

PRESS RELEASE

BOARD OF DIRECTORS OF F.I.L.A. – FABBRICA ITALIANA LAPIS ED AFFINI S.P.A. APPROVES 2019 HALF-YEAR REPORT

ASIAN GROWTH CONTINUES - PARTICULARLY IN INDIA

MAJOR RECOVERY FOR NORTH AND SOUTH AMERICAN AND EUROPEAN REVENUE IN THE SECOND QUARTER OF THE YEAR

GIOVANNI GORNO TEMPINI CO-OPTED AS A DIRECTOR AND APPOINTED CHAIRMAN OF THE BOARD OF DIRECTORS OF F.I.L.A. – FABBRICA ITALIANA LAPIS ED AFFINI S.P.A.

- *Core operating revenue of Euro 350.7 million, +37.4% on the same period of the previous year (Euro 255.2 million in H1 2018);*
- *Core operating revenue up 2.4% in H1 2019 (-0.5% net of currency effect) compared to the first six months of the previous year on a pro-forma basis with the first six months of 2018 for the Pacon Group;*
- *Significant growth in Asia (+23%), particularly in India, and major recovery for North American revenue in the second quarter of the year, featuring a school's campaign increasingly concentrated in the second and third quarters, and in Europe for the resolution of the effects stemming from the 2018 reorganization of and for the efficiency of the Annonay central warehouse from March 2019;*
- *Adjusted EBITDA of Euro 58.2 million, +31.2% on Euro 44.4 million for H1 2018;*
- *Adjusted EBITDA in H1 2019 recovers significantly on the first quarter, up 1.3% (-2.5% net of the currency effect) on the first half of 2018 on a pro-forma basis with the first six months of 2018 for the Pacon Group;*
- *Adjusted net profit of Euro 22.0 million, against Euro 15.5 million in H1 2018, growth of 42% and mainly due to the M&A effect;*
- *Net debt of Euro 521.9 million at June 30, 2019 (net of the IFRS 16 effect of Euro 80.5 million), compared to Euro 452.8 million at December 31, 2018. This increase mainly relates to business seasonality and to the Euro 15.8 million Mark to Market effect regarding the interest rate hedges undertaken;*

- *Signing in July 2019 for the sale of the Pacon business segment pertaining to Superior (brand for photo shoot wallpaper), a non-strategic asset in the United States for a value of \$ 10 million, closing scheduled for October 2019;*
- *Co-option of Giovanni Gorno Tempini as a non-executive company director and appointment as Chairman of the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A.*

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Pero, August 6, 2019 – The Board of Directors of F.I.L.A. – **Fabbrica Italiana Lapis ed Affini S.p.A.** (“F.I.L.A.” or the “**company**”), listed on the Milan Stock Exchange, STAR Segment, ISIN code IT0004967292, today reviewed and approved the 2019 Half-Year Report drawn up as per IFRS.

F.I.L.A. – a Company which operates in the creativity tools market - producing design, colouring, writing and modelling objects - reports H1 2019 Core Business Revenue of Euro 350.7 million, up 37.4% on the previous year. Normalised EBITDA in the first half of the year of Euro 58.2 million advanced 31.2% on H1 2018. Normalised Profit after extraordinary items and minorities was Euro 22.0 million, up 42% over the same period of the previous year, mainly due to the M&A effect.

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“The first half of 2019 comprehensively highlighted the recovery of Group operating efficiency and the resolution of the main issues stemming from the 2018 reorganisation, while in March the central Annonay European warehouse achieved full efficiency, in line with expectations. These results lay a solid foundation for the delivery of the working capital and Cash Flow generation improvement and customer service objectives, which are critical for the commercial results and the cross-selling strategies underlying the two-year growth plan. We are delivering global organic Fine Art sector growth and which will significantly benefit from the Arches brand from January 1, 2020. In the school sector, distributors are seeking to de-stock, thus extending seasonality also into the third quarter of the year. Finally, the year 2019 - as already anticipated - has turned out to be a year of transition with the recovery of efficiency and the stabilising of customer service relations and cash generation. These aspects are key to our future development and the advancement of all Group operating and financial indicators” stated Massimo Candela, CEO of F.I.L.A.

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Operating performance - F.I.L.A. GROUP

Core business revenue of Euro 350.7 million was up 37.4% on the same period of the previous year (Euro 95.5 million), of which Euro 87.2 million concerning the Pacon Group (acquired in June and defined as an M&A effect) and Euro 10 million regarding the positive currency impact (principally US Dollars and Mexican Pesos, offset by Argentinian Pesos).

Net of these effects, the revenue increase in Asia - particularly India and to a lesser extent at the Chinese companies - was 23% (+Euro 7.7 million), while in Central-South America - particularly Mexico and Argentina - was 4% (+Euro 1.1 million). This growth was offset, although significantly recovering in the second quarter, from the contraction in Europe, particularly Italy and France, -2.2% (-Euro 2.6 million), in North America -4.5% (-Euro 7.2 million), also as a result of an increasingly concentrated school's campaign in the second and third quarters of the year and in the Rest of the World, mainly Australia for -30.9% (-Euro 0.6 million).

Adjusted Operating Costs in H1 2019 of Euro 296.0 million rose approx. Euro 80.3 million compared to the first half of the previous year, mainly as a result of the M&A effect and residually to fixed asset investment at the Indian subsidiary to support revenue growth and Fine & Art business development.

Adjusted EBITDA was Euro 58.2 million, up 31.2% on the first six months of 2018, mainly due to the M&A effect and the strong Asian and Central-South American performance.

The adjustment on H1 2019 EBITDA concerns lower operating lease costs of Euro 6.3 million relating to the initial application of IFRS 16 and non-recurring operating costs of approx. Euro 4.6 million, mainly concerning the reorganisation of the F.I.L.A. Group, in the first half of 2019 and particularly in North America.

Adjusted EBIT amounted to Euro 43.1 million, up 29.3% over Euro 33.3 million in the first half of 2018 and including amortisation, depreciation and write-downs of Euro 15.1 million, increasing Euro 4.1 million compared to the same period of the previous year, mainly due to the higher amortisation and depreciation from the M&A effect and due to investments.

The adjustment of EBIT mainly concerns the initial application in 2019 of IFRS 16 regarding higher amortisation and depreciation of Euro 5.1 million.

Adjusted Net Financial Expense increased approx. Euro 3.8 million, substantially due to the higher financial expenses on the new loan granted for the acquisition of the Pacon Group, offset by positive conversion effects.

The adjustment of Net Financial Expense mainly concerns the higher financial interest of Euro 2.9 million following the initial application of IFRS 16.

Adjusted Group income taxes amounted to Euro 7.7 million, slightly reducing on the same period of the previous year.

The **Adjusted Profit** of the F.I.L.A. Group for H1 2019, net of “minorities”, was Euro 22.0 million (Euro 15.5 million in the same period of the previous year), up 42%, mainly due to the M&A effect.

The adjustment of the H1 2019 Group Net Profit concerns the above-stated adjustments, net of the tax effect.

Finally, the quarterly breakdown of profit or loss shows the concentration of sales in the second and third quarters in conjunction with the “schools’ campaign”. Specifically, significant sales are made through the traditional “school suppliers” channel in June and through the “retailers” channel in August.

Statement of Financial Position review - F.I.L.A. Group

The Net Capital Employed of the F.I.L.A. Group at June 30, 2019 of Euro 945.7 million is principally comprised of Net Fixed Assets of Euro 617.5 million (increasing on December 31, 2018 by Euro 67.5 million) and Net Working Capital totalling Euro 391.7 million (increasing on December 31, 2018 by Euro 81.1 million).

Intangible assets decreased Euro 4.2 million compared to December 31, 2018, mainly due to amortisation in the period of Euro 7.1 million, partially offset by investments of Euro 1.9 million, mainly at F.I.L.A. S.p.A. for the SAP project, in addition to positive currency differences in the period.

Property, plant and equipment increased on December 31, 2018 by Euro 71.3 million. The movement mainly concerns the application of IFRS 16, which resulted in higher Fixed assets of Euro 70.9 million.

Net investments (**CAPEX**) of Euro 6.1 million were primarily at DOMS Industries Pvt Ltd (India), Canson SAS (France), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico) and Pacon Corporation

(U.S.A.). These investments were rolled out to extend and develop production facilities and local logistics. The movement is mainly offset by depreciation of Euro 7.2 million.

The increase in **Net Working Capital** of Euro 81.1 million relates to the following:

- **Inventories** - the increase of Euro 18.1 million is due both to the business seasonality of the school's campaign and the supply chain reorganisation. The increase particularly concerned the US subsidiary Pacon Corporation, the Mexican Grupo F.I.L.A.-Dixon, S.A. de C.V. and Canson SAS (France);
- **Trade and Other receivables** - increased Euro 78.8 million, principally due to the seasonality of F.I.L.A. Group business, with receivables at their highest during the middle months of the year as revenue is principally generated during the "Schools campaign", in addition to the significant revenues in the second quarter of the year. The movements particularly concern F.I.L.A. S.p.A., Dixon Ticonderoga Company (U.S.A.), Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico) and Pacon Corporation (U.S.A.);
- **Trade and Other Payables** - increased Euro 11.8 million, principally due to business seasonality with procurement concentrated in the initial months of the year in support of production and supplies for peak sales concentrated in the middle months of the year. The movement in particular concerned the North American subsidiaries.

The decrease in Provisions compared to December 31, 2018 was Euro 5.8 million and mainly followed the reduction in the Provision for Risks and Charges of Euro 4.6 million, mainly due to the allocation of approx. Euro 3.0 million to "Right of Use Property, Plant and Equipment" on initial application of IFRS 16, in addition to utilisations and the decrease in Deferred tax liabilities of Euro 1.6 million, principally due to the utilisations in the period and the increase in Employee benefits of Euro 0.5 million, mainly due to the actuarial changes in the period of the company Canson SAS (France).

F.I.L.A. **Group Equity** of Euro 343.3 million increased Euro 4.5 million over December 31, 2018. Net of the profit for the period of Euro 18.0 million (of which Euro 1.0 million concerning minorities), and positive currency differences of Euro 2.2 million, the residual movement mainly concerned the adjustments of the reserve for decreases in the fair value of derivatives for Euro 10.7 million (Mark to Market Hedging) and the distribution of dividends to non-controlling shareholders of Euro 4.3 million, in addition to charges for the share capital increase, net of tax effects of Euro 0.7 million.

At June 30, 2019, the **Group Net Financial Position** was a net debt of Euro 602.4 million, increasing Euro 149.6 million on December 31, 2018.

This increase principally concerns:

- net operating cash flow of Euro 51.6 million;

- absorption of Euro 81.7 million from Working Capital Management related to the seasonality of business and mainly the increases both in inventory and of Trade and Other Receivables;
- net investments in Tangible and Intangible Assets for Euro 8 million; principally by DOMS Industries Pvt Ltd (India), Canson SAS (France), and F.I.L.A., Grupo F.I.L.A.-Dixon, S.A. de C.V. (Mexico) and Pacon Corporation (U.S.A.);
- the payment of Euro 4.3 million for the distribution of dividends to shareholders of F.I.L.A. S.p.A. and Group minorities;
- payment of Financial expense and interest of Euro 13.1 million incurred by Group companies relating to the loans and credit lines granted, mainly F.I.L.A. (Italy), Dixon Ticonderoga Company (U.S.A.) and Dixon, S.A. de C.V. (Mexico);
- the negative effect from the introduction of IFRS 16 for Euro -80.5million
- the negative effect of the Mark to Market Hedging for Euro 10.7 million and the negative currency effects of Euro 3.2 million.

Significant events in the period and subsequent events

- **on January 11, 2019**, a partial repayment of Euro 100 million was made on one of the various medium/long-term credit lines granted for the acquisition of the Pacon Group (line of Euro 125 million with bullet repayment at 5 years);
- **in January 2019**, a number of corporate reorganisation operations were undertaken in the US. Specifically:
 - merger between Dixon Ticonderoga (U.S.A.) and Eurholdham (U.S.A.) - January 1, 2019;
 - merger between Pacon Corporation (U.S.A.) and Canson Inc. (U.S.A.) - January 1, 2019;
- **in April 2019**, F.I.L.A. signed an exclusive global distribution agreement with ARCHES®, the renowned French premium paper for artists brand. This agreement allows F.I.L.A. to establish a position of absolute importance in the “*fine art*” sector.
- **in June 2019**, F.I.L.A.’s share capital altered as follows:
 - for Euro 0.063 million following the exercise of 63,177 “Pacon Manager Warrants” to be applied to the paid and divisible share capital increase, with the exclusion of the option right pursuant to Article 244, paragraph 8, of the Civil Code, to service the “Pacon Manager Warrants”, approved by the Extraordinary Shareholders’ Meeting of F.I.L.A. of October 11, 2018.

- for Euro 0.0075 million following the issue of 7,468 new shares for the early closure of the “2019-2021 Performance Share Plan” for senior executives and key managers of the F.I.L.A. Group.
- **in July 2019**, F.I.L.A.’s share capital altered as follows:
 - for Euro 0.0062 million following the issue of 7,411 new shares for the early closure of the “2019-2021 Performance Share Plan” for senior executives and key managers of the F.I.L.A. Group.
- **on July 30, 2019**, Mr. Gianni Mion resigned for personal reasons as a member and as Chairman of the Board of Directors of F.I.L.A., with effect from the co-option by the Board of Directors of the new director called to replace him.

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H1 2018 pro-forma figures including consolidation of Pacon Group from January 1, 2018¹

- Adjusted pro-forma **Core Business Revenue** of Euro 342.4 million, of which Pacon Group Euro 87.2 million;
- Adjusted pro-forma **EBITDA** of Euro 57.7 million, of which Pacon Group Euro 13.3 million

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The IFRS consolidated and separate financial statements from the approved document are annexed.

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Co-option of Mr. Giovanni Gorno Tempini as company director and appointment as Chairman of the company’s Board of Directors

The Board of Directors of the company, with the favourable opinion of the Board of Statutory Auditors, unanimously co-opted, as per Article 2386 of the Civil Code, Mr. Giovanni Gorno Tempini as a non-executive director of F.I.L.A., in replacement of Mr. Gianni Mion, who - as previously announced to the market on July 30, 2019 - resigned as a member and Chairman of the

¹ Data provided by Pacon management and not approved by F.I.L.A. Board of Directors or management, nor subject to audit or other checks by the latter.

Board of Directors of the company, with effect from the appointment of the new director called to replace him.

Mr. Giovanni Gorno Tempini was also appointed Chairman of the Board of Directors, also effective as of today.

The curriculum vitae of Mr. Giovanni Gorno Tempini is available on the company website (www.filagroup.it).

The Board of Directors thanks Mr. Gianni Mion for the extensive work which he undertook for the benefit of the company.

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The Executive Officer for Financial Reporting Stefano De Rosa declares, in accordance with paragraph 2 of Article 154-bis of the Consolidated Finance Act, that the accounting information contained in the present press release corresponds to the underlying accounting documents, records and accounting entries.

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***F.I.L.A. (Fabbrica Italiana Lapis ed Affini)**, founded in Florence in 1920 and managed since 1956 by the Candela family, is a highly consolidated, dynamic and innovative Italian industrial enterprise and continues to grow market share. In November 2015, F.I.L.A. listed on the STAR segment of the Milan Stock Exchange. The company, with revenue of over Euro 589 million in 2018, has grown significantly over the last twenty years and has achieved a series of strategic acquisitions, including the Italian Adica Pongo, the US Dixon Ticonderoga and Pacon Group, the German LYRA, the Mexican Lapiceria Mexicana, the English Daler-Rowney Lukas and the French Canson, founded by the Montgolfier family in 1557. F.I.L.A. is an icon of Italian creativity globally through its colouring, drawing, modelling, writing and painting tools, thanks to brands such as Giotto, Tratto, Das, Didò, Pongo, Lyra, Doms, Maimeri, Daler-Rowney, Canson, Princeton and Strathmore. Since its foundation, F.I.L.A. has chosen to focus on growth through continuous innovation, both in technological and product terms, in order to enable individuals to express their ideas*

and talent through tools of exceptional quality. In addition, F.I.L.A. and the Group companies work together with the Institutions to support educational and cultural projects which promote creativity and expression among individuals and make culture accessible to all. F.I.L.A. operates through 21 production facilities (of which 2 in Italy) and 35 subsidiaries across the globe and employs approx. 9,500.

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Fabbrica Italiana Lapis ed Affini

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Attachment 1 – F.I.L.A. Group Consolidated Income Statement

<i>Euro millions</i>	June 2019	% core business revenue	June 2018	% core business revenue	Change 2019 - 2018	
Core Business Revenue	350,703	100%	259,140	100%	91,563	35,3%
Other Revenue and Income	3,688		4,951		(1,263)	-25,5%
Total Revenue	354,391		264,091		90,300	34,2%
Total operating costs	(294,453)	-84,0%	(229,543)	-88,6%	(64,910)	-28,3%
EBITDA	59,938	17,1%	34,548	13,3%	25,390	73,5%
Amortisation, depreciation and write-downs	(20,246)	-5,8%	(11,057)	-4,3%	(9,189)	-83,1%
EBIT	39,692	11,3%	23,491	9,1%	16,201	69,0%
Net financial charges	(15,236)	-4,3%	(9,909)	-3,8%	(5,327)	-53,8%
Pre-Tax Profit	24,455	7,0%	13,582	5,2%	10,873	80,1%
Total income taxes	(6,414)	-1,8%	(7,599)	-2,9%	1,185	15,6%
Net profit - Continuing Operations	18,042	5,1%	5,983	2,3%	12,059	201,6%
Net Profit for the period	18,042	5,1%	5,983	2,3%	12,059	201,6%
Non-controlling interest profit	1,074	0,3%	0,658	0,3%	0,416	63,2%
F.I.L.A. Group Net Profit	16,968	4,8%	5,325	2,1%	11,643	218,6%

Attachment 2 – F.I.L.A. Group Normalised Consolidated Income Statement

<i>NORMALIZED - Euro millions</i>	June 2019	% core business revenue	June 2018	% core business revenue	Change 2019 - 2018	
Core Business Revenue	350,703	100%	255,185	100%	95,518	37,4%
Other Revenue and Income	3,558		4,951		(1,393)	-28,1%
Total Revenue	354,261		260,136		94,125	36,2%
Total operating costs	(296,035)	-84,4%	(215,765)	-84,6%	(80,270)	-37,2%
EBITDA	58,226	16,6%	44,371	17,4%	13,855	31,2%
Amortisation, depreciation and write-downs	(15,145)	-4,3%	(11,057)	-4,3%	(4,088)	-37,0%
EBIT	43,081	12,3%	33,314	13,1%	9,767	29,3%
Net financial charges	(12,302)	-3,5%	(8,532)	-3,3%	(3,770)	-44,2%
Pre-Tax Profit	30,778	8,8%	24,782	9,7%	5,996	24,2%
Total income taxes	(7,727)	-2,2%	(8,562)	-3,4%	0,835	9,8%
Net profit - Continuing Operations	23,052	6,6%	16,220	6,4%	6,832	42,1%
Net Profit for the period	23,052	6,6%	16,220	6,4%	6,832	42,1%
Non-controlling interest profit	1,103	0,3%	0,760	0,3%	0,343	45,1%
F.I.L.A. Group Net Profit	21,950	6,3%	15,460	6,1%	6,490	42,0%

Attachment 3 – F.I.L.A. Group Consolidated Statement of Financial Position

<i>Euro millions</i>	June 2019	December 2018	Change 2019 - 2018
Intangible Assets	437,691	441,907	(4,217)
Property, plant & equipment	175,791	104,472	71,318
Financial assets	4,023	3,608	0,415
Net Fixed Assets	617,504	549,987	67,517
Other non Current Asset/Liabilities	20,487	20,793	(0,307)
Inventories	280,556	262,432	18,124
Trade and Other Receivables	230,459	151,617	78,842
Trade and Other Payables	(117,377)	(105,537)	(11,840)
Other Current Assets and Liabilities	(1,953)	2,071	(4,024)
Net Working Capital	391,683	310,583	81,100
Provisions	(83,995)	(89,784)	5,788
Net Capital Employed	945,680	791,579	154,101
Equity	(343,315)	(338,809)	(4,506)
Net Financial Position	(602,365)	(452,770)	(149,595)
Net Funding Sources	(945,680)	(791,579)	(154,101)

Attachment 4 – F.I.L.A. Group Consolidated Statement of Cash Flow

<i>Euro millions</i>	June 2019	June 2018	Change 2019 - 2018
EBIT	39,692	23,491	16,201
Adjustments for non-cash items	15,508	12,887	2,621
Integrations for income taxes	(3,632)	(6,539)	2,907
Cash Flow from Operating Activities Before Changes in NWC	51,568	29,839	21,729
Change NWC	(81,683)	(74,568)	(7,115)
Change in Inventories	(15,486)	(26,623)	11,137
Change in Trade and Other Receivables	(78,163)	(61,646)	(16,517)
Change in Trade and Other Payables	14,747	15,755	(1,008)
Change in Other Current Assets/Liabilities	(2,781)	(2,054)	(0,727)
Cash Flow from Operating Activities	(30,115)	(44,729)	14,614
Investments in tangible and intangible assets	(8,012)	(10,252)	2,240
Interest Income	0,068	(0,092)	0,160
Equity Investments	0,000	(215,151)	215,151
Cash Flow from Investing Activities	(7,943)	(225,531)	217,588
Change in Equity	(4,262)	(3,762)	(0,500)
Financial expenses	(13,091)	(11,436)	(1,655)
Cash Flow from Financing Activities	(17,353)	(15,198)	(2,155)
Other changes	0,161	0,833	(0,672)
Total Net Cash Flow	(55,250)	(284,627)	229,377
Effect from exchange rate changes	(3,167)	(1,693)	(1,474)
Mark to Market Hedging	(10,657)	0,000	(10,657)
FTA IFRS 16	(80,521)	0,000	(80,521)
Effect of M&A Operation	0,000	(86,724)	86,724
Change in Net Financial Position	(149,595)	(373,043)	223,448



Fabbrica Italiana Lapis ed Affini