

Press release

FINANCIAL RESULTS OF THE ES-SYSTEM GROUP FOR 2018

A STRENGTHENED POSITION ON THE DOMESTIC MARKET TRANSLATED INTO AN INCREASE IN THE GROUP'S REVENUES, EXPORT SALES IMPACTED BY THE ECONOMIC DOWNTURN, PROFITS UNDER THE PRESSURE OF INVESTMENTS IN THE DEVELOPMENT OF FOREIGN SALES, PROSPECTS FOR GROWTH IN Q1 2019

(values in million PLN)	Q4 2018	Q4 2017	Change in %	2018	2017	Change in %
Revenue from sales	49.3	53.7	-8.3%	191.7	189.7	1.1%
Domestic sales	39.5	43.2	-8.6%	155.8	148.1	5.2%
Export sales	9.8	10.5	-6.9%	36	41.6	-13.6%
Operating profit (EBIT)	-1.4	3.1	-145.3%	5.6	7.7	-27.1%
<i>EBIT operating profitability</i>	<i>-2.8%</i>	<i>5.7%</i>		<i>2.9%</i>	<i>4%</i>	
Net profit	-0.8	2.2	-136.4%	5.6	7	-20.2%
<i>Profitability on net sales (profit)</i>	<i>-1.7%</i>	<i>4.2%</i>		<i>2.9%</i>	<i>3.7%</i>	

“Throughout the previous year, ES-SYSTEM strengthened its position on the domestic market and recorded a one-percent increase in the Group’s consolidated sales. The export department remained impacted by the economic downturn, which negatively influenced sales abroad and decreased the company’s profit. The company entered this year with a good portfolio of orders, therefore it can be assumed that the 1st quarter will bring several percent of growth in domestic sales,” says Rafał Gawrylak, President of the Management Board of ES-SYSTEM S.A.

GROWTH IN THE KEY DOMESTIC SALES SEGMENTS WITH THE SUPPORT OF ADVANCED LED SOLUTIONS

In the 4th quarter of 2018, ES-SYSTEM’s domestic sales amounted to 39.5 million PLN, i.e. a decrease by 8.6% y/y, which is the result of delays in the receipt of already ordered goods. Cumulatively in 2018, domestic sales amounted to 155.8 million PLN, i.e. an increase by 5.2% y/y.

“The increases in domestic sales are in line with previous assumptions and result in the strengthening of our position in the segments of outdoor and architectural lighting and lighting control. Further growth in outdoor luminaire sales are expected in 2019, particularly in terms of street lighting. Due to the growing interest of clients in projects using the latest technologies, we are also assuming further increases in solutions in the lighting control segment,” President Gawrylak added.

In 2018 architectural lighting sales increased by 10.9% y/y. In the discussed period, ES-SYSTEM completed projects including: the University Hospital in Krakow, office buildings – KTW in Katowice and Q22 in Warsaw, and the Janki shopping center near Warsaw. Industrial lighting sales in the past year recorded a decrease by 3.6% y/y. Our industrial luminaires were installed in the following projects: a power plant in Opole, the JERRY production plant in Nowa Sól, and the 2nd metro line in Warsaw, among others. Outdoor lighting recorded an increase by 3.7% y/y throughout 2018. Examples of projects completed in this segment include: street lighting in the Piaski and Słupsk municipalities and the airport in Darłowo. In annual terms, the emergency lighting segment increased by 0.9% y/y. Emergency luminaires were used in office buildings such as the Mogilska Tower in Kraków, in shopping centers including Focus in Bydgoszcz, Solaris in Opole and Platan in Zabrze, as well as hotels – the Deo Plaza in Gdańsk and the Prudential Likus and Puro in Warsaw, among others. Lighting control system sales denoted an increase by 117.4% y/y throughout 2018. This is the result of the investors’ growing interest in increasing the return on investment. Using luminaires from the lighting control segment makes it possible to reduce electricity consumption by up to 80% compared to classic lighting solutions with no lighting management. ES-SYSTEM lighting control systems were used in the following projects: the Sagittarius Business House in Wrocław, the outdoor and illumination lighting of the Nowogrodzka Square office building in Warsaw, the Nowa Stacja shopping center in Pruszków, as well as the illumination of the historic wall near the Podominikański Square in Toruń.

EXPORT SALES UNDER THE IMPACT OF THE ECONOMIC DOWNTURN ABROAD

In the 4th quarter of 2018, the Capital Group recorded export sales amounting to 9.8 million PLN, i.e. 6.9% lower y/y. Export sales throughout 2018 amounted to 36 million PLN, i.e. a 13.6% decrease y/y, which is the result of the decrease in architectural and industrial lighting sales. On the other hand, ES-SYSTEM showed a strong position in the outdoor lighting segment last year, which recorded a 64% increase y/y.

Europe, Asia and the Middle East remain the key foreign markets. The activity of the subsidiary ES-SYSTEM Lighting UK Ltd. has resulted in the completion of new projects, including the Queen Margaret University in Edinburgh and the University of Highlands and Islands in Inverness. The increase in sales on the British market exceeded 90% y/y.

Przykładowe realizacje zagraniczne Grupy ES-SYSTEM w Q4 2018:

- University of Ghent – Ghent, Belgium
- WZC Ceres home care center – Lauwe, Belgium
- The Ampion office building – Dortmund, Germany
- Admiral Casino – Seville, Spain
- The SODIC office building – Cairo, Egypt
- Museum warehouses of the Gulbenkian Foundation – Lisbon, Portugal

LED SALES ON THE RISE

The Group's LED sales revenues in 2018 increased by 9.6% y/y and constituted 78.5% of total sales. Domestic LED lighting sales constituted 77.4% of the total sales compared to 72.2% in 2017. The Group recorded an increase in the export LED sales share, reaching 83.2% in comparison to 71.6% in 2017.

PROFITS IMPACTED BY INVESTMENTS IN EXPORT SALES DEVELOPMENT

The Group's EBIT in the 4th quarter of 2018 amounted to -1.4 million PLN, i.e. a decrease by 145.3% y/y. Throughout 2018, the operating profit reached 5.6 million PLN, i.e. 27.1% less y/y. Operating costs throughout 2018 amounted to 71.1 million PLN and were 9% higher y/y. This is mainly the result of the increase in employee benefit costs (65.3 million PLN in 2018 compared to 60.3 million PLN in 2017) and the costs of participating in trade fairs. Cumulatively, the costs of external services (services of temporary employees and commissions of brokers and sales representatives) amounted to 20 million PLN and were 2.4 million PLN higher compared to 2017. ES-SYSTEM achieved a profit of 43,000 PLN on other operating activities compared to 1.2 million PLN in 2017 (the result of a high comparative base).

In the 4th quarter of 2018, the Group recorded a net loss of 0.8 million PLN compared to the 2.2 million PLN profit in the corresponding period in 2017. Cumulatively in 2018, ES-SYSTEM achieved a profit in the amount of 5.6 million PLN, which means a decrease by 20.2% compared to 2017.

PROSPECTS FOR FURTHER GROWTH IN 2019

Based on the results of the 4th quarter of 2018, the prospects in the industry and the level of orders and sales assumptions, the Management Board expects an increase by several percent y/y in the 1st quarter of 2019.

"ES-SYSTEM is completing more and more lighting projects in facilities that are being modernized and extended. In the middle of March of this year, the value of the modernization orders planned for this year on the domestic market accounted for about 35% of all projects. We expect further growth in this market area," says the President of ES-SYSTEM. In export sales, based on the current order portfolio, the Management Board expects sales in the 1st quarter 2019 to remain comparable y/y and that the upward trend in the LED lighting and intelligent lighting control sales share in the total lighting sales is expected to be maintained.

"The number of projects that are under way on various markets serves as a good prognostic for sales in 2019. Our position on export markets will be strengthened based on the development of business contacts and sales representative networks, as well as through the participation in selected industry events, especially trade fairs, such as Materials & Light in Paris, Light Middle East in Dubai, and at conferences, including the Darc Room in London and the PLDC in Rotterdam," sums up President Rafał Gawrylak.

The total value of planned investments in 2019 will amount to about 8 million PLN and will mostly include outlays in production plants. As part of these investments, the Group is planning to purchase new machines and equipment.

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ES-SYSTEM S.A. is the largest Polish company in the lighting sector in the section of professional lighting technology for construction: general, architectural, residential, industrial, specialist and exterior. The Company forms a specialist Capital Group with its own production plants, determining the directions for the lighting branch's development in the areas of innovative technological solutions, energy saving and design. The development strategy of the Group assumes strengthening the position of the national leader in the sector and the dynamic increase in export sales on the EU market and in other highly developed countries.