

GROUP INTERIM REPORT

30 June 2019

HOFTEX GROUP
TEXTILE TECHNOLOGIES

HOFTEX GROUP AG

At a glance

Key Group Figures		1 Jan 2019 to 30 Jun 2019	1 Jan 2018 to 30 Jun 2018
External sales	EUR million	89.1	92.9
Gross revenue	EUR million	88.0	92.9
Cash flows from operating activities	EUR million	7.8	10.0
Personnel		1,190	1,136
Consolidated net income for the period	EUR million	1.2	3.9
EBITDA	EUR million	8.2	10.4
Balance sheet total	EUR million	196.1	197.5
Equity	EUR million	107.4	102.7
Equity ratio	%	54.8	52.0

ABOUT THE HOFTEX GROUP

The HOFTEX GROUP is an SME operating in the textile industry with subsidiaries in Germany, Italy, Romania, the US, China and Mexico. With its headquarters in Hof, Germany, HOFTEX GROUP AG (ISIN: DE0006760002; WKN: 676000) serves as a holding company for the HOFTEX GROUP. The Group's core activities are the development, production and sale of nonwovens for technical applications and the apparel industry, the production of yarns and threads, along with decorative fabrics and technical textiles.

The HOFTEX GROUP's activities are divided into the three production divisions TENOWO, HOFTEX and NEUTEX. Each of these divisions has a management company that performs all of its sales and administrative functions, which gives the Group a clear-cut and lean structure.

Hoftex Division	Tenowo Division	Neutex Division
Hoftex GmbH	Tenowo GmbH	Neutex Home Deco GmbH
Hoftex CoreTech GmbH	Tenowo Hof GmbH	Neutex Betriebs GmbH
Hoftex Färberei GmbH	Tenowo Reichenbach GmbH	SC Textor S.A.
Hoftex Färberei Betriebs GmbH	Tenowo Mittweida GmbH	
	Tenowo Inc.	
	Tenowo Huzhou New Materials Co. Ltd.	
	Resintex Industriale S.r.l. ¹⁾	
	Tenowo de Mexico S. de R.L. de C.V. ²⁾	

1) First consolidation on 30 Sep 2018

2) First consolidation on 1 Jan 2019

HOFTEX GROUP AG is responsible for the Group's global strategic direction and performs core duties for the Group's companies across multiple divisions.

HOFTEX GROUP AG has control and profit transfer agreements with the main production subsidiaries. All profit and loss transfers from the subsidiaries are bundled at the holding company level and combined with the primary earnings of HOFTEX GROUP AG to produce the final result of the holding company. The real estate companies Hoftex Immobilien I GmbH and Hoftex Immobilien II GmbH & Co. KG manage and perform administrative duties for the various properties and real estate assets.

THE HOFTEX GROUP SHARE

Hoftex Group shares are traded on the m:access market of the Munich Stock Exchange. Since the move to the Open Market on 29 June 2009, the Hoftex Group is no longer considered to be “publicly listed” as defined in the German Securities Trading Act (Wertpapierhandelsgesetz, or WpHG). For this reason, shareholders are no longer subject to the special provisions in the WpHG governing the duty to disclose holdings that exceed or fall below certain reporting thresholds. The principle shareholder ERWO Holding AG currently holds 4,611,129 shares. This corresponds to 84.7% of the total shares.

Share type	No-par value shares, each with a proportional share of EUR 2.56 (rounded) in the share capital
Subscribed capital	€ 13,919,988.69
Number of no-par value shares	5,444,800
Listing	Munich Stock Exchange
Market segment	m:access
Stock exchange symbol	NBH
ISIN	DE0006760002
WKN 1)	676000

The Hoftex Group has continually raised its dividend over the previous fiscal years, which amounted to EUR 0.25 for the 2018 fiscal year. The dividend payment of EUR 1,361,200.00 proposed by the Management Board and the Supervisory Board on 12 July 2019 was adopted by a majority vote at the Annual General Meeting.

Share		1 Jan to 30 Jun 2019	1 Jan to 30 Jun 2018
Net result per share	EUR	0.22	0.71
Equity per share	EUR	19.73	18.86
Opening share price	EUR	12.60	13.10
High	EUR	13.90	15.30
Low	EUR	12.60	12.90
Closing share price	EUR	13.80	14.00
Market capitalization	EUR million	75,138	76,227

The Hoftex Group AG share price was EUR 12.30 on 28 August 2019.

GROUP PERFORMANCE IN H1 2019

Sector trends

The smouldering trade conflict between the US and China and political uncertainties in Europe further strained global growth projections during the first half of 2019. Germany's export-driven economy was among those hardest hit by these developments. According to the Federal Statistics Office, German economic performance declined by 0.1% from the first to second quarter of 2019. The situation also deteriorated slightly in the textile and apparel industry: According to the latest market report by the industry association "textile+mode", total sector sales decreased by 0.4% compared to the same period during the previous year, with the textile sector experiencing the biggest drop (-2.1%) due to its dependence on the processing industry. There is a negative trend in order intake for the sector as a whole. Order intake declined in both the textile and the apparel segments. Only nonwovens and technical textiles saw an increase in orders during the period under review from January to May.

Division trends

Specializing in the development and manufacturing of technical textiles and nonwovens, our largest division TENOWO generated sales of EUR 69.8 million during the first half year of 2019 (prior year: EUR 70.6 million). This corresponds to a decrease of -1.1%. The weak demand in the automotive market prevented TENOWO's strongest sales segment from meeting its sales targets. Automotive sector sales declined at the international locations in the US and China and at TENOWO's German sites.

The industrial market segment, which includes products for a wide range of markets such as food packaging, medical, construction and filtration, experienced further positive growth. Sales increased in the medical sector in particular. The Italian location integrated in the Group since September 2018 made a major contribution to this growth.

Performance in the traditional interlinings segment, which comprises all apparel applications, remains stable in line with targets and prior-period performance.

It was not possible to ensure continuous capacity utilization for the installed machines due to the sales situation during the first half year. This was exacerbated by a shift in the product mix in production and the volatile customer demand, which consequently saddled TENOWO with imbalances and fluctuations in capacity utilization. A variety of process optimization programs are already bearing fruit; substantial efficiency gains were made in China in particular. However, TENOWO was unable to maintain the previous year's sales performance during the first half.

The NEUTEX division generated external sales of EUR 7.4 million (prior year: EUR 8.4 million), showing a decrease of 12% compared to the previous year. This is mainly attributable to a decline in sales volumes and a levelling off of sales prices due to shifts in the product mix. The first few months of 2019 continued to show a decline in sales throughout the entire home textile market and even NEUTEX was unable to escape this trend. Consistent cost discipline paired with operational improvement through the optimization of procedures, processes and logistics were not enough to offset the decline in revenues.

Sales in the HOFTEX division sank by 15% to EUR 10.9 million. Revenues were EUR 12.9 million during the previous period. The spinning and twisting segment experienced the greatest declines due to a lack of demand and delayed buying behaviour on the part of customers in the relevant markets. The result during the first half year suffered from the decline in sales as well as the volatility in production capacity utilization.

On 18 June 2019 Hoftex GmbH signed an agreement on the sale of the spinning mill in Drebach, Hoftex CoreTech GmbH, to Filidea S.r.l., Biella/Italy. Following conclusion of the transaction all

participating interests and all non-current and current assets will be transferred to Filidea effective 1 September 2019. Land and buildings remain the property of Hoftex GmbH.

Filidea S.r.l., a joint venture between Italian Marchi & Fildi SpA and Turkish Abaloğlu Holding A.Ş, has been a Hoftex business partner for years and produces and sells yarns and threads for a wide range of applications including safety apparel, furniture manufacturing and circular and flat knitting.

The sale has no other effects on further activities in the Hoftex division or in the Tenowo and Neutex divisions. The sale will not have any significant effect on the balance sheet.

For the HOFTEX GROUP the sale means a departure from traditional spinning production as well as a sharper focus on and clearer strategic alignment of the development and production of nonwovens.

Real estate company business went according to plan during the first half year. Revenues have remained at the previous year's level due to the stable rental situation. Comprehensive renovation work on the Hof-Moschendorf property is practically complete. This made it possible to further improve the cost situation and earnings situation compared to the prior year.

Net assets, financial position and results of operations

Earnings position

The HOFTEX GROUP generated consolidated sales of EUR 89.1 million, down 4.1% compared to the prior period. The results by division break down as follows:

in EUR million	1 Jan to 30 Jun 2019	1 Jan to 30 Jun 2018
Hoftex	10.9	12.9
Neutex	7.4	8.4
Tenowo	69.8	70.6
Other	1.0	1.0
	89.1	92.9

Gross profit (EUR 45.4 million) dropped by 4% compared to the prior year. However, the gross profit margin increased by 1% to 52%. A decline in the cost of materials to EUR 43.9 million (prior year: EUR 46.4 million) and higher other operating income of EUR 1.3 million (prior year: EUR 0.8 million) had a positive impact. Personnel expenses were EUR 24.1 million, higher than the previous year's figure of EUR 23.3 million. Personnel expenses based on gross revenue rose from 25.1% during the previous period to 27.4% during the reporting period, which can be attributed not only to pay raises but also hires in the Tenowo division and successor programs. Other operating expenses fell from EUR 13.3 million to EUR 12.8 million; based on gross revenue, they were 14.6% (prior year: 14.3%) – which, however, is due to the overall decline in gross revenue. In total EBITDA is EUR 8.2 million (prior year: EUR 10.4 million). Depreciation and amortization and write-downs amounted to EUR 5.7 million, around 4% higher than the previous period with EUR 5.5 million and solely include scheduled depreciation of tangible and intangible assets. Taking into account net interest income of EUR -0.9 million (prior year: EUR -0.9 million), EUR -0.3 million in income taxes (prior year: EUR -0.1 million) and other taxes of EUR -0.3 million (prior year: EUR -0.4 million), consolidated earnings as of 30 June were EUR 1.2 million (prior year: EUR 3.9 million). This corresponds to earnings per share of EUR 0.22 (prior year: EUR 0.71)

Financial position

in EUR thousand	1 Jan to 30 Jun 2019	1 Jan to 30 Jun 2018
Cash flows from operating activities	7,810	10,017
Cash flows from investing activities	-4,843	-8,240
Cash flows from financing activities	-1,639	-2,426
Balance	1,328	-649

Despite the positive effect related to the change in working capital, cash inflows from operating activities of EUR 7.8 million declined by EUR 2.2 million compared to the previous period, above all as a result of the consolidated earnings of EUR 1.2 million (prior year: 3.9 million). The negative cash flows from investing activities (EUR -4.8 million (prior year: EUR -8.2 million)) relate mainly to payments to acquire tangible fixed assets. The HOFTEX GROUP is currently investing in the completion of its administrative building and technical centre in Mittweida, the modernization and expansion of its bonding lines in Hof and the modernization of a nonwoven line at its US location in Lincoln. The negative cash flows from financing activities (EUR -1.6 million (prior year: EUR -2.4 million)) reflect the repayment of financial loans of two foreign subsidiaries during the previous year and the interest arising from the bonded loan (*Schuldscheindarlehen*). The combined effect of cash inflows and outflows from operating activities, investing activities and financing activities during the period under review resulted in cash and cash equivalents of EUR 32.2 million (31 December 2018: EUR 30.9 million). After deducting bank loans the Group's net debt was EUR 18.6 million (31 December 2018: EUR 20.7 million).

Net assets

The Group balance sheet total fell by around 1% to EUR 196.1 million as of 30 June 2019 (30 June 2018: EUR 197.5 million).

Intangible assets and tangible assets rose from EUR 93.5 million to EUR 100.3 million, while financial assets declined by EUR 7.7 million to EUR 0.04 million due to the sale of the 49% share in the Indian nonwoven manufacturer Supreme Nonwoven Industries Pvt. Ltd. with economic effect as of 30 September 2018. In total non-current assets declined slightly by EUR 0.8 million to EUR 100.4 million (prior year: EUR 101.2 million). The dramatic rise in liquid assets to EUR 32.2 million (prior year: EUR 12.9 million) is mainly the result of the income earned from the sale of Supreme Nonwoven Industries Pvt. Ltd. and the repayment of working capital loans by ERWO Holding AG. The repayment also resulted in a decline in receivables from affiliated companies.

Despite lower earnings, consolidated equity rose compared to 30 June 2018 from EUR 102.7 million to EUR 107.4 million, resulting in a current equity ratio of 54.8% – around 3 percentage points above the previous year's value. Provisions of EUR 20.3 million as of June 2019 are EUR 2.5 million lower than the reporting date of 30 June 2018. The repayment of short-term loans by the Chinese subsidiary Tenowo Huzhou New Materials Co. Ltd. and the reduction in trade payables contributed to the reduction in liabilities from EUR 71.9 million during the previous year to EUR 67.7 million.

Personnel

The number of employees as of 30 June 2019 is 1,189 (prior year: 1,136). Compared to the average of 1,197 staff in 2018 the number of staff remained relatively constant.

Events after the reporting date

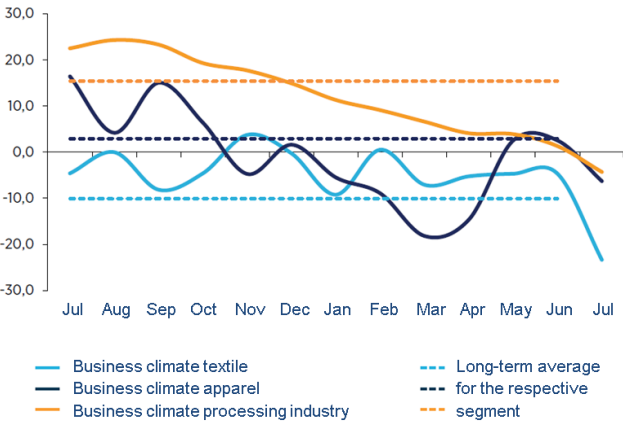
No events that significantly impact the HOFTEX GROUP’s net assets, financial position and results of operations occurred between the end of the reporting period and the date of publication of this interim report.

Outlook, risks and opportunities

The HOFTEX GROUP is faced with risks and opportunities that can have both a negative or a positive impact on our net assets, financial position and results of operations as well as the Group’s market position. As of today there are no identifiable risks that could jeopardize the future of the company. For detailed information on the HOFTEX GROUP’s risk management activities, please consult the 2018 Annual Report, pages 21 through 26.

The impacts of current global economic developments paired with a cooling down of the global economy have now also reached markets that are relevant to the HOFTEX GROUP. Global growth projections were revised downward again in recent months. Economic growth is slowing considerably, particularly for European economies, and is currently at a multi-year low.

In its economic report from July of this year, the Confederation of the German Textile and Fashion Industry provided the following assessment of the ifo economic climate index for January to July 2019:



Source: textil + mode konjunktur July 2019

The first half of 2019 proved weaker than the previous year for the HOFTEX GROUP, with declines in both sales and earnings. Market conditions had already declined by the second half of 2018 and this was accounted for in the annual forecast for the 2019 fiscal year at the time the annual report was prepared. Our projections were confirmed: Geopolitical uncertainties continue to place strains on customer demand and the automotive industry – one of our most important markets – is undergoing a fundamental structural transformation. By the same token, e-mobility opens up a host of opportunities to the HOFTEX GROUP in new market segments due to the many new application possibilities. Additional industrial and technical applications for HOFTEX GROUP products, such as medical, offer opportunities for growth that will generate profits in the future.

The Board and management effectively responded to the economic challenges and launched a number of process optimization and cost-savings initiatives by further aligning the business portfolio with the development and manufacture of nonwovens, in particular for technical applications in the international market and continued market and technology diversification in the TENOWO division.

Despite the current weak market conditions, the Management Board expects that the lower range of the figures outlined in the 2018 Group management report regarding the EBITDA earnings trends for the 2019 fiscal year are still achievable. Group sales will – adjusted by the effect of the sale of Hoftex CoreTech GmbH – likely remain at the previous year’s level.

Hof, August 2019

Klaus Steger
Chief Executive Officer

Robert Seibold
Chief Financial Officer

HOFTEX GROUP AG

Consolidated balance sheet as of 30 Jun 2019

Assets in EUR thousand		30 Jun 2019	30 Jun 2018
A. Non-current assets			
I.	Intangible fixed assets	2,598	2,287
II.	Tangible assets	97,739	91,203
III.	Long-term financial assets	43	7,756
		100,380	101,246
B. Current assets			
I.	Inventories	36,830	39,975
II.	Receivables and other assets	24,840	41,288
III.	Cash and cash equivalents	32,245	12,931
		93,915	94,194
C. Accrued and deferred items		714	863
D. Deferred tax assets		1,107	1,195
Balance sheet total		196,116	197,498
Equity and liabilities in EUR thousand		30 Jun 2019	30 Jun 2018
A. Equity			
I.	Subscribed capital	13,920	13,920
II.	Capital reserves	41,158	41,158
III.	Revenue reserves	51,454	46,754
IV.	Change in equity from currency translation	-1,929	-2,468
V.	Net retained profits	2,804	3,334
		107,407	102,698
B. Provisions		20,311	22,849
C. Liabilities		67,714	71,939
D. Deferred tax liabilities		684	12
Balance sheet total		196,116	197,498

HOFTEX GROUP AG

Consolidated income statement from 1 Jan to 30 Jun 2019

in EUR thousand	1 Jan to 30 Jun 2019	1 Jan to 30 Jun 2018
Sales	89,090	92,907
Change in inventories	-1,118	-5
Gross revenue	87,972	92,902
Other operating income	1,336	821
Cost of materials	-43,868	-46,404
Gross profit	45,440	47,319
Personnel expenses	-24,073	-23,325
Depreciation, amortization and write-downs	-5,746	-5,457
Other operating expenses	-12,817	-13,259
Operating result	2,804	5,278
Net interest income	-928	-926
Taxes on income	-310	-94
Earnings after tax	1,566	4,258
Other taxes	-348	-386
Consolidated net income for the period	1,218	3,872

HOFTEX GROUP

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