

Frontmatec Group ApS

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Interim financial report
First quarter 2020
1 January - 31 March 2020

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Statement by Management on the Interim Financial Report

Today, the Board of Directors and the Executive Board have discussed and approved the interim financial report of Frontmatec Group ApS for the period ending 31 March 2020.

The interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

In our opinion, the interim report gives a true and fair view of the financial position of the Company at 31 March 2020 and of the results of the Company's operations and cash flows for the period ending 31 March 2020.

Further, in our opinion the Management's review gives a fair review of the development in the Company's operations and financial matters and results of the Company's operations and financial position.

Kolding, 29 May 2020

Executive Board

Jens Kristensen
Chief Executive Officer

Thomas Nybo Stenager
Chief Financial Officer

Henrik Andersen
Chief Commercial Officer

Board of Directors

Arne Vraalsen
Chairman

Christoffer Arthur Müller
Deputy Chairman

Christian Gymos Schmidt-Jacobsen

Jan Kjærsgaard

Management Review

Group Financial highlights

	<u>Q1 2020</u> DKK'000	<u>Q1 2019</u> DKK'000	<u>2019 full year</u> DKK'000
<i>Key figures</i>			
Revenue	364,879	397,267	1,662,323
Gross profit	94,485	113,750	393,728
Operating profit before depreciation, amortization and special items (EBITDA)	31,579	55,155	171,921
Pro forma EBITDA	35,029	60,940	201,096
Equity	589,742	1,038,818	614,645
Assets	2,720,868	2,817,497	2,731,312
Change in cash and cash equivalents for the year	(48,199)	(61,343)	603
Average number of full-time employees	1,240	1,236	1,263

Ratios

Gross margin	25.9%	28.6%	23.7%
Pro forma EBITDA margin	9.4%	14.8%	11.8%
EBITDA margin	8.7%	13.9%	10.3%
Return on assets	-0.3%	0.9%	-1.2%
Equity ratio	21.7%	36.9%	22.5%

Financial ratios are calculated in accordance with the following definitions:

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Pro forma EBITDA margin	$\frac{\text{Pro forma EBITDA} \times 100}{\text{Pro forma revenue}}$
EBITDA margin	$\frac{\text{EBITDA} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Operating profit} \times 100}{\text{Average assets}}$
Equity ratio	$\frac{\text{Equity end of period} \times 100}{\text{Total equity and liabilities at year end}}$

Frontmatec's Business Review

Frontmatec Group had pro forma revenue of DKK 375 million in Q1 2020, which represents a decrease of 9% from pro forma revenue in Q1 2019 of DKK 411 million (IFRS revenue for the same period decreased by 8% from DKK 397 million to DKK 365 million). The Group had decreased revenue from projects whereas revenue from after sales and other business units increased. The project business was negatively impacted by a lower backlog at the end of 2019 and by the outbreak of COVID-19 virus, especially in China, where the outbreak of the virus started to impact operations from late January 2020.

Pro forma EBITDA decreased from DKK 61 million in Q1 2019 to DKK 35 million in Q1 2020 (IFRS EBITDA decreased from DKK 55 million in Q1 2019 to DKK 32 million in Q1 2020). The decline in pro forma EBITDA (and IFRS EBITDA) was primarily the result of lower revenue and margins from projects. This was only partly off-set by improved revenue from after sales and other business units.

The balance sheet at 31 March 2020 for the Group shows total assets of DKK 2,721 million (31 March 2019: DKK 2,817 million) and equity of DKK 590 million (31 March 2019: DKK 1,039 million).

COVID-19 virus

From late January 2020 to April 2020, our Chinese market and local operations has been severely impacted by the out-break of the COVID-19 virus. From the mid-March 2020, the outbreak of the COVID-19 virus has impacted other markets as well. Many of our customers are operating at normal capacity, due to being critical to the food supply chain, why we continue to see a good underlying demand for our products and services. However, internal measures taken to ensure employee safety and the extensive travel restrictions imposed, are especially challenging to our service and installation business, which will impact short term performance. At the same time, we see customers increasingly focusing on ensuring business continuity, why larger projects could be postponed, which will also impact performance short term. Long term we do not see a risk with respect to the larger projects and the Frontmatec Group is well positioned, due to our leading technology platform.

Other business units like Stunning and Controls Systems (software) are currently not impacted by the out-break of the COVID-19 virus and our Hygiene business unit is positively impacted, due to increased focus on hygiene and food safety in general at our customers and other industries.

To mitigate the impact of the outbreak of COVID-19 virus on short term performance, the Frontmatec Group has implemented a range of initiatives to boost sales, reduce costs and improve liquidity. Public COVID-19 virus support programs are also utilised, where relevant and applicable.

Outlook

The outlook for 2020 is negatively impacted by the outbreak of the COVID-19 virus, but due to the current uncertainty and low visibility, management is not providing a revised full year 2020 outlook.

Alternative Performance Measures

The Group assesses its performance using a variety of alternative performance measures which are not defined under IFRS. The Group applies these measures because it is considered an important supplement measure of the Group's financial performance. It is to be noted that since not all companies calculate financial measurements in the same manner, these are not always comparable to measurements used by other companies (even if similar labelled). Accordingly, these financial measures should not be seen as a substitute for measures defined according to IFRS.

Reconciliation from these alternative performance measures to the nearest IFRS is presented below.

Pro forma revenue (non-IFRS)

Pro forma revenue is defined as revenue from all group entities for the reporting period. Group entities included are entities where the Group has made an investment before end of the reporting period and comprise subsidiaries and associated companies. For associated companies, revenue is included on a pro rata basis. For entities acquired during the year, revenue is measured as though the acquisition date for all acquired entities during the year had been as of the beginning of the reporting period.

	<u>Q1 2020</u> <u>DKK'000</u>	<u>Q1 2019</u> <u>DKK'000</u>	<u>2019 full year</u> <u>DKK'000</u>
Revenue for the reporting period (IFRS)	364,879	397,267	1,662,323
Impact from acquisitions	0	11,608	11,608
Impact from associated companies (pro-rata)	9,712	2,488	32,697
Pro forma revenue (non-IFRS)	<u>374,591</u>	<u>411,363</u>	<u>1,706,628</u>
Revenue (IFRS)	<u>364,879</u>	<u>397,267</u>	<u>1,662,323</u>

Pro forma EBITDA (non-IFRS)

Pro forma EBITDA is defined as earnings before interest, tax, special non-recurring items, depreciation, amortization and impairment for all group entities for the reporting period. Group entities included are entities where the Group has made an investment before end of the reporting period and comprise subsidiaries and associated companies. For associated companies, pro forma EBITDA is included on a pro rata basis. For entities acquired during the year, pro forma EBITDA is measured as though the acquisition date for all acquired entities during the year had been as of the beginning of the reporting period.

Alternative Performance Measures

Pro forma EBITDA (non-IFRS) (continued)

	Q1 2020	Q1 2019	2019 full year
	DKK'000	DKK'000	DKK'000
EBITDA (non-IFRS)	32,589	56,693	184,742
Impact from acquisitions	0	2,381	2,384
Impact from associated companies (pro-rata)	2,440	1,866	13,970
Pro forma EBITDA (non-IFRS)	35,029	60,940	201,096
EBITDA (IFRS)	31,579	55,155	171,921

EBITDA (non-IFRS)

EBITDA is defined as earnings before interest, tax, special non-recurring items, depreciation, amortization and impairment. The following table provides a reconciliation of Operating profit/loss (EBIT) to EBITDA:

	Q1 2020	Q1 2019	2019 full year
	DKK'000	DKK'000	DKK'000
Operating profit/loss	(8,703)	25,273	(33,798)
Amortisation of intangible assets	20,435	21,981	89,492
Depreciation of intangible assets	4,681	3,745	20,116
Amortisation of property, plant, machinery and equipme	239	239	957
Depreciation of property, plant, machinery and equipme	5,184	4,815	18,232
Depreciation on leased assets	4,251	3,537	17,125
Profit/loss on disposals	(46)	-	112
Special non-recurring items (specified below)	6,548	(2,897)	72,506
EBITDA (non-IFRS)	32,589	56,693	184,742
EBITDA (IFRS)	31,579	55,155	171,921

Special non-recurring items (non-IFRS)

Special non-recurring items are defined as non-recurring income and expenses that are not considered to be a part of the Group's ordinary operations such as restructuring costs and discontinued activities.

	Q1 2020	Q1 2019	2019 full year
	DKK'000	DKK'000	DKK'000
External costs related to acquisitions	-	1,051	16,599
Discontinuing outsourcing activities	-	-	23,386
Costs of internal restructuring	6,176	-	23,947
Other	372	(3,948)	8,574
Special non-recurring items (non-IFRS)	6,548	(2,897)	72,506
Special non-recurring items (IFRS)	5,229	(4,435)	59,797

Consolidated Income Statement

	Note	Q1 2020 DKK'000	Q1 2019 DKK'000
Revenue	3	364,879	397,267
Raw materials and consumables used		(246,855)	(260,594)
Other operating income		162	-
External costs		(23,701)	(22,923)
Gross profit		94,485	113,750
Staff costs		(62,906)	(58,151)
Other operating cost		-	(444)
Operating profit before depreciation amortisation and special items (EBITDA)		31,579	55,155
Special non-recurring items	4	(5,229)	4,435
Depreciations, amortisation and impairment of non-current assets		(35,052)	(34,317)
Operating profit/loss		(8,703)	25,273
Share and results of associates		1,690	514
Financial income		5,377	12,033
Financial expenses		(22,889)	(22,801)
Profit/loss before tax		(24,525)	15,019
Tax for the period		4,496	(2,901)
Profit/ loss for the period		(20,029)	12,118
Statement of comprehensive income			
Profit/loss for the period		(20,029)	12,118
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized gain on forward exchange contracts		(2,219)	2,482
Tax		626	(546)
Exchange rate gains/losses on foreign operations		(3,639)	3,341
Other comprehensive income after tax		(5,232)	5,277
Comprehensive income for the period		(25,262)	17,395

Consolidated Statement of Financial Position

	Note	Q1 2020 DKK'000	Q1 2019 DKK'000	31.12.2019 DKK'000
Non-current assets				
Goodwill		1,109,933	1,123,045	1,109,933
Development completed		254,201	302,429	269,964
Acquired Intangible assets		179,906	184,254	183,940
Development in progress		88,891	56,982	82,551
Intangible assets	5	1,632,931	1,666,710	1,646,388
Land and buildings		133,965	132,445	137,073
Plant and machinery		32,931	27,957	33,296
Other fixtures and fittings, tools and equipment		14,214	14,900	15,160
Right of Use Assets		46,935	40,834	48,007
Property plant and equipment	5	228,045	216,136	233,536
Investments in associates		41,987	27,445	40,292
Deferred tax assets		34,398	51,493	31,184
Investments		76,385	78,938	71,476
Total non-current assets		1,937,361	1,961,784	1,951,400
Inventories		204,211	221,867	197,804
Trade receivables		287,528	290,718	262,723
Construction contracts		157,764	173,448	168,855
Amounts owed by Group entities		125	135	105
Income taxes receivables		382	17,217	639
Other receivables		42,433	42,081	54,997
Prepayments		21,163	9,259	1,207
Receivables		509,395	532,858	488,526
Securities and Investments		575	16,884	5,753
Cash and bank in hand		69,326	84,104	87,829
Total current assets		783,507	855,713	779,912
Assets		2,720,868	2,817,497	2,731,312

Consolidated Statement of Financial Position

	Note	Q1 2020 DKK'000	Q1 2019 DKK'000	31.12.2019 DKK'000
Equity and liabilities				
Share capital		100	100	100
Reserve for value adjustments of hedging		(6,023)	(4,238)	(4,430)
Reserve for foreign exchange adjustments		15,942	10,699	19,581
Retained earnings		579,723	1,032,257	599,394
Equity		589,742	1,038,818	614,645
Deferred tax		111,186	130,028	118,662
Lease liabilities		31,808	27,805	33,840
Other credit institutions		1,294,397	699,668	1,294,250
Non-current liabilities		1,437,391	857,501	1,446,752
Current position of long-term liabilities		18,910	33,094	17,791
Other credit institutions		148,053	176,578	118,357
Other provisions		15,491	10,001	12,853
Contract liabilities		138,109	303,068	142,272
Trade payables		175,260	196,952	171,131
Payable to associate company		-	-	11,514
Amounts owed to Group entities		1,928	997	1,765
Income taxes		15,193	45,896	13,024
Deferred income		8,452	6,362	2,780
Other payables		172,339	148,230	178,428
Current liabilities		693,735	921,178	669,915
Liabilities		2,131,126	1,778,679	2,116,667
Equity and liabilities		2,720,868	2,817,497	2,731,312

Consolidated Statement of Changes in Equity
1 January - 31 March

	Share capital DKK'000	Value adjust- ments of hedging transac- tions DKK'000	Retained earnings DKK'000	Foreign exchange adjust- ments DKK'000	Total DKK'000
Equity at 1 January 2019	100	(6,174)	1,019,754	7,358	1,021,038
<i>Comprehensive income for the period</i>					
Profit for the period	-	-	12,120	-	12,120
<i>Other comprehensive income</i>					
Unrealized profit on currency and interest swap	-	2,482	-	-	2,482
Hereof tax	-	(546)	-	-	(546)
Exchange rate adjustments	-	-	-	3,341	3,341
Comprehensive income for the period in total	-	1,936	12,120	3,341	17,397
Share-based payment	-	-	383	-	383
Equity at 31 March 2019	100	(4,238)	1,032,257	10,699	1,038,818
Equity at 1 January 2020	100	(4,430)	599,394	19,581	614,645
<i>Comprehensive income for the period</i>					
Loss for the period	-	-	(20,029)	-	(20,029)
<i>Other comprehensive income</i>					
Unrealized loss on currency and interest swap	-	(2,219)	-	-	(2,219)
Hereof tax	-	626	-	-	626
Exchange rate adjustments	-	-	-	(3,639)	(3,639)
Comprehensive income for the period in total	-	(1,593)	(20,029)	(3,639)	(25,262)
Share-based payment	-	-	358	-	358
Equity at 31 March 2020	100	(6,023)	579,723	15,942	589,742

Consolidated cash flow statement

	Q1 2020	Q1 2019
	DKK'000	DKK'000
EBIT	(8,703)	25,273
Depreciations/amortisations and impairment losses	34,943	34,355
Provisions	2,638	(569)
Changes in receivables	(17,826)	(112,715)
Changes in inventories	(6,407)	(37,831)
Changes in trade payables	(5,344)	(14,879)
Changes in other working capital	(10,608)	129,215
Financial income	6,418	12,033
Financial cost	(22,889)	(22,801)
Tax for the period	(3,142)	(12,064)
Cash flows from operating activities	(30,920)	17
Addition and sale of property plant and equipment	(16,997)	(19,775)
Business acquisitions	-	(61,433)
Cash flows from investing activities	(16,997)	(81,208)
Contracting of long-term liabilities	(282)	19,848
Cash flows from financing activities	(282)	19,848
Net cash flow	(48,199)	(61,343)
Cash and cash equivalents at 1 January	(30,528)	(31,131)
Cash and cash equivalents at 31 March	(78,727)	(92,474)

Cash and cash equivalents include cash at bank and in hand

Notes to the Consolidated Financial Statements

Note 1. Accounting policies

This unaudited interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Accounting policies applied in preparing the interim financial report are consistent with those applied in preparing Frontmatec Group ApS's consolidated annual report for 2019 to which referral is made.

Note 2. Significant accounting judgements, estimates and assumptions

In preparing the interim financial report, Management makes various accounting estimates and assumptions which form the basis of presentation, recognition and measurement of Frontmatec Group ApS's consolidated assets and liabilities. All significant accounting estimates and judgements are consistent with the description in the annual report for 1 January - 31 December 2019. Refer to descriptions in the note 2 of the annual report.

Note 3. Revenue

Segmentation and disaggregation of revenue

	Q1 2020	Q1 2019
	DKK'000	DKK'000
Domestic	50,632	43,697
Foreign	314,247	353,570
	364,879	397,267
Red meat processing	295,196	332,878
Other	69,683	64,389
	364,879	397,267

Timing of revenue recognition

Recognition at single point of time	128,321	121,824
Recognition over time	236,558	275,443
	364,879	397,267

Performance obligations are usually satisfied within a 12 months period and hence part of the transaction price allocated to unsatisfied part of ongoing contracts is not disclosed.

Note 4. Special items

	Q1 2020	Q1 2019
	DKK'000	DKK'000
External cost related to acquisitions	-	1,051
Cost of internal restructuring	5,229	-
Other	-	(5,486)
	5,229	(4,435)

Notes to the Consolidated Financial Statements

Note 5. Addition of intangible assets and property, plant and equipment

	Q1 2020	Q1 2019
	DKK'000	DKK'000
Development projects	10,432	11,595
Acquired intangible assets	3,178	751
Buildings	67	241
Plant and equipment	2,490	4,946
Other fixtures and fittings, tools and equipment	831	2,242
	16,997	19,775
Right of use assets	3,677	4,176
	20,674	23,951

Note 6. Events after the balance sheet date

Other than what has been described in the Management's review regarding COVID-19 virus, there have been no events since 31 March 2020, which could significantly affect the evaluation of the Group's financial position and revenue.