

Third Quarter Results

Sales from continuing operations for the third quarter of 2009 were \$223.0 million compared to \$284.1 million for the third quarter of 2008. The decline was due primarily to lower selling prices to reflect lower overall raw material costs and lower volumes in the industrial segments, which most affected the U.S. and European nonwovens businesses and the Canadian business in Oriented Polymers. Volumes in Latin America and Asia were stable compared to the prior year period. Foreign currency changes impacted sales by approximately \$9.0 million as the U.S. dollar weakened to most currencies.

While sales were lower during the third quarter of 2009, gross profit from continuing operations increased \$6.6 million to \$47.1 million. Raw material costs were significantly lower during the quarter compared to the third quarter of 2008. During the third quarter of 2008, raw material costs increased dramatically, resulting in a negative impact to gross profit as the company's selling prices generally lag approximately one quarter to changes in raw material costs. Results for the third quarter of 2009 reflected the impact of positive mix improvements and other proactive steps the company has taken to improve the spread of selling prices over raw material costs such that changes in selling prices have been less than the overall decreases in raw material costs by approximately \$12.1 million compared to the third quarter of 2008. Manufacturing costs in the Nonwovens businesses improved \$2.0 million year-over-year, offset by an increase of \$2.2 million in the Oriented Polymers business impacted by inefficiencies caused by the dramatic reductions in volume.

Operating income for the third quarter of 2009 was \$18.7 million compared to \$7.5 million in the third quarter of 2008. Included in operating income were special charges of \$1.8 million in the third quarter of 2009 primarily related to our previously announced plant consolidations in the U.S. and restructuring plans in Europe. Special charges amounted to \$1.7 million in the third quarter of 2008. Selling, general and administrative (SG&A) expenses for the third quarter of 2009 were lower than the prior year period by \$1.6 million, due primarily to movement of foreign currencies against the U.S. dollar and lower compensation expenses.

PGI reported net income attributable to PGI, including earnings from discontinued operations, for the third quarter of \$15.2 million compared to \$3.4 million in the third quarter of 2008. Earnings per share from continuing operations were \$0.32 per share for the third quarter of 2009 compared to \$0.12 per share for the third quarter of 2008. Included in net income attributable to PGI for the quarter was \$4.7 million of adjustments for out-of-period items primarily related to income tax expense and non-controlling interests.

PGI's chief executive officer, Veronica (Ronee) M. Hagen, stated, "We continued to achieve solid improvement in the third quarter. Our strategy of investing in developing regions continued to generate profitable growth in Asia as well as in Latin America where our new investment in Mexico attained full commercial production levels during the quarter. We improved efficiencies throughout the business through implementation of our operational excellence initiatives. The consumer oriented markets we serve have been very stable and although the industrial markets remain at low volume levels, we are seeing signs of stability in those markets."

"Our success in our base business has given us confidence to invest in further growth initiatives. During October, we announced an investment to purchase the minority interest in our Argentina operation which we believe will contribute to profit growth in the future. Additionally, we announced an agreement to acquire a nonwovens business in Spain that will give us a new presence in the European hygiene market with state-of-the-art technology," Hagen said.

The company's continued strong cash flow generation has enabled PGI to reduce net debt by nearly \$100 million over the course of the last twelve months to \$289.5 million as of October 3, 2009 (net debt defined as total debt less cash balances). For the first nine months, cash flows from operations increased \$45.1 million to \$79.5 million. Capital expenditures for the quarter were \$18.8 million and were \$33.7 million year-to-date compared to \$7.5 million in the third quarter of 2008 and \$28.4 million for the first nine months of 2008. Operating working capital, defined as accounts receivable plus inventories less trade accounts payable and accrued liabilities, was \$95.8 million and represented 10.7% of annualized sales compared to 10.8% of annualized sales for the third quarter of 2008. On September 1, 2009, PGI completed the sale of Fabpro and received net proceeds from the sale of approximately \$32.9 million. Of such net proceeds, \$31.6 million has been applied to reduce amounts outstanding under the first-lien term loan. Additionally, in

conjunction with the senior credit facility amendment, we repaid approximately \$24.0 million of the net outstanding borrowings.

Year-To-Date Results

Net sales were \$639.1 million for the nine months ended October 3, 2009, a decrease of \$173.3 million from the comparable period of fiscal 2008 net sales of \$812.4 million. The net volume declined in the Nonwovens segment by \$86.8 million, predominantly in the U.S. and Europe due to the U.S. plant closure in the third quarter of fiscal 2008, and recessionary impacts that are negatively affecting the industrial and wiping businesses located in the U.S. and European regions. Oriented Polymers' sales volumes continued to be negatively impacted by reduced housing starts affecting their industrial business, imported commodity products affecting lumber wrap volumes, reduced demand for protective apparel fabrics and recessionary impacts. Sales were also negatively impacted by lower selling prices due to price decreases resulting from the pass-through of lower raw material costs. As raw material costs have decreased, we have reduced selling prices to our customers where required by contract terms and where appropriate based on market conditions. In general, with respect to contracted business, there is usually a one-quarter lag between the change in raw material cost and the change in sales price.

Gross profit was \$139.2 million compared to \$126.4 million the prior year, primarily reflecting the improvement in mix and sales prices relative to declines in raw material costs. Operating income for the first nine months was \$52.9 million compared to \$32.9 million the prior year. SG&A costs decreased \$8.9 million, from \$88.2 million in 2008 to \$79.3 million in 2009, due primarily to the movement of foreign currencies versus the U.S. dollar of approximately \$4.5 million, lower incentive compensation costs of approximately \$2.6 million and the absence of executive separation and termination costs of approximately \$1.6 million in fiscal 2008. Special charges for the nine months ended October 3, 2009 of approximately \$10.6 million included noncash impairment charges of \$3.4 million related to the writedown of certain property and equipment in North Little Rock, Arkansas, and Neunkirchen, Germany to their estimated fair value less costs to sell, restructuring and plant realignment costs comprised of: (i) \$3.1 million of severance and other shutdown costs in Europe related to the ongoing restructuring efforts of the European operations; (ii) \$3.4 million of severance and other shutdown costs related to facilities in the United States; and (iii) \$0.2 million of severance costs related to restructuring initiatives in Canada, and \$0.3 million of abandoned acquisition costs.

Net income attributable to PGI for the first nine months of 2009 amounted to \$29.0 million, or \$1.48 per share, compared to \$7.2 million, or \$0.37 per share, for the first nine months of 2008. Included in net income attributable to PGI for the year-to-date period was \$2.2 million of adjustments for out-of-period items primarily related to income tax expense and non-controlling interests.

Adjusted Ebitda

Adjusted EBITDA from continuing operations, a non-GAAP financial measure defined below, for the third quarter of 2009 was \$33.4 million compared to \$23.8 million in the third quarter of 2008. For the nine months ended October 3, 2009, Adjusted EBITDA from continuing operations was \$101.8 million compared to \$77.6 million for the same period of 2008.

Non-GAAP Financial Measure

Adjusted EBITDA (as defined below) is used in this release as a "non-GAAP financial measure," which is a measure of the company's financial performance that is different from measures calculated and presented in accordance with generally accepted accounting principles, or GAAP, within the meaning of applicable Securities and Exchange Commission rules. A non-GAAP financial measure, such as EBITDA or Adjusted EBITDA, should not be viewed as an alternative to GAAP measures of performance such as (1) net income determined in accordance with GAAP or (2) operating cash flows determined in accordance with GAAP. The calculation of Adjusted EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

As defined in the company's credit agreement, Adjusted EBITDA equals net income (loss) before income and franchise tax expense (benefit), interest expense, net, depreciation and amortization, minority interests net of cash distributions, write-off of loan acquisition costs, non-cash compensation, foreign currency gain and losses, net, and special charges, net of unusual or non-recurring gains. The company presents Adjusted EBITDA, as defined in its credit agreement, as the measurement used as a basis for determining compliance

with several covenants thereunder. It is also generally consistent with the metric used by management as a performance measurement for certain performance-based incentive compensation plans. In addition, the company considers Adjusted EBITDA an important supplemental measure of its performance and believes it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in its industry.

Included in this release is a reconciliation of net income to Adjusted EBITDA, which illustrates the differences in these measures of operating performance.

Courtesy : Polymer Group, Inc

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