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Investor Call
Interim report Q2 2020

August 31st, 2020

Today's presenters

Thomas Stenager

CFO FRONTMATEC

Joined Frontmatec: 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

Christoffer Müller

Partner AXCEL

Joined Axcel: 2009

Deputy Chairman of the Board of Directors

Selected experience:

- Mountain Top Industries, Responsible and Vice Chairman of the Board of Directors
- Cimbria, EG, Silkeborg Data, Conscia & Lessor

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Announcement - Executive Management

Allan JF Kristensen will join Frontmatec as CEO at the end of 2020

Executive management is:

- Allan JF. Kristensen, CEO
- Thomas N. Stenager, CFO
- Dany Lord, President, North America
- Karsten Friis, SVP, After Sales and Service
- Kurt Godsk Andersen, SVP, Instruments & Control Systems, R&D and China
- Morten Albin Olsen, SVP, Global Supply Chain

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Executive summary

Revenue	• **Pro forma revenue** of DKK 380m in Q2 2020 vs. DKK 464 in Q2 2019 (18% 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 Q2 2020 on all markets
EBITDA	• **Pro forma EBITDA improved from DKK 35m in Q1 2020 (9.4% margin) to DKK 56m in Q2 2020 (14.6% margin)**, but was lower than last year (Q2 2019 with EBITDA of 75m and 16.2% margin) • Profitability from projects increased from Q1 2020 to Q2 2020 and fixed costs were reduced. However, lower revenue from projects reduced EBITDA compared to Q2 2019 • **Special non-recurring items were reduced significantly from DKK 30m in Q2 2019 to DKK 0m in Q2 2020**. Despite lower EBITDA in Q2 2020 compared to Q2 2019, Operating profit has increased from DKK 7m to DKK 19m due to lower non-recurring items
Cash flow	• Cash flow from operating activities was DKK 34m in H1 2020 and improved significantly compared to DKK -57m in H1 2019. Net cash flow was DKK 8m in H1 2020. **The negative net cash flow in Q1 2020 (DKK -48m) was off-set in Q2 2020 (DKK 56m)**
Liquidity	• **Net cash and credit of DKK -23m as per June 30, 2020** compared to DKK -79m as per March 31, 2020 and DKK -85m as per June 30, 2019. • Sufficient liquidity reserve is in place
Outlook 2020	• The outlook is negatively impacted by the COVID-19 pandemic. It is expected that mainly greenfield projects and larger upgrades will be impacted for the rest of 2020, whereas after sales and other business units are more resilient • **The outlook for 2020 shows EBITDA in the range DKK 150m – DKK 200m**

COVID-19 update: Order intake from larger projects are negatively impacted; after sales and other business units are more resilient

Segment	Sub segment	COVID-19 impact	Comments
Project sales	Order intake – Greenfield projects	↘	▪ We have **seen customers hesitating on new greenfield and 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	↘	▪ 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 has impacted order intake of rebuilds and upgrades negatively** ▪ 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	↘	▪ Most ongoing projects are progressing as planned, however **some projects have temporarily been put on hold or delayed during Q2 2020** due to related travel restrictions and customer lockdown. New legislation is being proposed in Germany / EU regarding food and employee safety, why some customers temporarily stopped ongoing projects. This had negative impact on revenue in Q2, but is expected to generate additional revenue from modifications, automation and hygiene solutions, when the new regulation is finalized
After-sales	Spare parts	↗	▪ **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	→	▪ **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, Instruments and Stunning	↗	▪ Other business units like **Controls (software) and Stunning are currently not impacted by COVID-19,** and continue to grow according the business plans
	Hygiene	↗	▪ **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

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Cash flow generation in H1 2020 improved significantly. Sufficient liquidity reserve in place

Cash flow statement (DKKm)

DKKm	H1 2020	H1 2019
EBITDA (IFRS)	86.8	127.2
Special items	(5.3)	(25.5)
Change in NWC and other	2.7	(119.6)
Corporation tax paid	(4.1)	(16.7)
Financial income	1.7	19.9
Financial costs	(48.0)	(42.7)
Cash flows from operating activities	**33.7**	**(57.4)**
Addition and sale of intangible assets and PP&E	(29.9)	(41.0)
Business acquisitions	4.3	(49.5)
Cash flows from investment activities	**(25.6)**	**(90.5)**
Contracting of long-term liabilities	(0.3)	94.0
Cash flows from financing activities	**(0.3)**	**94.0**
Net cash flows	**7.7**	**(53.9)**
Cash and cash equivalents at 1 January	(30.5)	(31.1)
Cash and cash equivalents at 30 June	**(22.8)**	**(85.0)**

Comments

- Net cash flow generation in H1 2020 was DKK 8m and improved significantly from H1 2019 (DKK -54m). Especially cash flow from operating activities has improved
- The negative net cash flow in Q1 2020 (DKK -48m) was off-set by positive cash flow in Q2 2020 (DKK 56m). Cash flow from operating activities has improved due to improved NWC. Many projects had progress payments in Q2 2020, which improved NWC
- Investments in fixed assets with DKK 30m in H1 2020 was mainly used for product development to support future growth
- Cash and cash equivalent was DKK -23m as per June 30, 2020. Sufficient liquidity is in place
- The cash draw limit is 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

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Concluding remarks: After Sales and Other Business units are expected to continue without impact from COVID-19. We expect order intake from greenfield and larger upgrades to be lower for the rest of 2020

Status on sales and operations

- China is operating under more normal conditions again. Requests for quotations and order intake have increased after COVID-19. We see an increased focus on automation, food safety and hygiene
- Europe and North America are currently dealing with the consequences of the COVID-19 pandemic. 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 pandemic. New legislation is being proposed in Germany and potentially in EU with new requirements for distance between employees. We see this as an opportunity, that will increase revenue from modifications, automation and hygiene solutions
- After sales and other business units have not seen any significant impact from COVID-19 and we expect these business units to continue to grow according to business plans
- The Group has implemented a range of initiatives to improve short term performance and safeguard EBITDA and cash
    - Increase order intake and sales with focus on hygiene equipment, automation, robots, single machines, smaller rebuilds and modifications etc.; and
    - reduce costs (e.g. primarily layoffs of 191 headcounts 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 support programs (e.g. primarily furloughs in Denmark and Canada, and postponement of Tax/VAT), where relevant and applicable

Outlook 2020

- The outlook for 2020 is negatively impacted by the COVID-19 pandemic. It is expected that mainly the project business will be impacted throughout the rest of 2020, and especially greenfield projects and larger upgrades. After sales and other business units are expected to continue without negative impact from COVID-19. EBITDA for the full year 2020 is expected in the range between DKK 150m – DKK 200m, due to continued uncertainty created by the COVID-19 pandemic. We expect to see improved sales in 2021 due to increased demand for automation, food and employee safety.

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Q&A