

"Our strategic goal is to achieve a gross margin on sales of over 40%" – a summary of a chat with the President of the Management Board of the LUG Group

An investor chat with the President of the LUG Group Management Board, Ryszard Wtorkowski, took place on Monday, November 18, 2019. During the meeting, we talked about the financial results of the third quarter of 2019. Investors also asked questions about the dividend policy, the situation on the construction market and foreign expansion. The meeting was attended by over 150 people, and the CEO answered nearly 20 questions. We would like to invite you to read the entire chat summary.

Janusz Maruszewski

12:00

We would like to invite you to an investor chat with the President of the Management Board of the LUG S.A. Capital Group, Ryszard Wtorkowski. We will talk, among others about the financial results for the third quarter of 2019 and about development plans for the LUG S.A. Capital Group.



The meeting will start on Monday, November 18, 2019 at 12.00. We would like to encourage you to ask questions via the form below. If you want to ask more than one, please ask them one at a time and click "Send" each time. It will make easier for the company representatives to answer your question.

Ryszard Wtorkowski

12:00



Good afternoon, I would like to kindly welcome all participants: Investors and Shareholders to the subsequent investor's chat of LUG S.A. Capital Group. I am pleased with the possibility of having a conversation with all participants. Please feel free to ask questions!

LUK

12:02



The fourth quarter is theoretically always the best. What does it look like this year? Is there a chance for something good?

Ryszard Wtorkowski

12:02



We optimize the costs of sales and production processes, which, in my opinion, will be reflected in the results of the coming quarters. The economic situation, however, it is not in our favour. Economic indicators are getting worse, and we experience it through the clients' willingness to implement planned investments. We see opportunities for results improvement in the implementation of export projects, at the moment the order portfolio looks promising.

Gość

12:05



What are your predictions about the slowdown or stagnation in the construction market?

Ryszard Wtorkowski

12:05



Everything indicates that the situation in Polish construction industry will be relatively weak at least for some time. We respond to this in advance in two ways. The first is internationalization, thanks to which we are less and less dependent on the economic situation in Poland. The second is a selective approach to contracts and active management of their margins. We do not want to generate revenue only for its own sake. Our strategic goal is to achieve a gross sales margin of over 40%.

Gość

12:08



The LUG exchange rate has fallen sharply in recent months. Do you think that such a low valuation has its justification in the financial results?

Ryszard Wtorkowski

12:08



Current capitalization does not even reflect the value of assets. The real value of the company is much higher and based on the strong foundations of 30 years of experience in the lighting industry. The current low valuation is a result of the emotional response to the company's results and the situation on financial markets - including our Stock Exchange Market and the low interest of investors in the NewConnect market.

Grzegorz

12:12



What about the dividend plans for 2019, will they be maintained?

Ryszard Wtorkowski

12:12



The decision regarding dividend payment will be made after the end of the financial year. I expect that maintaining the dividend payment for 2019 will be a big challenge and will depend on the economic situation in the country and abroad, especially in Europe.

wiorny_inwestor

12:17



The report shows information about strengthening export. So how is foreign expansion going? What are its directions when we experience poor results and a downturn in Europe?

Ryszard Wtorkowski

12:18



The markets of Europe, the Middle East and South America are still of interest to the LUG S.A. Capital Group. We strengthen our position beyond Europe. Especially on the Argentinean market, where LUG Argentina SA operates. We have also increased our activity in the Middle East and North African countries, which are less dependent on the European economic situation. At the moment, we have realized 57 percent of LUG's general revenues on foreign markets, i.e. an increase of 14,8 pp y/y with dynamics growth at the level of 27,6 percent for the third quarter y/y.

Gość

12:20



How did you achieve much higher EBITDA with comparable revenues from 2019 Q2? Is there a one-off event?

Ryszard Wtorkowski

12:21



There were no one-off events, only our hard work. Three factors contributed to the higher EBITDA level. First, the return of the gross margin on sales to the level of 40% thanks to proper management of the costs of goods and materials sold, as well as contract margins. Secondly, we can see the effects of sales team optimization, which can be seen in sales costs lower by 5%. Thirdly, we have reduced the general and administrative costs by nearly 15%. These three factors allowed, with a very similar level of revenues, to achieve an EBITDA result of over PLN 2,5 million in this quarter.

Gość

12:23



Haven't you considered introducing photovoltaics? It seems that this could be a good idea for rebuilding sales and even profits from the domestic market ??

Ryszard Wtorkowski

12:23



In fact, a photovoltaic panel can be an element of a lighting fixture, especially in countries with high insolation and low energy infrastructure. In the context of the diversification of commercial areas, we consider the expansion of the offer with such a product, but we will provide more details while implementation.

jan

12:25



How did you achieve much higher EBITDA compared to the second quarter of 2019, with revenues at a similar level? Is it a one-off even?

Ryszard Wtorkowski

12:25



A very similar question has just been asked, please refer to the previous answer.

rubik

12:34



In the results of the competition (essystem) for Q2 there is no slowdown – isn't it that the problem is in the effectiveness of the organization, not on its market environment?

Ryszard Wtorkowski

12:34



Each manufacturer has its own individual product structure. Our business activity is still strongly associated with the level of infrastructure and industrial investments, both in Poland and abroad. The poor economic situation on the domestic market directly affects our results. Other overlapping factors include rising labour costs and the price pressure. A few years ago, the vast majority of revenue was generated in Poland, last year it was about 50%, today only about 40%. We see a great export potential in the implemented product segment, striving to achieve the level of 75% of revenues from abroad, which will allow us to become much more independent from fluctuations in the

economic situation in Poland.

Gość

12:37



Can the decrease in sales costs be continued this year, or is this the end of consolidation effects.

Ryszard Wtorkowski

12:38



Increasing salaries in the country and the employee market will certainly not reduce sales costs, which is why we put a lot of emphasis on increasing the efficiency of sales teams. We strive to at least keep the trading costs at the same level while increasing our revenues and improving profitability.

rubik

12:41



Good morning, between the estimates published on November 6 and quarterly results there was a very big turnout - what did it result from?

Ryszard Wtorkowski

12:41



We received full consolidation data from all subsidiaries after submitting the report with the estimated results. Final data consolidation was of key importance, as a result of which the positive exchange rate differences outweighed the negative ones. The effect can be seen in the "Financial revenues" position, which reached the value of PLN 1,3 million, while in the previous quarters it oscillated around zero.

inwest

12:43



What margins do you achieve from your orders?

Ryszard Wtorkowski

12:44



Gross profit on sales in the third quarter of 2019 amounted to PLN 16,29 million, which is an increase by 6.5% q/q. The improvement in gross profit on sales compared to the previous quarter allowed the return of the gross margin on sales to a level exceeding 40%. And this is our strategic goal of maintaining the margin at the level exceeding 40%.

Adam

12:49



Why, on one hand, does the company say that research and development are extremely important and, on the other, the numbers do not show this and investment outlays have halved?

Ryszard Wtorkowski

12:50



Investment outlays have actually halved, but not in the research and development area. There was an increase in expenditure by 35,5% q/q, and year-on-year by 43,3% to the level of PLN 1,49 million. The main investments in the machine park were completed in the first half of the year in preparation for the period in which we usually record a higher level of production.

Gość

12:51



Is the management board receiving any information about a possible further reduction in the

involvement in the shares of the company by OPERA TFI fund?



Ryszard Wtorkowski

12:52

We stay connected with the TFI Opera and our discussions do not indicate that the fund is interested in reducing its involvement.



Gość

12:55

What is the level of interest in smart city among city leaders?

Ryszard Wtorkowski

12:59



We are still observing the trend in improving the quality of life in urban agglomerations and this is probably what the whole range of activities related to the broadly understood promotion of "Smart City" serves. We observe a growing interest from city leaders. There are more and more tenders for elements of urban lighting management. The LUG Group and its subsidiary BIOT are still working on the further development of lighting control software components. It is a significant element of this trend. We enrich the next families of products with intelligent modules and solutions in line with the global trend, with great potential for the development of our group



Adam

13:03

Will export continue to increase revenue share and will it reach 2/3 of revenues in this year?



Ryszard Wtorkowski

13:03

We do not exclude such a scenario. At the moment, in cumulative terms for 2019, we recorded 62,8 percent share of export in general sales. Our activities aim at further international expansion.



Ryszard Wtorkowski

13:05

Thank you for many interesting questions. I hope I answered most of the questions related to the results and the current situation of the company. I emphasize that the condition of the LUG S.A. Capital Group is good and we are taking further actions to optimise our production processes. I hope I will be able to share these effects with you in the upcoming quarters. As early as now I would like to invite you for the next investor chat.