

# Q2 2020

## PRESS RELEASE

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22 JULY 2020



# Q2 2020 – Robust operational performance and strong cash flow

## EXECUTIVE SUMMARY

### Financial highlights Q2 2020

- Orders received were EUR 280.1m (2Q19: 311.2m).
- The order book was EUR 439.0m (1Q20: 464.6m, 2Q19: 459.4m).
- Revenues were EUR 305.7m (2Q19: 326.5m).
- EBIT\* was EUR 45.0m (2Q19: 49.6m), translating to an EBIT\* margin of 14.7% (2Q19: 15.2%).
- Non-recurring and not adjusted for cost associated with strategic streamlining in the quarter is around EUR 1m. Streamlining will come into full effect in 2021 with cost savings achieved during the quarter of EUR 2m on an annual basis.
- Net result was EUR 30.7m (2Q19: 34.3m).
- Basic earnings per share (EPS) were EUR 4.07 cents (2Q19: 5.16 cents).
- Cash flow from operating activities before interest and tax in the quarter was EUR 63.1m (2Q19: 22.3m). Free cash flow at EUR 47.6m (2Q19: -1.7m).
- Net debt/EBITDA was x0.6 at end of June (1Q20: x0.4). Targeted capital structure is x2-3 net debt/EBITDA.
- Marel repaid EUR 500m on syndicated revolving credit facility, after drawing EUR 600m in 1Q20.

### Financial highlights 1H 2020

- Orders received were EUR 631.9m (1H19: 634.5m).
- Revenues were EUR 607.3m (1H19: 651.1m).
- EBIT\* was EUR 70.4m (1H19: 97.1m), translating to an EBIT\* margin of 11.6% (1H19: 14.9%).
- Non-recurring and not adjusted for cost associated with strategic streamlining in the first six months is around EUR 4m. Streamlining will come into full effect in 2021 with cost savings achieved during 1H20 of EUR 8m on an annual basis.
- Cash flow from operating activities before interest and tax was EUR 124.6m (1H19: 81.9m).

### Arni Oddur Thordarson, CEO

*"The first half of 2020 has truly been a testament to the resilience of our business model and that of our team. I am proud to say that despite the many challenges encountered, our culture of excellence and decentralized leadership model have been key to maintaining our reputation as a trusted service partner to our customers. Together, our extraordinary team here at Marel, our customers and suppliers, have ensured that one of the most important value chains in the world - the food value chain - continues to run efficiently. For this, I am extremely proud and thankful to be part of this great team."*

*While ensuring the safety of our employees and our customers, we have focused on finding smarter ways to deliver solutions and services at the right quality and at the right time. Indeed, all of our factories worldwide have remained open, albeit operating at below historical and targeted utilization rates.*

*We saw improved results in the second quarter with revenues of EUR 306 million and close to 15% EBIT. Gross profits are hampered by lower volume but benefit from a good product mix and project execution. The lower gross profit is compensated by unusually low operating expenses that is both due to less travel and tradeshow activities which are replaced with remote connection and virtual show rooms. In addition, the ongoing streamlining efforts have started to count towards sustained lower cost base. Our global reach with a local presence, with over 2,500 sales and service employees in 30 countries serving customers in 140 countries, is a key differentiating factor in times like these. The proportion of recurring aftermarket revenues was around 38% in the quarter.*

*Orders received in the first half of 2020 were on par with same period last year, with record orders received in first quarter and lower in the second quarter during the peak of the pandemic. Revenues were EUR 607 million, down 7%, with an EBIT margin close to 12%. Cash flow was robust and leverage remains low at x0.6 of EBITDA. In the last six months, we have returned around EUR 94 million to shareholders in the form of dividends and share buybacks and have the financial capacity for continued investment into our platform and strategic growth.*

*Opportunities for automation and the digital transformation in the food industry are immense, and the speed of change is accelerating. Consumer behavior is changing with long-term consequences. Over past 4-6 months, we have seen a dynamic shift in demand from foodservice to groceries, with more mindful shopping, both in terms of price as well as awareness of a healthy, more sustainable diet. Rather than bulk up once a week with frozen and packaged foods, consumers are again looking for fresh and ready-to-cook products. Our customers, that have the channel flexibility and processing know-how to chase different consumer products in the market, have performed well in these turbulent times - so has Marel. While continued fluctuations in operational performance between quarters can be expected, we reiterate our mid- and long-term targets."*

## KEY FIGURES (EUR m)

|  | 2Q20    | 2Q19  | Δ YoY  | As per financial statements  | 6M20    | 6M19   | Δ YoY  |
|--|---------|-------|--------|--|---------|--------|--------|
|  | 305.7   | 326.5 | -6.4%  | Revenues   | 607.3   | 651.1  | -6.7%  |
|  | 114.2   | 130.2 | -12.3% | Gross profit   | 221.5   | 255.6  | -13.3% |
|  | 37.4%   | 39.9% |        | Gross profit as a % of revenues  | 36.5%   | 39.3%  |        |
|  | 45.0    | 49.6  | -9.3%  | Adjusted result from operations (Adjusted EBIT)                              | 70.4    | 97.1   | -27.5% |
|  | 14.7%   | 15.2% |        | EBIT* as a % of revenues   | 11.6%   | 14.9%  |        |
|  | 56.9    | 61.1  | -6.9%  | EBITDA   | 94.5    | 120.2  | -21.4% |
|  | 18.6%   | 18.7% |        | EBITDA as a % of revenues  | 15.6%   | 18.5%  |        |
|  | (2.6)   | (2.7) |        | PPA related costs  | (5.2)   | (5.3)  |        |
|  | 42.4    | 46.9  | -9.6%  | Result from operations (EBIT)  | 65.2    | 91.8   | -29.0% |
|  | 13.9%   | 14.4% |        | EBIT as a % of revenues  | 10.7%   | 14.1%  |        |
|  | 30.7    | 34.3  | -10.5% | Net result   | 44.1    | 66.5   | -33.7% |
|  | 10.0%   | 10.5% |        | Net result as a % of revenues  | 7.3%    | 10.2%  |        |
|  | 280.1   | 311.2 | -10.0% | Orders Received  | 631.9   | 634.5  | -0.4%  |
|  |         |       |        | Order Book   | 439.0   | 459.4  | -4.4%  |
|  | 2Q20    | 2Q19  |        | <b>Cash flows</b>  | 6M20    | 6M19   |        |
|  | 63.1    | 22.3  |        | Cash generated from operating activities, before interest & tax              | 124.6   | 81.9   |        |
|  | 53.4    | 2.2   |        | Net cash from (to) operating activities                                      | 97.4    | 54.5   |        |
|  | (10.3)  | (9.8) |        | Investing activities   | (20.8)  | (20.6) |        |
|  | (584.0) | 234.9 |        | Financing activities   | (222.2) | 185.3  |        |
|  | (540.9) | 227.3 |        | Net cash flow  | (145.6) | 219.2  |        |
|  |         |       |        |  | 30/06   | 31/12  |        |
|  |         |       |        | <b>Financial position</b>  | 2020    | 2019   |        |
|  |         |       |        | Net Debt (Including Lease liabilities)                                       | 121.3   | 97.6   |        |
|  |         |       |        | Operational working capital <sup>1)</sup>                                    | 37.8    | 64.0   |        |
|  |         |       |        | <b>Key ratios</b>  | 6M20    | 6M19   |        |
|  |         |       |        | Current ratio  | 1.2     | 1.4    |        |
|  |         |       |        | Quick ratio  | 0.8     | 1.1    |        |
|  |         |       |        | Return on equity <sup>2)</sup>   | 9.5%    | 18.1%  |        |
|  |         |       |        | Leverage <sup>3)</sup>   | 0.6     | 0.6    |        |
|  |         |       |        | Number of outstanding shares (millions)                                      | 747.9   | 759.9  |        |
|  |         |       |        | Market capitalization in EUR billion based on exchange rate at end of period | 3.5     | 3.0    |        |
|  |         |       |        | Basic earnings per share in EUR cents  | 5.82    | 9.86   |        |

# FINANCIAL PERFORMANCE

## Orders received in 2Q20 colored by the pandemic. 1H20 on par with last year

- Orders received in the quarter were EUR 280.1m, down by 20.4% QoQ against a record 1Q20 and down by 10.0% compared to 2Q19.
- 2Q20 reflects lower orders received during the peak of the pandemic. Orders received continue to be well balanced between large projects, standard equipment and maintenance projects.
- Rising labor costs, social distancing and increasing focus on ensuring food safety and traceability continues to drive automation within the food processing sector. Recent COVID-19 outbreaks at food processing plants have temporarily delayed investment decisions, likely accelerating the need for automation, the use of robotics, increased tracking & tracing and process control in the mid- and long-term, which Marel can support.
- Marel remains committed to its R&D investment of 6.0% of revenues to maintain its technological leadership in the industry.

## Healthy order book

- The order book in the second quarter was at a level of EUR 439.0m (1Q20: 464.6m, 2Q19: 459.4m). This equals 35% of 12-month trailing revenues. The book-to-bill ratio was at 0.92 (1Q20: 1.17, 2Q19: 0.95).
- Greenfields such as large equipment orders 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.
- Overall, Marel's competitive position remains strong. Demand in the short to medium term is expected to be impacted by structural changes in consumer behavior and channel disruption from foodservice to retail and online.

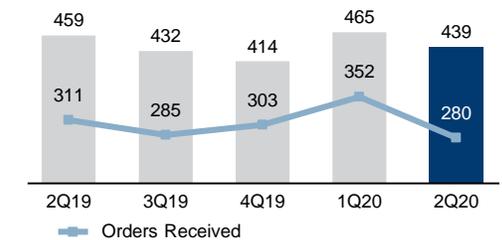
## Resilient operations with solid recurring aftermarket revenues

- Revenues totaled EUR 305.7m in 2Q20, up 1.4% QoQ due to good project execution and improved product mix, however down 6.4% YoY.
- Manufacturing continued at a good level with all sites open and improved utilization rate across locations, although operating below historical and targeted utilization rates.
- Aftermarket revenues, including recurring service and spare parts revenues, remained resilient in 2Q20 at around 38% of total revenues (1Q20: 41%, 2Q19: 35%) and in line with the growing installed base worldwide. Revenues from spare parts remained strong while service volumes were impacted by logistical challenges.
- The pandemic continues to accelerate Marel's approach in providing virtual and remote support.
- Marel systematically built up its inventory to shorten lead times, be more agile, and serve customers' needs, keeping the food value chain running.

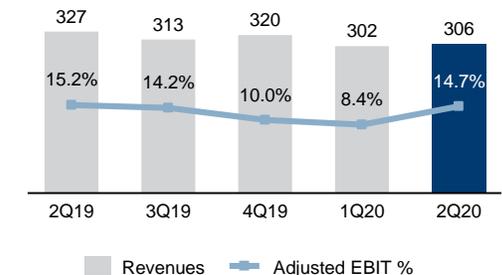
## Good project execution and streamlining result in an EBIT\* of 14.7%

- Gross profit margin improved to 37.4% in the quarter (1Q20: 35.6%, 2Q19: 39.9%). Gross profit was EUR 114.2m in the quarter, up 6.4% QoQ and down 12.3% YoY.
- Operating expenses in the quarter were lower reflecting less travel due to the pandemic and trade shows being converted into virtual live events, alongside ongoing streamlining efforts announced earlier in the year. In 2Q20 Marel took actions that will deliver EUR 2m in annualized savings with around EUR 1m in non-recurring cost.
- EBIT\* margin was at 14.7% (1Q20: 8.4%, 2Q19: 15.2%).
- Net result was EUR 30.7m, up 129% QoQ and down 10.5% YoY.
- Basic EPS improved QoQ to EUR 4.07 cents (1Q20: 1.76 cents, 2Q19: 5.16 cents).

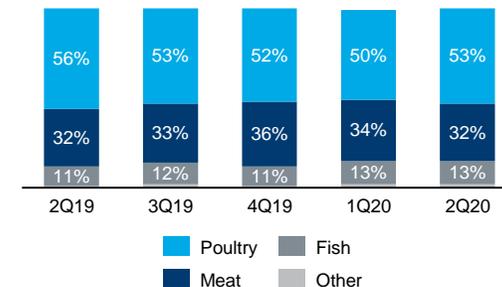
## ORDER BOOK AND ORDERS RECEIVED EUR m



## REVENUES AND EBIT\* EUR m, %



## REVENUES BY INDUSTRY %



# FINANCIAL PERFORMANCE

## Strong cash flow generation

- Cash flow is very strong in the quarter, as inventory buildup is offset by improved trade receivable and payables positions.
- Operational cash flow was EUR 63.1m (2Q19: 22.3m) and free cash flow at EUR 47.6m (2Q19: -1.7m), a considerable improvement QoQ and YoY.
- Inventories continued to increase to EUR 182.9m (2Q19: 165.3m) to meet customer demand for critical spare parts and to ensure timely delivery.
- Tax payments for 2Q20 were EUR 6.9m (2Q19: 16.0m).
- Cash flow from investment activities of EUR 10.3m (2Q19: 9.8m).
- On 19 June 2020, Marel successfully completed the additional investment in the Canadian software company Worximity Technology, bringing Marel's total ownership from 14.3% to 25.0%. The investment is fully in line with the share purchase agreement signed one year ago.

## Strong financial position with leverage at 0.6x and EUR 500m repayment of syndicated revolving credit facility

- In 2Q20 Marel repaid EUR 500m of the syndicated revolving credit facility, after drawing EUR 600m in 1Q20. The initial drawdown was a precautionary measure to increase Marel's flexibility and ability to react to unforeseen future business needs due to the pandemic.
- As a result of the repayment, the net cash position was lowered to EUR 153.4m (2Q19: 276.7m). Marel has secured liquidity of EUR 718.9m at quarter-end and fully committed funding in place until 2025.
- Leverage was at 0.6x at the end of 2Q20 (1Q20: 0.4x) which is well below the targeted capital structure (2-3x Net debt/EBITDA).
- Marel continues to have a strong financial position for continued investment in the platform and to facilitate future strategic moves in line with the company's growth strategy.

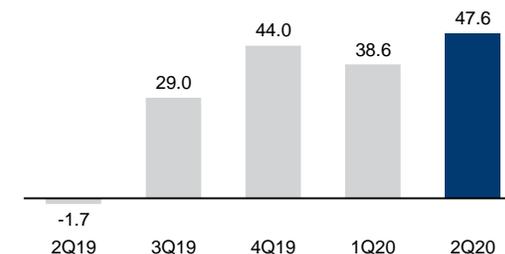
## Disciplined capital allocation

- The 2020 AGM approved a dividend of EUR 43.9m for the operational year 2019, equivalent to 40% of net result in 2019, of which EUR 38.1m was paid in 2Q20 and withholding tax of EUR 5.8m will be paid in 3Q20.
- Marel discontinued its share buyback program on 10 June 2020. Marel has purchased shares for EUR 55.9m (14.3m shares) under the share buyback program, of which EUR 41.4m (9.9m shares) in 2Q20.

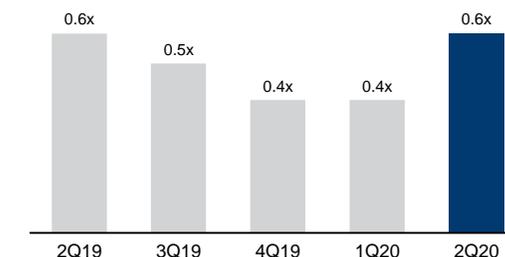
## Update on COVID-19 – finding smarter ways of working

- Marel is a critical infrastructure company in the food industry. Earlier in the year Marel's manufacturing sites were re-organized to ensure business continuity and safety for both customers and employees.
- Marel has a global manufacturing footprint whereby all manufacturing sites have remained open, although operating at below historical and targeted utilization rates.
- Marel's co-location strategy means that every product has a mother site and a large part of our standard equipment can be manufactured in more than one site, increasing flexibility in production and reducing supply chain risk.
- Delivery performance for spare parts and equipment at good levels, supported by ramp up of inventories.
- Marel sales and service engineers reside in more than 30 countries ensuring resilience in the aftermarket business, despite a challenging environment.
- The experience during the pandemic has confirmed that a strong local presence is the right way forward. Marel's customers operate all over the world, 24 hours a day - and so does Marel.
- Good customer engagement via Marel Live events and virtual equipment demonstrations.
- Mid- and long-term growth targets reiterated.

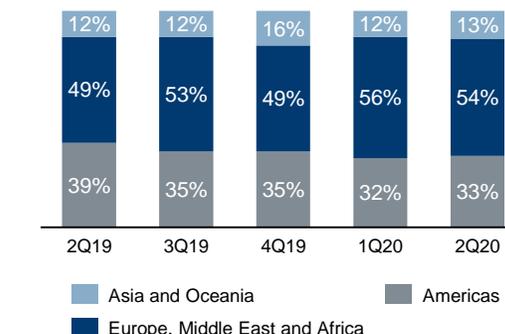
**FREE CASH FLOW**  
EUR m



**LEVERAGE**  
Net debt/EBITDA



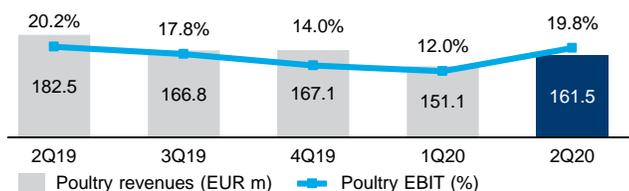
**REVENUES BY GEOGRAPHY**  
%



# INDUSTRY PERFORMANCE

## MAREL POULTRY

53% of total revenues and 19.8% EBIT margin in 2Q20.

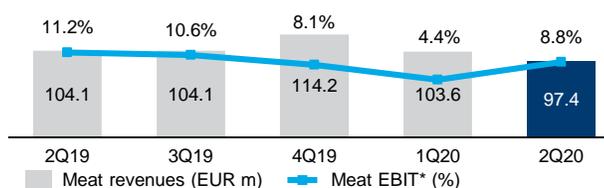


| 2Q20  | 2Q19  | Change |                         | 6M20  | 6M19  | Change |
|-------|-------|--------|-------------------------|-------|-------|--------|
| 161.5 | 182.5 | -11.5% | Revenues                | 312.6 | 356.5 | -12.3% |
| 32.0  | 36.8  | -13.0% | EBIT                    | 50.2  | 67.4  | -25.5% |
| 19.8% | 20.2% |        | EBIT as a % of revenues | 16.1% | 18.9% |        |

- 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 2Q20 were EUR 161.5m, down 11.5% YoY (2Q19: 182.5m). EBIT was EUR 32.0m (2Q19: 36.8m) and the EBIT margin was 19.8% (2Q19: 20.2%).
- Considerable EBIT margin improvement QoQ driven by favorable product mix and revenues from short cycle, high gross margin standard equipment orders that were disclosed earlier in the year.
- Poultry has proven the most resilient during the pandemic due to its convenience, affordability and ability to adapt to supply relatively quickly. However there is increased volatility due to implemented COVID-19 measures around the world, impact on consumer demand from the African Swine Fever (ASF) as well as potential geopolitical tensions that could create more fluctuations between quarters.

## MAREL MEAT

32% of total revenues and 8.8% EBIT\* margin in 2Q20.

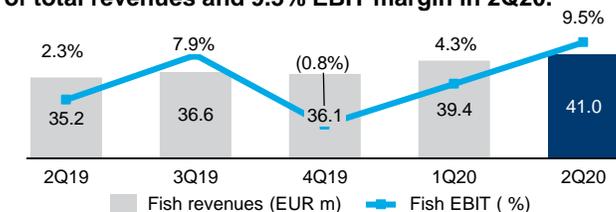


| 2Q20 | 2Q19  | Change |                          | 6M20  | 6M19  | Change |
|------|-------|--------|--------------------------|-------|-------|--------|
| 97.4 | 104.1 | -6.4%  | Revenues                 | 201.0 | 204.9 | -1.9%  |
| 8.6  | 11.7  | -26.5% | EBIT*                    | 13.2  | 24.4  | -45.9% |
| 8.8% | 11.2% |        | EBIT* as a % of revenues | 6.6%  | 11.9% |        |

- Marel Meat is a full-line supplier to the meat processing industry following the acquisition of MPS, with further bolt-on capabilities added with the acquisitions of Sulmaq, MAJA and Cedar Creek Company.
- Revenues for Marel Meat in 2Q20 were EUR 97.4m, down 6.4% YoY (2Q19: EUR 104.1m). EBIT\* was EUR 8.6m (2Q19: 11.7m) and the EBIT\* margin was 8.8% (2Q19: 11.2%).
- Operational results have improved QoQ as 1Q20 was highly affected by the pandemic and utilization at Marel's manufacturing sites showed gradual improvements throughout the quarter.
- Orders received in meat were soft in 2Q20, while the pipeline is starting to build up again with customers asking for more automation and agility.
- The meat industry, particularly beef, continues to be impacted by COVID-19 as foodservice demand has shifted to increased retail ready processing solutions. Production, consumption and trade of pork negatively impacted by the pandemic and ASF.
- Further cross- and upselling of secondary and prepared foods solutions as well as modularization is a top priority. Management continues to target medium and long-term EBIT\* margin expansion for Marel Meat.

## MAREL FISH

13% of total revenues and 9.5% EBIT margin in 2Q20.



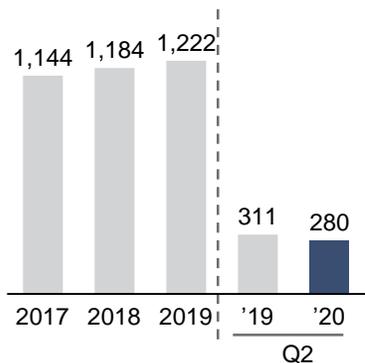
| 2Q20 | 2Q19 | Change |                         | 6M20 | 6M19 | Change |
|------|------|--------|-------------------------|------|------|--------|
| 41.0 | 35.2 | 16.5%  | Revenues                | 80.4 | 75.8 | 6.1%   |
| 3.9  | 0.8  | 387.5% | EBIT                    | 5.6  | 3.8  | 47.4%  |
| 9.5% | 2.3% |        | EBIT as a % of revenues | 7.0% | 5.0% |        |

- Marel Fish predominantly consists of sales of solutions into salmon, wild whitefish and farmed whitefish.
- Revenues for Marel Fish in 2Q20 were EUR 41.0m, 16.5% up YoY (2Q19: 35.2m) supported by higher volume. EBIT was EUR 3.9m (2Q19: 0.8m) and the EBIT margin was 9.5% (2Q19: 2.3%).
- With the acquisition of Curio in 4Q19, Marel is a step closer to becoming a full-line provider to the global whitefish industry. Curio has strengthened Marel's product offering. In 2Q20 Curio secured an order to cover the primary processing equipment for the renewed Brim whitefish processing plant in Iceland. Curio is accounted for as an investment in associates and therefore not part of Marel Fish's results.
- Fish processors have responded to the increased sales of ready-to-cook products, as sales have shifted from foodservice to retail and online. This results in a need to update and advance customers factories to increase bone-free and consumer ready products.
- Management continues to target medium and long-term EBIT margin expansion for Marel Fish, although there can be fluctuations between quarters.

# INTERIM KEY FIGURES & OUTLOOK

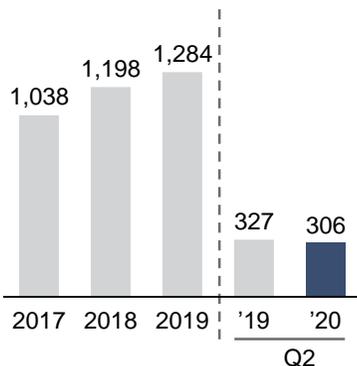
## ORDERS RECEIVED

EUR m



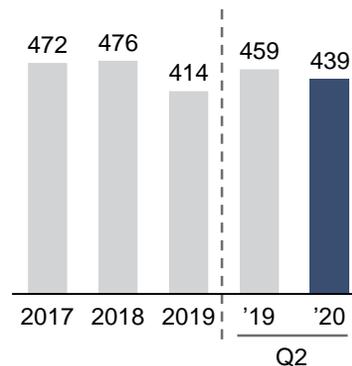
## REVENUES

EUR m



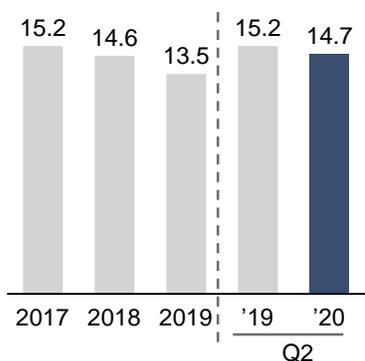
## ORDER BOOK

EUR m



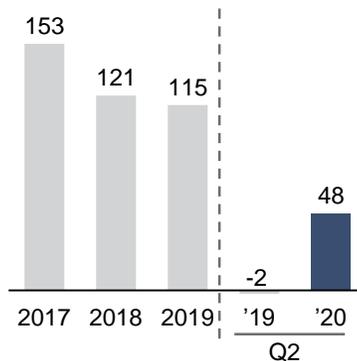
## EBIT\* MARGIN

%



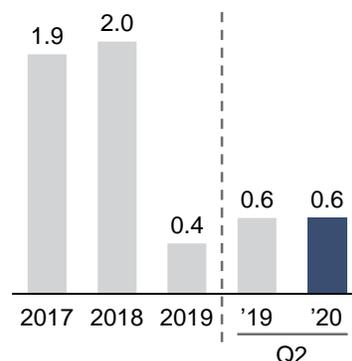
## FREE CASH FLOW

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 23 July 2020

On Thursday 23 July 2020, at 8:30 am GMT (10:30 am CET), Marel will host a virtual investor meeting where CEO Arni Oddur Thordarson and CFO Linda Jonsdottir will give an overview of the financial results and operational highlights in the second 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 10 712 9163

UK: +44 333 300 9261

US: +1 833 526 8381

### UPCOMING VIRTUAL INVESTOR EVENTS

- ING Benelux Conference London, 2 September
- Kepler Cheuvreux Autumn Conference Paris, 8 September

### UPCOMING MAREL LIVE VIRTUAL EVENTS

- Ins and outs of inventory, 26 August 2020
- Case ready – Steak cut & pack, 22 September
- Case ready – Hamburger preparation and forming, 23 September
- Software Knowhow – 6 October
- Whitefish Showhow – 21 October

For the latest schedule please visit [www.marel.com/events](http://www.marel.com/events)

### FINANCIAL CALENDAR

- Marel will publish its financial results according to the below financial calendar:
  - 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.

## 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.

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