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Date November 03, 2022

Lenzing responds with savings program to earnings development

- Revenue in the first three quarters up 24 percent – significant deterioration in market environment impacts earnings performance
- 2022 earnings in the range of current market expectations
- Reorganization and cost reduction program of EUR 70 mn launched
- Supervisory Board appoints new Chief Financial Officer – Nico Reiner succeeds Thomas Obendrauf as of January 1, 2023

Lenzing – The Lenzing Group, the world's leading supplier of specialty fibers for the textile and nonwovens industries, was increasingly affected by the extreme developments in global energy and raw material markets in the first three quarters of 2022, in line with the impact on the whole of manufacturing industry. The market environment deteriorated sharply, especially during the course of the third quarter, and the worsening consumer climate placed additional pressure on Lenzing's business performance.

Revenue grew by 24 percent year-on-year to reach EUR 1.97 bn in the reporting period, primarily due to higher fiber prices. In addition to lower demand, the earnings trend particularly reflects the sharp rise in energy and raw material costs. As a consequence, earnings before interest, tax, depreciation and amortization (EBITDA) decreased by 11.6 percent year-on-year to EUR 263 mn. Net profit for the period decreased by 33.9 percent to EUR 74.9 mn, while earnings per share amounted to EUR 2.16 in the first three quarters (compared to EUR 3.77 in the first three quarters of 2021).

Adjusted equity grew by 6.9 percent to EUR 2.26 bn as a consequence of the operating profit trend as well as positive currency effects. As a consequence, the adjusted equity ratio is at 37.7 percent.

Both the earnings trend and the significant deterioration in the market environment led the Lenzing Managing Board to launch a reorganization and cost reduction program. The program is already being implemented and is expected to save at least EUR 70 mn in costs annualized once fully implemented.

“We are experiencing distortions in energy and commodity markets which are weighing on consumer sentiment and significantly limiting our view of short- to medium-term business trends. This is prompting us to step up our efforts to cope with this situation and further extend Lenzing’s international competitiveness. For this reason we have launched a global program that will already lead to initial cost savings in the short term and also strengthens Lenzing for the long term,” comments Stephan Sielaff, Lenzing Group CEO.

Gross cash flow reduced by 17.6 percent to EUR 248.2 mn in the first three quarters of 2022, mainly reflecting the cost developments. Due to the higher level of working capital, cash flow from operating activities amounted to EUR 34.8 mn (compared to EUR 307.8 mn in the first three quarters of 2021). Free cash flow amounted to EUR minus 495.8 mn (compared to EUR minus 317.9 mn in the first three quarters of 2021), which especially reflected the investment activities related to the pulp project in Brazil. Capital expenditure on intangible assets, on property, plant and equipment and on biological assets (CAPEX) decreased by 15.7 percent to EUR 532 mn. The continued high level of investment volume primarily reflects the completion of the pulp project in Brazil.

Strengthening specialty fibers growth

The successful commissioning of the two key projects in Thailand and Brazil as well as the implementation of projects at the existing sites in China and Indonesia formed the focus of Lenzing’s investment activities in the first three quarters of 2022. The opening of the lyocell plant in Thailand in the first quarter of 2022 enables Lenzing to significantly boost its share of specialties and thereby better serve structurally growing demand for TENCEL™ branded lyocell fibers. Despite the pandemic-related challenges, the project was realized on time and within the planned budget, and the volumes produced to date were successfully placed on the market. With a nameplate capacity of 100,000 tonnes per year, the production plant is the largest of its kind in the world.

Lenzing is currently investing more than EUR 200 mn in China and Indonesia in order to convert existing standard viscose capacities into capacities for environmentally responsible specialty fibers. In Nanjing, Lenzing is working on converting a line to modal fiber production. The Chinese location’s product portfolio will thereby consist entirely of specialty fibers by the end of 2022. In Purwakarta, Lenzing is creating additional capacity for LENZING™ ECOVERO™ branded fibers. The Indonesian site will become a pure specialty viscose supplier in 2023.

Aiming for a carbon-free future

As part of these investments, both sites will be gradually converted to renewable energy; conversion to green electricity was realized in the third quarter of 2022 in China and in Indonesia. Both the new lyocell plant in Thailand, which will be operated in a carbon-neutral manner, and the investments in existing sites will help Lenzing achieve its ambitious climate targets. Lenzing aims to reduce its carbon emissions by 50 percent by 2030 and achieve net zero by 2050. In 2019, Lenzing became the world's first manufacturer of wood-based cellulosic fibers to have its climate targets scientifically confirmed.

With the new pulp plant in Brazil, Lenzing is strengthening its own supply of dissolving wood pulp and thereby also growth in specialty fibers. It will rank as one of the world's most productive and energy-efficient plants and feed more than 50 percent of the electricity generated into the public grid as renewable energy. With the successful start-up on schedule, Lenzing, which holds a 51 percent interest in the LD Celulose joint venture, reached a further important milestone. The plant ramp-up phase is running to schedule and will prospectively be completed by the end of 2022. The first volumes produced have already been successfully placed on the market.

Energy independence enhanced

In order to become less dependent on global energy markets and to further reduce carbon emissions in line with its strategic targets, Lenzing is also focusing to an even greater extent on electricity generated from renewable energies in Austria. During the reporting period, Lenzing constructed several photovoltaic plants at the Lenzing site in Upper Austria together with Austrian energy utility VERBUND. With a capacity of 5.6 MWp, the ground-mounted plant is the largest of its kind in this entire federal state. The output of the three roof systems amounts to 1.5 MWp.

Lenzing also announced the signing of a long-term electricity supply agreement with green power producer Enery and Energie Steiermark. Once commissioned, the photovoltaic plant that has thereby been financed will supply the fiber and pulp plant at the Lenzing site with further green electricity from the fourth quarter of 2023. The plant's output will amount to 5.5 MWp.

Nico Reiner new CFO

The Lenzing Supervisory Board also appointed Nico Reiner as the new Chief Financial Officer with effect as of January 1, 2023 (see also the [press release of November 2, 2022](#)). In this position he succeeds Thomas Obendrauf, who informed the Supervisory Board in March that he would not be available for a further extension of his contract, which expires in June 2022. Until Nico Reiner joins the company, Sielaff will continue to perform the duties of the CFO on an interim basis, while Obendrauf will support the company in an advisory capacity.

Corporate strategy further developed

A comprehensive review of the corporate strategy was also conducted in the reporting period. As a consequence, Lenzing will continue on its profitable growth trajectory following the successful implementation of the two key projects in Thailand and Brazil, sharpen its focus on sustainable and high-quality premium textile fibers and nonwoven fibers, and further advance the transition from a linear to a circular economy model. On the basis of this further development of the corporate strategy, Lenzing also adjusted its financial targets and, assuming that a healthy economic environment prevails, will significantly increase its EBITDA to over EUR 1 bn by 2027, with a ROCE of over 12 percent.¹

30 years of TENCEL™ fibers

With the positioning of its product brands, the Lenzing Group has been sending a strong message to consumers since 2018. With TENCEL™ und LENZING™ ECOVERO™ as umbrella brands for all specialty products in the textile segment, VEOCEL™ as the umbrella brand for all specialty nonwoven products, and LENZING™ for all industrial applications, the company showcases its strengths in a targeted manner.

The TENCEL™ brand has been supporting customers and partners in the textile and apparel industry with sustainable fiber innovations since 1992. In 2022, Lenzing is celebrating the 30th anniversary of its premium textile brand, which today stands for high-quality, sustainable fibers, digital technologies and transparency in the supply chain worldwide, and is the fastest growing ingredient brand on the market. This brand success is also reflected in the company's collaboration with more than 300 partner brands. Since February, Lenzing has been conducting customer and employee activities in various regions under the motto ["Feel Good Fibers Since 1992"](#) in order to mark the brand anniversary.

Sustainability champion

For the second time, Lenzing was awarded platinum status for its sustainability performance by EcoVadis, a leading international provider of corporate sustainability ratings. This places Lenzing in the top one percent of companies worldwide in its industry as rated by EcoVadis. Already during the first quarter, Lenzing was also pleased to receive the prestigious ÖGUT Environmental Award 2022 in the "World Without Waste" category. The Austrian Society for Environment and Technology (ÖGUT) thereby recognized Lenzing's contribution to transforming the textile industry into a model of the circular economy. In 2021, Lenzing was recognized on several occasions for its achievements as a "sustainability champion", including top ratings by CDP and MSCI.

¹ Adjusted for major plants under construction and in the start-up phase

Outlook

The war in Ukraine, China's zero-Covid policy and the sharp rise in inflation have had a significant impact on the global economy. In July, the International Monetary Fund downgraded its growth expectations for the current calendar year to 3.2 percent. This deterioration in the market environment is also increasingly affecting the consumer climate as well as sentiment in industries relevant for Lenzing. As a consequence, business prospects worsened significantly in the third quarter.

Given this deterioration in the market environment, Lenzing suspended its earnings guidance for the 2022 financial year on September 19, 2022.

The Lenzing Group anticipates earnings in the 2022 financial year in line with current market expectations.

Selected indicators of the Lenzing Group		
EUR mn	01-09/2022	01-09/2021
Revenue	1,970.1	1,588.5
EBITDA (operating profit before depreciation and amortization)	263.0	297.6
EBITDA margin	13.3 %	18.7 %
Net profit for the period	74.9	113.4
Earnings per share in EUR	2.16	3.77
Cash flow from operating activities	34.8	307.8
CAPEX ¹	532.0	631.1
	30/09/2022	31/12/2021
Net financial debt	1,714.2	977.0
Adjusted equity ratio ²	37.7 %	39.7 %
Number of employees (headcount)	8,428	7,958

1) Capital expenditures: Investments in intangible assets, property, plant and equipment and in biological assets as per the consolidated statement of cash flows

2) Ratio of adjusted equity to total assets in percent

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About the Lenzing Group

The Lenzing Group stands for the ecologically responsible production of specialty fibers made from the renewable raw material wood. As an innovation leader, Lenzing is a partner to global textile and nonwoven manufacturers and drives many new technological developments. The Lenzing Group's high-quality fibers form the basis for a variety of textile applications ranging from elegant clothing to versatile denims and high-performance sports clothing. Due to their consistent high quality, biodegradability and compostability, Lenzing fibers are also highly suitable for hygiene products and agricultural applications.

The Lenzing Group's business model extends far beyond that of a traditional fiber producer. Together with its customers and partners, Lenzing develops innovative products along the value chain and creates added value for consumers. The Lenzing Group strives for the efficient utilization and processing of all raw materials and offers solutions to help redirect the textile and nonwovens sector towards a closed loop economy. In order to slow the rate of global warming and to accomplish the climate targets of the Paris Agreement and the EU Commission's "Green Deal", Lenzing has a clear vision: namely to make a zero-carbon future come true.

Lenzing Group facts & figures 2021

Revenue: EUR 2.19 bn
Nameplate capacity: 1,145,000 tonnes
Employees: 7,958

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Disclaimer: The above financial indicators are derived primarily from the Lenzing Group's condensed consolidated interim financial statements and the Lenzing Group's prior-year consolidated financial statements. Additional details are provided in the "Notes on the financial performance indicators of the Lenzing Group", available at the following link <https://www.lenzing.com/de/erlaeuterungen-lenzing-gruppe-2022-q3>, and in the condensed consolidated interim financial statements as well as the Lenzing Group's prior-year consolidated financial statements. Rounding differences can occur in the presentation of rounded amounts and percentage rates.
