FRONTMATEC

Investor Call
Interim report Q3 2020

November 2, 2020

Today's presenters

Thomas Stenager

CFO

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

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

Executive summary

Revenue	• Pro forma revenue of DKK 348m in Q3 2020 vs. DKK 400 in Q3 2019 (13% decline) driven by lower revenue from projects, which was partly offset by higher revenue from after sales and other business units. COVID-19 impacted project revenue in Q3 2020 on all markets
EBITDA	• **Pro forma EBITDA improved 32%** from DKK 34m in Q3 2019 (8.4% margin) to DKK 45m in Q3 2020 (12.9% margin) • The negative impact from lower project revenue was offset by **improved margins and lower fixed costs** • **Special non-recurring items were reduced significantly** from DKK 19m in Q3 2019 to DKK 0m in Q3 2020. This was the result of less restructuring activities in 2020 • **Operating profit improved with DKK 28m** from a loss of DKK 23m in Q3 2019 to profit of DKK 5m in Q3 2020
Cash flow	• **Cash flow from operating activities improved with DKK 69m** from DKK -91m YTD Q3 2019 to DKK -22m YTD Q3 2020. Net cash flow was DKK -60m YTD Q3 2020 (DKK -117 YTD Q3 2019). Cash flow in the third quarter 2020 was impacted by cash outflow for project execution and less milestone payments
Liquidity	• Net cash and credit of DKK -90m on September 30, 2020 compared to DKK -148m on September 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 remains as previously announced with **pro forma EBITDA in the range between DKK 150m – DKK 200m** • The result in 2020 has been negatively impacted by the relocation in Kolding in 2019. Excluding the poor performance from projects in Kolding, the group has performed satisfactory, taking COVID-19 into consideration, with pro forma EBITDA in 2020 similar to 2019

The lower LTM EBITDA as of Sep-20 vs. FY 2019 is mainly a result of margin slippage on projects in Kolding affected by the factory move in 2019

Comments

Overall, the business units in Frontmatec are performing well and have shown resilience to COVID-19, with the exception of Kolding's project business

- Excluding the negative EBITDA impact from Kolding, LTM performance vs. FY 2019 has been fairly stable despite COVID-19

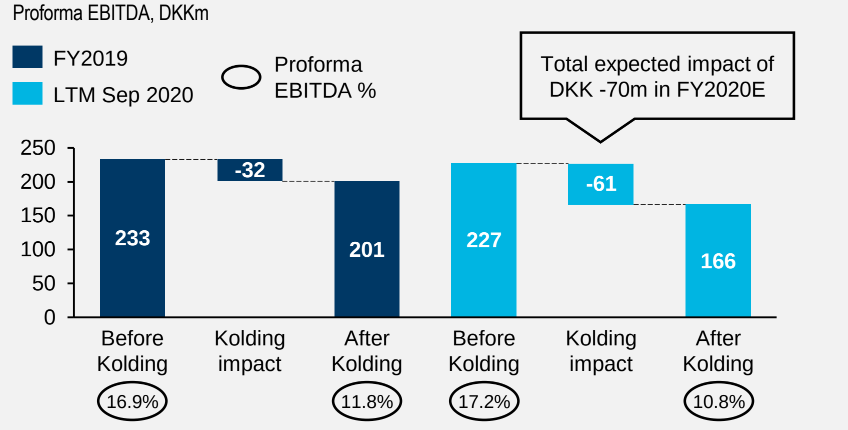
Kolding has experienced significant margin slippage on selected projects secured back in 2018-2019

- The root cause is tied to the factory move in 2019 and to some extent COVID-19 due to travel restrictions and customer lockdowns
- Corrective actions have been put in place including[1]:
  (i) fixing the physical setup and layout of the Kolding site
  (ii) hiring of new people and restructuring the organisation
  (iii) standardising processes from signing to delivery of projects
- Improved performance is expected already in January 2021 as the newer projects in Kolding are tracking on "as sold" margins and include provisions should certain margin slippage arise

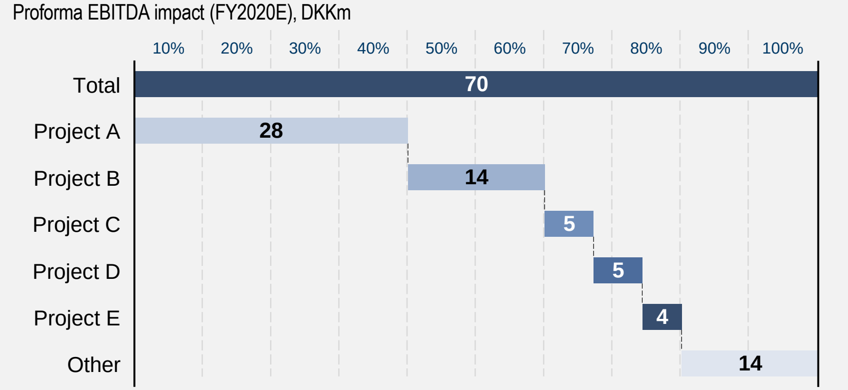
A total loss of DKK 70m is expected in Kolding in FY2020E of which ~80% relates to five specific projects sold in 2018 and early 2019

- The projects are being finalized over the coming 5 months, after which Kolding will no longer be affected by these projects

Kolding's impact on Group financials



Margin slippage in Kolding by projects



Notes: (1) Please refer to the next page for details

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Three overarching tracks have been put in place to reduce margin slippage and ensure successful project execution in Kolding

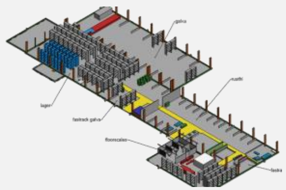
Fixing the Kolding site

INITIATIVE

- Establishing the physical frames that will allow Kolding to perform
- Improve work- and material flow across the value chain in operations
- Allow space for testing before shipping

APPROACH

- New layout designed in close collaboration with Kolding leadership
- Work-flow analysis to enhance throughput and quality
- Built in space for quality assurance



Restructuring the organisation

INITIATIVE

- Clear P&L responsibility
- Improved strategic direction and accountability
- The new management team is collaborating on executing 12 improvement tracks with a focus on Kolding

APPROACH

- The extended management team and several new hires will drive culture and improvements in Kolding
- The new leadership covers all critical functions across the value chain and consists of experienced and seasoned managers

Allan Kristensen
Chief Executive Officer
Hired Dec- 20

Jakob B. Lauritzen
Site Director Kolding
Hired Aug-20

Morten Albin Olsen
Global Supply Chain Director
Hired Jan-20

Anders Tønnesen
VP Primary Processing
Hired November 2020

Standardising processes

INITIATIVE

- Kolding has gained control of its processes working with contracts, tenders, project execution, and continuous improvement
- The local leadership team in Kolding is executing 15 continuous improvement initiatives with more in their backlog

APPROACH

- Weekly follow-up meetings in the local leadership in Kolding
- Lean and Agile design principles
- Standard process implementation

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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** due to related travel restrictions and customer lockdown. New legislation is being proposed in Germany regarding food and employee safety. This had a short term negative impact on revenue, 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 YoY Q3 improved. Sufficient liquidity reserve in place

Cash flow statement (DKKm)

DKK '000	YTD Q3 2020	YTD Q3 2019
EBITDA (IFRS)	128,105	158,299
Special items	(5,726)	(44,008)
Change in NWC	(69,859)	(150,717)
Corporation tax paid	(3,461)	(20,642)
Financial income	535	20,937
Financial costs	(71,122)	(55,274)
Cash flows from operating activities	**(21,528)**	**(91,405)**
Addition of intangible assets and PP&E	(42,114)	(60,656)
Business acquisitions	4,288	(49,521)
Cash flows from investment activities	**(37,826)**	**(110,177)**
Contracting of long-term liabilities	(297)	84,447
Cash flows from financing activities	**(297)**	**84,447**
Net cash flows	**(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)**

Comments

- Cash flow from operating activities has improved DKK 69m from DKK -91m YTD Q3 2019 to DKK -22m YTD Q3 2020
- Especially cash flow from operating activities has improved, but still negative due to net cash outflow in the third quarter of 2020 used for ongoing projects, where milestone payments will be received in Q4 2020
- Net cash flow was DKK -60m YTD Q3 2020 and improved from DKK -117 YTD Q3 2019
- Cash flow to investments activities was DKK 38m YTD Q3 2020 and mainly used on product development to support future growth
- Cash and cash equivalent was DKK -90m on September 30, 2020
- 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.
- Sufficient liquidity is in place

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Concluding remarks: After Sales and Other Business units are expected to continue to grow. 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.
	• Europe and North America are still 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.
	• 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 fixed costs (e.g. primarily layoffs of 135 headcounts) and improve liquidity (focus on cash on a daily basis); and
	    • utilising public COVID-19 support programs

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. • The outlook for 2020 remains at the same level as previously announced with pro forma EBITDA in the range DKK 150m – DKK 200m, due to continued uncertainty created by the COVID-19 pandemic. • We expect to see improved profit and cash flow in 2021 due to increased demand for automation, food- and employee safety, and the improvements implemented in Kolding.

Q&A