



# Lenzing Group: Driving value growth

Capital Markets Day  
November 17, 2015



# Welcome to the Lenzing site

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**Stefan Doboczky**  
CEO



**Thomas Riegler**  
CFO



**Robert van de Kerkhof**  
CCO

# Agenda

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1. Looking to the context
2. Looking forward
3. sCore TEN – Lenzing's new strategy

# Lenzing is the global leader in cellulose fibers

- 77 years of history
- Innovation and technology leader
- Globally present

## Global market position:

■ Lyocell #1



■ Modal #1



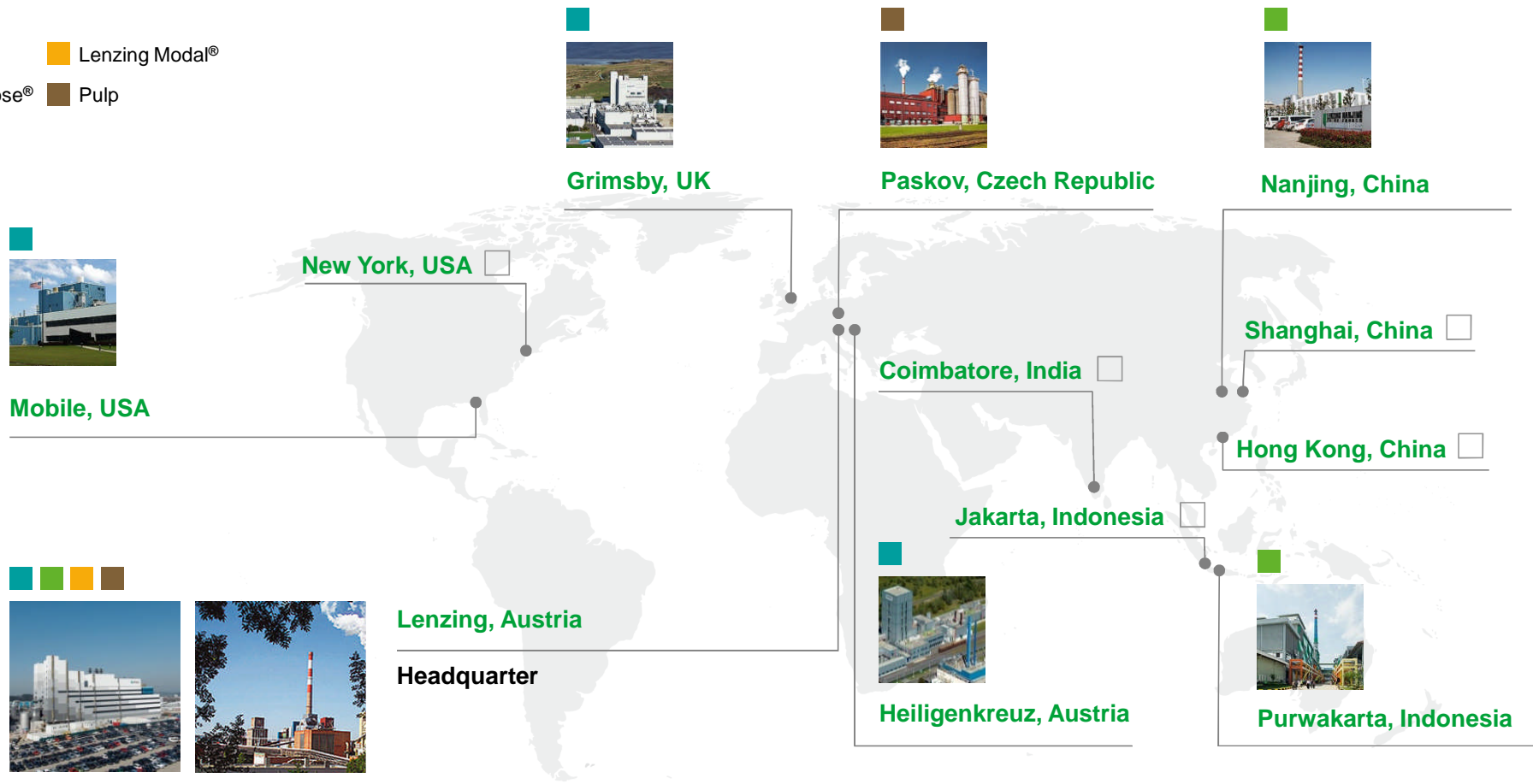
■ Viscose #2



TENCEL®, Lenzing Modal® and Lenzing Viscose® are registered trademarks of the Lenzing Group

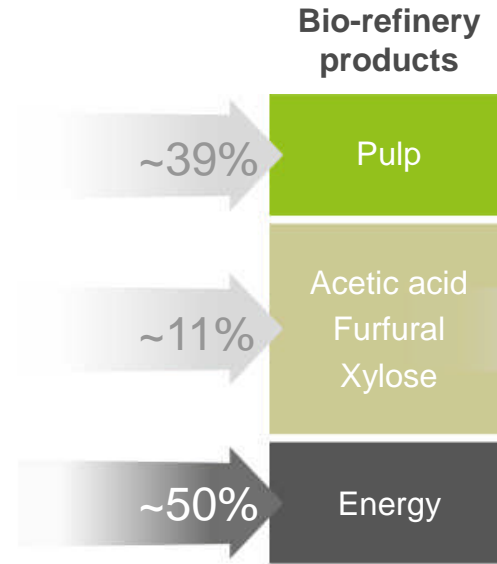
# Global network to serve our markets

- TENCEL®
- Lenzing Modal®
- Lenzing Viscose®
- Pulp
- Offices



# Lenzing's pulp mills are bio-refineries

Lenzing and Biocel Paskov achieve 100% wood utilization by generating pulp, bio-based chemicals and energy.



## Customers & Products



International  
Furan  
Chemicals B.V.

Rotterdam Airportplein 7, 3046 AP Rotterdam  
The Netherlands

etc.





## Today we are at our flagship site at Lenzing (AT)

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- World's largest fully integrated pulp and viscose fiber production
- Production capacity dissolving pulp: 296,000 tons per year
- Production capacity fibers: 339,000 tons per year
  - All three fiber generations
- Approx. 2,700 employees
- Headquarter and global R&D center



# Agenda

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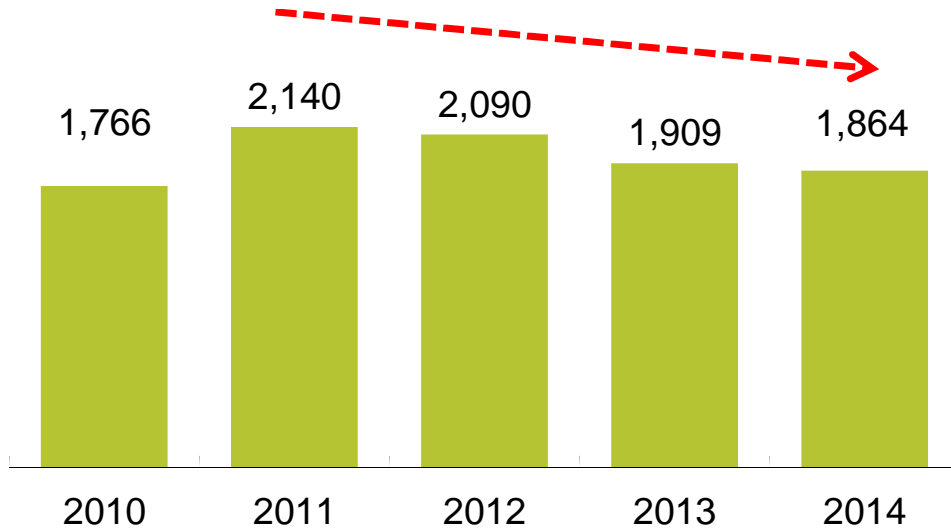
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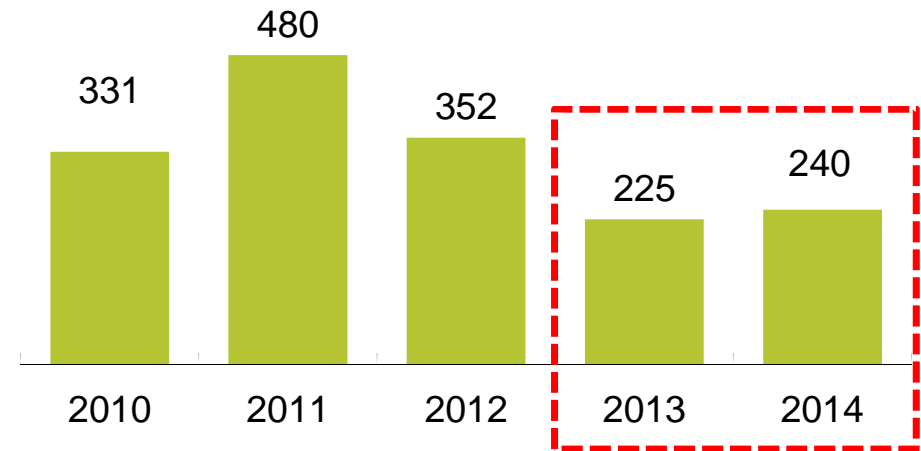
# Lenzing went through a difficult period in the recent past

EUR mn

## Revenue



## EBITDA



## Many issues needed to be addressed...

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Deteriorated  
balance sheet

FX  
volatility

Portfolio  
issues

Increased value chain  
complexity

Operational issues  
and inefficiencies

Increased competitive  
intensity

## ...several are already solved

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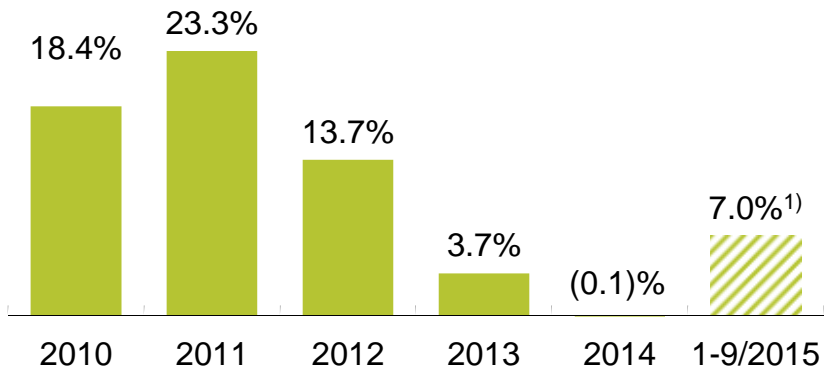
- Portfolio optimization
  - Divestiture of Lenzing Plastics
  - Divestiture of Dolan GmbH and European Carbon Fiber GmbH
  - First wave of restructuring Lenzing Technik
- excellENZ program
  - Annualized improvement of EUR 160m by 2016
- Successful first wave of growing specialties
  - Many new grades launched
  - New 67 kt TENCEL® jumbo plant is fully sold out



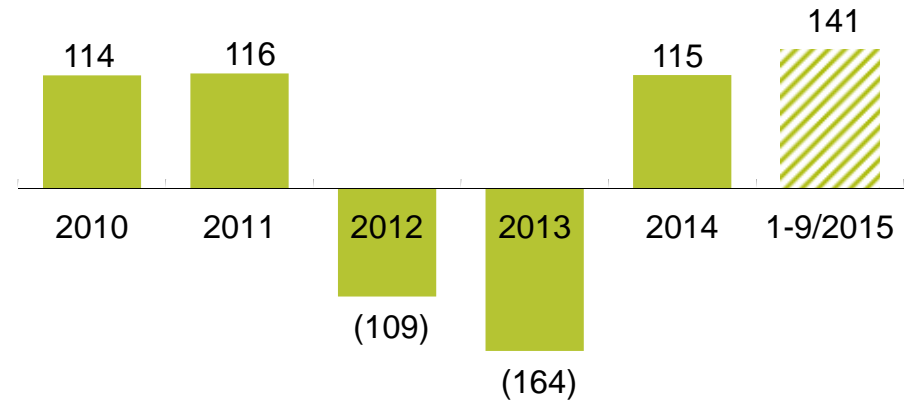
# Good progress made – but more work to do on value creation

EUR mn

## ROCE



## Free Cash Flow



1) Annualized



## Solid performance in 2015

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	<b>2014</b>	<b>1-9/2015</b>
Net financial debt (EUR mn)	450	333.3
Net financial debt/EBITDA (EUR mn)	1.9	1.2 <sup>1)</sup>
EBITDA (EUR mn)	240	210.6
ROCE	(0.1%)	7.0% <sup>1)</sup>

1) Annualized

## Lenzing embarked on a strategy program named “Quo Vadis?”

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All senior managers and over 200 key employees were fully engaged over 4 months



# Agenda

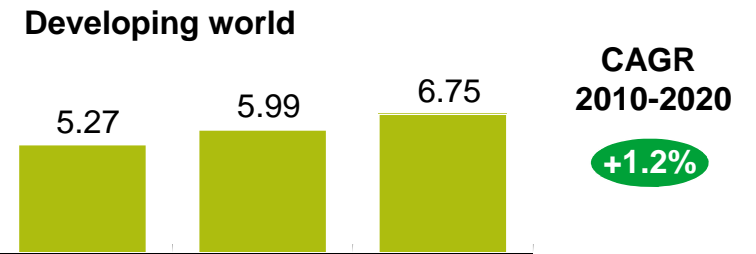
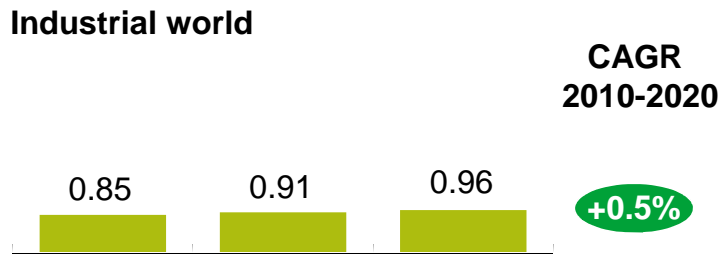
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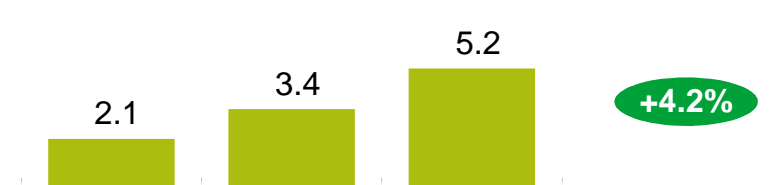
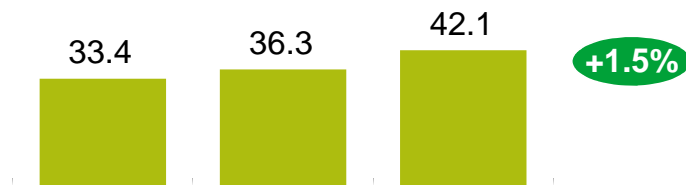
# Megatrends support fiber demand growth

Population growth and higher purchasing power in the emerging markets drive overall fiber growth

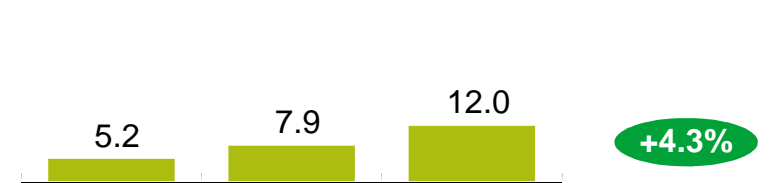
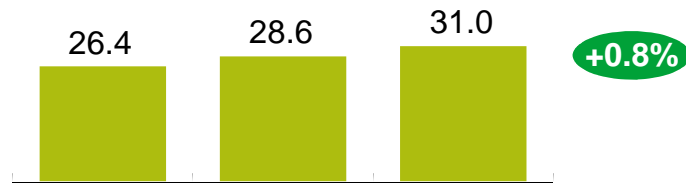
**Population**  
in bn



**GDP growth**  
in real USDk/capita



**Textile consumption**  
in kg/capita



Source: IHS, ICAC, Lenzing data



# The key growth drivers for fibers

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## Overall fiber market growth

### Population growth-driven

- Growing population demanding more fabrics

### Wealth-related growth

- Higher per-capita consumption of fibers with increasing income
- 

## Fiber mix shifts due to demand fundamentals

### Wealth impact developing countries

- People exit extreme poverty and can afford garments: Strong increase of low cost products
- Rising middle class: Higher quality and functionality of clothing

### New fiber technologies and changed use patterns

- Trend to high-tech clothing and comfort leading to more use of special polyester and MMCF<sup>1)</sup>

1) MMCF = Man-made cellulose fibers; viscose, modal and lyocell only – excluding acetate, tow and filament

## ...as well as the increasing focus on sustainability...

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### **Less than 1% of global water resources is available as fresh water for people**

- But water consumption is rising due to population growth and changing consumption habits



### **Arable land is decreasing due to erosion and urbanization**

- With a growing global population, this intensifies the competition for farm land



### **Oil is a finite resource causing negative externalities**

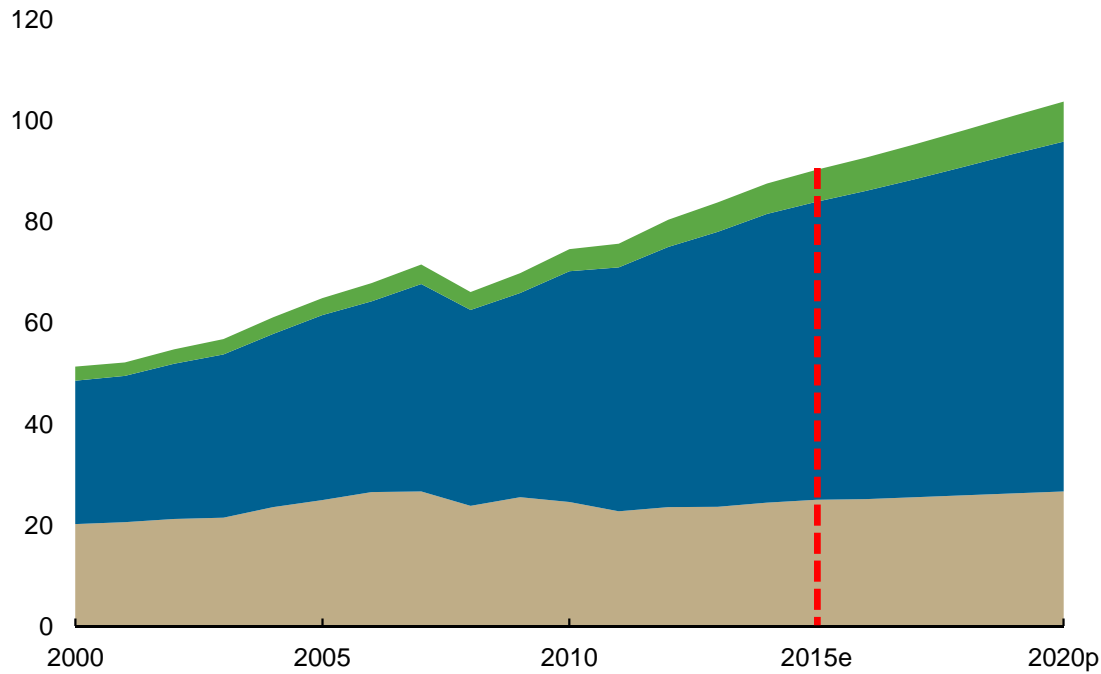
- Sooner or later “peak oil” will be reached
- New sources can only be tapped by taking high ecological risks



# ...fuel future MMCF growth

## Expected growth of global fiber demand until 2020

Million metric tons<sup>1</sup>



**CAGR**  
(2015e – 2020p)

■ MMCF

5-6% p.a.

■ Synthetic fibers

3-4% p.a.

■ Cotton

1-2% p.a.

Total fiber market

3-4% p.a.

1) Without wool and other natural fibers

Source: ICAC, CIRFS, Fiber Economics Bureau, National Statistics, The Fiber Year, Lenzing data

# Textile and Nonwovens are the two main applications...

## Textile



- Size
- Regional focus
- Fragmentation
- Decision making
- Key drivers
- End users



86 mt (~90% of fiber market)



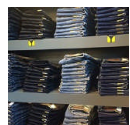
Over 90% in China, India and Asia-Pacific



High



Brands/retailers with some influence of fabric makers



- Ongoing trend towards **lower cost fashion**
- Trends towards **sustainability, convenience and functionality**
- **Volatile demand** due to fast fashion and changing trends



Markets strongly driven by **end-consumers**

## Nonwovens



8 mt (~10% of fiber market)



Mainly a **regional market** (due to high logistic costs)



**Low:** Top 5 to 10 players hold between 60-80% share



Brands and converters



- Due to disposability of products **high focus on cost**
- **Flushability and bio-degradable** is an emerging differentiator
- **MMCF** adding performance to products



Strong focus on **application of product**



## ...distinct trends are emerging

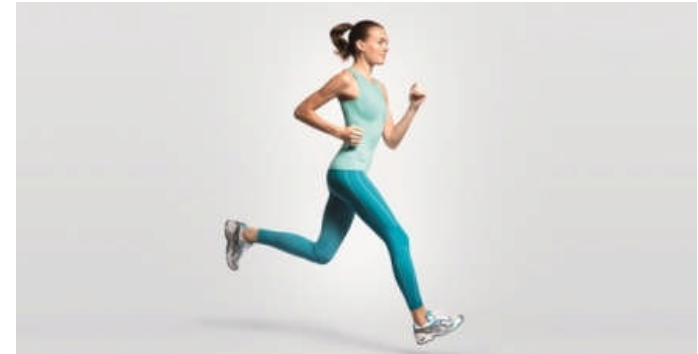
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### ■ Textiles

- Need for sustainable supply chains across the globe
- Fast fashion
- Focus on functionality

### ■ Nonwovens

- Need for higher cleanliness
- Need to improve eco-footprint of downstream products
- High innovation headroom



# Snapshot China

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**Eric Chan**  
Sales Director, Greater China

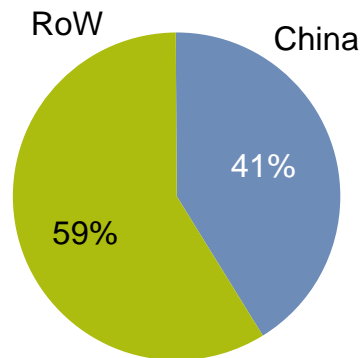
# Significant MMCF investment in China over the last decade - trend likely to continue

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**2005**

Total capacity: 2,400 mt

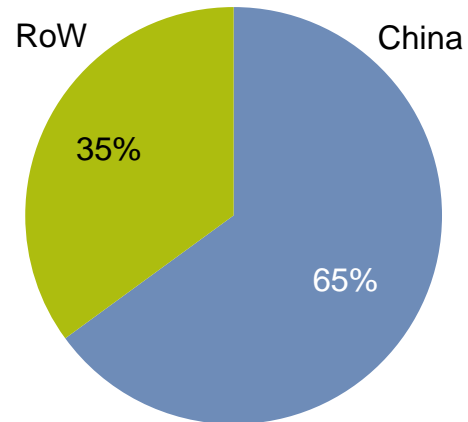
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**2014**

Total capacity: 5,600 mt

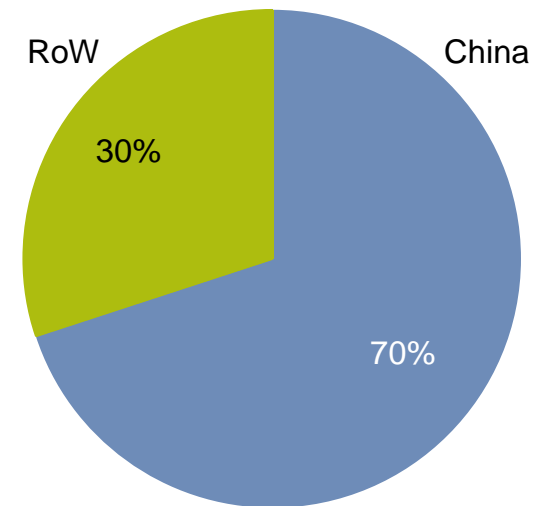
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**2020e**

Total capacity: 7,600 mt

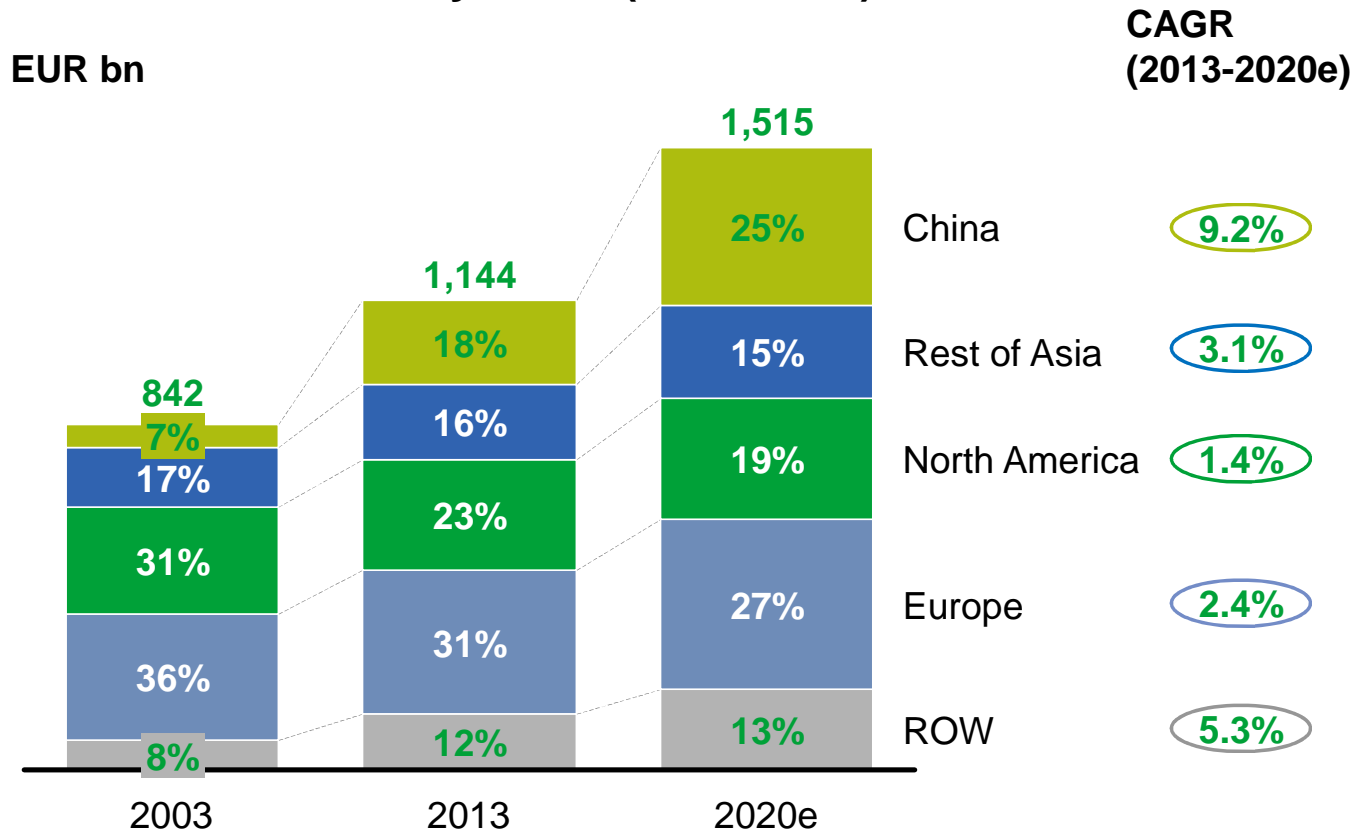
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Source: Lenzing data

# China remains the growth engine in global textiles

## Global textile demand by value (2003-2020)

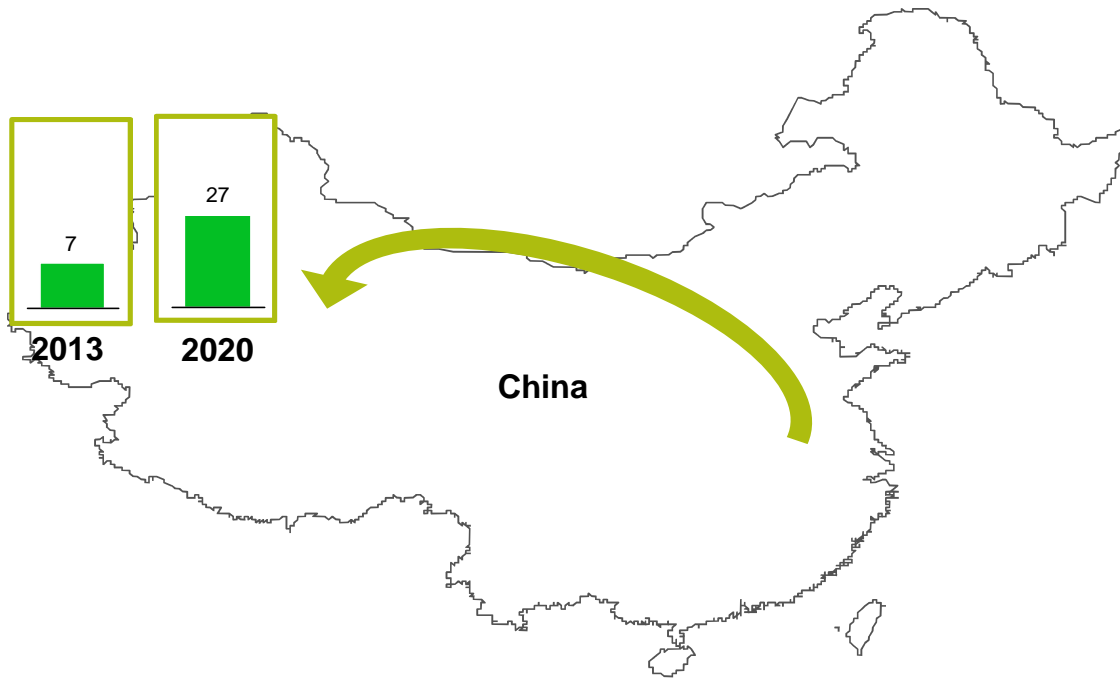


Source: ICAC World Textile Demand, Euromonitor, Lenzing data



# Spindles shift from Eastern China to Xinjiang

■ Spindles in Xinjiang, mn

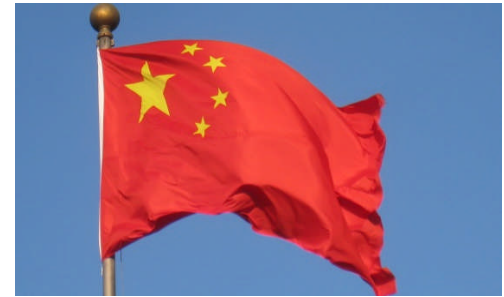


- Textile spinning is migrating from eastern coastal area to western provinces, mainly driven by lower labor costs and government policy
- Textile industry in Eastern China to focus on specialty fibers for survival

Source: Lenzing data

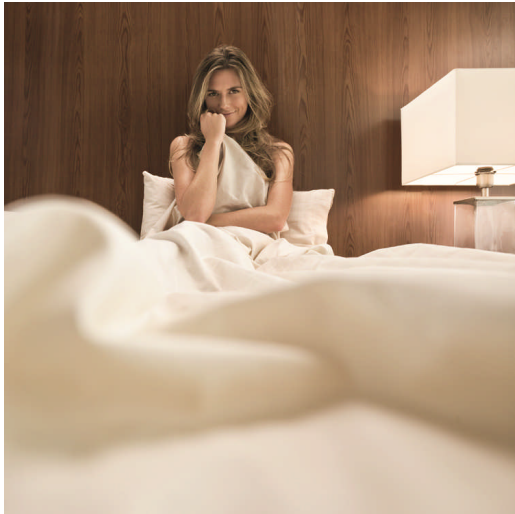
## Together with increased environmental pressure this will lead to closure and/or relocation of capacities

- Government declared “war on pollution” via a new law:
  - Greater punitive power to environmental authorities
  - Production stops enforced in cases of non-compliance with environmental standards
  - Tougher environmental impact assessments for new production facilities
- Even further steps towards a more stringent environmental protection to be expected
- Increasing costs for local Chinese competitors will lead to temporary and/or permanent site closures
- Capacities will relocate to Western China



# Lenzing well positioned in a growth market

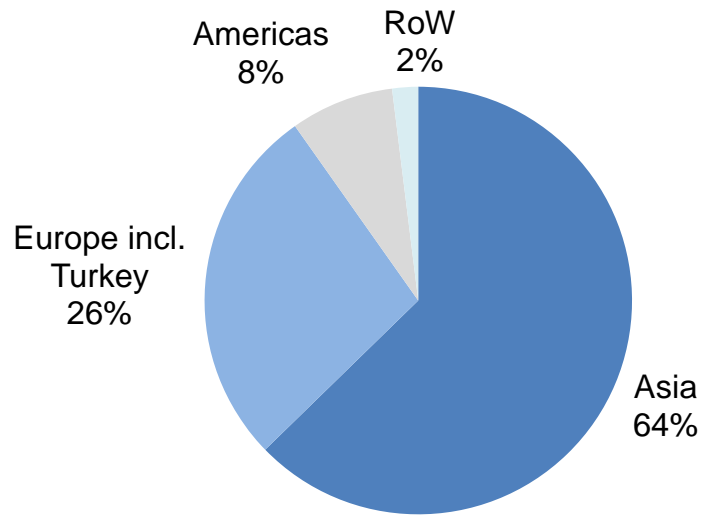
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# Lenzing is the only global player

## Balanced exposure to matured and emerging markets

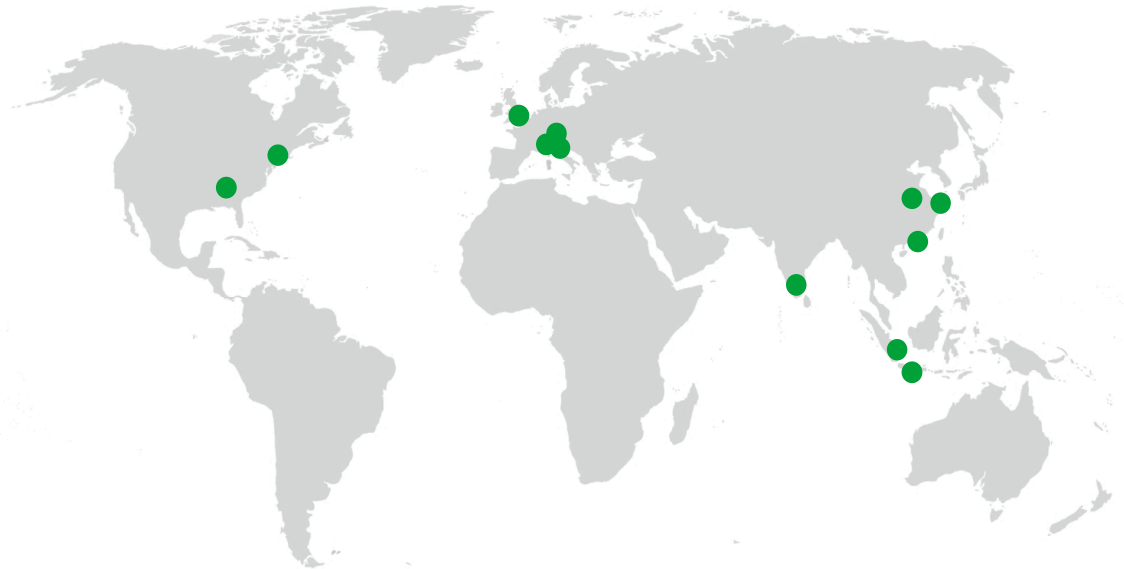
Fiber sales volume by region



Source: Lenzing data 2015

## Global network of production sites and sales offices

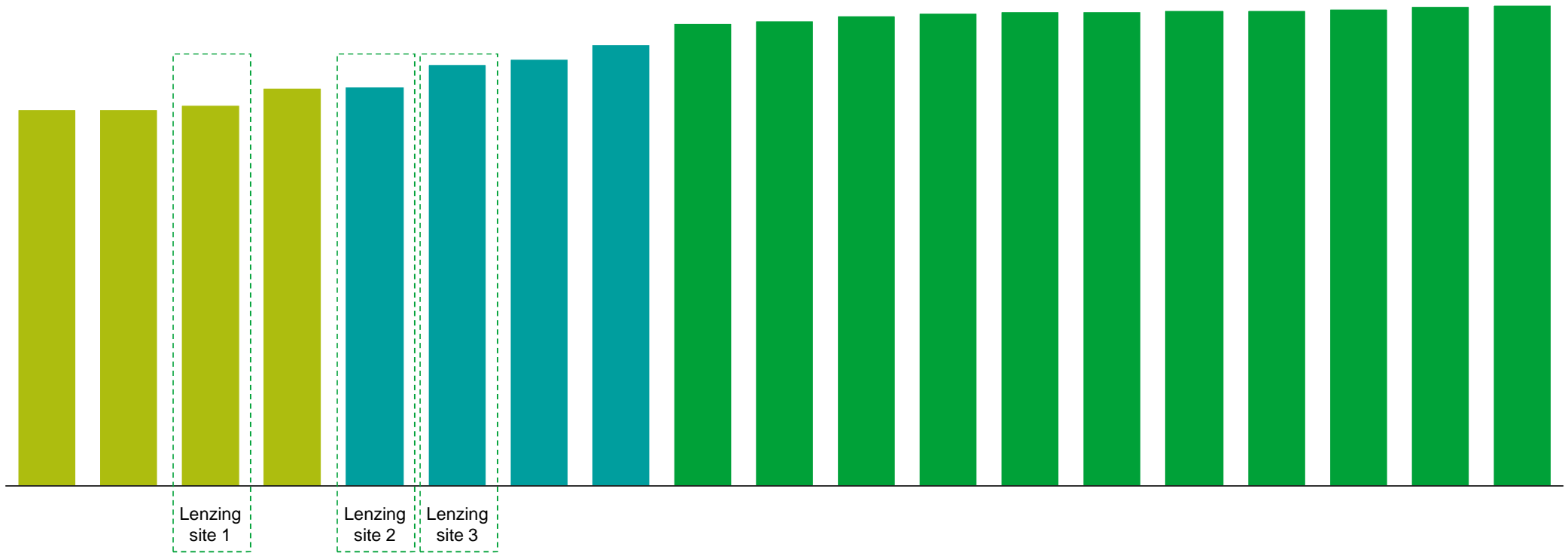
2015 footprint



# Lenzing's cost position has improved thanks to the excelLENZ program and the weaker Euro

## Indicative cost position vs. viscose competitors

Own pulp production    Mix of own production and market purchase    Market pulp purchase

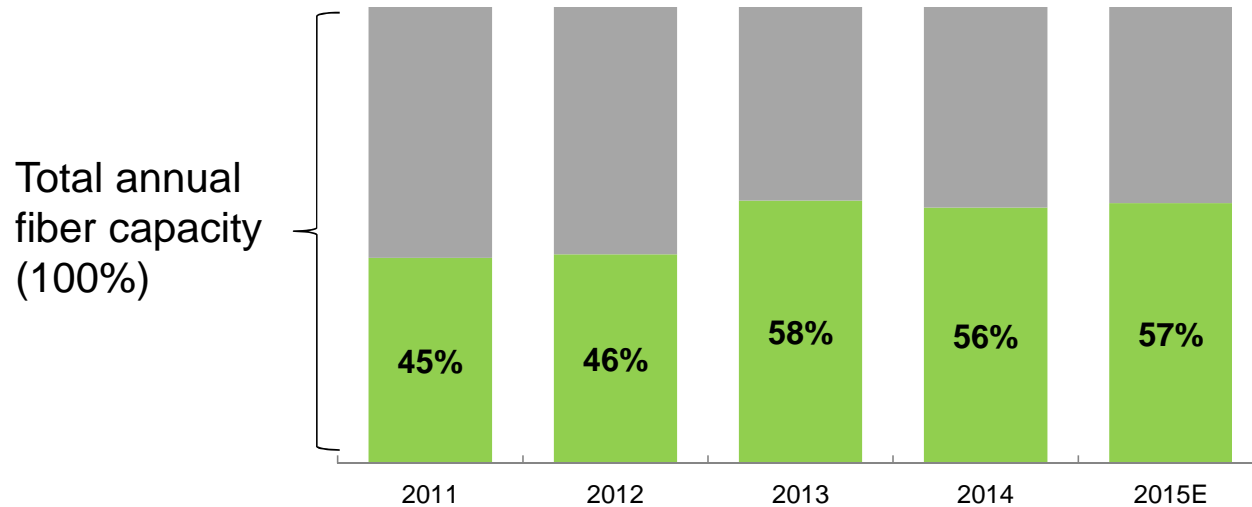


Source: Lenzing analysis




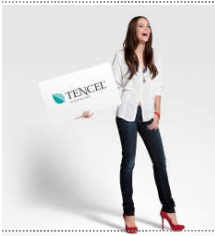




# Fiber production fully secured by a robust pulp supply

Level of backward integration: Own pulp supply in percentage of annual fiber capacity



- >50% secured by own pulp production
- Remaining pulp is secured through long-term contracts

# Lenzing enjoys market leadership in all three fiber generations...

	Market Position	Competitive Intensity	
	# 1	Low	
	# 1	Medium	
	# 2	High	

Source: Lenzing data, CCFG, CCFEI

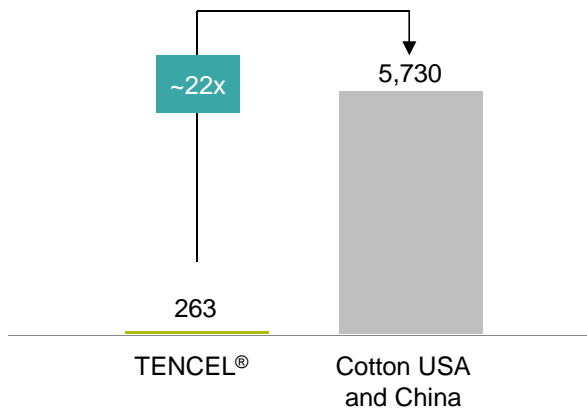
## ...and is innovation leader in lyocell with TENCEL®

- TENCEL® fiber: Outstanding functionality and highly eco-friendly
- Lenzing has strong global footprint and cost leadership
- Excellent in shaping and creating lyocell market through
  - Branding: TENCEL®
  - Application development and downstream partnerships
  - Pioneering the technology and successful scale-up
- Very strong pipeline of product and process innovation

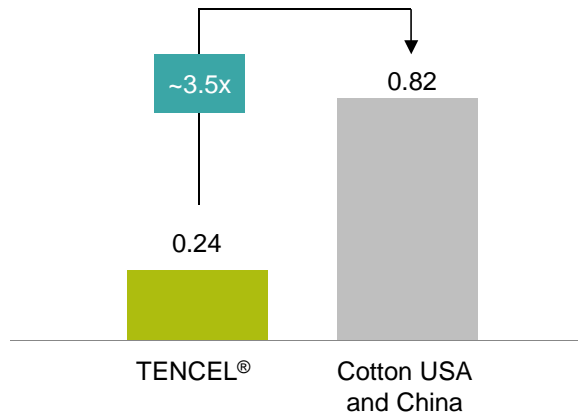


# TENCEL® is THE innovative fiber platform to address the sustainability challenge of the industry

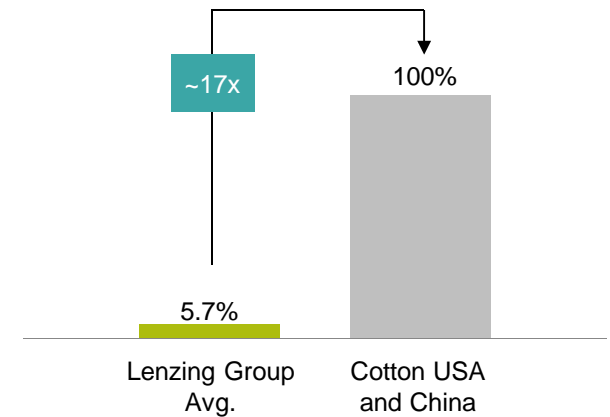
**Water consumption**  
m<sup>3</sup> per metric ton of fiber



**Required acreage**  
Hectares per metric ton and year



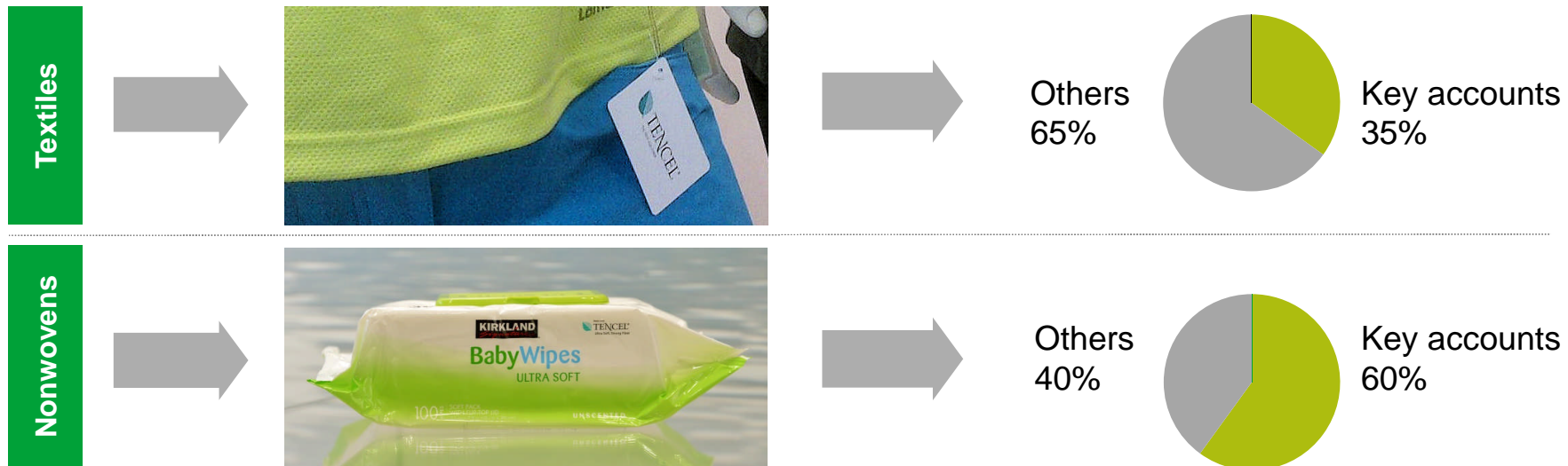
**Environmental impact of production**  
Relative to cotton



Source: "Life Cycle Assessment of man-made Cellulose fibers"; Li Shen, Martin Patel; 2007

# Lenzing is THE trusted long-term partner for global consumer brands

Global consumer brands trust Lenzing as long-term partner due to our quality leadership and deep technical expertise, resulting in several “co-branding” initiatives



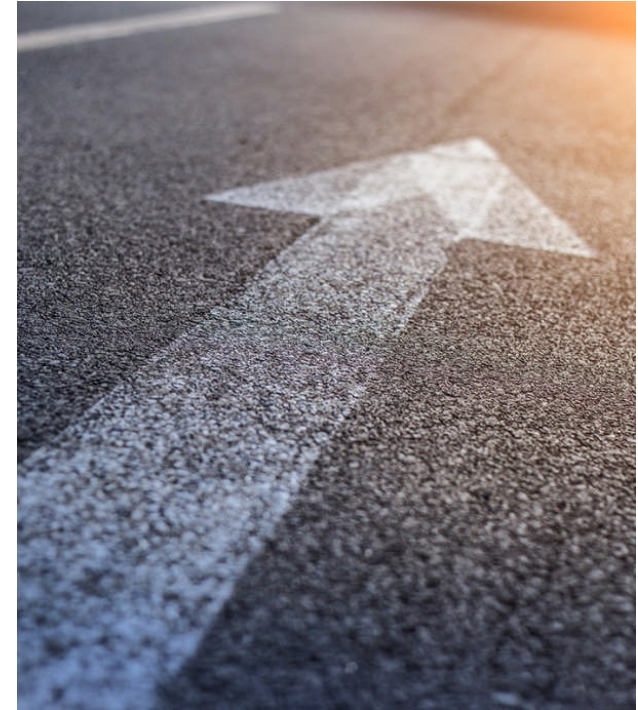
Source: Lenzing data



## Summary looking forward

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- Megatrends boost global fiber and MMCF demand
- Asia, especially China, will continue to be the growth engine
- Sustainability & eco-footprint will drive differentiation in the MMCF market
- Trend to lower cost fashion but also to more convenience and functionality
- Competitive intensity to remain high
  - Commoditization in viscose to continue
  - New entrants in lyocell expected
- Lenzing has market leadership in all three core MMCFs
  - Strong innovation capabilities and brands
  - Backward integration into low cost pulp
  - THE trusted long-term partner for global consumer brands



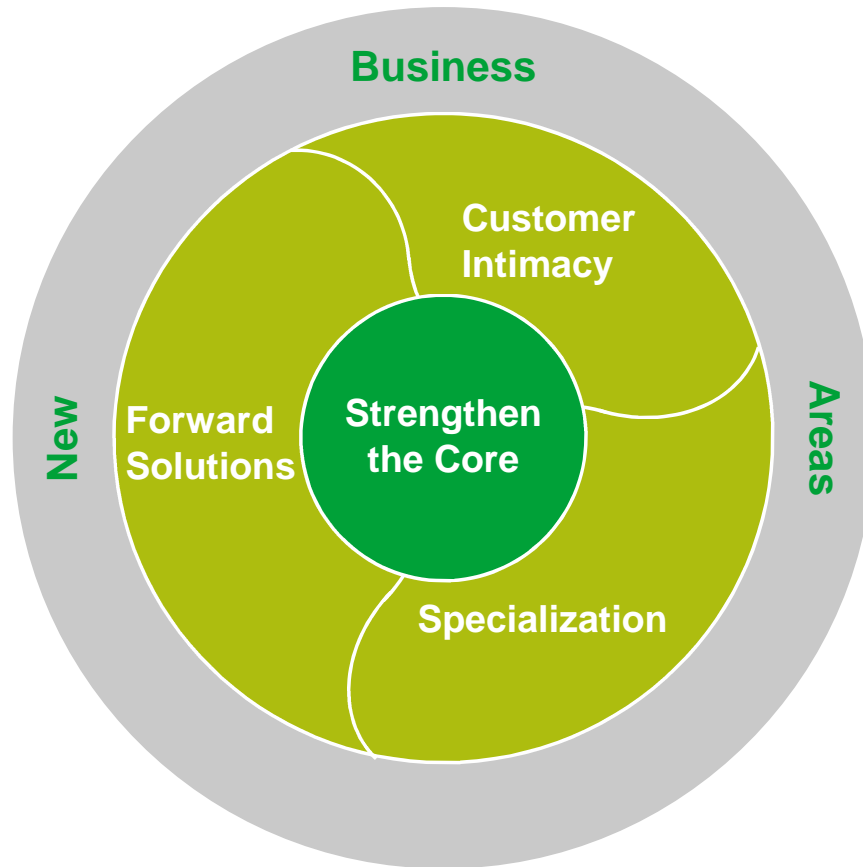
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# The new strategy

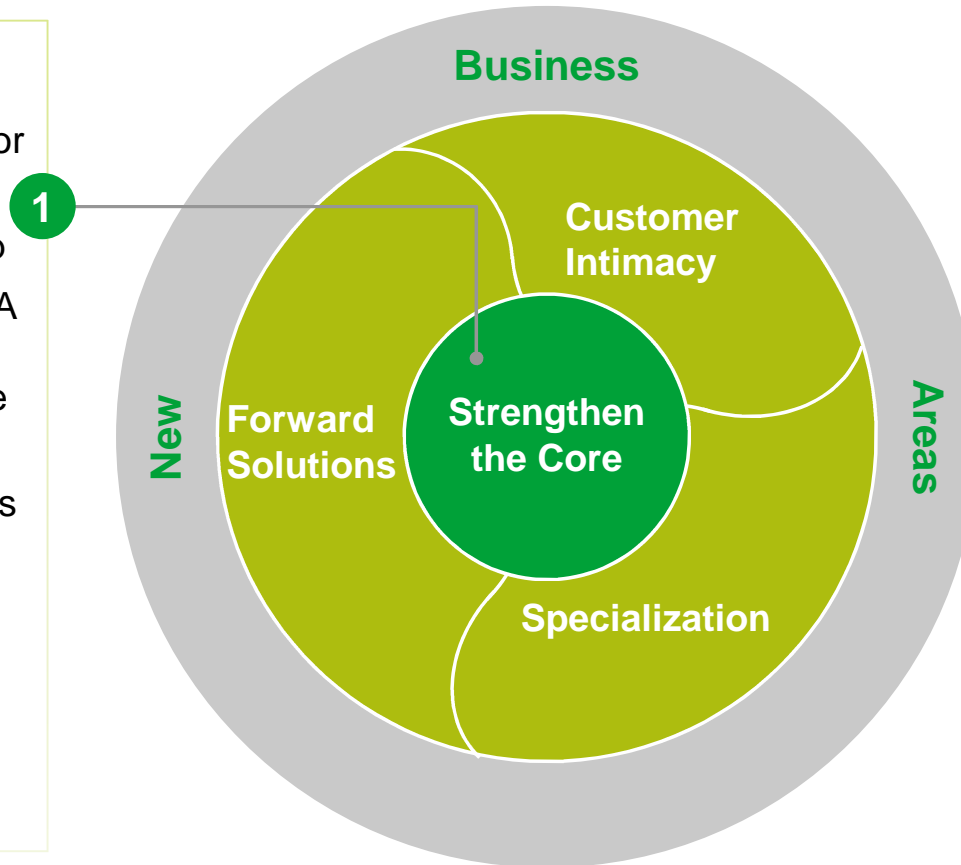
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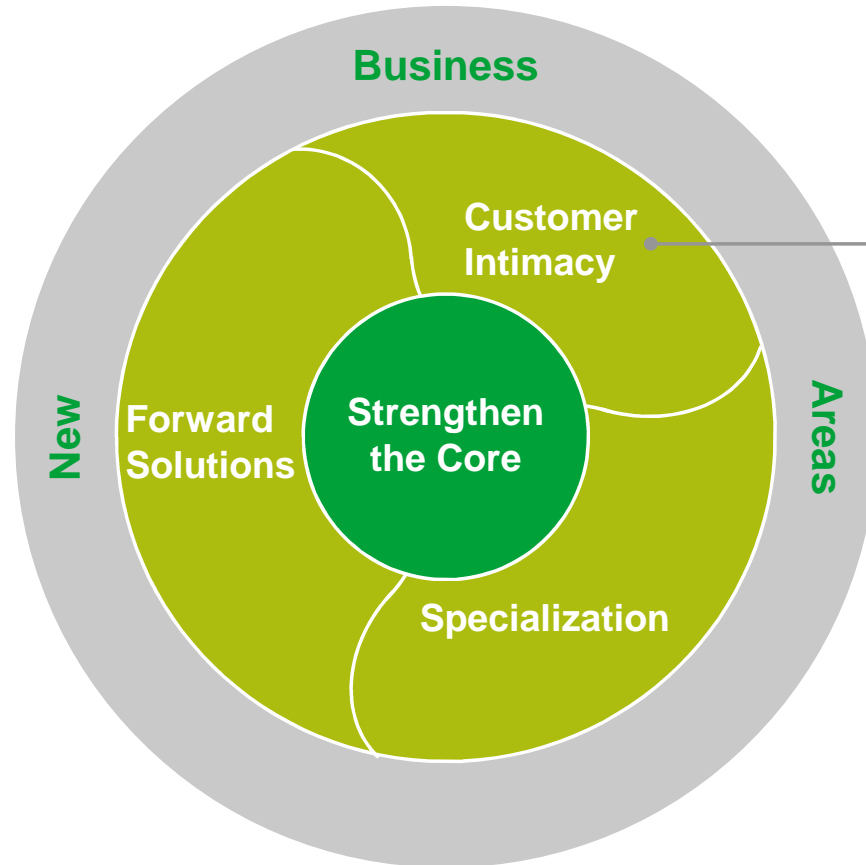


sC  reTEN

# Strengthen the Core

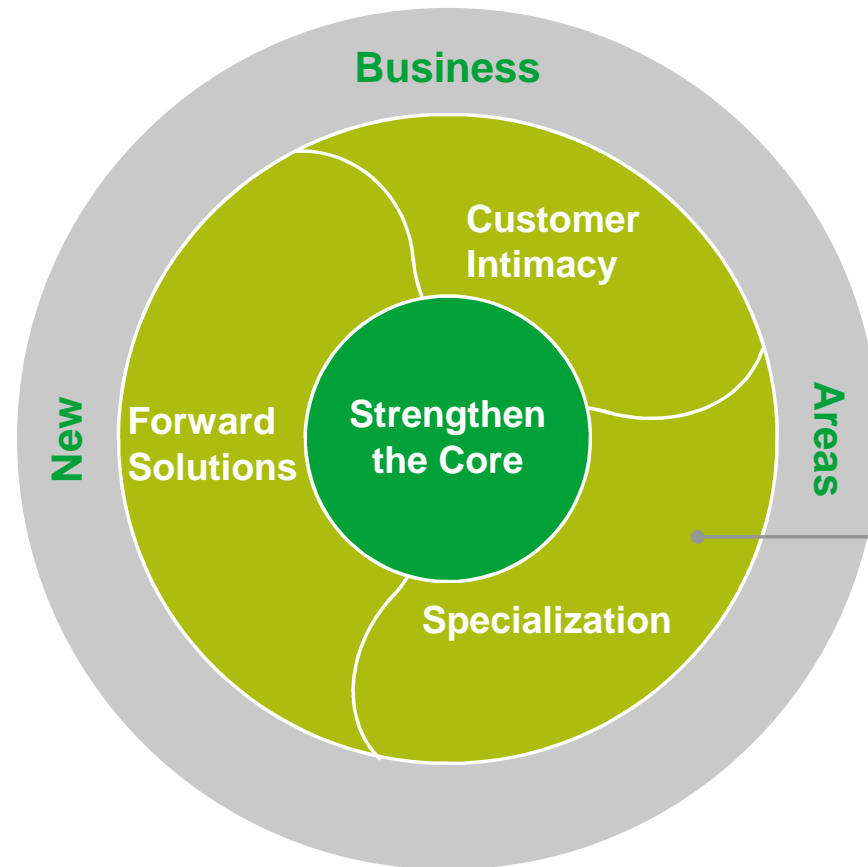
- Further strengthen pulp position to 75% via backward integration and/or strategic co-operations
- Maintain quality leadership
- Deliver EUR 50mn EBITDA by 2017 with commercial and operational excellence program
- Strengthen our co-products business and expand on “bio-refinery” concept
- Grow viscose position via strategic partnerships
- Finalize restructuring Lenzing Technik





- Increase management presence and decision power in the regions
- Establish two additional regional application and customer innovation centers



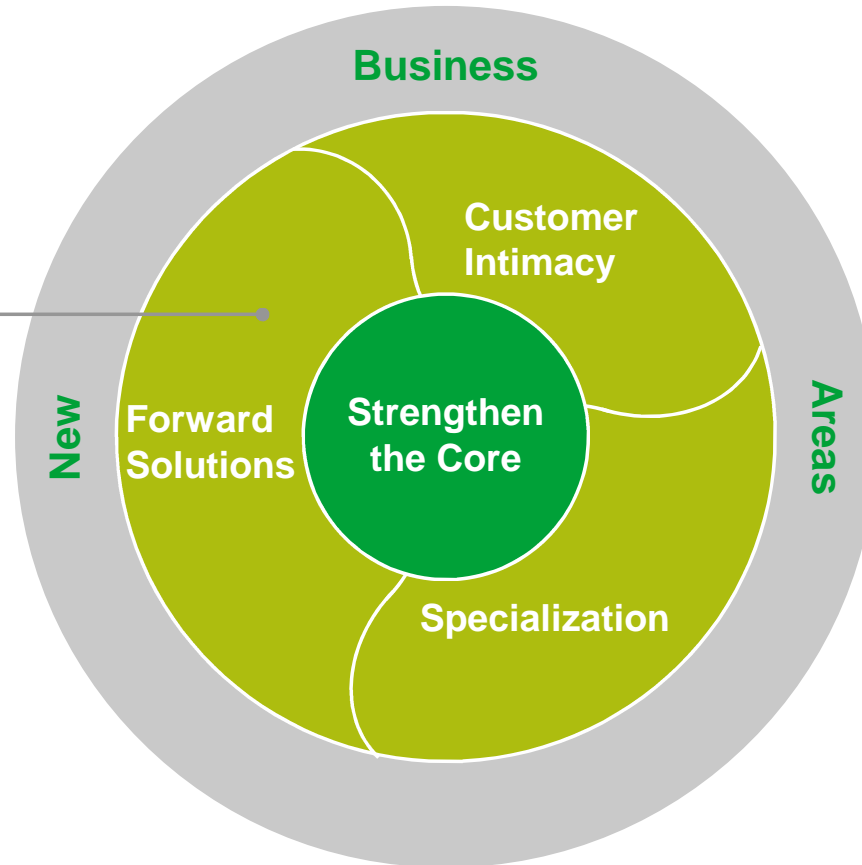


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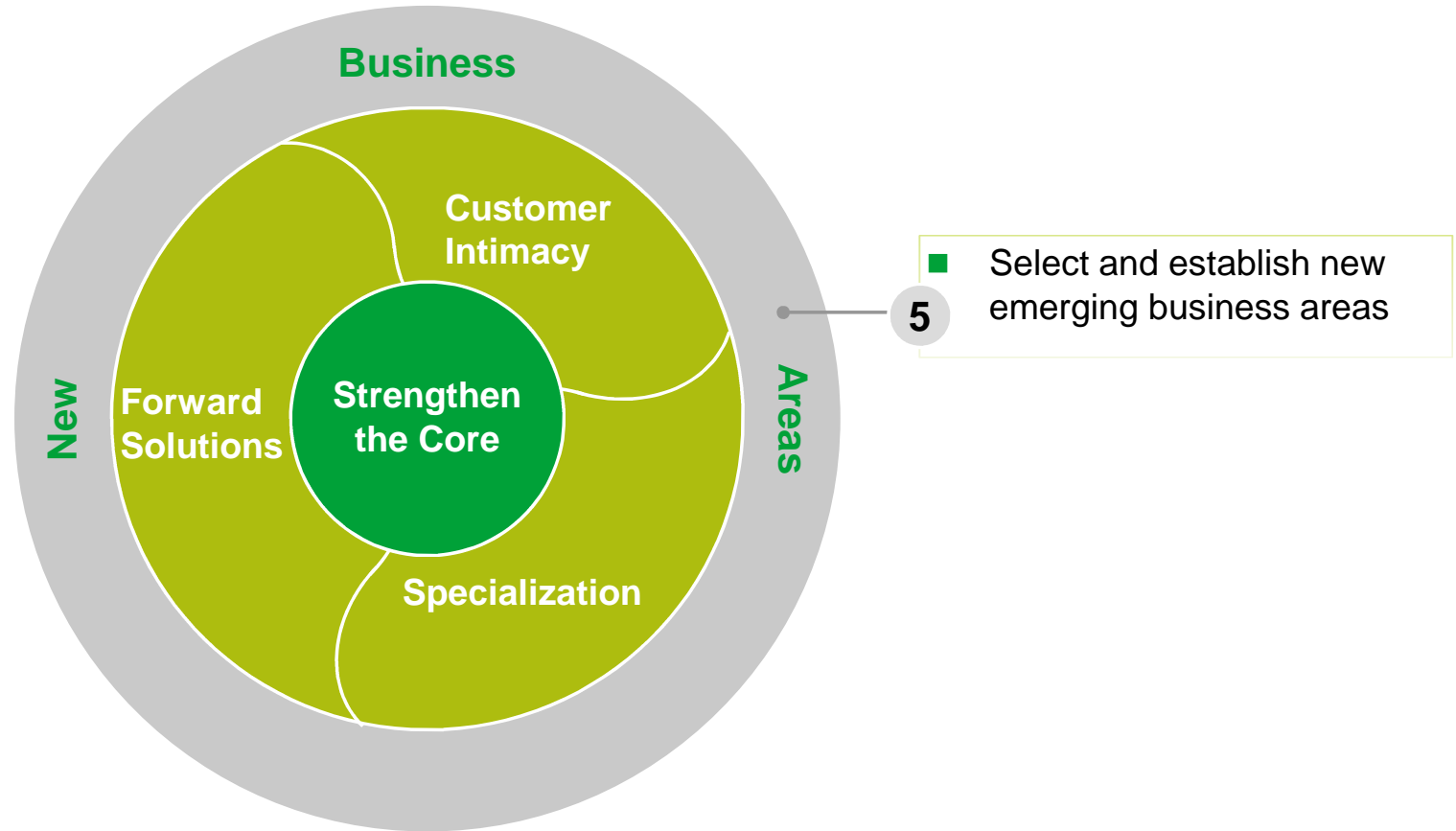
- Secure #1 lyocell and modal leadership position via capacity expansion program
- Focus on high-value eco-friendly specialty fibers
- Target 50% of revenue from specialty fibers by 2020

- Move selectively forward in the value chain via new game-changing technologies

4



# New Business Areas



## 2020 financial targets

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**EBITDA**  
growth of 10% p.a.  
(vs. 2014 base)

**ROCE**  
 $\geq 10\%$

**Net financial debt/  
EBITDA**  
 $< 2.5$

# Lenzing's capital allocation priorities: Organic growth focused

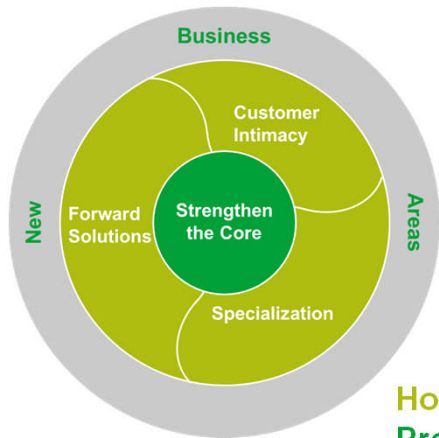
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1. CAPEX for growth
2. Dividend of up to 50% of last years net income
3. Investments in M&A



# Lenzing's strategic roadmap



## Horizon 1 Prepare for value growth

*up to 18 months*

- Deliver EUR 50mn EBITDA by 2017 with commercial and operational excellence program
- Decide on pulp integration options and strengthen co-products business
- Select site for specialty fibers investments
- Adjust organizational model to increase regional entrepreneurship

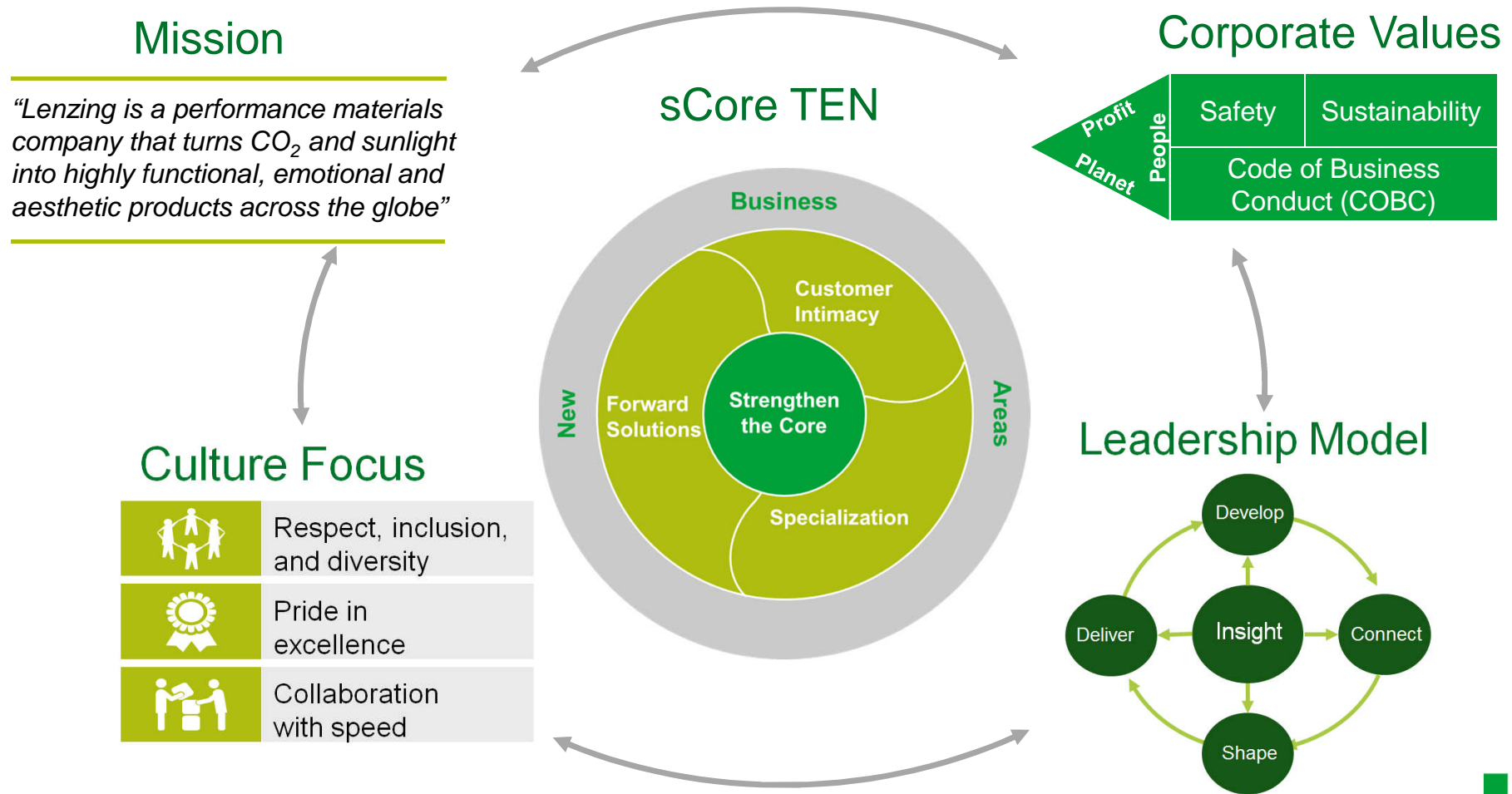
## Horizon 2 Drive value growth

- Aggressive growth in specialty fibers via capacity expansion program
- Commercialize new applications via local customer innovation centers
- Move selectively forward in value-chain via new technologies/M&A

## Horizon 3 New business areas

- Expand into business adjacencies and/or new industry value chains
- Selectively consider specialization-focused M&A options

# Lenzing: Our reinforcing spheres of influence



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