

FRONTMATEC

Investor Call
Interim report Q1 2020

May 29th, 2020



Today's presenters

Thomas Stenager

CFO FRONTMATEC



Joined Frontmateg: 2017

CFO experience: 9 years

Selected experience:

- Micro Matic, Group CFO
- Fertin Pharma, Vice President CFO
- Masco Corp, Divisional Head of Finance
- LEGO, Director Corporate Finance
- PwC, Auditor

Christian Curtz Henriksen

Associate Director -AXCEL



Joined Axcel: 2015

Associate Director

Selected experience:

- Board observer in Frontmateg, Nissens and European Sperm Bank
- PANDORA, Strategy Analyst
- Deloitte Financial Advisory Services, Analyst

Remko Rosman to join the Frontmatec Board of Directors

Remko Rosman



Remko Rosman will join the Frontmatec Board of Director as of June 1st 2020.

Remko was CEO of MPS in the Netherlands for 10 years from 2005 and lead the merger of MPS into Marel Meat in 2016.

Today, Remko is the CEO of the company *Group of Butchers*, a supplier of high-end speciality meat products based in Tilburg in the Netherlands.

Selected experience:

- Marel Meat
- MPS – Managing Director
- Yageo Corporation – President
- Philips Components – Vice President
- McKinsey – Engagement Manager
- PhD Applied Physics from Delft University of Technology

Executive summary

Revenue

- **Pro forma revenue** of DKK 375m in Q1 2020 vs. DKK 411 in Q1 2019 (8.9% decline) driven by lower revenue from projects, which was partly off-set by higher revenue from after sales and other business units. COVID-19 impacted project revenue in Q1 2020, especially in China

EBITDA

- **Pro forma EBITDA in Q1 2020 of DKK 35m (9.4% margin)** vs. DKK 61m (14.8% margin) in Q1 2019
- The decline in EBITDA was primarily the result of lower revenue from projects, but also lower margins from finalizing projects in Kolding, where write-downs reduced margins in Q4 2019. This was partly off-set by improved revenue from after sales and other business units

Cash flow

- **Net cash flow was DKK -48m in Q1 2020** driven by adverse NWC development in Q1, which was impacted by postponed order intake especially in North America. Cash flow has improved from March 2020








Liquidity

- **Net cash and credit of DKK -79m as per March 31, 2020.** The Group has cash draw limit of DKK 175m under the SSRCF DKK 350m line with Nordea and Nykredit, which has been temporarily **increased with DKK 90m to proactively ensure sufficient liquidity** considering the COVID-19 situation. Currently we do not expect to utilize the new credit line

COVID-19 update

- COVID-19 is mainly expected to **negatively impact the project business in the short term, whereas after sales and other business units should be more resilient**
- **The Group has implemented a range of mitigating initiatives** to boost sales, reduce costs and improve liquidity, including use of local public support programs

COVID-19 update: Larger projects are expected to be impacted, whereas after sales and other business units are more resilient

Segment	Sub segment	COVID-19 impact	Comments
Project sales	Order intake – Greenfield projects		<ul style="list-style-type: none"> Despite a strong pipeline, we have seen customers hesitating on larger projects, due to COVID-19 concerns. No material projects have been cancelled due to COVID-19 Long-term we do not see a risk with respect to the larger projects as the Group is well-positioned due to its leading technology platform and customers continuing to benefit from high prices following the African swine fever outbreak in China
	Order intake – Rebuilds and upgrades		<ul style="list-style-type: none"> Most customers are running with normal capacity, however there has been some examples, where customers have closed production due to employees being affected by COVID-19. This could impact sale of rebuilds and upgrades for a short period to some customers Our customers are food producers and critical to maintain the food supply chain, why we only expect a limited impact on underlying demand for smaller- to medium-sized projects
	Progress on ongoing projects		<ul style="list-style-type: none"> Most ongoing projects are progressing as planned, however some projects have temporarily been put on hold or delayed due to COVID-19 related travel restrictions causing difficulties to carry out onsite installations
After-sales	Spare parts		<ul style="list-style-type: none"> Sales of spare parts have been positively impacted by COVID-19. Customers are buying safety stocks, and some are using the closedown period to maintain machinery. Most customers are still operating at normal capacity, which drives a good demand for spare parts
	Service		<ul style="list-style-type: none"> Sales of service hours have to a small extent been impacted by COVID-19 due to travel restrictions even though the demand remains intact and where possible, we continue with local support or use of technology (e.g. Google Smart Glasses and augmented reality)
Other sales	Controls (software), Instruments and Stunning		<ul style="list-style-type: none"> Other business units like Controls (software) and Stunning are currently not impacted by COVID-19
	Hygiene		<ul style="list-style-type: none"> Hygiene business unit has been positively impacted by COVID-19 due to increased focus on hygiene and food safety at our customers and other industries

Cash flow generation in Q1 2020 was negative with DKK 48m, due to NWC movements. Sufficient liquidity reserve in place

Cash flow statement (DKKm)

DKKm	Q1 2020	Q1 2019
EBITDA (IFRS)	31.6	55.2
Special items	(5.2)	4.4
Change in NWC	(37.7)	(36.7)
Corporation tax paid	(4.4)	(12.1)
Financial income	7.7	12.0
Financial costs	(22.9)	(22.8)
Cash flows from operating activities	(30.9)	0.0
Addition of intangible assets and PP&E	(17.0)	(19.8)
Business acquisitions	-	(61.4)
Cash flows from investment activities	(17.0)	(81.2)
Contracting of long-term liabilities	(0.3)	19.8
Cash flows from financing activities	(0.3)	19.8
Net cash flows	(48.2)	(61.3)
Cash and cash equivalents at 1 January	(92.5)	(31.1)
Cash and cash equivalents at 31 December	(140.7)	(92.5)

Comments

- Cash flow generation in Q1 2020 was negative with DKK 48m and driven by adverse NWC development in January and February 2020, mainly impacted by the reduction in order intake in North America. Cash flow improved from March 2020
- Investments in fixed assets of DKK 17m in Q1 2020 was mainly used for product development to support future growth
- Investment activities in Q1 2019 were impacted by two business acquisitions in Spain (DKK 61.4m)
- The Group has cash draw limit of DKK 175m under the SSRCF of DKK 350m in Nordea and Nykredit
- To proactively ensure sufficient liquidity, considering the COVID-19 situation, the shareholders have increased the cash draw part of the SSRCF with DKK 90m and reduced the guarantee part with an equal amount by way of providing an equity guarantee
- The cash draw limit has been increased to DKK 265m until December 2020, after which it will be reduced to DKK 225m until June 2021 and further reduced to the original limit of DKK 175m afterwards. Currently we do not expect to utilize the new credit line

Concluding remarks: Outlook for FY2020 is uncertain, due to COVID-19, why an updated outlook for FY2020 is not provided

Status on operations

- China is operating under more normal conditions again
- Project sales and project order intake in Europe and North America is currently dealing with the consequences of the COVID-19 virus outbreak. Customers are relative resilient to COVID-19 and most customers are running at normal capacity, even though some customers have closed the factories due to employees being affected by the virus
- After sales and other business units have currently not seen any significant impact from COVID-19
- The Group has implemented a range of initiatives to improve short term performance and safeguard EBITDA and cash
 - Boost order intake and sales (focus on hygiene equipment, single machines, smaller rebuilds, ancillary equipment, etc.); and
 - reduce costs (e.g. primarily layoffs of 136 FTEs and strong sourcing push on both variable and fixed purchases) and improve liquidity (focus on cash on a daily basis); and
 - utilising public COVID-19 virus support programs (e.g. primarily 107 FTE's on furloughs and postponement of Tax/VAT), where relevant and applicable

Outlook 2020

- The outlook for 2020 is negatively impacted by the outbreak of the COVID-19 virus, but currently uncertain to what extent, why a revised full year 2020 outlook is not provided

Q&A