

**Neo Industrial Plc: Profitable growth**

January–September 2020

- Neo Industrial group's turnover was EUR 86.7 million (72.9 million)
- EBITDA was EUR 5.6 million (2.9 million)
- The operating result was EUR 1.9 (-0.5) million
- The Group's result for the period was EUR 0.2 (-1.7) million

Near-term outlook remains the same: For the financial year 2020, Neo Industrial's net result is expected to be positive, provided that predominant conditions due COVID-19 pandemic will not substantially affect to the company's cable business capability to deliver.

In the main market of cable business there is no instant significant change in the demand.

The rubber business is expected to have positive EBITDA with prevailing market situation.

**MANAGING DIRECTOR JUKKA POUTANEN:**

The turnover of Reka Cables Ltd increased clearly from last year, even though COVID-19 pandemic restricted the growth during the second quarter of the year.

The COVID -19 pandemic has not affected to the market demand in the cable business.

EBITDA improved even though COVID-19 pandemic caused extra costs and delivery delays and price variations of aluminium and copper stressed the operating result. All together these decreased the operating result approximately EUR 0.5 - 0.8 million.

The strong growth employed working capital and affected to the operating cash flow.

As a result of the purchase of Reka Rubber, implemented in June, the company will form a new business, rubber industry, adjacent to cable industry. This is a transition from an investment company to an industrial conglomerate. At the preliminary purchase price allocation there is no goodwill. COVID-19 pandemic has affected on volumes in the rubber industry, but customer demand is recovering.

The company has been preparing to change its name to Reka Industrial. An Extraordinary General Meeting will be convened in November to discuss the name change. A separate notice of the Extraordinary General Meeting will be published on 22<sup>nd</sup> of October 2020.

Green Bond funded projects have been launched and new ones are under preparation. Investments have been made specially to the projects and development relating wind power and decreasing energy consumption. The first Green Bond investor letter was published in March.

**MAJOR EVENTS DURING JANUARY - SEPTEMBER**

Neo Industrial Plc's subsidiary Reka Cables Ltd received in January 2020 a substantial contract for underground power cables from Scandinavia. The total value of the contract is approximately EUR 9 million. The deliveries will be made during 2020-2022.

Neo Industrial Plc acquired in June 2020 all shares of Reka Rubber from the biggest shareholder of Neo Industrial, Reka Ltd. The purchase price, EUR 7.5 million, was paid in cash. According to the third-party expert fairness opinion, acquired by the independent committee of the Board of Directors, the price paid for the shares is fair from financial point of view for Neo Industrial Plc.

On 24th of June 2020, the AGM approved the corporate acquisition of Reka Rubber and the acquisition was implemented after the AGM on 25th of June 2020. The financial figures of Reka Rubber were consolidated to the Group figures as of 30 June 2020 as there was no significant difference between implementation and end of June figures.

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The new Group is expected to benefit bigger size, different seasons of the businesses and sharing best practices. Different seasons of the businesses lessens the effects of seasonal fluctuations to the result of the company.

Figures in brackets refer to the same period a year earlier, unless otherwise stated. Interim report is unaudited.

KEY FIGURES	1-9/2020	1-9/2019	1-12/2019
Turnover, EUR million	86.7	72.9	97.5
Operating result, EUR million	1.9	-0.5	0.5
EBITDA, EUR million	5.6	2.9	4.9
Result for the period, EUR million	0.2	-1.7	-1.4
Earnings per share, EUR	0.03	-0.29	-0.24
Net cash provided by operating activities, EUR million	0.3	3.3	7.8

## COVID-19

The COVID-19 pandemic has not affected to the market demand in the cable business. However, COVID-19 pandemic restricted the growth during the second quarter of the year. COVID-19 has caused additional costs and delivery delays as personnel has been more than usual on sick leave to eliminate the possible infection risk. The additional costs due COVID-19 pandemic is estimated to stress operating result of cable business EUR 0.4 - 0.7 million.

In rubber business the COVID-19 pandemic has affected the customer demand. The volumes of part of the customers have been lower than usual due to whether the market demand of the customer, delivery problems of other suppliers, temporal closing of factories or combination of these factors.

COVID-19 pandemic has not significantly affected to the material procurement of cable nor rubber businesses. So far COVID-19 pandemic has not affected to the payment behaviour of the customers.

## SEGMENTS

Neo Industrial's business segments are the cable industry and the rubber industry.

## CABLE INDUSTRY

The Cable Industry's turnover for the review period was EUR 82.3 million (72.9). The operating result was EUR 6.4 million (3.9).

Reka Cables Ltd's domestic sales volumes increased compared to previous year. Also, the export sales volumes increased.

The industry's key raw materials are copper, aluminum and plastics. During January - September the price variations of copper and aluminium have been significant.

At the beginning of the year the price of copper was EUR 5,481 per tonne and the price of aluminium was EUR 1,603 per tonne. At the end of the September the price of copper was EUR 5,646 per tonne and the price of aluminium EUR 1,484 per tonne.

At its highest point, the daily price of copper during the review period was EUR 5,796 per tonne in September, and at its lowest in March, at EUR 4,283 per tonne. The price of aluminium has been at its highest in January, when it was EUR 1,631 per tonne, and its lowest in April, when it was EUR 1,308 per tonne.

Turnover for Nestor Cables Ltd, an associated company, in January-September 2020 was EUR 27.3 million (26.3). The operating result was positive and improved from previous year. The company's equity turned positive and therefore the result of EUR 0.4 million has been included in the consolidated income statement and in holdings in associated in the consolidated balance sheet.

## RUBBER INDUSTRY

The financial figures of Reka Rubber were consolidated to the Group figures as of 30 June 2020. The Rubber Industry's turnover for the period was EUR 4.4 million and the operating result was EUR 0.1 million. EBITDA is burdened by EUR 0.1 million by items related to the acquisition of Reka Rubber.

The COVID-19 pandemic has affected volumes in the rubber industry. Customers' production facilities have now mainly opened.

## FINANCIAL POSITION

At the end of the review period, the balance sheet totalled at EUR 73.4 million. On 31 December 2019 the balance sheet totalled at EUR 58.9 million.

Neo Industrial Plc acquired in June 2020 all shares of Reka Rubber. The purchase price, EUR 7.5 million, was paid in cash. The acquisition was financed with a bank loan of EUR 7.5 million. The financial figures of Reka Rubber were consolidated to the Group figures as of 30 June 2020.

On September 30, 2020, the Group's interest-bearing loans excluding IFRS 16 leases were EUR 25.6 million. Of these loans, EUR 19.9 million is non-current loans.

## PERSONNEL

In January-September 2020, the Group employed an average of 343 (247) people. At the end of the review period, the personnel of the Group was 496 (246) employees.

## RISKS AND UNCERTAINTY FACTORS

Neo Industrial's financial risks include currency, interest rate, commodity, liquidity, credit and investment risks. Financial risks and the related protection measures are described in more detail in notes to the financial statements. The company's future risk factors are related to the development of its business segments.

In the cable segment, the most significant risks are related to market development, fluctuations of raw material prices and currencies as well as working capital management in various situations. During considerable seasonal changes, suppliers' terms of payment effect significantly on the ability to ensure competitive delivery times through sufficient inventories. Also, operation models are being developed in order to balance out the effects of seasonal changes on the load rates of factories. In cable business, COVID -19 pandemic has caused extra costs and delivery delays. It is difficult to estimate the effect of the pandemic for the future. The additional costs are expected to have also in the second half of the year.

In the cable segment the key raw materials are metals (copper and aluminium) and plastics. In the metals purchases partial price hedging is used with the aid of commodity derivatives. Important with metals are the development of both the dollar-denominated price and the USD / EUR exchange rate. Partial price fixing is used with electricity.

The financial situation in euro area and political uncertainties may have effect on purchase amount of the customers in rubber business as well to the start of new projects. COVID-19 pandemic has affected to the purchase amount of customers and it is difficult to estimate the effect of pandemic for the future. COVID-19 pandemic is expected to have negative effect on purchase amounts of the customers also in the second half of the year. Due COVID-19 pandemic the rubber business got EUR 100 thousand support from Business Finland to develop its products, marketing and competitiveness. The development measures are under way.

The trade sanctions of USA increase of customs tariffs for the products as well Brexit can have negative effect on customer volumes in rubber industry. Also, the increased competition by Asian actors in euro area can have effect on customer's purchase decisions.

The Group has carried out and is carrying out the simplifications of the Group structure with mergers. Tax authority has questioned the tax neutrality of the subsidiary merge carried out in 2015. Neo Industrial has filed for changes in its tax assessment notice. Neo Industrial has the opinion that the merge is universal succession and therefore tax neutral. The difference of opinion of the Neo Industrial and tax authority is EUR 1.2 million.

#### MAJOR EVENTS AFTER THE REVIEW PERIOD

There have not been any major events after the review period.

#### NEAR-TERM OUTLOOK

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The rubber business is expected to have positive EBITDA with prevailing market situation.

Hyvinkää, 22 October 2020

Neo Industrial Plc  
Board of Directors

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#### Disclaimer

All comments in this report that do not refer to actual facts are future estimates. Such estimates include expectations concerning market trends, growth and profitability as well as statements including the words "believe", "assume" or "will be" or a similar expression. Since these estimates are based on current plans and estimates, they involve risks and uncertainty factors that may cause the actual results to differ substantially from current statements.

Among other things, such factors include 1) operating conditions, such as continued success in production and the ensuing efficiency benefits, availability and cost of production inputs, demand for new products and changes in circumstances affecting the acquisition of capital under acceptable conditions; 2) sector-specific circumstances, such as the intensity of demand for products, the competition, current and future market prices for the Group's products and related pricing pressures, the financial situation of the Group's customers and competitors and competitors' possible new products; and 3) the general economic situation, such as economic growth in the Group's main market areas and change in exchange rates and interest rates.

Figures in brackets refer to the same period a year earlier, unless otherwise stated.

Neo Industrial Plc is a Finnish company, that focuses on building a sustainable future by developing and renewing modern society. We own emerging private companies in the industrial sector, to whom we are a long-term and responsible partner. As a conglomerate, we create opportunities responsibly for a smart and energy-efficient society. Neo Industrial Plc's class B shares are listed on the main list of NASDAQ Helsinki Stock Exchange.