

# Q1 2020

## PRESS RELEASE

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20 APRIL 2020



# Q1 2020 – Record orders and strong cash flow while financial results are colored by pandemic



## EXECUTIVE SUMMARY

### Financial highlights Q1 2020

- Orders received were EUR 351.8m (1Q19: 323.3m).
- The order book was EUR 464.6m (YE19: 414.4m and 1Q19: 474.7m).
- Revenues were EUR 301.6m (1Q19: 324.6m).
- EBIT\* was EUR 25.4m (1Q19: 47.5m), translating to an EBIT\* margin of 8.4% (1Q19: 14.6%). Non-recurring and not adjusted for cost associated with strategic streamlining is around EUR 3m. Streamlining will come into full effect in 2021 with cost savings of EUR 6m on an annual basis.
- Net result was EUR 13.4m (1Q19: 32.2m).
- Basic earnings per share (EPS) were EUR 1.76 cents (1Q19: 4.85 cents).
- Cash flow from operating activities before interest and tax in the quarter was EUR 61.5m (1Q19: 59.6m). Free cash flow at EUR 38.6m (1Q19: 44.0m).
- Net debt/EBITDA was x0.4 at end of March (YE19: x0.4). Targeted capital structure is x2-3 net debt/EBITDA.
- Marel drew EUR 600m from its syndicated revolving credit facility in the quarter as a precautionary measure, financing secured until 2025.

### Árni Oddur Thórdarson, CEO

*“While focusing on the business continuity of our own operations and that of our customers, we have put the safety and wellbeing of our people and their families as our first priority. We have adapted to new realities quickly and this has indeed been a quarter of many firsts. We introduced remote assistance during service and installations, launched online platform Marel Live to engage better with our customers, and conducted a hybrid Annual General Meeting on the set date where shareholders could attend and vote virtually.*

*With a robust financial and cash position, an innovative product portfolio and global reach, we are in a strong position to weather the storm. Orders received in the quarter were at an all-time high or EUR 352 million, and were well balanced between large projects, standard equipment and spares. We are also using part of our strong operating cash flow to ramp up inventories of manufacturing and spare parts to shorten lead times of equipment and spares. This will allow us to better serve our customers’ needs in the current logistical challenges due to the pandemic.*

*Revenues were EUR 302 million in the first quarter with EBIT of 8.4%. The pandemic situation mainly affected the meat project business with lower utilization in our manufacturing hubs in China, Germany and Brazil due to precautionary social distancing protocols. It is reassuring to see utilization levels in China back at 90%, although it is too early to tell when we will reach those levels in Germany and Brazil. At the same time we have shown great resilience in our aftercare business. While utilization of our field service engineers was affected by travel and visit restrictions, there was double-digit growth in spares revenues. Aftercare revenues account for 41% of total revenues in the first quarter.*

*When entering 2020, the order book for poultry, our largest and most profitable business unit, was low. The largest driver in the record orders received in the quarter is the good momentum overall in the global poultry industry and we are entering Q2 with a healthy order book.*

*While families take shelter at home, the demand for retail stores and online platforms has skyrocketed. At the same time, foodservice demand from hotel and restaurants is significantly down. In such dynamic shifts, many customers need to advance their current platforms with modular solutions and need first class maintenance support and short lead times of spares and solutions. I would like to take this opportunity and thank our team here at Marel, our customers, suppliers and other partners, for all their efforts and hard work during these unprecedented times. Together, we are ensuring that one of the most important value chains in the world remains operational – the food value chain.”*

## KEY FIGURES (EUR m)

As per financial statements	1Q20	1Q19	Change
Revenues	301.6	324.6	-7.1%
Gross profit	107.3	125.4	-14.4%
Gross profit as a % of revenues	35.6%	38.6%	
Adjusted result from operations (Adjusted EBIT)	25.4	47.5	-46.5%
EBIT* as a % of revenues	8.4%	14.6%	
EBITDA	37.6	59.1	-36.4%
EBITDA as a % of revenues	12.5%	18.2%	
PPA related costs	(2.6)	(2.6)	
Result from operations (EBIT)	22.8	44.9	-49.2%
EBIT as a % of revenues	7.6%	13.8%	
Net result	13.4	32.2	-58.4%
Net result as a % of revenues	4.4%	9.9%	
Orders Received	351.8	323.3	8.8%
Order Book	464.6	474.7	-2.1%

Cash flows	1Q20	1Q19
Cash generated from operating activities, before interest & tax	61.5	59.6
Net cash from (to) operating activities	44.0	52.3
Investing activities	(10.5)	(10.8)
Financing activities	361.8	(49.6)
Net cash flow	395.3	(8.1)

Financial position	31/03 2020	31/12 2019
Net Debt (Including Lease liabilities)	84.2	97.6
Operational working capital <sup>1)</sup>	43.3	64.0

<sup>1)</sup> Trade receivables, Inventories, net Contract assets & Contract liabilities, Trade payables.

Key ratios	1Q20	1Q19
Current ratio	2.2	0.9
Quick ratio	1.9	0.6
Return on equity	5.8%	23.7%
Leverage <sup>2)</sup>	0.4	2.2
Number of outstanding shares (millions)	755.9	659.7
Market capitalization in EUR billion based on exchange rate at end of period	2.7	2.6
Basic earnings per share in EUR cents	1.76	4.85

<sup>2)</sup> Net Debt (Including Lease liabilities) / LTM EBITDA.

# RESPONSE TO COVID-19 AND IMPACT ON MAREL

**Focus is on maintaining productivity of all manufacturing sites while keeping employees and customers safe.**

## Current situation

- Marel is a critical infrastructure company in the food industry and all of Marel's manufacturing sites are classified as essential.
- All of Marel's manufacturing sites are open though not all sites are at full capacity. Marel and its suppliers are ensuring continuity of supply thusfar.
- In January, Marel implemented a global task force internally with 15 regional crisis management teams.
- Marel has re-organized its manufacturing sites to ensure business continuity and safety for its people.
- Marel has systemically built up safety stock of spare and make parts across locations to serve strong demand and ensure timely delivery.
- Marel is committed to serving its customers around the world despite the logistical challenges. Marel has set up a structure for remote support, offering maintenance jobs overnight to keep customers and employees safe.
- Installations are ongoing, like the greenfield installation in China in March that was supported virtually by the global team. In the current environment installations can take additional time, leading to higher cost of delivering to Marel's customers.
- Marel Live, a new online platform and virtual equipment demonstrations have been launched.
- New product development in good progress with increased use of virtual reality.

## Marel is well positioned to navigate through these challenging times

- Marel has a global manufacturing footprint. Marel's co-location strategy means that every product has a mother site and a significant part of our standard equipment can be manufactured in two or three sites, increasing flexibility in production and reducing supply chain risk.
- After strengthening the regional leadership teams and infrastructure in key growth regions, Marel is closer to its customers and better able to mitigate the current challenges.
- Own sales and service engineers residing in more than 30 countries.
- Long-term partnership with customers and strong customer retention. Diversified customer base.
- Around 41% of Marel's revenues in 1Q20 derived from recurring service and spare parts revenues.
- Marel is financially strong, with Net debt/EBITDA leverage at 0.4x.
- Secured liquidity at EUR 762m at quarter-end. Financing secured until 2025.
- Good support from shareholders since listing on Nasdaq Iceland in 1992 and on Euronext Amsterdam in June 2019.

## Challenges and opportunities for Marel

- Marel is finding smarter ways of working to counter higher costs due to the pandemic. COVID-19 has accelerated our offering of online and remote assistance.
- Food processors are seeking ways to divert capacity to increase supply to retail, as foodservice demand shifted towards at home consumption. This may lead to updating factories to increase production of pre-packed portions.
- The pandemic might lead to further automation in the industry and possibly accelerate the need to modernize food production in Asia.
- Opportunity for Marel to take on a leading role in the potential upcoming industry consolidation.

# FINANCIAL PERFORMANCE

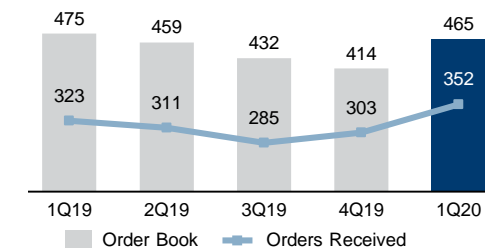
## Orders received at EUR 352m, up by 16.3% QoQ and up by 8.8% compared to previous year

- Record orders received in 1Q20, reflecting the strong 4Q19 pipeline in Poultry. Orders received are well balanced across the portfolio, between large projects, standard equipment and maintenance projects.
- Greenfields such as the large equipment order from Bell & Evans in the U.S. and large projects with longer lead times constitute the vast majority of the order book while services, spares and standard equipment run faster through the system with shorter lead times.
- The order book in the first quarter was at a level of EUR 464.6m (YE19: 414.4m, 1Q19: 474.7m). This equals 37% of 12-month trailing revenues. The book-to-bill ratio was at 1.17 (YE19: 0.95, 1Q19: 0.99).
- Global animal protein trade was heavily shaped by African Swine Fever in 2019, with the pandemic adding further uncertainty and volatility to the market. Foodservice demand is severely hit, resulting in a shift to eating at home and increasing retail sales, particularly for frozen and processed food. Food processors are seeking ways to divert capacity to increase supply to retail customers.
- Among Marel's three industries, Poultry is the least impacted by the pandemic due to its convenience, affordability and ability to adapt to supply relatively quickly. There is a trend in Fish to move from fresh to frozen while Meat customers are challenged by low carcass valuation, especially for beef.
- Overall, Marel's competitive position remains strong. Many of Marel's customers are seeing increased demand for their products. Food safety, food sustainability and affordability are the key drivers where Marel can support. The pandemic has accelerated Marel's offering of virtual and remote support.

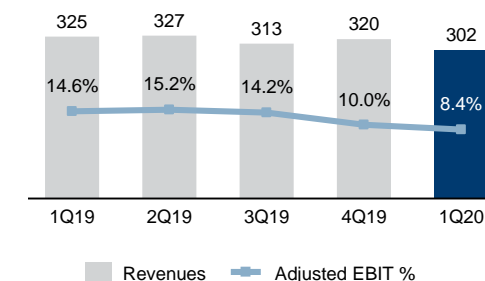
## Revenues and costs impacted by the pandemic. Resilient service revenues of around 41% in 1Q20. Streamlining efforts ongoing

- Revenues totaled EUR 301.6m in 1Q20, down 5.8% QoQ and down 7.1% YoY. Marel is a critical infrastructure company in the food industry. Marel's manufacturing sites have been re-organized to ensure business continuity and safety for its people. In a COVID-19 environment it takes longer to close orders and transform orders into revenues. Marel is systematically building up inventory stock and shortening lead times to be more agile and serve customers better.
- Manufacturing continued at a good level, though not all sites were at full capacity.
- Poultry was impacted by lower volume because of a lower order book in 2H19, while Meat was effected by volume, product mix and logistical challenges due to the pandemic, including a two week closure in China.
- With the installed base continuing to grow worldwide, a significant proportion of Marel's revenues derive from recurring service and spare parts revenues or around 41% in 1Q20 (1Q19: 35%).
- Gross profit margin was at 35.6% (4Q19: 36.2%, 1Q19: 38.6%) and gross profit was at EUR 107.3m in the quarter, down 7.5% QoQ and down 14.4% YoY, mainly because of volume, product mix and higher cost in delivering to Marel's customers during the pandemic.
- EBIT\* margin was at 8.4% (4Q19: 10.0%, 1Q19: 14.6%). Streamlining initiatives announced earlier in the year are ongoing and will continue throughout the year, lowering the cost base. Marel is focused on improving the profitability of the company. In 1Q20 Marel took actions that will deliver EUR 6m in annualized savings with around EUR 3m in non-recurring cost.
- Net result was EUR 13.4m, up 31.4% QoQ and down 58.4% YoY, impacted by lower result from operations.
- Basic EPS were EUR 1.76 cents (4Q19: 1.34 cents, 1Q19: 4.85 cents).

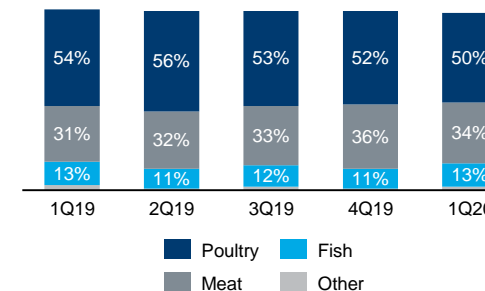
## ORDER BOOK AND ORDERS RECEIVED EUR m



## REVENUES AND EBIT\* %, EUR m



## REVENUES BY INDUSTRY %



# FINANCIAL PERFORMANCE

## Solid cash flow and very strong financial position with leverage at 0.4x and financing secured until 2025

- The cash flow, both operational and free cash flow remains strong. Operational cash flow reported at EUR 61.5m (1Q19: 59.6m) and free cash flow at EUR 38.6m (1Q19: 44.0m).
- Working capital improved due to collection of receivables. The higher contract liabilities reflect the strengthened order book while inventories increased to EUR 173.8m (1Q19: 159.1m) to meet customer demand for critical parts in spares and to ensure timely delivery.
- Tax payments for 1Q20 at EUR 13.4m (1Q19: 4.8m) exceptionally high as taxes have been paid upfront.
- Cash flow from investment activities of EUR 10.5m is at a similar level as 1Q19 (10.8m). Marel continues investing in its business.
- Marel drew EUR 600m from its syndicated revolving credit facility in the quarter as a precautionary measure to increase its flexibility and ability to react to unforeseen future business needs due to the pandemic. As a result the net cash position increased to EUR 695.1m (1Q19: 50.1m).
- Leverage is at 0.4x at the end of 1Q20 (4Q19: 0.4x) which is well under the targeted capital structure (2-3x Net debt/EBITDA). Secured liquidity of EUR 761.8m at quarter-end and secured financing is in place until 2025. Marel continues to have a strong financial position to facilitate future strategic moves in line with the company's growth strategy.
- On 10 March 2020, a new share buyback program was announced for up to 25,000,000 shares in the Company, or about 3.2% of the total issued share capital in the Company. The purpose of the buyback program is to reduce the Company's share capital and to meet the Company's obligations under share incentive programs with employees. As part of the buyback program, Marel has purchased 4.4 million shares (EUR 14.5m) in the period 11 March 2020 to 31 March 2020. As of today Marel holds 2.17% of its own shares.

## Marel secures a favorable new syndicated revolving credit facility of EUR 700m

- On 5 February 2020, Marel signed a new EUR 700m multi-currency, revolving credit facility with a tenor of five-years and two one-year uncommitted extension options. The new facility replaces the prior senior syndicated facility, allowing better cash balance utilization and increases Marel's strategic flexibility to support future growth.
- Improved interest rate terms at EURIBOR/LIBOR +80bps that will vary in line with Marel's leverage ratio (Net debt/EBITDA) and facility utilization level. The new credit facility includes a sustainability linked incentive structure with KPI's in line with Marel's sustainability objectives.

## The 2020 AGM approved all proposals, including a dividend of 40% of 2019 net result and initiation of share buyback program

### Dividend corresponding to 40% of 2019 net result

- A dividend payment of EUR 5.79 cents per share was declared. This corresponds to 40% of net results for the year 2019, of which EUR 38.1m will be paid in 2Q20 and EUR 5.8m in 3Q20. This is a 3.9% increase in dividend per share compared with the previous year.

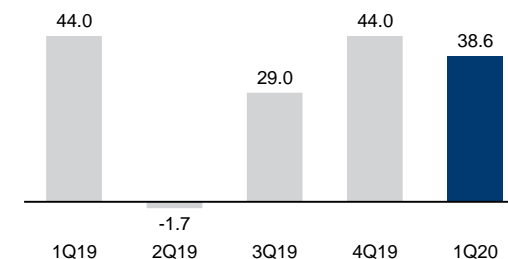
### Share buyback program

- An authorization allowing the Company to acquire up to 10% of its own shares, effective for the next 18 months was renewed.

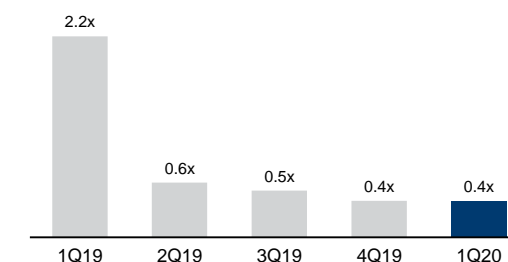
### Lillie Li Valeur elected to the Board of Directors

- After serving on the Board of Directors for 14 years, Margrét Jónsdóttir did not declare candidature. Lillie Li Valeur is a new director elected to the Board. Valeur is the CEO for Good Food Group in Denmark and prior to that held several senior managerial roles at Arla Foods globally.

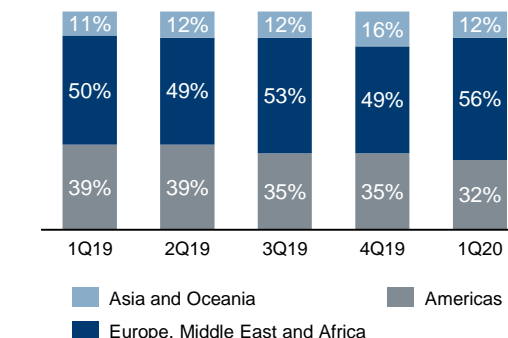
### FREE CASH FLOW EUR m



### LEVERAGE Net debt/EBITDA



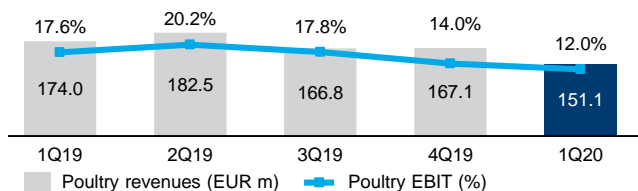
### REVENUES BY GEOGRAPHY %



# INDUSTRY PERFORMANCE

## MAREL POULTRY

Delivered 50% of total revenues and 12.0% EBIT in 1Q20.

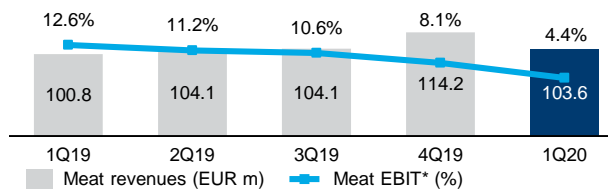


	1Q20	1Q19	Change
Revenues	151.1	174.0	-13.2%
EBIT	18.2	30.6	-40.5%
EBIT as a % of revenues	12.0%	17.6%	

- Marel Poultry's competitive position remains strong on the back of its established full-line product range, including standard equipment and modules, and service and spare parts revenue from its large installed base worldwide.
- Revenues for Marel Poultry in 1Q20 were EUR 151.1m, down 13.2% YoY (1Q19: 174.0m). EBIT was EUR 18.2m (1Q19: 30.6m) and the EBIT margin was 12.0% (1Q19: 17.6%).
- Revenues in 1Q20 are a reflection of the softer order book in 2H19.
- Orders received in 1Q20 were at the highest level ever in Poultry. These were well balanced by geography, product mix and size of projects.
- Poultry is the least impacted by the pandemic due to its convenience, affordability and ability to adapt to supply relatively quickly.
- Healthy order book serves as a good base for improved profitability of Marel Poultry throughout the year.

## MAREL MEAT

Delivered 34% of total revenues and 4.4% EBIT\* in 1Q20.

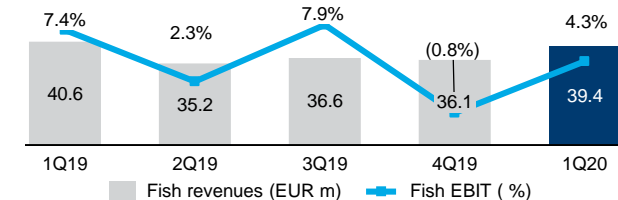


	1Q20	1Q19	Change
Revenues	103.6	100.8	2.8%
EBIT*	4.6	12.7	-63.8%
EBIT* as a % of revenues	4.4%	12.6%	

- Marel Meat is a full-line supplier to the meat processing industry following acquisitions of MPS, with further bolt-on capabilities added with the acquisitions of Sulmaq, MAJA and Cedar Creek Company.
- Revenues for Marel Meat in 1Q20 were EUR 103.6m, up 2.8% YoY (1Q19: EUR 100.8m). EBIT\* was EUR 4.6m (1Q19: 12.7m) and the EBIT\* margin was 4.4% (1Q19: 12.6%).
- Operational results impacted by product mix and logistical challenges due to the pandemic, that resulted in lower utilization in our manufacturing hubs in China, Germany and Brazil due to precautionous social distancing protocols.
- Orders received in 1Q20 were slower than expected as customer decision making was delayed. The meat industry, particularly beef is impacted by COVID-19 as foodservice demand has shifted to increased retail demand for lower value cuts, resulting in margin pressure for food processors. There is also a shift from beef to pork.
- Marel is in a good position to support the modernization of the pork value chain in China.
- Management is targeting medium and long-term EBIT\* margin expansion for Marel Meat.

## MAREL FISH

Delivered 13% of total revenues and 4.3% EBIT in 1Q20.



	1Q20	1Q19	Change
Revenues	39.4	40.6	-3.0%
EBIT	1.7	3.0	-43.3%
EBIT as a % of revenues	4.3%	7.4%	

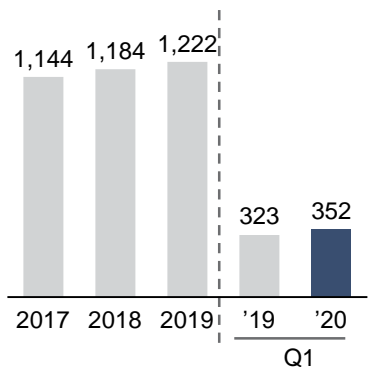
- Marel Fish predominantly consists of sales of solutions into salmon, wild whitefish and farmed whitefish. With the acquisition of Curio in 4Q19, Marel is a step closer to becoming a full-line provider to the global whitefish industry.
- Revenues for Marel Fish in 1Q20 were EUR 39.4m, 3.0% down YoY (1Q19: 40.6m). EBIT was EUR 1.7m (1Q19: 3.0m) and the EBIT margin was 4.3% (1Q19: 7.4%).
- Good level of orders received in 1Q20 for both projects and aftermarket.
- The fish industry is adapting towards frozen and processed products as foodservice demand has shifted towards home consumption. This is likely to result in a need to update and advance customer factories to increase bone-free and consumer ready products.
- As announced on 9 March 2020, Gudbjorg Heida Gudmundsdottir has taken over from Sigurdur Olason, as EVP of Marel Fish.
- Management is targeting medium and long-term EBIT margin expansion for Marel Fish.



# INTERIM KEY FIGURES & OUTLOOK

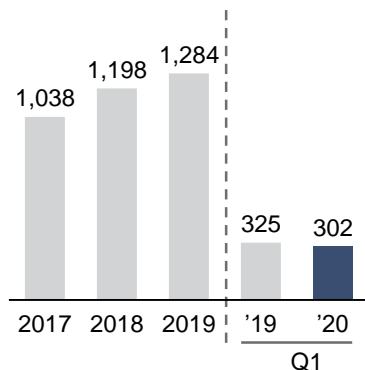
## ORDERS RECEIVED

EUR m



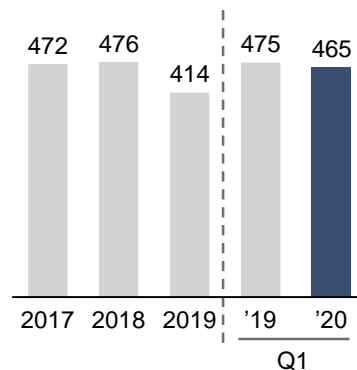
## REVENUES

EUR m



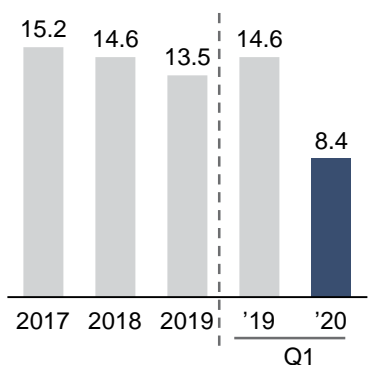
## ORDER BOOK

EUR m



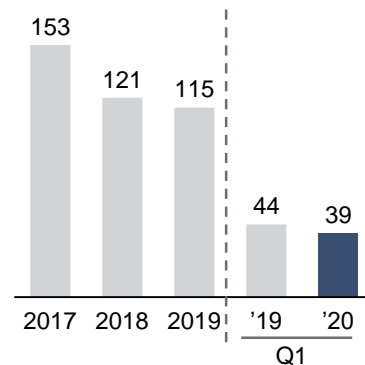
## EBIT\* MARGIN

%



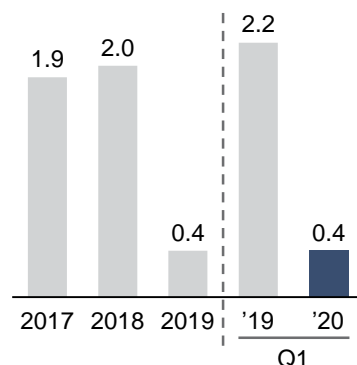
## FREE CASH FLOW

EUR m



## LEVERAGE

Net debt/EBITDA



## Outlook

- Market conditions have been challenging due to geopolitical uncertainty and the current COVID-19 pandemic. Marel enjoys a balanced exposure to global economies and local markets through its global reach, innovative product portfolio and diversified business mix. At the moment it is not known what the full economic impact of COVID-19 will have on Marel. Marel is committed to achieve its mid- and long term growth targets. Our strategic mid-term targets are to achieve gross profit around 40%, SG&A of around 18% and Innovation at the 6% strategic level by year-end 2023.
- In the period 2017-2026, Marel is targeting 12% average annual revenue growth through market penetration and innovation, complemented by strategic partnerships and acquisitions.
  - Marel's management expects 4-6% average annual market growth in the long term. Marel aims to grow organically faster than the market, driven by innovation and growing market penetration.
  - Maintaining solid operational performance and strong cash flow is expected to support 5-7% revenues growth on average by acquisition.
  - Marel's management expects basic EPS to grow faster than revenues.
- Growth is not expected to be linear but based on opportunities and economic fluctuations. Operational results may vary from quarter to quarter due to general economic developments, fluctuations in orders received and timing of deliveries of larger systems.

# INVESTOR RELATIONS

## Virtual investor meeting and live webcast/conference call 21 April 2020

On Tuesday 21 April 2020, at 8:30 am GMT (10:30 am CET), Marel will host a virtual investor meeting where CEO Árni Oddur Thórdarson and CFO Linda Jónsdóttir will give an overview of the financial results and operational highlights in the first quarter.

The virtual meeting will be webcast live on [www.marel.com/webcast](http://www.marel.com/webcast) and a recording will be available after the meeting on [marel.com/ir](http://marel.com/ir).

Members of the investment community can join the conference call at:

IS: 800 7520

NL: +31 20 721 9496

UK: +44 333 300 9268

US: +1 833 823 0586

### UPCOMING TRADE SHOWS

- Nor-Fishing, Trondheim, 18-21 August
- Vietfish, Ho Chi Minh City, 26-28 August
- CIMIE, Qingdao, 8-12 September
- Meat ShowHow, Copenhagen 23 September

### UPCOMING MAREL VIRTUAL LIVE EVENTS

- Virtual Fish Expo, 21-22 April 2020
- Inspection technology in food processing, 13 May 2020
- Automation in pig processing, 28 May 2020
- Transformation through traceability, 16 June 2020

## DISCLAIMERS

### Forward-looking statements

Statements in this press release that are not based on historical facts are forward-looking statements. Although such statements are based on management's current estimates and expectations, forward-looking statements are inherently uncertain. We therefore caution the reader that there are a variety of factors that could cause business conditions and results to differ materially from what is contained in our forward-looking statements, and that we do not undertake to update any forward-looking statements. All forward-looking statements are qualified in their entirety by this cautionary statement.

### Market share data

Statements regarding market share, including those regarding Marel's competitive position, are based on outside sources such as research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Marel, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

## FINANCIAL CALENDAR

- Marel will publish its (Condensed) Consolidated Financial Statements according to the below financial calendar:
  - Q2 2020 – 22 July 2020
  - Q3 2020 – 20 October 2020
  - Q4 2020 – 3 February 2021
- Financial results will be disclosed and published after market closing of both NASDAQ Iceland and Euronext Amsterdam.

## CONTACT US

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