	(63.442)	-29,3%	(60.018)	-28,6%
C20	Services, leases and rentals	(83.882)	-38,7%	(82.301)	-39,2%
C30	Personnel costs	(52.559)	-24,3%	(52.497)	-25,0%
C40	Other operating expenses	(1.726)	-0,8%	(1.822)	-0,9%
	Production costs	(201.609)	-93,1%	(196.638)	-93,6%
	Gross operating profit (loss)	15.011	6,9%	13.375	6,4%
A10	Depreciation and amortisation	(9.854)	-4,5%	(10.148)	-4,8%
A20	Right of Use Depreciation (IFRS 16)	(6.402)	-3,0%	(6.351)	-3,0%
A30	Provisions and writedowns	(1.709)	-0,8%	(872)	-0,4%
	Net operating profit (loss)	(2.954)	-1,4%	(3.996)	-1,9%
F10	Net Financial income (expense)	2.430	1,1%	4.150	2,0%
F20	Financial Expense - IFRS 16	(1.417)	-0,7%	(1.471)	-0,7%
	Pre-tax profit (loss)	(1.941)	-0,9%	(1.317)	-0,6%
I10	Income Tax Expenses and Benefits	1.238	0,6%	888	0,4%
	Net profit (loss)	(703)	-0,3%	(429)	-0,2%

SEPARATE FINANCIAL STATEMENT **BALANCE SHEET**

<u>ASSETS</u>	31/12/2019		31/12/2018	
	eur	%	eur	%
NON-CURRENT ASSETS	247.516	62,1%	256.647	60,7%
Goodwill	–	0,0%	–	0,0%
Intangible Assets	6.723	1,7%	6.295	1,5%
Tangible Assets	39.525	9,9%	43.727	10,3%
Lease - Right of Use Asset	80.721	20,3%	85.060	20,1%
Equity investments	90.018	22,6%	89.981	21,3%
Deferred tax Assets	8.739	2,2%	7.165	1,7%
Other non current assets	168	0,0%	149	0,0%
Other financial assets	21.622	5,4%	24.270	5,7%
CURRENT ASSETS	150.868	37,9%	166.121	39,3%
Inventories	90.121	22,6%	83.685	19,8%
Trade Receivables	52.726	13,2%	60.496	14,3%
Due from tax authorities	2.611	0,7%	4.724	1,1%
Other current assets	3.082	0,8%	3.325	0,8%
Current financial assets	–	0,0%	–	0,0%
Cash and cash equivalent	2.328	0,6%	13.891	3,3%
TOTAL ASSETS	398.384	100,0%	422.768	100,0%

<u>LIABILITIES AND EQUITY</u>	31/12/2019		31/12/2018	
	eur	%	usd	%
EQUITY	142.839	35,9%	143.725	34,0%
Share capital	22.678	5,7%	22.678	5,4%
Equity Reserve	120.864	30,3%	121.476	28,7%
Net profit (loss)	(703)	-0,2%	(429)	-0,1%
NON-CURRENT LIABILITIES	130.911	32,9%	165.621	40,5%
Employee severance indemnities	4.879	1,2%	4.957	1,2%
Deferred tax liabilities	246	0,1%	393	0,1%
Provisions for risks and charges	4.095	1,0%	3.691	0,9%
Other non-current liabilities	1.435	0,4%	2.465	0,6%
Due to Banks	44.055	11,1%	74.227	17,6%
Other non current financial liabilities	–	0,0%	–	0,0%
Lease Liabilities (IFRS 16)	76.201	19,1%	79.888	20,2%
CURRENT LIABILITIES	124.634	31,3%	113.422	25,5%
Trade Payables	48.800	12,2%	55.639	13,2%
Due to tax authorities	2.545	0,6%	2.614	0,6%
Other current liabilities	18.907	4,7%	19.929	4,7%
Due to banks	48.881	12,3%	29.705	7,0%
Other current financial liabilities	–	0,0%	–	0,0%
Lease liabilities (IFRS 16)	5.501	1,4%	5.535	0,0%
TOTAL LIABILITIES AND EQUITY	398.384	100,0%	422.768	100,0%