Duroc meets temporary adverses in the short term but still sees good potential going forward

Order of approximately SEK 530 million to Cotting Group secured

December 16, 2021

As communicated in the interim report for July-September 2021, there was a risk of continued disruption in the form of escalating raw material and energy prices as well as the negative effects of the shortage of semiconductors. This trend has continued into the second quarter and operating profit so far (Oct-Nov) amounted to SEK -4.4 million. Operating profit for the second quarter of 2020 amounted to SEK 13 million and the prospects for achieving corresponding results during the second quarter of this year are no longer considered probable.

Net debt excluding leasing debt from IFRS 16 amounted to SEK 171.2 million at the end of November. (SEK 129.7 million as of the end of September 2021). The increase in net debt is mainly attributable to increased capital tied up due to rising raw material prices. The equity / assets ratio is high and Duroc has significant unutilized credit facilities.

The long-term strategy work in Cotting Group has resulted in a new important order from a car manufacturer after a year of intensive development work. The value is approximately € 52M over six years and the first delivery will take place at the end of 2023. The order involves investments in new production equipment that will strengthen competitiveness in the coming years.

In the short term, the challenge for Duroc lies mainly in the French unit in the Cotting Group, which is strongly exposed to local car manufacturers. About 50% of sales are related to these customers and there we see a volume decline since pre-Covid of about 50 percent. Cotting Group accounts for about 15 percent of Duroc's sales. Measures have been taken to reduce costs and compensate for increases in raw material prices through price adjustments. In the short term, the challenges will remain until volumes return.

Drake Extrusion, like many American employers, has had great difficulty finding and retaining labor. This has led to temporary deteriorations in earnings in the business. Demand for the yarns is stronger than ever and the company is well invested. However, the personnel problem is expected to improve during the next quarter as the company sees an increased number of jobseekers.

Prices for raw materials for IFG and Drake have for a long time escalated to historically high levels. The effects of this have led customers to adjust their inventory volumes and wait with new orders. A decline in prices is now noted in both Europe and the US, and this may have a positive effect on order intake and margins in the coming quarters.

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In other parts of the Group, satisfactory operating profit, strong demand and order backlogs are at record levels.

Duroc is in good financial condition with low net debt and a strong balance sheet. The turbulence that the pandemic brought with it has led to worse short-term results than I previously expected. Basically, my assessment is that the challenges are temporary. From a medium / long-term perspective, in a normalized situation, my assessment is that the earning capacity is good. However, it is difficult to assess how the conditions will develop for the coming quarter as well.

For further information

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