

Componenta Corporation's Business Review 1 January–30 September 2023: Net sales increased and EBITDA improved

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January–September 2023

- Net sales increased to EUR 80.1 million (EUR 79.0 million)
- EBITDA also improved amounting to EUR 5.8 million (EUR 4.3 million)
- Operating result was EUR 5.7 million (EUR 0.1 million) *
- Cash flow from operating activities was EUR 2.7 million (EUR 2.7 million)

July–September 2023

- Net sales was EUR 19.9 million (EUR 24.6 million)
- EBITDA was EUR 0.4 million (EUR 0.5 million)
- Operating result was EUR 3.2 million (EUR -0.9 million) *
- Cash flow from operating activities was EUR -2.7 million (EUR 0.6 million)

*The operating result of the review period includes a non-recurring profit of EUR 4.2 million from the reversal of the impairment loss related to the production machinery and equipment of the foundry business

The information presented in this business review concerns the development of Componenta Group in January–September 2023 and in the corresponding period in 2022, unless otherwise stated. This is not an interim report in accordance with IAS 34. The company complies with the semiannual reporting in accordance with the Finnish Securities Markets Act and discloses business reviews for the first three and first nine months of the year, which present key information regarding the company's financial position and development.

The financial information presented in this business review have not been audited.

Componenta's guidance for 2023

On 31 October 2023, Componenta lowered its guidance for 2023. Componenta expects the Group's net sales to be EUR 100–105 million in 2023. EBITDA is expected to be EUR 6–7 million. In 2022, net sales were EUR 109.1 million and EBITDA EUR 7.1 million.

Poor availability of raw materials, increases in the prices of raw materials and electricity, the general economic situation and competitive climate, and the development of customers' sales volumes may affect business outlooks. In addition, the development of sales and profitability involves uncertainties because of the intensified geopolitical situation. An unfavourable development of the geopolitical situation may also have a negative impact on the financial market, sales volumes, the availability and price development of raw materials and electricity, and the availability of foreign labour, all of which increase forecasting uncertainty.

Sami Sivuranta, President and CEO:

“The first three quarters went well as a whole. Our net sales and EBITDA continued to grow in line with our strategy. Our liquidity remained at a very good level throughout the review period. However, the general uncertainty in the market has increased and it has also been reflected in the development of the order book of our main customers. At the same time, the decision-making time from submitting an offer to accepting an offer has been extended. This has been reflected in slowed new sales, as well as in delays in the start-up timings of new production. Despite this, production volumes have remained at a reasonable level for the end of 2023 as well, although in the short term, with general material and component availability improving, our customers have begun to pay more attention to working capital management and, with it, to optimizing inventory levels. Our liquidity has remained very good even after the review period.

Profitability was somewhat burdened by sector-specific wage agreements put in force in the first half of the year, which in addition to inflation significantly increased our costs. In the review period, profitability was also affected by production and quality challenges in Karkkila. These challenges began with scheduled maintenance related to one of the main production machines and lasted throughout the third quarter, contrary to the original schedule. After the review period, production has already normalized. However, we ensured deliveries to our customers on schedule, and our service capability throughout the Group has remained good despite changes in the operating environment.

In terms of our main raw materials and electricity, the cost development is largely tied to our customer agreements through indices that are reflected quarterly in our sales prices with a delay. We have also agreed on the transfer of non-indexed cost increases to our customer pricing where applicable during the review period.

The availability of raw materials and other materials has improved clearly and is currently at a good level. The purchase cost level has become to normalise and has partly decreased in the review period even though inflation remains fairly high. The availability of electricity is also currently good and due to the high level of gas reserves in Central Europe and the good water situation in the Nordics the uncertainty factors regarding the price formation of electricity in the coming winter have clearly decreased. However, the price fluctuations on a daily and even hourly basis is still significant. We monitor the development of the market and ensure the functionality of our own supply chains in the future as well.

There are differences among customers and industries in order book, but the outlook has generally remained positive. Our customers are moving their production chains closer to Europe and its neighbouring regions more actively to improve their operating conditions in terms of risk management and sustainability. The company’s sustainability work and its role as a local operator are clearly competitive advantages for Componenta. We are currently preparing for regulatory changes that will be implemented in the near future, as well as preparing our long-term targets and action programmes.

We will actively continue our efforts to strengthen our market position and further improve our profitability as part of our growth strategy. We are currently preparing and updating our strategy for the next three years. We are aiming to be the primary supplier with an extensive offering for our customers.”

Financial development during the review period

Componenta Group's net sales increased by 1.4% during the review period and were EUR 80.1 million (EUR 79.0 million). EBITDA was EUR 5.8 million (EUR 4.3 million). Profitability was somewhat burdened by sector-specific wage agreements put in force in the beginning of the review period and during the third quarter the prolongation of the planned regular maintenance activities of the Karkkila foundry and the decrease in sales volumes, which was partly influenced by the optimization of customers' inventory levels. However, the order book at the end of the review period of EUR 13.5 million was EUR 3.1 million higher than the order book at the end of June 2023 of EUR 10.4 million. The order book contains the orders confirmed to customers for the next two months.

The Group's operating result was EUR 5.7 million (EUR 0.1 million). The operating result of the review period was improved by EUR 4.2 million from the reversal of the impairment loss related to the production machinery and equipment of the foundry business. In its assessment in accordance with IFRS in the third quarter of 2023, Componenta found that the profit expectations of the foundry business had improved, as a result of which a non-recurring profit was recorded in the depreciation, amortization and write-downs financial line item of the income statement. The prolongation of planned regular maintenance activities of the Karkkila foundry had no effect on the final result of the assessment.

The Group's result after financial items was EUR 4.0 million (EUR -1.1 million). The Group's net financial items totalled EUR -1.7 million (EUR -1.3 million). The change in net financial items was related to higher market interest rates and the working capital loan, EUR 4 million in total, which was drawn down in December 2022 and March 2023. Componenta also uses factoring arrangements to finance its operations. The number of invoices has grown as a result of higher net sales, and the related factoring fees have caused financial expenses to increase. The Group's net result for the period was EUR 4.1 million (EUR -1.0 million). Basic earnings per share were EUR 0.43 (EUR -0.11) for the review period.

At the end of the review period, the Group's cash at bank and in hand totalled EUR 8.3 million (EUR 6.5 million). The Group's liquidity improved clearly from the comparison period. Componenta had unused binding revolving credit facilities of EUR 4.0 million and from GCF, an investor based in the United States, a share subscription facility which is valid until June 2024, with the unused portion of USD 7.5 million from the total USD 8.0 million. In addition, the second and final instalment of EUR 2 million of the EUR 4 million working capital loan was drawn down in March 2023.

The Group's net cash flow from operations in the review period was EUR 2.7 million (EUR 2.7 million). In the review period cash flow was negatively affected by EUR 0.7 million (EUR 1.1 million) by the payments made in accordance with the payment schedule for the relief granted by the Tax Administration in 2020–2022 due to the COVID-19 pandemic. The last installments were paid during the third quarter of 2023. At the end of the review period, working capital (including inventories and accounts receivable, less accounts payable) totalled EUR 5.2 million (EUR 6.3 million). The change was mainly due to the fact that the timing of certain material deliveries meant inventory levels were lower than at the end of the comparison period. The change was mainly due to preparing for higher levels of inventory in the comparison period due to the increase in volumes and the rising prices of certain raw materials. Cash flow from operations in the third quarter EUR -

2.7 million was weakened by the decrease in debt items included in working capital from the previous quarter and the decrease in sales volumes.

Componenta's equity ratio at the end of the review period was 46.5% (40.0%). The increase in the equity ratio was mainly due to stronger equity resulting from the improvement of profit and from the reversal of the impairment loss related to the foundry business' production machinery and equipment. At the end of the review period, interest-bearing net debt was EUR 5.8 million (EUR 6.0 million) and net gearing was 20.6% (26.1%). Change in net gearing was due to stronger cash position, an increase in equity through profit and the withdrawal of the working capital loan of EUR 4 million.

Long-term liabilities totalled EUR 11.7 million (EUR 8.7 million) and short-term liabilities totalled EUR 21.4 million (EUR 25.9 million) at the end of the review period. The Group's liabilities included EUR 3.9 million (EUR 2.1 million) in loans from financial institutions. The Group's other debt items mainly consisted of working capital items and lease liabilities regarding premises and machinery and equipment.

Key figures	Jan 1–Sep 30, 2023	Jan 1–Sep 30, 2022	Change, %	Jan 1–Dec 31, 2022
Net sales, EUR thousand	80,138	79,025	1.4	109,087
EBITDA, EUR thousand	5,810	4,297	35.2	7,086
Operating result, EUR thousand *	5,692	142	3,916.7	1,555
Operating result, %	7.1	0.2	3,860.9	1.4
Result after financial items, EUR thousand	4,040	-1,148	451.8	-107
Net result, EUR thousand	4,132	-1,035	499.3	52
Basic earnings per share, EUR	0.43	-0.11	486.8	0.01
Diluted earnings per share, EUR	0.42	-0.11	481.6	0.01
Cash flow from operating activities, EUR thousand	2,696	2,683	0.5	6,171
Interest-bearing net debt, EUR thousand	5,844	6,009	-2.7	4,818
Net gearing, %	20.6	26.1	-21.0	20.0
Return on equity, %	21.0	-6.0	450.0	0.2
Return on investment, %	19.0	0.5	3,700.0	4.3
Equity ratio, %	46.5	40.0	16.3	41.1
Capital expenditure incl. lease liabilities, EUR thousand	2,758	1,923	43.4	3,617
Number of personnel at the end of the period, incl. leased workers	631	658	-4.1	643
Average number of personnel during the period, incl. leased workers	635	641	-0.9	643
Order book at the end of the period, EUR thousand	13,539	18,741	-27.8	18,481

*The operating result of the review period includes a non-recurring profit of EUR 4.2 million from the reversal of the impairment loss related to the production machinery and equipment of the foundry business.

Risks and business-related uncertainties

The most significant risks related to Componenta's business operations are risks associated with the operating environment (competitive situation, prices, commodities and the environment), risks related to business operations (customers, suppliers, productivity, production processes, labour market disruptions, contracts, product liability, personnel and information security) and financing risks (availability, liquidity, currency, interest rate and credit).

The availability of certain raw materials such as recycled steel, pig iron, structural steel, aluminium and energy at competitive prices, as well as the uninterrupted supply of energy, is essential for the Group's business operations. Market prices of electricity remained relatively high during the review period, but decreased significantly towards the end of the period. Because of the intensified geopolitical situation, the availability of raw materials and other materials continues to involve uncertainties in Componenta's operational activities. In addition, global challenges with the availability of certain components for customers may lead to production disruptions in our end customers' plants and thereby affect Componenta's sales volumes in the short term.

To ensure the availability of raw materials and other materials, Componenta maintains active interaction with its suppliers, continuously updates its needs forecast and optimises its inventory levels to meet longer-term demand, closely monitors the situation of its suppliers and market changes, and responds to these changes as necessary.

According to Componenta's estimate, the Group has no significant and immediate risk concentrations related to Russia or Ukraine among its customers or suppliers of goods. Componenta has no operations of its own in Russia or Ukraine. The Russia's war of aggression has had an impact on the general price development and availability of raw materials such as structural steel and pig iron, and on the development of energy prices. The war has had an indirect impact on the supply chains of Componenta's manufacturers of steel materials and wholesalers through the price development and availability of iron ore and coal, for example.

A prolonged war and an unfavourable development of the geopolitical situation may continue to have a negative impact on the financial market, sales volumes, the availability and price development of raw materials and energy, and the availability of foreign labour, which increases forecasting uncertainty.

The cost risk associated with raw materials is mainly managed through index-based price agreements, based on which the sales prices of products are updated in response to changes in the prices of raw materials for the next quarter. An increase in raw material prices may tie more cash than expected to working capital. In terms of commercial risks, future volumes may be weakened by customers switching to cheaper alternatives due to price competition.

Componenta's business operations depend on the reliability of production plants, supply and delivery channels and the related processes and systems. The quality, accuracy and availability of information are extremely important, as information technology plays a significant role in the operations of Componenta and its suppliers and customers. If materialised, IT and cybersecurity risks may expose Componenta to disruptions and interruptions in operations and the loss or distortion of data, which may lead to interruptions in product availability. Componenta pays close attention to cybersecurity risks and follows up its customers' situations and notifications.

Componenta continuously monitors the liquidity risk. The Group also finances its operations through factoring arrangements for receivables. The financial services company responsible for Componenta's factoring services has had repeated delays in its payments during the past year. As a consequence, Componenta has on 31 August 2023 terminated its factoring and credit limit agreements with the financial services company in question and made new agreements for factoring and credit limit services with Avida Finans AB. Avida Finans AB's credit rating is AAA and the main owner is an American private equity company KKR. The services will be transferred to Avida in the majority of group companies this year. Componenta's current revolving credit facilities will need to be renewed in September 2025. Any termination or non-renewal of factoring arrangements or revolving credit facilities can create uncertainties for Componenta's liquidity. The Group's liquidity was at a good level at the end of the review period. At the end of the review period, Componenta had unused binding revolving credit facilities of EUR 4.0 million and from GCF, an investor based in the United States, a share subscription facility which is valid until June 2024, with the unused portion of USD 7.5 million from the total USD 8.0 million. In addition, the second and final instalment of EUR 2 million of the EUR 4 million working capital loan was drawn down in March 2023.

Alternative performance measures

Componenta publishes certain commonly used alternative performance measures that can be derived from the IFRS financial statements. The calculation formulas of these alternative performance measures are presented in the Half-Year Financial Report published 25 July 2023.

Webcast

President and CEO Sami Sivuranta will present the Business Review for investors, analysts and the media in a webcast on 3 November 2023 at 10 a.m. EET. The webcast will be in Finnish. Please follow the webcast via the company pages at www.componenta.com or via this link: <https://live.esf.fi/componenta-q32023>.

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COMPONENTA CORPORATION

Sami Sivuranta
President and CEO

For further information, please contact:

Sami Sivuranta, President and CEO, tel. +358 10 403 2200
Marko Karppinen, CFO, tel. +358 10 403 2101

Distribution:

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Principal media
www.componenta.com

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Componenta Corporation is an international technology company and Finland's leading contract manufacturer in the machine building industry. Sustainability and customer needs are at the core of the company's broad technology portfolio. Componenta Corporation manufactures components for its customers, which are global manufacturers of machinery and equipment. The company's stock is listed on Nasdaq Helsinki. www.componenta.com