# MERSEN: A RECORD YEAR IN 2022

# A NEW DIMENSION BY 2027

- SALES PASS THE €1 BILLION MARK, REACHING €1.1 BILLION (ORGANIC GROWTH OF 15%)
- 2022 GUIDANCE EXCEEDED
- 2022 NET INCOME UP BY A SHARP 27% TO €74 MILLION
- INCREASE IN ROCE (12.5% VS. 10.8% IN 2021) AMID SIGNIFICANT INVESTMENT
- SOLID FINANCIAL STRUCTURE: LEVERAGE OF 1.36X
- 25% INCREASE IN PROPOSED 2022 CASH DIVIDEND TO €1.25 PER SHARE
- A NEW DIMENSION BY 2027 WITH SALES OF AROUND €1.7 BILLION AND AN AMBITIOUS INVESTMENT PLAN TO SUPPORT THIS GROWTH

**PARIS, MARCH 14, 2023 –** Mersen (Euronext FR0000039620 – MRN), a global expert in electrical power and advanced materials, has released its consolidated results for the year ended December 31, 2022. The Board of Directors met on March 14, 2023 and approved the audited 2022 financial statements for publication.

Luc Themelin, Mersen's Chief Executive Officer, said: *"We achieved a record performance in 2022, meeting or exceeding all of our targets – which we had already revised upward during the year. We also made tangible progress in our CSR commitments: for example, we achieved a significant reduction in the intensity of our greenhouse gas emissions and a higher proportion of the Group's engineers and managers are now women. This is the result of the strategy deployed in recent years to position the Group in dynamic and sustainable markets while adapting our organizational structure to tomorrow's challenges. With these very good results, the Group will propose to its shareholders a 25% increase in dividend.*
*These successes represent only one step in the Group's strategy.*
*The rapid take-up of electric vehicles in the automotive market represents a tremendous opportunity for the Group to leverage its two main areas of expertise in advanced materials and electrical protection. Upstream, Mersen is a key player in the manufacture of new silicon carbide power semiconductors, and downstream, the Group has developed two product lines dedicated to the connection and protection of electric vehicle batteries.*
*With its expertise and global presence, Mersen is ideally positioned to support its customers as these markets enter an acceleration phase. The Group will invest nearly €400 million over the next few years to boost its*

*capacity at certain plants and pursue bolt-on acquisitions. The Group will also continue to be a key player in solar and wind energy.*
*Mersen is therefore changing dimension and setting new medium-term goals that are much more ambitious than those in its previous plan. By 2027, the Group is now aiming for sales of around €1.7 billion, with nearly half of this amount generated in the renewable energy, semiconductor, and electric vehicle markets.*

*The success of all these ambitious projects will depend on the high level of commitment and expertise of Mersen's employees, and I would like to take this opportunity to thank them wholeheartedly in advance."*

| *Key figures* | 2022 | 2021 |
|---|---|---|
| **Sales (€m)** | **1,115** | **923** |
| *Operating margin before non-recurring items* | *10.9%* | *10.0%* |
| *Recurring EBITDA margin* | *16.7%* | *16.1%* |
| Net income attributable to Mersen shareholders (€m) | 67.7 | 54.4 |
| ***ROCE*** | ***12.5%*** | ***10.8%*** |
| Leverage | *1.36* | *1.42* |
| **Dividend per share** (€) | **1.25** | **1.00** |

*For the definitions, please refer to the glossary at the end of this press release.*

*The consolidated financial statements have been audited and the statutory auditors' report is currently being prepared.*

## ACTIVITY, EBITDA AND OPERATING INCOME BEFORE NON-RECURRING ITEMS

Mersen reported consolidated sales of €1,115 million for full-year 2022, up 15.2% on an organic basis versus 2021, and exceeding the organic growth target of 13%. Approximately 5% of this growth was attributable to price increases. Including the favorable currency effect due primarily to the appreciation of the US dollar and the Chinese renminbi, sales grew by 20.8%.

In all, sustainable development markets (including renewable energies, electronics and green transportation) represented 56% of total sales[1].

Group EBITDA before non-recurring items was 25% higher year on year, at €186.4 million. Recurring EBITDA margin stood at 16.7%, up 60 basis points vs 2021, i.e., 10 basis points above our revised target of a 50-basis point increase.

This improvement was largely driven by positive volume and mix effects. Productivity gains and price increases helped offset the higher cost of raw materials, energy and labor. This result also includes production start-up costs at the Columbia site in the United States, R&D expenses related to the Soitec project, and costs related to the creation of a dedicated electric vehicle team, while sales in this market are still limited.

Depreciation and amortization increased by €8.6 million due to the major investment program the Group has been implementing since 2018.

[1] This definition does not replace those used in the EU Taxonomy Regulation and Delegated Acts.

Operating income before non-recurring items reached €121.6 million, an increase of more than 31.4% on 2021, while the operating margin before non-recurring items expanded by 90 points to 10.9%, slightly above of our target of 10.8%.

Advanced Materials segment

Advanced Materials sales totaled €622 million, up 17.1% on an organic basis compared with 2021. Renewable energy markets (mainly solar and wind) saw vigorous growth, generating Group sales of over €150 million in the year. The semiconductor market also enjoyed good momentum, buoyed by demand for SiC power semiconductors for electric vehicles, and represented over €110 million in sales in 2022. Growth was also significant for process industries. After a stable first half of the year, chemicals sales accelerated sharply in the second half, leading the business to growth for the year as a whole. The rail and aeronautics markets also expanded compared to the comparative prior-year period when sales had remained weak.

The operating margin before non-recurring items for the Advanced Materials segment was 15.8%, up sharply once again from 14.4% in 2021 and 12.1% in 2020. The volume/mix effect was particularly significant, representing nearly 40 basis points. Price increases and productivity gains more than offset inflation in raw material, energy and labor costs. However, higher depreciation and amortization expense and start-up costs for the Columbia plant (United States) had a negative impact of nearly 30 basis points.

EBITDA before non-recurring items reached €142.3 million, accounting for 22.9% of sales versus 21.9% in 2021.

Electrical Power segment

Electrical Power sales reached €493 million for the year, representing organic year-on-year growth of 12.9%. Sales to the US electrical distribution market were particularly robust. And it was a busy year for the electric vehicle market, in terms of prototyping and qualification testing, with sales totaling €20 million for the full year versus €16 million in 2021.

Operating margin before non-recurring items for the Electrical Power segment was stable year on year, at 9.0% (9.1% in 2021). The positive volume/mix effect offset the costs of setting up the electric vehicle team and the increase in depreciation and amortization expense. Price increases and productivity gains offset most of the impact of raw material and wage inflation.

EBITDA before non-recurring items came to €63.7 million, accounting for 12.9% of sales versus 13.1% in 2021.

## NET INCOME

Net income attributable to Mersen shareholders came in at €67.7 million in 2022, an increase of more than 24% compared with 2021.

Non-recurring income and expenses amounted to - €11.4 million and chiefly consisted of non-cash impairment due mainly to the increase in the weighted average cost of capital.

Net financial expense was - €12.9 million, an increase compared to 2021 due to the unfavorable impacts of hyperinflation in Turkey and the appreciation of the US dollar over the period.

Income tax expense was €23.0 million, corresponding to an effective tax rate of 24% (21% excluding the impact of impairment losses recognized for the Anticorrosion Equipment business), in line with the tax rate in 2021 (24%).

Income from non-controlling interests (€6.7 million) essentially included Mersen Yantai (China) and Mersen Galaxy (China), in which Mersen holds a 60% stake.

## CASH AND NET DEBT

The Group generated strong cash flow from operating activities (€105.5 million) despite a negative change in working capital requirement of €63.2 million. The change came amid robust business growth, which in turn led to an increase in inventories and trade receivables. The Group also increased its raw material and component inventories to secure its supply chain, and built up significant inventories at its Columbia plant to manage the production start-up. The WCR ratio represented 20.7% of sales versus 19.4% of sales in 2021. This percentage includes a significant amount of provisioned, unpaid bonuses in both 2022 and 2021.

Income tax paid represented an outlay of €12.1 million, down sharply from 2021, as the Group benefited from accelerated tax depreciation in the United States linked to investments made at its Columbia site.

Investments in intangible assets totaled €97.2 million in 2022, higher than the amount forecast at the start of the year in view of the strong outlook in certain Group markets. Over 30% of these investments concerned the maintenance, upkeep and modernization of plants and equipment. The other major projects comprised the ramp-up in industrial operations at the Columbia plant (United States) with the start-up of the extruded and isostatic graphite production lines, as well as the relocation and expansion of the site in South Korea for the semiconductor industry, and projects to improve the environment and safety of plants.

Investments in intangible assets are related to the plan to digitize and modernize information systems and represented €6 million. The Group also sold industrial assets for an amount of €10 million.

Consequently, net debt at end-2022 stood at €240.6 million, higher than at the end of 2021 (€193.2 million) and the Group maintained its solid financial structure.

Return on capital employed (ROCE) was up sharply at 12.5%, from 10.8% in 2021, amid significant investment.

## FINANCIAL STRUCTURE

The Group maintained a solid financial structure in 2022 with leverage of 1.36x and gearing of 33%. It even managed to strengthen its financial structure during the year by refinancing its syndicated credit facility ahead of its July 2024 maturity. No significant repayment milestones are expected before 2026.

## DIVIDEND

At the Annual General Meeting to be held on May 16, 2023, the Board of Directors will ask shareholders to approve the payment of a €1.25 per share cash dividend. This would result in a total distribution of around €26 million, corresponding to 33% of net income attributable to Mersen shareholders (restated to reflect impairment losses recognized for the Anticorrosion Equipment business). This payout ratio is in line with Group policy (between 30% and 40% of attributable net income). The dividend payment date will be July 6, 2023.

## 2023 OBJECTIVES

Given current market momentum, the Group expects:

- continued strong demand in the SiC semiconductor market;
- growth in the electric vehicle market;
- moderate growth in the solar market, as the Group voluntarily opted to limit its production capacity in China for this segment;
- limited growth in the rail market, due to the still limited number of projects in Asia;
- a continuing rebound in aeronautics, which should be near 2019 levels;
- moderate growth in the chemicals market;
- growth depending on macro-economic trends for process industries.

To keep pace with accelerating customer demand in the electric vehicle and semiconductor markets, and as part of its new 2027 plan, the Group will ramp up its investments in 2023. More specifically, it will continue to increase graphite production capacity at the Columbia site (United States), invest in high-performance automated production lines to meet demand from ACC, and launch an ambitious plant expansion and new equipment program to serve the SiC semiconductor market.

The Group will also continue to strengthen its dedicated electric vehicle teams to handle the gradual scaling up of component production (fuses and busbars), albeit with limited sales in 2023.

Energy and labor costs are expected to increase significantly, but should be partially offset by price increases and the continued deployment of the Group's operational excellence plans.

Moreover, as the Group accelerates its investment program, depreciation and amortization will increase significantly.

Consequently, in 2023, the Group is aiming for:

- organic growth of between 5% and 10%;
- operating margin before non-recurring items of between 10.5% and 11% of sales;
- capital expenditure of between €150 million and €200 million.

## 2027 MEDIUM-TERM PLAN

In March 2022, the Group announced an ambitious 2025 plan to reach sales of around €1.2 billion, an operating margin before non-recurring items of at least 11%, EBITDA margin representing at least 17.5% of sales and ROCE of at least 12%.

Mersen is now setting more ambitious medium-term objectives with 2027 as the new time horizon. These new goals stem from the outperformance achieved over the past two years (especially in renewable energies) and from accelerating demand in semiconductors and electric vehicles.

Four markets representing 27% of sales in 2022 (SiC semiconductors, Si semiconductors, electric vehicles and renewable energies) are expected to generate around 45% of consolidated sales in 2027, with average annual growth of more than 20%.

This momentum is being driven by the following:

- The Group has developed expertise in advanced materials that are essential to the **manufacturing process of silicon carbide semiconductors**. It is working with key players in the sector to support their growth, sometimes based around major multi-year contracts. Mersen is also continuing its strategic partnership with Soitec to develop a new range of substrates for the electric vehicle market.
- In the **silicon semiconductor** market, the Group is positioned on the most sophisticated stages of the manufacturing process (ALD, ion implant) and will reap the benefits of its major ongoing investments in this market.
- For several years, Mersen's growth strategy in the **electric vehicle** market has involved reinforcing its teams, qualifying its sites on the 3 continents to automotive standards and entering into partnerships with automotive stakeholders. More specifically, it has signed a first agreement with battery manufacturer ACC and will be focusing over the coming years on the battery protection market, with a complete range of fuses..
- The Group is a major supplier across the entire **solar photovoltaics** value chain. In 2022, it exceeded the €100 million sales target it had initially planned to achieve by 2025. The Group will limit its solar production capacity in China in order to balance its production base more effectively between its different local end-markets.

The Group will continue to leverage its extensive expertise, global leadership position, international footprint and historical relationships with leading players to drive its growth in other markets (rail, aeronautics, corrosive chemicals, heat treatment, glass, etc.), where it expects to achieve average annual organic growth of 3%.

The Group's performance over the period will benefit from the expected volume effect, which should absorb higher depreciation and amortization expenses. In addition, Mersen's positioning as a provider of customized high-tech solutions could give it the pricing power necessary to offset possible impacts of inflation.

The Group will deploy a targeted investment plan to support this growth, representing approximately €300 million for the 2023-2025 period, in addition to around €100 million for bolt-on acquisitions.

These investments will focus on boosting isostatic graphite and insulation felt production capacity, expanding four plants in Advanced Materials and enlarging three plants dedicated to fuses for electric vehicle market and one for busbars manufacturing in France.

These new projects will quickly begin producing a return on investment with projected ROCE of between 12.5% and 15.5% by 2027.

Thanks to this growth model and the momentum in sustainable markets, Mersen will reach a new dimension by 2027, with nearly 45% of its sales generated in the buoyant markets listed above. By 2027, the Group is aiming for:

- sales of around €1.7 billion;
- operating margin before non-recurring items of 12% of sales. This margin may vary by +/-50 basis points;
- recurring EBITDA margin of 19% of sales. This margin may vary by +/-50 basis points;
- ROCE of 13%, which may vary by +/-50 basis points.

To accelerate its growth plan, while maintaining financial and strategic flexibility, Mersen may decide to increase its financing capacity by around €100 million.

In addition to cash generated by the Group and undrawn credit facilities, Mersen is currently looking at the best financing options, including a capital increase, bank borrowings or hybrid financing. In the event of any decision to use equity financing, the Company's shareholders will be given priority. The Group will choose the most appropriate solution and timeline based on market conditions.

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

| *(In millions of euros)* | **2022** | **2021** |
|---|---|---|
| Consolidated sales | 1,114.8 | 922.8 |
| Gross income | 348.0 | 289.8 |
| Selling, marketing and other operating expenses | (84.5) | (77.2) |
| Administrative and research expenses | (140.4) | (118.6) |
| Amortization of revalued intangible assets | (1.5) | (1.4) |
| **Operating income before non-recurring items** | **121.6** | **92.6** |
| *As a % of sales* | *10.9%* | *10.0%* |
| Non-recurring income and expenses | (11.4) | (4.9) |
| Operating income | 110.2 | 87.7 |
| Net financial expense | (12.9) | (10.7) |
| Current and deferred income tax | (23.0) | (18.6) |
| **Net income** | **74.3** | **58.4** |
| - Attributable to Mersen shareholders | 67.7 | 54.4 |

## SEGMENT ANALYSIS

| *(In millions of euros)* | ***Advanced Materials (AM)*** | | ***Electrical Power (EP)*** | | ***Group*** | |
|---|---|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** |
| Sales | 621.8 | 507.4 | 493.1 | 415.4 | 1,114.8 | 922.8 |
| EBITDA before non-recurring items | 142.3 | 110.9 | 63.7 | 54.5 | 186.4 | 148.8 |
| *As a % of sales* | *22.9%* | *21.9%* | *12.9%* | *13.1%* | *16.7%* | *16.1%* |
| Operating income before non-recurring items | 98.0 | 73.1 | 44.5 | 37.7 | 121.6 | 92.6 |
| *As a % of sales* | *15.8%* | *14.4%* | *9.0%* | *9.1%* | *10.9%* | *10.0%* |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | **Dec. 31, 2022** | **Dec. 31, 2021** |
|---|---|---|
| Non-current assets | 791.9 | 756.1 |
| Right-of-use assets | 53.5 | 51.6 |
| Inventories | 283.2 | 218.2 |
| Trade and other receivables | 194.5 | 177.3 |
| Other assets | 16.5 | 3.8 |
| **TOTAL** | **1,339.6** | **1,206.9** |
| Equity | 694.0 | 631.3 |
| Provisions | 15.3 | 23.0 |
| Employee benefit obligations | 38.6 | 49.1 |
| Trade and operating payables | 234.7 | 208.4 |
| Other liabilities | 60.9 | 49.3 |
| Lease liabilities | 55.4 | 52.6 |
| Net debt | 240.6 | 193.2 |
| **TOTAL** | **1,339.6** | **1,206.9** |

## CONDENSED STATEMENT OF CASH FLOWS

| *(In millions of euros)* | **2022** | **2021** |
|---|---|---|
| Cash generated by operating activities before change in working capital requirement | 180.8 | 138.4 |
| Change in working capital requirement | (63.2) | (5.9) |
| Income tax paid | (12.1) | (15.7) |
| **Net cash generated by operating activities** | **105.5** | **116.8** |
| Capital expenditure | (97.4) | (78.6) |
| Disposals of assets and other | 10.1 | (0.3) |
| **Net cash generated by operating activities after capital expenditure, net of disposals** | **18.3** | **37.9** |
| Investments in intangible and financial assets | (6.5) | (5.5) |
| Changes in scope of consolidation | (2.6) | (9.4) |
| **Net cash generated by operating and investing activities** | **9.2** | **22.9** |

*The Group's results for 2022 will be presented on March 15, 2023 at 10:00 a.m. CET in a webcast streamed on Mersen's website.*

### FINANCIAL CALENDAR

*First-quarter 2023 sales: April 25, 2023 after the markets close*

## ABOUT MERSEN

Mersen is a **global expert in electrical specialties and advanced materials** for high-tech industries. With more than 50 industrial sites and 18 R&D centers in 34 countries around the world, Mersen develops **custom-built solutions** and delivers key products for clients in order to meet the new technological challenges shaping tomorrow's world. **For over 130 years, Mersen has focused tirelessly on innovation** to accompany its clients and meet their needs. Be it in wind power, solar power, electronics, electric vehicles, aeronautics, space or countless other sectors, wherever technology is progressing, you will always find a bit of Mersen.

*The "Mersen IR" app, which is specially designed for investors, is available for both iOS and Android devices and can be downloaded from Apple's App Store or Google Play on your smartphone or tablet.*

*You can also scan the QR code below:*

## MERSEN IS LISTED ON EURONEXT PARIS – COMPARTMENT B

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## GLOSSARY

Average capital employed: Average capital employed for the last three half-year periods.

Capital expenditure: Sum of investments in property, plant and equipment and changes in amounts due to suppliers of non-current assets.

EBITDA before non-recurring items: Operating income before non-recurring items, depreciation and amortization.

Gearing: Covenant Net debt divided by equity.

Leverage: Covenant Net debt divided by covenant EBITDA.

Net debt: Sum of long- and medium-term borrowings, current financial liabilities and current bank loans, less current financial assets, cash and cash equivalents.

Organic growth: Determined by comparing sales for the year with sales for the previous year, restated at the current year's exchange rate, excluding acquisitions and/or disposals.

Payout ratio: Ratio of dividend per share proposed for the year to earnings per share for the year, calculated based on the number of ordinary shares excluding treasury shares at year-end.

Recurring EBITDA margin: EBITDA before non-recurring items divided by sales.

ROCE: Return on capital employed: operating income before non-recurring items for the last 12 months divided by average capital employed.

WCR: Working capital requirement: sum of trade receivables, inventories, contract assets and other operating receivables, less trade payables, contract liabilities and other operating payables.

WCR ratio: Working capital requirement divided by sales for the last quarter, multiplied by four.

## APPENDICES

### 1 - Working capital to sales ratio

| (In millions of euros) | 2022 | 2021 |
|---|---|---|
| Inventories | 283 | 218 |
| Trade receivables | 167 | 144 |
| Other operating receivables | 25 | 27 |
| Contract assets | 2 | 6 |
| Trade payables | (87) | (67) |
| Other operating payables | (118) | (113) |
| Contract liabilities | (31) | (29) |
| **Working capital requirement** | **243** | **187** |
| Sales (4 x fourth quarter) | 1,174 | 957 |
| **WCR as a % of sales** | **20.7%** | **19.4%** |

### 2 - ROCE

| (In millions of euros) | 2022 | 2021 |
|---|---|---|
| Operating income before non-recurring items | 121.6 | 92.6 |
| Average capital employed | 970 | 854 |
| **ROCE** | **12.5%** | **10.8%** |