NAVIGATING THE CHALLENGES

"The sustained efforts and resourceful flexibility of the Finance function throughout the year, supported by further investment in facilitative technology, were critical not just in helping to secure pricing opportunities wherever we could but also in supporting the business as a whole."

CHARLES DESMARTIS
CFO

FINANCIAL HIGHLIGHTS

REVENUE (€/BN)
2.29
+1.7%
(LFL GROWTH %)

GROSS MARGIN (€/M)
625.7
-5.3%
(COMPARED TO 2017)

ADJUSTED EBITDA (€/M)
234.0
-12.2%
(COMPARED TO 2017)

ADJUSTED NET PROFIT (€/M)
109.7
-16.5%
(COMPARED TO 2017)

2018 WAS A YEAR OF MANY CHALLENGES. WE FACED STRONG INCREASES IN INPUT COSTS, INCLUDING UNPRECEDENTED RISES IN RAW MATERIAL INDICES, WHICH OUTPACED INDUSTRY EXPECTATIONS. THERE WERE FIERCE HEADWINDS FROM NEGATIVE CURRENCY MOVEMENTS. AND MARKET CONDITIONS WERE GENERALLY TESTING WITH LOWER GROWTH AND PRICING PRESSURE IN SEVERAL OF THE REGIONS IN WHICH WE OPERATE.

The sustained efforts and resourceful flexibility of the Finance function throughout the year, supported by further investment in facilitative technology, were critical not just in helping to secure pricing opportunities but also in supporting the business as a whole.

GROUP REVENUE

We delivered a solid like-for-like revenue performance, up 1.7% compared to broadly flat market growth, and a positive price/mix across the Divisions and the three product categories with especially good growth in adult care and baby pants (see relevant Division for revenue figures as well as page 39 for description of product categories). This more than offset the anticipated decline in volume. We continue to monitor the evolution of our volume and value performance and adjust our actions as necessary.

Sales in Brazil improved sequentially quarter by quarter (excluding foreign exchange) as innovative products started to become available and we started to win back shelf space with our customers.

Group sales were down -1.8% including a negative foreign exchange impact of some €102 million.

GROSS MARGIN

Gross margin came in at €625.7 million. As a percentage of sales it was 27.3%, 99 basis points below 2017. This was mainly attributable to the lower gross margin in Brazil. The rest of the Ontex business demonstrated resilience in light of market conditions. The mentioned price/mix impact and significant savings through best practice sharing allied to non-stop endeavors to reduce raw material usage without affecting performance, largely helped to offset the negative impacts of higher raw material costs and negative foreign currency exchange.

ADJUSTED EBITDA

Group adjusted EBITDA amounted to €234.0 million resulting in margins of 10.2%. This was underpinned by actions on pricing, significant contributions from savings and efficiencies as well as continued investment in sales, marketing and R&D to support the top line. While distribution expenses were still relatively high in part because of rising energy costs, we were encouraged by the progress made by the end of the year.

Although still dilutive, our business in Brazil saw sequential improvement in adjusted EBITDA throughout the year.

FOREIGN EXCHANGE

As we grow, so does our exposure to foreign currencies. In 2018 most currencies weakened against the euro, which impacted both Group revenue and adjusted EBITDA. At Group revenue level, the impact was €102 million, stemming largely from the main currencies in the Americas Retail, MENA and Growth Market Divisions. The impact on adjusted EBITDA was €26.8 million but we benefited from the US dollar (USD) in raw material procurement made in USD.

NET FINANCE COSTS

We recorded a significant benefit following the full refinancing of our debt in December 2017. Net finance costs were €28.6 million, a reduction of €15.2 million compared to 2017.

INCOME TAX

Income tax expense as an absolute amount reduced in 2018 to €27.2 million. The effective tax rate was 21.8%, which is within the company's expectation of an effective tax rate of 24% or less.

WORKING CAPITAL

Working capital came in below 12%, in line with our target. We introduced some new measures in terms of trade payables to improve our working capital in a sustainable manner. These included bringing more consistency to our terms of payment across the Group.

CAPITAL EXPENDITURE

Capital expenditure amounted to €103.8 million in 2018, around 5% of sales and in the same bracket as in 2017. It included decisions to invest further in production to ensure we captured the high growth in adult care and baby pants. We also successfully leveraged our proprietary in-house diaper production technology to install new lines in Brazil. The acceleration of our capacity in baby pants and adult pants and the investment in Brazil were strategic choices to support future growth.

ADJUSTED FREE CASH FLOW (POST-TAX)

Adjusted free cash flow (post tax) was €80.0 million in 2018, an increase of 12.8% compared to the previous year. This increase is mainly due to decreased working capital, as well as lower capex and cash taxes paid versus 2017.

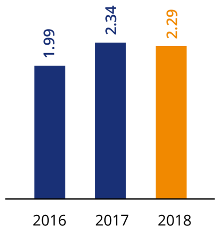
NET DEBT

Net debt remained stable while lower adjusted EBITDA led to an increase in leverage. Net debt at year-end was €760.0 million and at 3.25 times prior 12 months adjusted EBITDA, within our stated leverage range.

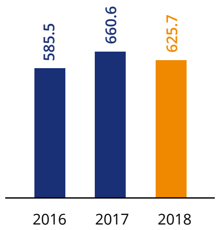
DIVIDENDS

The Board of Directors has proposed a dividend of €0.41 per share, in line with Ontex's policy to pay out 35% of net profit.

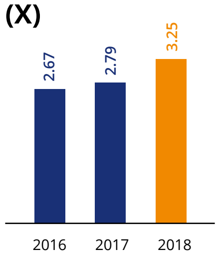
REVENUE GROWTH[1] (LFL GROWTH %)



GROSS MARGIN (€/M)



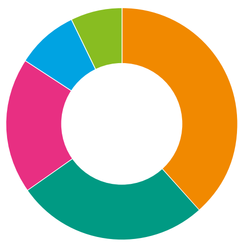
LEVERAGE (X)



1. Starting 2017, IFRS 15 has been applied.

(€/M UNLESS OTHERWISE SPECIFIED)	2018	2017	CHANGE (%)
Revenue	2,292.2	2,235.0	-1.8
Gross margin	625.7	660.6	-5.3
Adjusted EBITDA	234.0	266.4	-12.2
Adjusted net profit	109.7	131.4	-16.5
Adjusted free cash flow	80.0	71.0	+12.8
Net debt	760.0	744.2	+2.1
Leverage	3.25x	2.79x	n/a

REVENUE BY DIVISION (€/M)



- MMR **880.2**
- Americas **618.0**
- Healthcare **435.6**
- Growth Markets **197.6**
- MENA **160.8**