

Neo Industrial 1-9/2018: low demand in July decreased Q3 turnover and operating result

Review period July–September 2018

- Turnover decreased by 12.0 percent and was EUR 23.7 million (7-9/2017: 26.9 million).
- The operating result was EUR 0.2 (1.6) million being 0.8 (5.9) percent of the turnover.
- The Group's result for the review period was EUR -0.3 (0.7) million
- The operating result of the Cable Segment was EUR 0.3 (1.7) million.
- Neo Industrial Plc ("Neo Industrial") maintains its financial instructions unchanged

Review period January – September 2018

- Turnover decreased by 7.8 percent and was EUR 78.3 million (1-9/2017: 84.9 million).
- The operating result was EUR 1.2 (3.9) million being 1.5 (4.6) percent of the turnover.
- The Group's result for the review period was EUR -0.2 (1.8) million
- The operating result of the Cable Segment was EUR 1.7 (4.7) million.

Figures in brackets refer to the same period last year. The figures are unaudited.

MANAGING DIRECTOR RALF SOHLSTRÖM:

The weaker than forecasted demand for cables in July, which is normally the peak season of cable sales, decreased the third-quarter turnover and operating result compared to previous year.

Due to the weak financial performance of the first part of the year, Neo Industrial's subsidiary Reka Cables Ltd ("Reka Cables") launched an operational development program in September with the aim of improving competitiveness and profitability. To boost competitiveness, investments will be redirected and targeted to ensure growth.

As part of the operational development program, Reka Cables invests in sales development. The company improves its presence on the market by reorganizing domestic sales and establishing two new regional sales offices, domestic sales being currently centralized at the company's Hyvinkää location.

Reka Cables also increasingly invests in product development and productivity improvement. In October, the company launched a new installation cable product family of higher fire performance class, with Finland and Baltics as its main market areas. Other new products have also been launched in Reka Cables' main market area in the Nordic countries.

As part of the program, Reka Cables launched co-determination negotiations that led to the dismissal of a total of 18 employees. In addition, the termination of fixed-term employment contracts and the planned retirement plans for next year will reduce the company's wage costs from next year onwards. Next year, cost reductions on staff reductions will be approximately EUR 0.7 million.

Reka Cables' good reputation in the market together with the sales and product development efforts will create good opportunities for increasing market share in the future.

The nature of Neo Industrial's business involves major fluctuations between quarters and may differ from year to year.

KEY FIGURES

	7-9/2018	7-9/2017	1-9/2018	1-9/2017
Turnover, EUR million	23,7	26,9	78,3	84,9
Operating result, EUR million	0,2	1,6	1,2	3,9
Operating result before change in the value of open customer derivatives	0,2	1,6	1,3	4,1
Result for the period, EUR million	-0,3	0,7	-0,2	1,8
Earnings per share, EUR	-0,06	0,11	-0,04	0,31
ROI, %			15,0	26,1
IAS 19 corrected Equity ratio, %			26,8	25,1

The figures are unaudited. Neo Industrial decided to change the way customer-specific open derivatives made from January 1, 2018 onwards are presented in financial reporting. The impact of these to the 1.1.–30.9.2018 operating profit is approximately EUR 20 thousand negative. Open customer derivatives made before January 1, 2018 are included as before in the business report's operating result. In order to facilitate comparison of figures, operating result as before the new way presenting open customer derivatives has been added to bottom row of the table above. These figures are comparable with the figures for the coming years.

SEGMENTS

Neo Industrial's business segment is Cable Industry.

CABLE SEGMENT

The Cable segment's turnover between 1.–30.9.2018 was EUR 78.3 million (EUR 84.9 million during the comparison period of 1.1.–30.9.2017). Its operating profit was EUR 1.7 (4.7) million.

Turnover for Nestor Cables Ltd, an associated company, was EUR 29.1 million (22.0 million) between January – September 2018. The operating result was positive and higher than year before. The company's value on the consolidated balance sheet is zero and the result of the company is not included in the Group figures.

During the review period, Neo Industrial Plc's subsidiary Reka Cables Ltd signed a major underground cabling contract with a value of approximately EUR 7 million. Deliveries are will be spread between 2019 and 2021.

The industry's key raw materials are copper, aluminum and plastics. At the beginning of the year the price of copper was EUR 5967 per tonne and the price of aluminum was EUR 1869. At the end of the review period in 30 September 2018, the price of copper was EUR 5335 and the price of aluminum EUR 1756.

At its highest point, the daily price of copper during the review period was EUR 6187 in December and at its lowest in March, at EUR 5270. The price of aluminum has been at its highest in April, when it was EUR 2089, and its lowest also in April, when it was briefly EUR 1619.

In purchasing metals, partial price hedging is utilized through commodity derivatives.

FINANCIAL POSITION

The company's liquidity has remained unchanged and its gearing ratio is moderate at 79%. To prepare for the peak season in the beginning of next year, the company has agreed on a new EUR 3 million limit loan. During the period 1.1.-30.9.2018, investments were EUR 1.7 million and mainly focused on improving productivity.

PERSONNEL

In 1.1.–30.9.2018 the average amount of employees was at the same level than in the same period on the previous year. At the end of the review period, 30 September 2018, the Group employed 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.

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 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.

EVENTS AFTER THE REVIEW PERIOD

Neo Industrial announced in its press release of 15 October 2018 that the co-determination negotiations of its subsidiary Reka Cables Ltd had ended. As a part of a business development program, co-determination negotiations resulted in the termination of employment of totally 18 employees at the company's locations in Hyvinkää, Riihimäki and Keuruu. In addition, the ending of fixed-term employment contracts and the planned retirement plans for next year will reduce the company's wage costs from next year onwards.

The cost savings from the personnel reductions will be approximately EUR 0.7 million during next year.

As part of the business development program, Reka Cables invests in sales development. The company improves its presence on the market by reorganizing domestic sales and establishing two new regional sales offices. Reka Cables is also increasingly investing in product development. In October it launched a new installation cable product family of higher fire performance classification for the Finnish and Baltic markets. Reka Cables has also launched other new products in its main market area in the Nordic countries

NEAR-TERM OUTLOOK

The sanctions concerning the production of aluminum raw materials imposed by United States against Russia have been postponed again, this time until December 2018. Due to this, it is not possible to provide a reliable assessment on the actual effects of the sanctions on the availability and prices of aluminum raw materials as well as on the price level of aluminum cables for the time being. The company has secured with current contracts a significant part of its deliveries of aluminum rod utilized in cable production.

Turnover in 2018 is expected to remain somewhat lower compared to the previous year. Operating result is expected to significantly weaken from last year, albeit to remain clearly positive.

The information in this review is unaudited.

Hyvinkää, 23 October 2018
Neo Industrial Plc
Board of Directors

Further information:
Ralf Sohlström, Managing Director, tel. +358 40 770 2720

www.neoindustrial.fi/en

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.