

THE ES-SYSTEM GROUP'S FINANCIAL RESULTS FOR Q1 2018

INCREASED REVENUES THANKS TO GROWING DOMESTIC SALES, PROFITS IMPACTED BY THE SALES SUPPORT COSTS, PROSPECTS FOR FURTHER GROWTH BASED ON MODERN LIGHTING SOLUTIONS

In million PLN	Q1 2018	Q1 2017	Change %
Sales revenues	41.7	41.1	1.5
Domestic sales	33.4	30	11.1
International sales	8.3	11	-24.6
EBIT	0.2	0.6	-68.8
<i>EBIT operating profitability</i>	0.4%	1.5%	
Net profit	0.36	0.73	-50.9
<i>Net sales (profit) profitability</i>	0.9%	1.8%	

“We started this year with a good portfolio of orders on the domestic market. Sales in Poland increased by more than 11% y/y, which is the result of the good economic situation on the Polish market. We recorded a slowdown on the export markets due to delays in the completion of projects, among other factors. Profits in the 1st quarter of this year have remained under the influence of sales support costs. Increased pro-sales activities are expected to translate into positive results in the coming periods,” commented Rafał Gawrylak, President of the Management Board of ES-SYSTEM S.A.

GROWING REVENUES AS THE YEAR BEGINS

In the 1st quarter of 2018, ES-SYSTEM generated sales revenues amounting to 41.7 million PLN, i.e. a 1.5% increase y/y, a result of the increase in domestic sales. The margin on total sales in the 1st quarter of 2018 (expressed in %), reached 40.8% and was 2.9 p.p. higher than in the corresponding period in 2017.

THE MARKET SITUATION IN POLAND – AN INCREASE IN SALES BY MORE THAN 10%

In the 1st quarter of 2018, the company recorded domestic sales amounting to 33.4 million PLN, i.e. an increase by 11.1% y/y, resulting from the good situation on the Polish market and timely completion of projects. In the discussed period, sales increases were recorded in the segment of architectural lighting (by 28.5% y/y), outdoor lighting (by 10.6% y/y), and lighting control (by 64.1% y/y). Slight decreases were recorded in the remaining segments: sales dropped in industrial lighting by 2.2% y/y, and by 5.1% y/y in emergency lighting. The Group is working on a new product assortment in these segments.

In the 1st quarter of this year, the following domestic projects were completed or continued:

- Malta Office Park – Poznań
- Brama Miasta, a complex of office buildings – Łódź
- Q22 office building – Warsaw
- BTS ASK Poland, a warehouse, production and office building – Wilkowice near Bielsko-Biała
- Atrium Promenada shopping center – Warsaw
- Avia housing complex – Kraków
- Lighting modernization in the municipalities of: Żukowo, Chmielno, Somonino

EXPORT SALES IN LINE WITH EXPECTATIONS

ES-SYSTEM's international sales in the 1st quarter of this year came in at 8.3 million PLN, which is a decrease by 24.6% y/y. The slowdown in export sales is in line with the Management Board's expectations and results from the 9% y/y lower order portfolio and delays in the completion of several projects.

“In March of this year, we participated in the largest international lighting fair – Light + Building 2018 in Frankfurt. During this event, the ES-SYSTEM Group presented new comprehensive lighting solutions. One of our solutions, the WHY system, was selected as one of the TOP 20 most innovative products at the fair. Based on experience from previous years, the new business contacts acquired during the fair should translate to increased export sales in future quarters,” said President Gawrylak.

In the 1st quarter of this year, the following export projects were completed or continued:

- Polish Embassy – Vilnius, Lithuania
- Sports hall – Košice, Słowacja
- Roshen confectionery – Kiev, Ukraine

- Z-Tower office buildings – Riga, Latvia
- Belvedere offices – Paris, France

LEDS AS A PILLAR FOR THE GROUP'S DEVELOPMENT

In the 1st quarter of 2018, LED solution sales increased by 18% y/y, reaching 32.5 million PLN. The share of LED products in total sales amounted to 78.1% compared to 67.5% in the corresponding period in the previous year.

In the 1st quarter of 2018, LED solution sales on the domestic market amounted to 25.7 million PLN, i.e. an increase by 31% y/y, whereas the share of LED product sales in total domestic sales reached 77.1%, compared to 65.5% in the 1st quarter of 2017. Export sales of LED solutions amounted to 6.8 million PLN, i.e. a 15% decrease y/y, whereas the share of LED product sales in total export sales amounted to 81.7%, in comparison to 72.9% in the 1st quarter of 2017.

“LED lighting is one of the pillars of ES-SYSTEM’s development. Modern LED lighting solutions amount to almost 80% of the Group’s total sales. These solutions are more effective in terms of cost and energy consumption. LEDs create unlimited possibilities for architects and lighting designers, which is especially important in architectural and illumination Lighting,” emphasizes President Gawrylak.

PROFITS IMPACTED BY SALES SUPPORT COSTS

The EBIT for the 1st quarter of 2018 amounted to 0.2 million PLN, which is a decrease by 68.8% compared to the corresponding period in the previous year. The operating costs were 14.2% higher y/y and amounted to 17.2 million PLN. The increase in operating costs is a result of the participation in Light + Building 2018 in Frankfurt and increased employment in the sales department. The Group’s pro-sales activities should have a positive impact on the company’s profits in future periods.

The result on other operating activities came in at 0.4 million PLN as a result of the sale of the real estate in Rzeszów. The Group recorded a profit of 48,000 PLN on financial activity, i.e. an 82% increase y/y, as a result of higher revenues due to exchange rate differences and interest on bank deposits. In the 1st quarter of 2018, the Group recorded a net profit in the amount of 0.36 million PLN compared to 0.73 million PLN in the corresponding period of the previous year, i.e. a decrease by 51% y/y.

PROSPECTS FOR RESULTS IN 2018

Considering the good situation on the domestic market, the result for the 1st quarter of this year, and the order portfolio, Management expects that the upward trend in domestic sales will be maintained in the 2nd quarter of 2018 in comparison to the 2nd quarter of 2017.

Based on the order portfolio, the Management Board expects a decline in export sales in the 2nd quarter of 2018 compared to last year. The presentation of new comprehensive solutions at Light + Building 2018, the gradual adaptation of the product assortment to diverse customer requirements and the intensification of promotional activities in the export department are expected to influence the sales value in the 2nd quarter of 2018 compared to the 1st half of the year. The position on the foreign markets will be strengthened by expanding the network of business contacts and sales representatives and by participating in selected industry events.

The development of new lighting solutions is in the works, including the modern CYBERIA LN floodlights and the LEDEX TOP 3 technical lighting system, as well as the creation of an assortment of luminaires that are resistant to adverse environmental conditions. The Management Board plans investment expenditures amounting to 9 million PLN in 2018.

Additional information:

Anna Przyczyna
Administrative Office of ES-SYSTEM S.A.
Tel. +48 (12) 295 80 39
E-mail: anna.przyczyna@essystem.pl

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.