

KENDRION N.V.

PRESS RELEASE

2 November 2021

Kendrion continues revenue and profitability growth in a volatile market environment

- Revenue increased by 15% to EUR 113.2 million compared with EUR 98.6 million in Q3 2020
- Growth driven by all three Business Groups; Industrial revenue exceeds pre-COVID levels
- Impact of semiconductor shortages, supply chain constraints, demand volatility and increasing raw material prices managed effectively
- Normalized Q3 EBITDA increase of 9% to EUR 12.4 million (Q3 2020: 11.4 million)
- Normalized Q3 EBITA of EUR 6.5 million, 30% higher than Q3 2020
- Further expansion of Industrial business through the acquisition of 3T; integration on track
- Normalized net profit before amortization over the first nine months of EUR 16.5 million, 88% higher than the same period in 2020 (EUR 8.8 million)

Key figures

Reported (in EUR million)	Q3 2021	Q3 2020	delta	YTD 2021	YTD 2020	delta
Revenue	113.2	98.6	15%	347.8	293.3	19%
EBITDA	11.9	10.9	9%	43.9	31.1	41%
EBITA	6.0	4.5	33%	25.7	11.9	116%
Net profit	2.9	1.6	81%	14.2	4.6	209%
EBITDA as a % of revenue	10.5%	11.1%		12.6%	10.6%	
EBITA as a % of revenue	5.3%	4.6%		7.4%	4.1%	
Return on invested capital ¹ (12 months rolling)				13.8%	5.0%	

Normalized (in EUR million) ²	Q3 2021	Q3 2020	delta	YTD 2021	YTD 2020	delta
Revenue	113.2	98.6	15%	347.8	293.3	19%
EBITDA	12.4	11.4	9%	44.3	33.2	34%
EBITA	6.5	5.0	30%	26.1	14.0	86%
Net profit before amortization	4.0	3.0	33%	16.5	8.8	88%
EBITDA as a % of revenue	11.0%	11.6%		12.7%	11.3%	
EBITA as a % of revenue	5.7%	5.1%		7.5%	4.8%	
Return on invested capital ¹ (12 months rolling)				15.2%	8.4%	

¹ Invested capital excluding intangibles arising from acquisitions.

² Normalized for one-off costs and benefits:

- Q3 2021: EUR 0.1 million (EUR 0.0 million after tax) restructuring costs and EUR 0.4 million (EUR 0.3 million after tax) acquisition costs.

- Q3 2020: EUR 0.5 million (EUR 0.4 million after tax) restructuring costs and EUR 0.4 million interest expense related to tax audit.

- YTD 2021: EUR 0.4 million (EUR 0.3 million after tax) restructuring costs, EUR 0.4 million (EUR 0.3 million after tax) acquisition costs and EUR -0.4 million tax claim receipt.

- YTD 2020: EUR 1.6 million (EUR 1.2 million after tax) restructuring costs, EUR 0.5 million (EUR 0.4 million after tax) acquisition costs and EUR 0.4 million interest expense related to tax audit.

Joep van Beurden, Kendrion CEO:

"We continued to deliver significant growth in revenue across all segments in Q3 and during the first nine months of 2021 in a volatile market. We are observing higher activity levels across our markets as the economy recovers. At the same time, we are dealing with the impact of semiconductor shortages on the demand of our Automotive customers. In addition, we are facing other supply chain constraints and upward pressure on raw material prices. I am proud of our global team for managing the impact of these challenges so well.

Our Industrial businesses continued their strong performance of the first half year into Q3, with organic revenues exceeding Q3 2019 levels in both Industrial Actuators and Controls, and Industrial Brakes. Higher raw material prices somewhat reduced the Industrial added value margin. We expect this effect to be temporary as our own price increases are kicking in. Short-term demand looks healthy and in the longer-term we expect our Industrial businesses to continue to benefit from the global energy transition towards electrification.

In the Automotive segment, demand is volatile due to the severe and ongoing semiconductor shortage. The shortage reduces the production in the sector significantly, putting pressure on our Automotive revenue. We expect this situation to continue in Q4 and at least until the first half of 2022. Longer-term, we remain well-positioned to benefit from the accelerated Autonomous, Connected, Electric and Shared mobility (ACES) transition.

On 21 September, we announced the acquisition of the Dutch electronics and embedded systems developer 3T. This acquisition offers significant growth potential for our Industrial business in combination with the control technology activities of our Business Group Industrial Actuators and Controls. 3T also strengthens our software and electronics development capabilities, which will benefit our Automotive Group, more specifically the development of our sensor cleaning and sound actuation platforms. Integration has started and 3T has already positively impacted our profitability.

Looking ahead, we expect that both the semiconductor shortage and broader disruption in the supply chain will continue. With our well-balanced product portfolio, global exposure, and strong strategic position in both Industrial and Automotive, we are well positioned to manage the impact of these challenges. Longer-term, we believe that the accelerated transition towards clean energy will benefit our three growth areas; Industrial Brakes as it boosts demand for wind power, robotics, and various other segments; Automotive, where we focus on ACES; and China.

We are confident that the global push for clean energy, combined with our strong position in our growth areas Industrial Brakes, Automotive and China, will help us achieve our medium-term financial targets of 5% organic growth between 2019 and 2025, an EBITDA of at least 15% in 2025, and an ROIC of at least 25% in 2025."

Progress on strategy

Over 2021, economic activity has bounced back from the low levels caused by the COVID-19 pandemic. We see great opportunities for growth and are well positioned to benefit from accelerating mega trends, including the worldwide transition to renewable energy set to increase the demand for wind power, robotics, intra logistics and electric vehicles.

We operate in three Business Groups: Automotive Group (AG), Industrial Brakes (IB), and Industrial Actuators and Controls (IAC). AG and IB focus on organic growth. In IAC, the emphasis lies on profitability and cash generation. In China we also focus on organic growth. Here, we are on schedule to build our 28,000 m² manufacturing facility in Suzhou's Industrial Park, a prime location for technology and advanced manufacturing companies.

The COVID-19 pandemic is still very much a reality. We maintain strict operating procedures in our factories around the world, as we do see occasional COVID-19 flare-ups. Supply chain constraints, and specifically a shortage in semiconductors, are leading to pressure on raw material prices and high volatility in customer demand, especially in the automotive market. For certain product categories demand is high and requires the deployment of additional production shifts in the relevant factories. Particularly on the Automotive side, we are experiencing lower production levels and uncertainty in customer product call-offs. We have managed to navigate this successfully, in part thanks to our balanced product portfolio and global market exposure. We expect the current demand volatility and supply chain constraints to continue for the rest of the year and well into 2022.

Our longer-term prospects remain favorable as the world's transition to clean forms of energy, such as the electrification of passenger cars and several important industrial segments, is accelerating. We expect this trend will offer us additional opportunities for organic growth.

Financial review

Revenue

Third quarter of 2021

Revenue in the third quarter of 2021 amounted to EUR 113.2 million, well above last year's EUR 98.6 million. Before exchange rate effects and the consolidation of 3T per 21 September 2021, revenue increased by 14%. Following a strong first half, economic activity remained high, with both Industrial Groups' quarterly revenue exceeding Q3 2019.

Our Industrial segments continued their strong performance, with organic revenue growth in both IB and IAC of 21% and 25% respectively, and activity in almost all segments at a high level. Industrial Brakes continued to benefit from the growing and accelerating trend towards electrification across industries. Within IAC, aviation remained under pressure, but sales towards the other customer segments is back at pre-COVID levels. Activity in segments like medical and machine safety was high.

In Automotive, revenue was affected by the semiconductor shortages and the consequent sharp reduction in global car production. The commercial vehicle-related revenue, especially in agriculture and trucks in the US, performed well, while the coach segment remained weak. All in all, Automotive revenue increased by 6% compared with Q3 2020.

First nine months of 2021

Revenue over the first nine months of 2021 totaled EUR 347.8 million, an organic increase of 19% (2020 YTD: EUR 293.3 million). Automotive realized 21% organic revenue growth with revenue coming in at EUR 179.1 million; IB revenue increased by 17% to EUR 93.1 million; IAC increased by 18% to EUR 75.6 million.

Results

Third quarter of 2021

EBITDA, the normalized operating result before depreciation and amortization, increased by 9% to EUR 12.4 million (Q3 2020: EUR 11.4 million). The EBITDA margin came in at 11.0% compared with 11.6% in Q3 2020.

Operating leverage in Q3 was negatively affected by the high demand volatility in Automotive and strong growth of the Industrial Business Groups this year as this restricted our ability to dynamically control the cost base compared with last year.

Increased raw material prices affected the added value margin, which came in at 48.0%, in line with Q2 and 0.4% below 2020. Industrial Brakes was affected most heavily by the material price increases and has taken pricing action to improve added value margins.

Revenue growth and the reduction of capital expenditure in the previous year has decreased the depreciation charges as a percentage of revenue by 1.1% to 5.3% of revenue (Q3 2020: 6.4%). As a result, EBITA increased by 30% to EUR 6.5 million (Q3: 2020: EUR 5.0 million) with the margin increasing to 5.7% (Q3 2020: 5.1%)

First nine months of 2021

Normalized EBITDA in the first nine months of 2021 increased significantly to EUR 44.3 million (YTD 2020: EUR 33.2 million), with a normalized EBITDA margin of 12.7% (same period 2020: 11.3%).

Normalized net finance costs in the first nine months of 2021 amounted to EUR 2.8 million, compared with EUR 2.5 million over the first nine months of 2020. This increase is due to the higher applicable interest rate markups. Normalized income tax expenses for the first nine months of 2021 amounted to EUR 6.0 (YTD 2020: EUR 2.0 million), which is a normalized effective tax rate of 29.5% (YTD 2020: 23.8%). A previous year related correction booking increased the year-to-date tax rate by 1.2%.

Normalized net profit for the first nine months of 2021, before amortization of intangibles arising on acquisitions, came in at EUR 16.5 million (2020: EUR 8.8 million). Normalized earnings before amortization per share in the first nine months amounted to EUR 1.11 (2020: EUR 0.60), and basic reported earnings per share in the first nine months to EUR 0.96 (2020: EUR 0.31). Reported net profit arrived at EUR 14.2 million (2020: EUR 4.6 million) EUR 0.2 million net of tax one-off costs normalized from the results.

Financial position

The total net debt increased to EUR 141.2 million at the end of Q3 2021 (Q2 2021: EUR 112.7 million). Net debt at the end of Q3 2021 includes EUR 23.3 million cash-out and EUR 1.9 million IFRS16 lease liabilities from the acquisition of 3T. The balance sheet as per the end of Q3 further includes EUR 21.1 million intangibles (goodwill), EUR 2.3 million fixed assets and EUR 1.8 million net working capital from the consolidation of 3T. All amounts are recorded before the final purchase price allocation.

Free cash flow in Q3 was affected by a EUR 6.0 million organic increase in inventory levels. The build-up of buffer stock for the anticipated closure of our Austrian Automotive plant and late order reductions from passenger car customers contributed to the increased inventory. Although raw material shortages and order volatility will continue to put pressure on inventory, measures have been taken to reduce the inventory levels.

Capital expenditure is picking up as anticipated with year-to-date investments now at EUR 20.2 million (YTD 2020: EUR 11.2 million). EUR 5.6 million of the total investments relate to the construction of our new factory in China, which is progressing according to plan.

The leverage ratio at the end of Q3, including the consolidation of 3T, stood at 2.4 (Q3 2020: 2.9) well below the financial covenant of 3.25. Kendrion's solvency ratio remains strong: 44.4% at the end of September 2021 (YTD 2020: 45.7%).

Number of employees

The total number of FTE at the end of Q3 2021 was 2.765, 118 more than at the end of the previous quarter and 337 FTE more than at the end of Q3 2020. Of the 118 additional FTE, 80 came from the consolidation with 3T and 38 from organic growth. Of these 38, 32 are direct staff and 6 are indirect employees.

The 257-organic FTE increase compared to Q3 2020 relates almost exclusively (251 FTE) to additional direct staff (mostly temporary employees) driven by the higher activity level in all business groups and production inefficiencies in Automotive.

Outlook

Our outlook is cautiously optimistic. Coming out of the COVID pandemic, we see that the economy has expanded rapidly. Activity levels are high, but so is demand volatility. Supply chains worldwide are impacted. We expect the current economic environment to persist in Q4 2021 and well into 2022 but trust we can navigate these challenges well with our balanced product portfolio, global exposure, and strong strategic position.

We remain positive about the growth trajectory of our business groups, our strategy and product pipeline, and are confident we are well positioned to benefit from the accelerating transition towards clean energy. We expect margins to come back to pre-pandemic levels and remain positive about our business fundamentals and our main objective: delivering sustainable profitable growth. We are well on track to achieve our medium-term targets.

Analysts' call Q3 2021 results

Kendrion CEO Joep van Beurden and CFO Jeroen Hemmen will present the Q3 2021 results on Tuesday, 2 November, at 11:00 a.m. CET via an analysts' conference call.

Profile of Kendrion N.V.

Kendrion develops, manufactures, and markets high-quality electromagnetic systems and components for industrial and automotive applications. For more than a century, we have been engineering precision parts for the world's leading innovators in passenger cars, commercial vehicles, and industrial applications. As a leading technology pioneer, Kendrion invents, designs, and manufactures complex components and customized systems as well as local solutions on demand.

We are committed to the engineering challenges of tomorrow. Taking responsibility for how we source, manufacture, and conduct business is embedded into our culture of innovation. Rooted in Germany, headquartered in the Netherlands, and listed on the Amsterdam stock exchange, Kendrion's expertise extends across Europe, the Americas and Asia. Created with passion and engineered with precision.

Amsterdam, 2 November 2021

The Executive Board

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Annexes

- 1. Consolidated statement of comprehensive income**
- 2. Consolidated statement of financial position**
- 3. Financial calendar 2021 – 2022**

Annex 1 – Consolidated statement of comprehensive income *

(EUR million)	Q3 2021	Q3 2020	period ended 30-9-2021	period ended 30-9-2020	full year 2020
Revenue	113.2	98.6	347.8	293.3	396.4
Other income	0.2	0.0	0.2	0.2	0.3
Total revenue and other income	113.4	98.6	348.0	293.5	396.7
Changes in inventories of finished goods and work in progress	(1.3)	1.3	(5.2)	1.5	2.5
Raw materials and subcontracted work	59.6	50.2	182.2	149.4	203.2
Staff costs	34.1	28.7	101.7	89.6	119.5
Depreciation and amortisation	6.9	7.2	21.0	22.1	30.1
Other operating expenses	9.1	7.5	25.4	21.9	31.3
Result before net finance costs	5.0	3.7	22.9	9.0	10.1
Finance income	0.0	0.0	0.0	0.0	0.0
Finance expense	(0.8)	(1.3)	(2.8)	(2.9)	(4.1)
Share profit or loss of an associate	-	-	-	-	(0.3)
Profit before income tax	4.2	2.4	20.1	6.1	5.7
Income tax expense	(1.3)	(0.8)	(5.9)	(1.5)	(1.4)
Profit for the period	2.9	1.6	14.2	4.6	4.3
Basic earnings per share (EUR), based on weighted average	0.20	0.11	0.96	0.31	0.29
Basic earnings per share (EUR), based on weighted average (diluted)	0.20	0.11	0.96	0.31	0.29

* Not adjusted for non-recurring items

Annex 2 – Consolidated statement of financial position

(EUR million)	30 Sept. 2021	30 Sept. 2020	31 Dec. 2020
Assets			
Non-current assets			
Property, plant and equipment	123.6	119.8	118.7
Intangible assets	179.3	167.3	158.1
Other investments, including derivatives	2.8	2.5	3.0
Deferred tax assets	17.2	14.5	19.2
Contract costs	0.5	0.7	0.6
Total non-current assets	323.4	304.8	299.6
Current assets			
Inventories	80.6	66.8	61.7
Current tax assets	1.9	1.3	1.4
Trade and other receivables	66.5	61.8	53.4
Cash and cash equivalents	19.0	12.9	13.0
Total current assets	168.0	142.8	129.5
Total assets	491.4	447.6	429.1
Equity and liabilities			
Equity			
Share capital	29.9	29.9	29.9
Share premium	45.8	51.7	51.7
Reserves	128.1	118.4	117.5
Retained earnings	14.2	4.6	4.3
Total equity	218.0	204.6	203.4
Liabilities			
Loans and borrowings	147.5	118.4	104.2
Employee benefits	14.7	18.6	15.5
Deferred tax liabilities	15.6	17.0	15.9
Provisions	0.9	0.4	0.7
Total non-current liabilities	178.7	154.4	136.3
Bank overdraft	5.9	13.8	4.5
Loans and borrowings	6.8	3.3	7.5
Provisions	0.9	1.7	1.5
Current tax liabilities	4.0	3.0	5.2
Contract liabilities	4.2	5.8	5.5
Trade and other payables	72.9	61.0	65.2
Total current liabilities	94.7	88.6	89.4
Total liabilities	273.4	243.0	225.7
Total equity and liabilities	491.4	447.6	429.1

Annex 3 – Financial calendar 2021-2022**2021**

Publication Q3 2021 results	Tuesday, 2 November 2021	07.30 a.m.
Analysts' call	Tuesday, 2 November 2021	11.00 a.m.

2022

Publication Q4 and FY 2021 results	Friday, 25 February 2022	07.30 a.m.
Analysts' meeting	Friday, 25 February 2022	11.00 a.m.
General Meeting of Shareholders	Monday, 11 April 2022	02.00 p.m.
Publication Q1 2022 results	Tuesday, 3 May 2022	07.30 a.m.
Analysts' call	Tuesday, 3 May 2022	11.00 a.m.
Publication Q2 and HY1 2022 results	Wednesday, 24 August 2022	07.30 a.m.
Analysts' meeting	Wednesday, 24 August 2022	11.00 a.m.
Publication Q3 2022 results	Tuesday, 8 November 2022	07.30 a.m.
Analysts' call	Tuesday, 8 November 2022	11.00 a.m.