

Componenta Corporation's Business Review for January–September 2019

Increased net sales of continued operations, weaker EBITDA due to acquisition costs, stronger cash flow.

The information presented in this business review concerns the development of Componenta Group in January–September 2019 and in the corresponding period in 2018, unless otherwise stated. All financial figures in this review are for continued operations, unless otherwise stated. In the stock exchange release published on 7 November 2019, Componenta announced pro forma continuing operations' consolidated income statements and key financial figures impacted by the bankruptcy of Componenta Främmestad AB. Continuing operations during the review period included foundry operations in Pori and Karkkila, Finland, and machine shops in Jyväskylä, Härmä, Kurikka, Leppävesi and Sastamala, Finland.

This is not an interim report as specified in the IAS 34 standard. The company complies with half-year reporting in accordance with the Finnish Securities Markets Act and discloses business reviews for the first three and nine-month periods of the year, in which key information regarding the company's financial situation and development will be presented.

The financial information presented in this business review is unaudited.

January–September 2019

- Net sales increased to EUR 32.3 million (EUR 30.4 million).
- EBITDA decreased to EUR 1.9 million (EUR 2.3 million).
- Operating result was EUR 0.1 million (EUR 0.8 million).

July–September 2019

- Net sales increased to EUR 10.0 million (EUR 9.1 million).
- EBITDA decreased to EUR -0.7 million (EUR 0.4 million).
- Operating result was EUR -1.6 million (EUR -0.1 million).

President and CEO Marko Penttinen:

We worked to improve Componenta Främmestad AB's profitability over a long period of time. However, as we were not able to resume and retain profitability, it was not reasonable to continue the company's operations, and the company filed for bankruptcy on 25 September 2019. The profitability of its customer relationships was weak, and even though we negotiated on renewing customer agreements, we did not manage to significantly improve profitability. Now, in the new Componenta Group, we can focus on the piece and serial sizes necessary for our core operations, and on diversifying our range of services in Finland by offering a one-stop shop of cast and machined components. This creates substantial benefits for machine and equipment manufacturers seeking quality and efficiency through ready-to-install components.

Towards the end of the review period, there was increased market uncertainty about future volumes. This was reflected in sales volumes, which decreased slightly. However, Componenta's net sales increased due to the consolidation of Komasa Oy into Componenta Group as of 1 September 2019. During the review period, Componenta's profitability was burdened by EUR 0.4 million advisory fees related to the acquisition of Komasa and recorded in profit and loss. Furthermore, there were EUR 0.1 million advisory fees recognized in equity. The Group's administrative costs have increased in proportion to its continuing operations' net sales and operating result because of Componenta Främmestad AB's bankruptcy. The administrative costs of Componenta Corporation, the parent company, have not changed due to Componenta Främmestad AB's bankruptcy, but they continue to burden the result of continuing operations, while Componenta Främmestad AB's net sales and direct costs are no longer part of the continuing operations' result. Componenta Främmestad AB's bankruptcy is causing uncertainty about future production volumes at the Karkkila foundry

and probably even more clearly at the Pori foundry. However, the final impact depends on the degree to which end customers purchase products directly from the foundries or through their other subcontractors. We will continue to systematically improve Componenta Group's cost-efficiency and productivity. The Group's liquidity remained at a good level.

With the acquisition of Komasa Oy at the end of August, Componenta is able to offer its customers a more extensive range of products and services, which improves customer service. Our one-stop service has been received well among customers, and we have already closed the first new deals on finished components. To achieve synergy benefits and strengthen the Componenta brand, the company intends to change Componenta Finland Oy's name to Componenta Castings Oy and Komasa Oy's name to Componenta Manufacturing Oy as of 1 January 2020.

Acquisition of Komasa Oy

On 16 May 2019, Componenta announced that it had signed an agreement on purchasing the shares and capital loans of Komasa Oy ("Komasa"), a machining operation company, from funds managed by CapMan, Fortaco Oy and certain private individuals. Komasa is a manufacturer of machined components, forged blanks, hydraulic pipes and plate cuttings. In 2018, Komasa had net sales of EUR 44.9 million in accordance with the Finnish Accounting Standards (FAS), and its EBITDA was EUR 2.0 million (FAS). At the end of 2018, the company had 313 employees in Jyväskylä, Härmä, Kurikka, Leppävesi and Sastamala in Finland. Its key customers include major international OEMs of machinery and equipment.

The transaction was completed on 30 August 2019. Componenta conducted a directed share issue for the sellers of Komasa as a form of paying the purchase price. The purchase price of the acquisition was paid by issuing shares in the company to the sellers in accordance with the authorisation granted by Componenta's Extraordinary General Meeting of Shareholders on 1 July 2019. The purchase price consisted of 60 million new shares issued by Componenta. After the new share issue, these shares represent approximately 25.3% of the outstanding shares in the company. The purchase price, EUR 7.8 million, was based on the share price at the time of the transaction.

A prospectus including pro forma information about the impacts of the transaction was prepared for the listing of new shares. The key pro forma financial figures were published separately on 7 November 2019. The pro forma net sales of Componenta, including the acquisition of Komasa Oy, was EUR 81.7 million for 2018, and for the six month period ended on June 30 2019 EUR 44.5 million. The Financial Supervision Authority approved the Finnish-language listing prospectus on 7 November 2019.

The majority owners of Komasa, i.e. the funds managed by CapMan and CapMan's portfolio company Fortaco Oy ("Majority Owners"), have in the share purchase agreement undertaken not to exercise the voting rights attached to their prospective shares until the shareholding of the Majority Owners in Componenta has decreased below 10%. In accordance with the restriction, the Majority Owners will abstain from exercising the voting rights at the general meetings of Componenta to the extent that the voting rights represent 50% or more of the votes represented in the general meeting concerned.

Componenta Främmestad AB filed for bankruptcy

Componenta Främmestad AB in Sweden filed for bankruptcy on 25 September 2019. As explained in the half-year financial report for 2019, Componenta sought to improve the profitability of its Swedish operations and reduce the amount of capital tied to business operations. In addition, the products were low in added value, and most of the business consisted of processing and brokerage operations related to casting. As part of its profitability improvement measures, the company engaged in negotiations to renew significant customer agreements. These negotiations were not successful in terms of ensuring future profitability, which is why Componenta Främmestad AB decided to file for bankruptcy.

At the time of bankruptcy, Componenta Corporation and Componenta Finland Oy had around EUR 2.0 million in intra-group receivables from Componenta Främmestad AB. As collateral for these receivables,

Componenta Främmestad AB pledged its best-priority business mortgages. The nominal value of these mortgages is SEK 51.9 million. Componenta Främmestad AB's receivables from Componenta Corporation and Componenta Finland Oy totalled EUR 0.4 million at the time of its bankruptcy.

Componenta has recognized a full provision of write-off for the aforementioned receivable of EUR 2.0 million from Componenta Främmestad AB in its consolidated financial statements after Componenta Främmestad AB's bankruptcy. Componenta's internal restructuring debt of EUR 0.4 million to Componenta Främmestad AB will increase Componenta's external debt in the future. Componenta Corporation and Componenta Finland Oy have not provided guarantees or other collateral for Componenta Främmestad AB's liabilities, apart from liabilities of around EUR 0.2 million concerning repurchase commitments related to lease agreements. The capital loan of EUR 27 million presented under "Other reserves" on Componenta Främmestad AB's balance sheet was removed from Componenta Group's balance sheet due to the bankruptcy. Furthermore, Componenta Främmestad AB's bankruptcy decreased Group's restructuring debts by EUR 2.5 million.

Componenta has recorded to its result of discontinued operations the positive effect on profit and loss of EUR 16.7 million caused by the loss of control after Componenta Främmestad AB's bankruptcy. This profit and loss effect consists of the difference between the assets and liabilities of Componenta Främmestad AB (including the effect of translation differences accrued on equity), of the write-down of the Group's receivables from Componenta Främmestad AB, and of Componenta Främmestad AB's capital loan of EUR 27.0 million to a third party which the Group had classified as equity and which, due to the loss of control, was recognized through profit and loss in the result of discontinued operations.

Componenta Främmestad AB's bankruptcy does not jeopardize the equity of Componenta Corporation, Componenta Finland Oy or the Group. Furthermore, the bankruptcy is not expected to have a significant effect on the management's assessment regarding the Group's ability to continue as a going concern. Componenta Främmestad was classified as a discontinued operation in accordance with IFRS 5 on 25 September 2019, and will be presented as a discontinued operation in the consolidated financial statements.

Financial performance during the review period

The consolidation of Komax Oy to the Componenta Group as of 1 September 2019 improved the net sales from Componenta Group's continuing operations by 6.6% between January and September, net sales being EUR 32.3 million (EUR 30.4 million). The EBITDA was EUR 1.9 million (EUR 2.3 million), and the operating result was EUR 0.1 million (EUR 0.8 million). During the review period, Componenta's profitability was burdened by EUR 0.4 million advisory fees related to the acquisition of Komax and recognized in profit and loss. Furthermore, there were EUR 0.1 million advisory fees recognised in equity. Cash flow from operating activities improved to EUR 4.7 million (EUR 1.4 million). At the end of the reporting period, the Group's cash and cash equivalents totalled EUR 6.0 million (EUR 6.4 million). Working capital, which includes inventories and current non-interest-bearing receivables reduced with current non-interest-bearing liabilities (excluding the restructuring debts), decreased by EUR 1.5 million and was EUR 1.2 million (EUR 2.7 million). The change was mainly due to a decrease in receivables.

At the end of the reporting period, all separate companies had positive equities. Componenta Group equity was positive at EUR 18.0 million (EUR 19.1 million).

As announced earlier, when Componenta acquired Komax Oy it also purchased the capital loans granted by the sellers to Komax Oy earlier, totalling EUR 11.6 million. When the acquisition was completed on 30 August 2019, Componenta was the sole creditor for these capital loans. Componenta converted the aforementioned capital loans to Komax Oy's equity by completing a EUR 11.6 million investment into an invested unrestricted equity fund in such a way that the investment was paid in full by settling the aforementioned loan with the fund investment on 30 September 2019.

Key figures

Continuing operations, MEUR	1–9/2019	1–9/2018	Change	1–12/2018
Net sales	32.3	30.4	6.6%	39.3
EBITDA	1.9	2.3	-17.1%	3.2
Operating result	0.1	0.8	-88.7%	1.0
Operating result, %	0.3	2.8	-89.3%	2.4
Result after financial items	-0.3	0.8	-136.3%	0.9
Net result	-0.3	0.8	-138.2%	0.9
Basic earnings per share, EUR	-0.00	0.00	-0.0%	0.01
Diluted earnings per share, EUR	-0.00	0.00	-0.0%	0.01
Interest-bearing net debt*	5.5	-4.7	217.0%	-3.4
Return on equity, %	-2.2	5.9	-138.6%	5.0
Return on investment, %	0.5	5.3	-90.7%	4.4
Equity ratio, %	31.7	37.2	-14.9%	39.3
Gross investments incl. lease liabilities, MEUR	1.0	n/a	n/a	n/a
Cash flow from operating activities	4.7	1.4	232.9%	1.3
Group's restructuring debt	13.1	16.2	-19.1%	16.0
Average number of personnel during the period, incl. leased workers	466	481	-3.1%	473
Number of personnel at the end of the period, incl. leased workers	686	485	-41.4%	439
Order book at the end of the review period	10.8	6.0	80.0%	5.8

*) Only interest-bearing restructuring debt included.

Restructuring programmes

The implementation of restructuring programmes has proceeded as planned. Componenta Corporation and Componenta Finland Oy's repayment programmes commenced in 2019 and will end in 2023. In accordance with the restructuring programme, Componenta Corporation paid EUR 0.3 million of external restructuring debt and EUR 0.03 million of internal restructuring debt on 10 May 2019. Similarly, Componenta Finland Oy paid EUR 0.5 million of external restructuring debt and EUR 0.4 million of internal restructuring debt on 3 May 2019. On 30 September 2019, the Group's external restructuring debts were EUR 13.1 million (31 December 2018: EUR 16.0 million, including EUR 2.5 million of external restructuring debts of Componenta Främmestad AB).

Repayment schedule for external restructuring debts

MEUR	2019	2020	2021	2022	2023	Total
Componenta Corporation	0.3	0.8	0.7	0.7	5.4	7.9
Componenta Finland Oy	0.5	1.0	0.9	0.9	1.9	5.2
Total	0.8	1.7	1.7	1.7	7.2*	13.1

*) The larger final instalment in Componenta Corporation and Componenta Finland Oy's repayment programme is due to the fact that income from the sale of properties not included in core business operations has been taken into account. This income will be used to pay debt at the end of the programme. The final instalment also includes an additional obligation of EUR 3.2 million arising from the expiry of a loan guarantee of EUR 80 million.

Repayment schedule for the Group's internal restructuring debts

MEUR	2019	2020	2021	2022	2023	Total
Componenta Corporation	0.0	0.0	0.0	0.0	0.0	0.0
Componenta Finland Oy	0.4	0.7	0.7	0.7	1.5	4.0
Total	0.4	0.8	0.8	0.8	1.6	4.0

After the review period on 11 November 2019, Componenta Corporation paid EUR 0.3 million in external restructuring debt and EUR 0.001 million in internal restructuring debt in accordance with the restructuring programme. Similarly, Componenta Finland Oy paid EUR 0.5 million in external restructuring debt and EUR 0.4 million in internal restructuring debt on 3 November 2019. After these payments, the Group's external restructuring debt totals EUR 12.3 million.

Risks and factors causing uncertainty to business

The most significant risks to Componenta's business are risks related to the business environment (competition and price risk, commodities risks and environmental risks), risks relating to business operations (customer, supplier, productivity, production and process risks, upsets in the employment market, contract and product responsibility risks, personnel and data security risks) and financing risks (risks relating to arranging financing and liquidity; currency, interest and credit risks).

Regarding the ability of Componenta to continue as a going concern, the most significant risks and uncertainties are related to Componenta Corporation and Componenta Finland Oy's ability to make payments based on the restructuring programmes. The uncertainties related to the continuity of the company's operations, as well as other business risks, are described in more detail in the company's financial statements of 12 April 2019.

Events after the end of the review period

The Financial Supervision Authority approved Componenta Corporation's listing prospectus for publication on 7 November 2019. The prospectus was prepared for the listing of 60,000,000 new shares in Componenta Corporation on the Nasdaq Helsinki Ltd. After the listing, Componenta Corporation's capital stock consists of 237,269,224 shares. By means of the new shares, Componenta Corporation acquired Komasa Oy's shares and capital loans. The purchase price, EUR 7.8 million, was based on Componenta's share price (EUR 0.13) on the Nasdaq Helsinki at the time of the transaction. The new shares represented approx. 33.8% of all shares in Componenta before the transaction and 25.3% of all shares in Componenta after the transaction.

Guidance for 2019

Componenta updated its guidance for 2019 in a stock exchange release issued on 7 November 2019. Componenta lowered its net sales guidance due to the specified classification of Componenta Främmestad AB as a discontinued operation. Componenta expects its net sales for 2019 from the Group's continuing operations (including Komasa Oy as of 1 September 2019, but excluding Componenta Främmestad AB) to be EUR 45–55 million after the intra-group income and expenses between continuing and discontinued operations have been eliminated in full. The EBITDA guidance remains unchanged, meaning that the corresponding EBITDA is expected to remain positive.

Componenta's previous guidance was EUR 55–65 million in net sales in 2019. The EBITDA was expected to remain positive.

Alternative performance measures

Componenta no longer reports adjusted net sales, adjusted EBITDA and adjusted operating result as alternative performance measures. Componenta will continue to publish certain publicly available performance measures that can be derived from the IFRS financial statements. The calculation of these key financial figures are presented in Componenta's half-year report published on 2 August 2019.

Helsinki, 15 November 2019

COMPONENTA CORPORATION

Marko Penttinen
President and CEO

Componenta is a technology company which specialises in supplying cast and machined components to global manufacturers of vehicles, machines and equipment. The company's share is listed on the Nasdaq Helsinki.