

Half-Year results - 30/09/1999

Envipco : 1999 half year results

Envipco : Second Quarter Results ending June 30, 1999

Net pre-tax losses for the quarter ended June 30, 1999 amounts to Euro 0.7m against pre-tax losses of Euro 1.9m during the first quarter of 1999.

The US plastic recycling business continued to incur significant losses due to the sustained depressed market prices of virgin plastics. During the second quarter, on a turnover of Euro 1.4m the U.S. Plastic Operations suffered a loss of Euro 414,000 whilst the French plastic recycling business (different economic conditions) contributed a pre tax profit of Euro 306,000 on a turnover of Euro 1.3m.

EM, our German Subsidiary also suffered losses of Euro 500,000 which is mainly due to the development costs of a new generation of machine for the refillable container market, which is charged to the profit and loss, and is not capitalized.

The U.S. Reverse Vending segment of our business made a profit of Euro 30,000 on turnover of Euro 6.8m compared to a net loss of Euro 570,000 during the first quarter.

Due mainly to the development cost of EM machines and the depressed prices for our U.S. Plastic recycling products, we foresee Group losses for the full 1999 financial year to be around Euro 2.7m, well above our previously revised projections of Euro 1 million profit.

O u t l o o k

Despite these disappointing results for the first and second quarters, coupled with projected losses of Euro 2.7m for the full year, the Management remains very optimistic about the future of the Company.

Business opportunities are taking longer to realise than originally expected. However, these opportunities, despite being delayed, still remain viable.

In the past few months, EM has streamlined its manufacturing and purchasing techniques to reduce production costs. It also added new features to its equipment to make it more competitive and desirable. Since then, EM's orders have increased by 150 machines. These sales are planned for installation over the next quarters. EM is expected to breakeven by March 31 of next year.

In California, Envipco Plastics has installed a new water filtration system to address tougher wastewater regulations and improve productivity. Also, a major customer has started buying more material since equipment problems in their plant have been repaired and they can now increase their production. We expect to return to profitability by March of next year.

A new deposit law in Israel - passed earlier this year, recommends the use of reverse vending machines as the most cost-effective way to comply with the new statute. As many as 2,500 to 5,000 machines will likely to be needed. The law is effective as of the 2nd quarter of 2001.

The beer industry (most immediately in the U.S.) is committed using up to 40% recycled content in its new plastic bottles. Increasing pressure on the soft drink manufacturers will also force them to pursue a similar plan. The demands for recycled PET, like that produced by Envipco's facilities in California and France, should increase dramatically in 2000 and with it, the profitability of these business units.

Results of pilot programs in Mexico, South America, and Western Europe, including some in non-deposit markets have been quite positive. While some will be expanded to verify test results, others should result in machine sales as early as the first quarter of 2000.

Discussions are well advanced with several retail groups in the U.K. and municipalities in France to begin pilot programs in those countries. Both are non-deposit markets and could employ advertising through the machines to facilitate wide-scale deployment and machine sales.

The Asian Pacific market is continuing to grow. Envipco is well positioned to capitalize on this opportunity through its distributor Fuji Electric, which manufactures 40% of the vending machines sold in Japan, and has placed several hundred of Envipco's CF 1500 reverse vending machines there in the past three years.

Posada Group which was acquired by Envipco with effect from September 1, 1999 is on course to meet its projections. A net profit of Euro 350,000 is expected for the period from September 1, through to December 31, 1999. Business growth prospects remain good.

Envipco has teams in place in each of these markets, either directly or through its distributors, pursuing developments and ensuring smooth operations. In addition, the company is continuing to actively seek acquisitions that would enhance the group's performance, and add to its expertise or marketshare. These efforts, along with its ongoing businesses in the U.S., France and Germany are expected to increase profitability and enhance shareholder value.

Combined with Sorepla's strong performance and Envipco's growing reverse vending business in the U.S. and elsewhere, management sees continued improvement over the next twelve months. The company's capital structure can comfortably sustain the current conditions until all units contribute favorable returns.

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