

Frontmatec Group ApS

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CVR number 37 77 37 43

Interim financial report

Third quarter 2020

1 July - 30 September 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 30 September 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 30 September 2020 and of the results of the Company's operations and cash flows for the period ending 30 September 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, 30 October 2020

Executive Board

Thomas Nybo Stenager
Chief Financial Officer

Board of Directors

Arne Vraalsen
Chairman

Christoffer Arthur Müller
Deputy Chairman

Remko Rosman

Christian Gyomos Schmidt-Jacobsen

Jan Kjærsgaard

Group Financial Highlights

	<u>3rd Quarter 2020</u>	<u>3rd Quarter 2019</u>	<u>Year to date 2020</u>	<u>Year to date 2019</u>
<i>Key figures in DKK '000</i>				
Revenue	341,127	391,933	1,080,654	1,240,155
Gross profit	94,067	104,309	302,178	354,976
Operating profit before depreciation, amortization and special items (EBITDA)	41,314	31,098	128,105	158,299
Pro forma EBITDA	45,022	33,642	135,945	169,313

Ratios

Gross margin	27.6%	26.6%	28.0%	28.6%
Pro forma EBITDA margin	12.9%	8.4%	12.3%	13.3%
EBITDA margin	12.1%	7.9%	11.9%	12.8%

	<u>Year to date 2020</u>	<u>Year to date 2019</u>	<u>Full year 2019</u>
<i>Key figures in DKK '000</i>			
Equity	561,281	1,024,976	614,645
Assets	2,729,071	2,715,432	2,731,312
Change in cash and cash equivalents	(59,651)	(117,136)	603
Average number of full-time employees	1,194	1,233	1,263

Ratios

Return on assets	0.2%	-0.9%	-1.2%
Equity ratio	20.6%	37.7%	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 348 million in Q3 2020, which represents a decrease of 13% from pro forma revenue in Q3 2019 of DKK 400 million (IFRS revenue for the same period decreased by 13% from DKK 392 million to DKK 341 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 the COVID-19 pandemic and especially greenfield projects and larger upgrades were postponed.

The negative impact from lower pro forma revenue was offset by improved margins, lower fixed costs and less special non-recurring items. Pro forma EBITDA has increased from DKK 34 million in Q3 2019 to DKK 45 million in Q3 2020 (IFRS EBITDA increased from DKK 31 million in Q3 2019 to DKK 41 million in Q3 2020).

Special non-recurring items (IFRS) decreased with DKK 18 million from DKK 18 million in Q3 2019 to DKK 0 million in Q3 2020. This was the result of less restructuring activities in Q3 2020.

Operating profit has improved from a loss of DKK 23 million in Q3 2019 to profit of DKK 5 million in Q3 2020.

Cash flow from operating activities has improved with DKK 70 million from DKK -91 million year to date Q3 2019 to DKK -22 million year to date Q3 2020.

The balance sheet 30 September 2020 for the Group shows total assets of DKK 2,729 million (30 September 2019: DKK 2,715 million) and equity of DKK 561 million (30 September 2019: DKK 1,025 million).

COVID-19 pandemic

All markets and local operations have been impacted by the COVID-19 pandemic. The pandemic started to impact sales and operations in China from late January 2020, and impacted Europe and North America from March 2020. Our customers are increasingly focusing on ensuring business continuity, why greenfield and larger upgrade projects have been postponed. Our customers are critical to the food supply chain, why we continue to see a good underlying demand for our products and services. Despite extensive travel restrictions and internal measures taken to ensure employee safety, the service and installation business has not been impacted by the COVID-19 pandemic. 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, including After Sales, Stunning, Controls Systems (software) and Hygiene have not been negatively impacted by the COVID-19 pandemic.

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

Frontmatec's Business Review

Outlook

It is expected that the COVID-19 pandemic will continue to impact the project business throughout the rest of 2020, and especially on greenfield projects and larger upgrades. After Sales and other business units are expected to continue without negative impact from COVID-19. The outlook for full year 2020 remains as previously announced with pro forma EBITDA in the range between DKK 150 million - DKK 200 million. The uncertainty to the outlook is higher than normal due to the uncertainty in the market caused by the COVID-19 pandemic.

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>3rd Quarter 2020</u>	<u>3rd Quarter 2019</u>	<u>Year to date 2020</u>	<u>Year to date 2019</u>
Revenue for the reporting period (IFRS)	341,127	391,933	1,080,654	1,240,155
Impact from acquisitions	-	-	-	11,608
Impact from associated companies (pro-rata)	6,791	8,210	21,622	24,634
Pro forma revenue (non-IFRS)	<u>347,918</u>	<u>400,143</u>	<u>1,102,276</u>	<u>1,276,397</u>
Revenue (IFRS)	<u>341,127</u>	<u>391,933</u>	<u>1,080,654</u>	<u>1,240,155</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)

	<u>3rd Quarter 2020</u>	<u>3rd Quarter 2019</u>	<u>Year to date 2020</u>	<u>Year to date 2019</u>
EBITDA (non-IFRS)	40,190	31,556	127,371	160,730
Impact from acquisitions	-	-	-	2,381
Impact from associated companies (pro-rata)	4,832	2,086	8,574	6,202
Pro forma EBITDA (non-IFRS)	<u>45,022</u>	<u>33,642</u>	<u>135,945</u>	<u>169,313</u>
EBITDA (IFRS)	<u>41,314</u>	<u>31,098</u>	<u>128,105</u>	<u>158,299</u>

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 (EBIT) to EBITDA:

	<u>3rd Quarter 2020</u>	<u>3rd Quarter 2019</u>	<u>Year to date 2020</u>	<u>Year to date 2019</u>
Operating profit/loss	5,317	(23,232)	15,417	8,560
Amortisation of intangible assets	20,435	21,981	61,304	65,942
Depreciation of intangible assets	4,094	4,253	15,417	12,052
Amortisation of property, plant, machinery and equipment	239	239	718	717
Depreciation of property, plant, machinery and equipment	4,869	4,851	15,081	14,480
Depreciation on leased assets	5,972	4,491	14,443	12,540
Profit/loss on disposals	(127)	(24)	(173)	32
Special non-recurring items (specified below)	(609)	18,997	5,164	46,407
EBITDA (non-IFRS)	<u>40,190</u>	<u>31,556</u>	<u>127,371</u>	<u>160,730</u>
EBITDA (IFRS)	<u>41,314</u>	<u>31,098</u>	<u>128,105</u>	<u>158,299</u>

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.

	<u>3rd Quarter 2020</u>	<u>3rd Quarter 2019</u>	<u>Year to date 2020</u>	<u>Year to date 2019</u>
External costs related to acquisitions	-	(2,061)	-	3,194
Discontinuing outsourcing activities	-	8,852	-	23,385
Costs of internal restructuring	299	1,269	5,726	9,238
Other	(908)	10,937	(562)	10,590
Special non-recurring items (non-IFRS)	<u>(609)</u>	<u>18,997</u>	<u>5,164</u>	<u>46,407</u>
Special non-recurring items (IFRS)	<u>389</u>	<u>18,515</u>	<u>5,726</u>	<u>44,008</u>

Consolidated Income Statement

Figures in DKK '000

	Note	3rd Quarter 2020	3rd Quarter 2019	Year to date 2020	Year to date 2019
Revenue	3	341,127	391,933	1,080,654	1,240,155
Raw materials and consumables used		(229,539)	(266,613)	(723,401)	(816,230)
Other operating income		(469)	-	2,792	-
External costs		(17,052)	(21,011)	(57,868)	(68,949)
Gross profit		94,067	104,309	302,178	354,976
Staff costs		(52,741)	(73,234)	(174,061)	(196,644)
Other operating cost		(12)	23	(12)	(33)
Operating profit before depreciation amortisation and special items (EBITDA)		41,314	31,098	128,105	158,299
Special non-recurring items	4	(389)	(18,515)	(5,726)	(44,008)
Depreciations, amortisation and impairment of non-current assets		(35,609)	(35,815)	(106,962)	(105,731)
Operating profit		5,317	(23,232)	15,417	8,560
Share and results of associates		3,502	1,516	6,010	4,628
Financial income		(4,867)	1,072	535	20,937
Financial expenses		(23,136)	(12,555)	(71,122)	(55,274)
Profit/loss before tax		(19,184)	(33,199)	(49,160)	(21,149)
Tax for the period		4,214	7,720	7,807	1,403
Profit/ loss for the period		(14,970)	(25,479)	(41,353)	(19,746)
Statement of comprehensive income					
Profit/loss for the period		(14,970)	(25,479)	(41,353)	(19,746)
Items that are or may be reclassified subsequently to profit or loss:					
Unrealized gain/loss on forward exchange contracts		373	817	(1,863)	4,624
Tax		(105)	(179)	525	(1,017)
Exchange rate gain/loss on foreign operations		(5,862)	8,160	(10,213)	18,466
Other comprehensive income after tax		(5,594)	8,798	(11,551)	22,073
Comprehensive income for the period		(20,564)	(16,681)	(52,903)	2,327

Consolidated Statement of Financial Position

Figures in DKK '000

	Note	Year to date 2020	Year to date 2019	Full year 2019
Non-current assets				
Goodwill		1,109,933	1,123,045	1,109,933
Development completed		220,148	277,127	269,964
Acquired Intangible assets		169,427	170,892	183,940
Development in progress		106,349	78,101	82,551
Intangible assets		1,605,857	1,649,165	1,646,388
Land and buildings		127,919	132,335	137,073
Plant and machinery		30,355	31,273	33,296
Other fixtures and fittings, tools and equipment		12,208	13,602	15,160
Right of Use Assets		40,121	51,235	48,007
Property plant and equipment		210,603	228,445	233,536
Investments in associates		42,002	31,560	40,292
Deferred tax assets		34,823	61,824	31,184
Investments		76,825	93,384	71,476
Total non-current assets		1,893,285	1,970,994	1,951,400
Inventories		208,652	225,301	197,804
Trade receivables		306,093	246,018	262,723
Construction contracts		190,124	144,168	168,855
Amounts owed by Group entities		157	320	105
Income taxes receivables		358	16,786	639
Other receivables		43,480	41,941	54,997
Prepayments		18,321	23,741	1,207
Receivables		558,533	472,974	488,526
Securities and Investments		575	16,385	5,753
Cash and bank in hand		68,026	29,778	87,829
Total current assets		835,786	744,438	779,912
Assets		2,729,071	2,715,432	2,731,312

Consolidated Statement of Financial Position

Figures in DKK '000

	Year to date	Year to date	Full year
Note	2020	2019	2019
Equity and liabilities			
Share capital	100	100	100
Reserve for value adjustments of hedging	(5,768)	(2,567)	(4,430)
Reserve for foreign exchange adjustments	9,368	25,824	19,581
Retained earnings	557,580	1,001,619	599,394
Equity	561,281	1,024,976	614,645
Deferred tax	103,449	118,680	118,662
Lease liabilities	24,579	36,273	33,840
Other credit institutions	1,290,604	784,543	1,294,250
Non-current liabilities	1,418,632	939,496	1,446,752
Current position of long-term liabilities	19,381	16,666	17,791
Other credit institutions	158,205	178,045	118,357
Other provisions	15,214	11,454	12,853
Contract liabilities	171,166	160,716	142,272
Trade payables	161,116	185,334	171,131
Payable to associate company	-	-	11,514
Amounts owed to Group entities	886	969	1,765
Income taxes	19,802	54,732	13,024
Deferred income	4,897	5,077	2,780
Other payables	198,492	137,967	178,428
Current liabilities	749,159	750,960	669,915
Liabilities	2,167,791	1,690,456	2,116,667
Equity and liabilities	2,729,071	2,715,432	2,731,312

Consolidated Statement of Changes in Equity
1 January - 30 September

	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	-	-	(19,746)	-	(19,746)
<i>Other comprehensive income</i>					
Unrealized profit on currency and interest swap	-	4,624	-	-	4,624
Hereof tax	-	(1,017)	-	-	(1,017)
Exchange rate adjustments	-	-	-	18,466	18,466
Comprehensive income for the period in total	-	3,607	(19,746)	18,466	2,327
Share-based payment	-	-	1,611	-	1,611
Equity at 30 September 2019	100	(2,567)	1,001,619	25,824	1,024,976
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	-	-	(41,353)	-	(41,353)
<i>Other comprehensive income</i>					
Unrealized loss on currency and interest swap	-	(1,863)	-	-	(1,863)
Hereof tax	-	525	-	-	525
Exchange rate adjustments	-	-	-	(10,213)	(10,213)
Comprehensive income for the period in total	-	(1,338)	(41,353)	(10,213)	(52,903)
Share-based payment	-	-	(461)	-	(461)
Equity at 30 September 2020	100	(5,768)	557,580	9,368	561,281

Consolidated Cash Flow Statement

Figures in DKK '000

	Year to date	Year to date
	2020	2019
EBIT	15,417	8,559
Depreciations/amortisations and impairment of non-current assets	106,962	94,740
Provisions	2,361	884
Changes in receivables	(65,110)	(6,763)
Changes in inventories	(10,848)	(41,265)
Changes in trade payables	(10,015)	(26,525)
Changes in other working capital	13,753	(66,057)
Financial income	535	20,937
Financial cost	(71,122)	(55,274)
Tax for the period	(3,461)	(20,642)
Cash flows from operating activities	(21,528)	(91,406)
Addition of intangible assets and property plant and equipment	(42,370)	(63,248)
Sale of intangible assets and property plant and equipment	256	2,592
Business acquisitions	4,288	(49,521)
Cash flows from investing activities	(37,826)	(110,177)
Contracting of long-term liabilities	(297)	84,447
Cash flows from financing activities	(297)	84,447
Net cash flow	(59,651)	(117,136)
Cash and cash equivalents at 1 January	(30,528)	(31,131)
Cash and cash equivalents at 30 September	(90,179)	(148,267)

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	3rd Quarter 2020	3rd Quarter 2019	Year to date 2020	Year to date 2019
Domestic	66,056	91,091	123,651	139,884
Foreign	275,071	300,842	957,003	1,100,271
	341,127	391,933	1,080,654	1,240,155
Red meat processing	264,405	322,020	922,557	1,099,519
Other	76,722	69,913	158,097	140,636
	341,127	391,933	1,080,654	1,240,155
Timing of revenue recognition				
Recognition at single point of time	147,180	129,547	289,492	255,961
Recognition over time	193,947	262,386	791,162	984,194
	341,127	391,933	1,080,654	1,240,155

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	3rd Quarter 2020	3rd Quarter 2019	Year to date 2020	Year to date 2019
External cost related to acquisitions	-	(2,061)	-	3,194
Discontinuing outsourcing activities	-	8,852	-	23,385
Cost of internal restructuring	389	1,898	5,726	7,950
Other	-	9,826	-	9,479
	389	18,515	5,726	44,008

Note 5. Events after the balance sheet date

Other than what has been described in the Management's review regarding COVID-19 pandemic, there have been no events since 30 September 2020, which could significantly affect the evaluation of the Group's financial position and revenue.