

**Neo Industrial 1-9/2019: Turnover weakened, cash flow strengthened from the previous year**

January-September 2019

Neo Industrial group's turnover was EUR 72.9 million (78.3 million)

- The operating result was EUR -0.5 (1.2) million.
- IAS 19 adjusted operating result excluding non-recurring items was EUR 1.1 (1.5) million.
- The operating result of the Cable Segment was EUR 0.6 (1.7) million.
- The operating result of the Cable Segment excluding non-recurring items was EUR 1.5 (1.7) million.
- The Group's result for the period was EUR -1.7 (-0.2) million
- The cash flow from operating activities was positive EUR 3.3 (0.2) million.

The business review is unaudited.

Neo Industrial Plc's subsidiary Reka Cables Ltd is one of two companies to win the public acquisition of substantial contract for underground power cables. Total value of Reka Cable's share will be approximately EUR 20 million and the deliveries will be made during 2020-2021. Underground power cables are used when building grids that are not vulnerable to weather conditions.

In August Jukka Poutanen was appointed as Neo Industrial Plc and its subsidiary Reka Cables Ltd Managing Director starting August 12, 2019.

Neo Industrial Plc sold its shares of Riihimäen Kaapelitehdas Ltd to Riihimäen Tilat ja Kehitys Ltd in August. Selling price is EUR 2.0 million. At the Group level, the arrangement had no impact on result.

Sale of shares was part of total arrangement where Riihimäen Tilat ja Kehitys Ltd bought altogether 68.05 % and Neo Industrial Plc's subsidiary Reka Cables Ltd 20.2 % shares of Riihimäen Kaapelitehdas Ltd. Third owner is Reka's Pension fund, whose ownership decreased to be under 12 % after arrangement.

In the end of June 2019 cable segment bought one of the premises that is used in Keuruu plant.

During the review period the Group has made financial arrangements. Real estate related acquisitions have been financed through long-term financing.

**MANAGING DIRECTOR JUKKA POUTANEN:**

During the review period the Group reorganized the ownerships of Cable Segment's production facilities in Keuruu and Riihimäki. It seems more tempting in longer term to buy such assets than handle them according to IFRS 16. Real estate related acquisitions have been financed through long-term financing.

Nestor Cables Ltd.'s equity turned positive and the EUR 0.1 million profit share is therefore included in the Group figures below the operating result.

Reka Cables Ltd.'s turnover and operating result were lower than in the comparison period. Domestic sales decreased. Particularly part of the underground power cable projects has been postponed to next year. Export sales increased as planned but could not compensate for the domestic decrease. During the review period, a plan was made to develop and significantly grow both the domestic and export sales organization.

## KEY FIGURES

|  | 1-9/2019 | 1-9/2018 | 1-12/2018 |
|--|----------|----------|-----------|
| Turnover, EUR million  | 72.9     | 78.3     | 103.8     |
| Operating result, EUR million  | -0.5     | 1.2      | 1.0       |
| IAS19 adjusted operating result excluding non-recurring items, EUR million | 1.1      | 1.5      | 2.2       |
| Result for the period, EUR million   | -1.7     | -0.2     | -0.5      |
| Earnings per share, EUR  | -0.29    | -0.04    | -0.09     |
| Net cash provided by operating activities, EUR million                     | 3.3      | 0.2      | -1.3      |

## SEGMENTS

Neo Industrial's business segment is Cable Industry.

### CABLE SEGMENT

The Cable segment's turnover between 1.1.–30.9.2019 was EUR 72.9 million (EUR 78.3 million during the comparison period of 1.1.–30.9.2018). Its operating profit was EUR 0.6 million (EUR 1.7 million) including non-recurring items EUR 0.9 million. Thus the operating result excluding non-recurring items was EUR 1.5 million (EUR 1.7 million).

Reka Cables Ltd's domestic sales volumes declined from the previous year due to the postponement of underground cable projects to 2020. Export sales volumes increased as planned.

Neo Industrial has stated that with some premises and other non-current assets it seems more tempting in longer term to buy such assets than handle them according to IFRS 16. As a first step Neo Industrial's cable segment bought end June one of the premises that is used in Keuruu plant.

The arrangement at the end of August 2019 was the opening of the cable industry towards Riihimäki plant. Reka Cables acquired a 20.2% holding in Riihimäen Kaapelitehdas Oy. Reka Cables plans to increase its ownership in the coming years.

Reka Cables Ltd was one of two companies to win the public acquisition of substantial contract for underground power cables in July. Total value of Reka Cable's share will be approximately EUR 20 million and the deliveries will be made during 2020 - 2021.

In the Cable Segment the key raw materials are metals (copper and aluminum) and plastics. In the beginning of 2019, the price of copper was EUR 5,251 per ton and aluminum EUR 1,632 per ton. At the end of September 2019, the price of copper was EUR 5,250 and aluminum EUR 1,562.

The daily price of copper was at its highest in April at EUR 5,787 and at its lowest in August at EUR 5,051 during the reporting period. The price of aluminum was at its peak in March at EUR 1,694 and lowest in June at EUR 1,523.

Neo Industrial uses partial commodity hedging with aid of commodity derivatives for metal purchases. The fair value of open hedges 30.9.2019 was EUR -0.0 (EUR 0.1) million.

Turnover for Nestor Cables Ltd, an associated company, in January-September 2019 was EUR 26.3 (EUR 29.1) million. The operating result was positive but lower than year before. The company's value on the consolidated balance sheet turned positive and the result of EUR 0.1 million has been included in the Group figures.

## **FINANCIAL POSITION**

At the end of September 2019 interest bearing liabilities excluding lease liabilities were EUR 13.4 (6.6) million. Of these liabilities EUR 8.0 (4.1) were non-current liabilities. The EUR 3.0 million limit loan of the company was in full use at the end of the September. In addition to the limit loan and sales receivable related factoring the other current interest bearing liabilities were EUR 1.7 (2.5) million. The liquidity situation of the company is good.

Investments during 1.1.–30.9.2019 were EUR 7.2 million (EUR 1.7 million) and focused on real estates, material- and energy efficiency as well as improving productivity.

## **PERSONNEL**

In 1.1.–30.9.2019 the average amount of employees was 247 (262). At the end of the review period 30 September 2019, the Group employed 246 (263) persons.

## **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 business development of its portfolio companies. The uncertainty of the international economy and financial markets poses a risk to the Group's financial arrangements.

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 the Cable Segment the key raw materials are metals (copper and aluminum) 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 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**

Reka Cables has taken immediate steps to increase sales force.

16 October Neo Industrial Plc released profit warning lowering its estimate for near-term outlook.

## **NEAR-TERM OUTLOOK**

For the financial year 2019, Neo Industrial's operating result without items affecting comparability is expected to clearly decrease from the year 2018.

The nature of Neo Industrial's business involves major fluctuations between quarters and may

differ from year to year.

Hyvinkää, 22 October 2019

Neo Industrial Plc  
Board of Directors

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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.

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Neo Industrial's strategy is to invest mainly in industrial companies with similar synergic benefits. The aim of investments is with active ownership to develop the purchased companies and establish additional value. Returns are sought through both dividend flow and an increase in value. Neo Industrial's class B shares are listed on the main list of NASDAQ Helsinki Stock Exchange. Neo Industrial's business segment is Cable Industry.