

K E N D R I O N N . V .
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Kendrion posts record revenue and strong profit growth as market volatility persists

- Revenue of EUR 132.9 million, up 17% compared to EUR 113.2 million in Q3 2021
- Growth mostly driven by the Industrial Groups: 28% increase in Industrial Brakes, 26% in Industrial Actuators and Controls, and 8% in Automotive
- Normalized Q3 EBITDA increased 20% to EUR 14.9 million (Q3 2021: EUR 12.4 million)
- Normalized Q3 EBITA was 37% higher at EUR 8.9 million (Q3 2021: EUR 6.5 million)
- Announced split of the Automotive Group into Automotive Core and Automotive E on track to be fully operational by 1 January 2023
- Strong focus on cashflow, working capital and added value margin
- Leverage ratio of 2.6 unchanged compared to Q2 2022

Key figures

Reported (in EUR million)	Q3 2022	Q3 2021	delta	YTD 2022	YTD 2021	delta
Revenue	132.9	113.2	17%	389.7	347.8	12%
EBITDA	13.3	11.9	12%	41.4	43.9	-6%
EBITA	7.3	6.0	22%	24.2	25.7	-6%
Net profit	4.0	2.9	38%	12.8	14.2	-10%
EBITDA as a % of revenue	10.0%	10.5%		10.6%	12.6%	
EBITA as a % of revenue	5.5%	5.3%		6.2%	7.4%	
Return on invested capital ¹ (12 months rolling)				11.3%	13.8%	

Normalized (in EUR million)²	Q3 2022	Q3 2021	delta	YTD 2022	YTD 2021	delta
Revenue	132.9	113.2	17%	389.7	347.8	12%
EBITDA	14.9	12.4	20%	45.4	44.3	2%
EBITA	8.9	6.5	37%	28.2	26.1	8%
Net profit before amortization	6.1	4.0	53%	19.0	16.5	15%
EBITDA as a % of revenue	11.2%	11.0%		11.6%	12.7%	
EBITA as a % of revenue	6.7%	5.7%		7.2%	7.5%	
Return on invested capital ¹ (12 months rolling)				14.7%	15.2%	

¹ Invested capital excluding intangibles arising from acquisitions.

² Normalized for one-off costs and benefits:

Q3 2022: EUR 1.6 million (EUR 1.2 million after tax) restructuring costs.

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.

YTD 2022: EUR 4.0 million (EUR 3.0 million after tax) net restructuring costs and EUR 0.6 million net finance costs (EUR 0.5 million after tax) related to credit facility and release of currency translation reserve.

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.

Joep van Beurden, Kendrion CEO:

"We have had a strong third quarter. Revenue grew in all our Business Groups, resulting in a revenue increase of 17% to EUR 132.9 million, compared to Q3 2021 and a new quarterly revenue record. Our Industrial Groups in particular, performed well. Industrial Brakes grew its revenue by 28% while Industrial Actuators and Controls achieved a revenue increase of 26% or 14% excluding 3T's contribution. The Automotive Group grew by 8%. The revenue growth combined with a stable added value margin and disciplined cost control considerably increased our profitability. Our normalized EBITDA grew by 20%, EBITA by 37% and our net profit before amortization by 53%. I am proud of our global team who delivered these results despite ongoing difficult market conditions.

The Automotive trading environment remains difficult with continuing semiconductor shortages, demand volatility, and supply price increases. With the announced split of the Automotive Group into Automotive E and Automotive Core, we make a clear strategic, operational, and organizational distinction within the Automotive Group. In the new set up, we will further increase our focus on innovation and products such as AVAS sound systems and active suspension, while at the same time improving the efficiency and cash generation from our current combustion engine products. We are on track to implement the new set up by the start of 2023.

In China, production caught up with the backlog caused by the lockdown in Shanghai during the first half of the year. Construction of our new factory at the renowned Industrial Park in Suzhou (SIP) is almost finished and we expect to start production in the first quarter of 2023. The increased production capacity will allow us to meet current project pipeline demands and capture the many opportunities we have identified.

As a global company focused on actuators that support the global trend towards electrification and cleaner energy, we continue to see business opportunities for our products in all three Business Groups. We expect the unpredictability of the economic environment to continue into 2023 but 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

Despite the persistent economic turmoil, Kendrion is well positioned to capitalize on the worldwide energy transition as the demand for wind power, robotics, intra logistics, inductive heating and electric vehicles is increasing. Our operations are divided in three Business Groups: Industrial Brakes (IB), Industrial Actuators and Controls (IAC) and the Automotive Group (AG). While AG and IB focus on profitable organic growth, the emphasis in IAC lies on profitability and cash generation. For all three Business Groups, China has a focus on profitable organic growth. The construction of our new 28,000 m² manufacturing facility in Suzhou's Industrial Park has entered the final phase and is expected to start production in the first quarter of next year.

The Q3 2022 results show a familiar pattern compared to previous quarterly results: strongly performing Industrial Groups and a weaker Automotive Group. To strengthen Kendrion's position in the automotive market and leverage the growth opportunities related to the global trend towards electric vehicles, we announced a new organizational structure for the Automotive Group at the Capital Markets Day in September 2022. The Automotive Group will split into two separate organizations: Automotive Core and Automotive E. Core will have a focus on existing technologies for vehicles with an internal combustion engine (ICE) and Automotive E will concentrate on opportunities related to the transition towards Autonomous, Connected, Electrified and Shared mobility (ACES). The split of the Automotive Group into Core and E will enhance our focus on innovation and the development of strategically relevant products such as AVAS sound systems, active suspension, and sensor cleaning. At the same time, it is expected to enhance the efficiency and cash generation of our existing business of combustion engine related

products. We have started preparations for the split during the quarter under review and have normalized EUR 1.6 million in one-off costs (or EUR 1.2 million net of tax) related to the restructuring. In total, the associated one-off costs are expected to be EUR 5 million. The new organizational structure is likely to be operational per 1 January 2023 and is anticipated to deliver annual cost savings of around EUR 4 million.

While the current difficult trading environment is expected to continue for the rest of this year and into 2023, our longer-term outlook remains favourable on account of the global transition to cleaner forms of energy. We are confident that this accelerating trend will offer significant organic growth opportunities across all our Business Groups.

Financial review

Revenue

Third quarter of 2022

Revenue in the third quarter of 2022 increased by 17% to EUR 132.9 million (Q3 2021: EUR 113.2 million). Positive exchange rate effects and the addition of 3T contributed respectively 3% and 2% to nominal revenue. Organic revenue growth for the group at constant rates of exchange was 12%. Sales price increases had an upward effect on group revenue of 6%.

Our Industrial segments continued their strong performance, on the back of increased demand for products supporting the transition towards cleaner energy. IB revenue increased by 28% to EUR 40.1 million (Q3 2021: EUR 31.3 million), an increase of 24% when measured at constant rates of exchange, while IAC reported an organic revenue increase of 14% to EUR 32.5 million (Q3 2021: EUR 25.8 million), 11% growth when measured at constant rates of exchange. Activity in almost all industrial segments remained at a high level. Our growth in China accelerated the team caught up with the Shanghai lockdown-related production backlog of the second quarter. Automotive revenue increased by 8% to EUR 60.3 million (Q3 2021: EUR 56.1 million), an increase of 5% when measured at constant rates of exchange.

First nine months of 2022

A strong third quarter continued the upward revenue trend of the first six months of the year. Revenue over the first nine months of 2022 increased by 12%, or 10% at constant exchange rates to EUR 389.7 million from EUR 347.8 million in the same period last year. IB revenue increased by 22% to EUR 114.0 million; IAC increased to EUR 94.7 million, an organic increase of 13%, while Automotive was almost stable over the period (+1%) with revenue coming in at EUR 181.0 million.

Results

Third quarter of 2022

EBITDA, the normalized operating result before depreciation and amortization, increased by 20% to EUR 14.9 million (Q3 2021: EUR 12.4 million). Good operational leverage in the Industrial Business Groups more than offset weaker profitability in Automotive.

We continued to successfully defend our added value margin despite the ongoing inflation. As price increases of raw materials are passed on to customers without margin, the added value margin came in at 47.3%, 0.7% below the same period in 2021. At EUR 6.0 million, depreciation charges were in line with the same period in 2021, leading to an EBITA increase of 37% to EUR 8.9 million (Q3 2021: EUR 6.5 million) with the margin increasing to 6.7% (Q3 2021: 5.7%).

We are on track to realize EUR 4 million annual cost savings in the Automotive organization from Q1 2023, as announced during our Capital Markets Day in September 2022. Together with the EUR 4 million cost savings related to the closure of the Austrian production facility that will be fully effective in Q4 2022, these savings will contribute to a significantly lower cost base in Automotive. In the third quarter EUR 1.6 million

(EUR 1.2 million net of tax) restructuring charges have been normalized from the results. We expect total one-off restructuring costs will come to EUR 5 million.

First nine months of 2022

Normalized EBITDA in the first nine months of 2022 increased to EUR 45.4 million (YTD 2021: EUR 44.3 million), with a normalized EBITDA margin of 11.6% (same period 2021: 12.7%), Depreciation charges decreased by EUR 1.0 million to EUR 17.2 million resulting in an EBITA of EUR 28.2 million, 8% higher than in the first nine months of the previous year.

Normalized net finance costs in the first nine months of 2022 amounted to EUR 1.9 million, down from EUR 2.8 million over the first nine months of 2021. This decrease was due to realized and unrealized currency gains in the first three quarters of 2022, while we incurred realized and unrealized losses in the same period of the previous year. Normalized income tax expenses for the first nine months of 2022 amounted to EUR 6.4 million compared to EUR 6.1 over the first nine months of 2021, a normalized effective tax rate of 28.7% (YTD 2021: 29.5%).

Normalized net profit for the first nine months of 2022, before amortization of intangibles arising from acquisitions, increased to EUR 19.0 million compared to EUR 16.5 in 2021, with normalized earnings before amortization per share in the first nine months of EUR 1,27 (2021: EUR 1,11), and basic reported earnings per share of EUR 0,86 (YTD 2021: EUR 0,96). Reported net profit amounted to EUR 12.8 million, compared to EUR 14.2 million YTD 2021, with year-to-date net of tax one-off costs of EUR 3.5 (2021: EUR 0.2 million).

Financial position

The total net debt increased to EUR 154.1 at the end of Q3 2022, compared to EUR 145.6 at the end of Q2 2022. The increase was mainly due to the negative free cash flow of EUR 9.0 million in combination with slightly lower lease liabilities. Quarterly free cash flow was affected by EUR 14.3 million capital investments, of which EUR 6.6 million related to the construction of the new production facility in China. Other investments mainly involved new production lines for new Automotive projects that will start production within the next 12 months, as well as capacity extensions in IB. Quarterly free cash flow included EUR 1.6 million related to payments of restructuring charges.

We maintain a strong focus on investments, working capital, and the level of net debt. Although increased raw material prices and order volatility continue to put pressure on inventory, measures have been taken to reduce the inventory levels. Despite increased activity levels, we were able to reduce inventory to EUR 92.0 million, down from EUR 94.6 million at the end of Q2 2022.

Year-to-date capital expenditure of EUR 30.4 million (YTD 2021: EUR 20.2 million) was well above the depreciation level of EUR 17.2 million over the same period. EUR 11.9 million of the total investments related to the construction of our new factory in China, which is progressing according to plan. We expect to be able to reduce our net debt in Q4, despite investments continuing to exceed depreciation as we finalize the construction of our new China facility.

Our leverage ratio based on the definitions in our main credit facilities remained unchanged at 2.6 (Q3 2021: 2.4). This leverage ratio continues to be well below the financial covenant of 3.25. Kendrion's solvency ratio remains strong: 43.3% at the end of Q3 2022 (YTD 2021: 44.4%).

Number of employees

The total number of FTE at the end of Q3 2022 was 2.694, compared with 2.747 at the end of Q2 2022 and 2.765 at the end of Q3 2021. The total FTE reduction compared to the third quarter of last year is the result of lower production volumes in Automotive and the closure of the facility in Eibiswald.

Outlook

For the remainder of the year and into 2023, we expect the economic environment to stay volatile. We therefore remain focused on managing our cash position and cashflow while protecting our added value margin and securing our inventory.

In the short term, we expect our position to be strengthened by two significant initiatives: our new organizational structure with the Automotive organizations Core and E, which is expected to be operational per 1 January 2023 and bring significant cost savings; and start of production at our new factory in Suzhou – a prime location for technology and advanced manufacturing companies – which will further support our growth in China.

While we expect the current difficult trading environment to continue for the rest of this year and into 2023, our longer-term outlook remains favorable as our products help enable the global transition to cleaner forms of energy. We are confident that this accelerating trend will offer significant organic growth opportunities across all our Business Groups and expect to achieve our strategic medium-term targets by 2025.

Analysts' call

Kendrion CEO Joep van Beurden and CFO Jeroen Hemmen will present the results today at 11.00 a.m. CET via an analysts' conference call.

Profile of Kendrion N.V.

Kendrion designs, manufactures, and delivers intelligent actuators that help advance the global push towards electrification and sustainable energy. Today, our compact and connected actuators can be found in wind power, robots, factory automation, electric vehicles, energy distribution and industrial heating processes, where they support our OEM customers around the world to transition to safer and cleaner forms of energy.

As a technology pioneer and innovator, building on a foundation of over 100 years of experience, we are driven by a desire to explore creative solutions for the engineering challenges of tomorrow. We take broad responsibility for how we source, manufacture, and conduct business. Sustainable business practices are integrated in our processes and embedded in our culture. Rooted in Germany, headquartered in the Netherlands, and listed on the Amsterdam stock exchange, our footprint extends across Europe to the Americas and Asia.

Amsterdam, 8 November 2022

The Executive Board

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Annexes

- 1. Consolidated statement of comprehensive income**
- 2. Consolidated statement of financial position**
- 3. Financial calendar 2023**

Annex 1 – Consolidated statement of comprehensive income *

(EUR million)	Q3 2022	Q3 2021	period ended 30-9-2022	period ended 30-9-2021	full year 2021
Revenue	132.9	113.2	389.7	347.8	464.0
Other income	0.0	0.2	0.5	0.2	0.2
Total revenue and other income	132.9	113.4	390.2	348.0	464.2
Changes in inventories of finished goods and work in progress	2.3	(1.3)	1.7	(5.2)	(3.5)
Raw materials and subcontracted work	68.8	59.6	200.1	182.2	241.9
Staff costs	38.1	34.1	115.0	101.7	138.1
Depreciation and amortization	7.2	6.9	20.8	21.0	27.8
Other operating expenses	10.4	9.1	32.0	25.4	36.0
Result before net finance costs	6.1	5.0	20.6	22.9	23.9
Finance income	0.0	0.0	0.0	0.0	0.0
Finance expense	(0.5)	(0.8)	(2.5)	(2.8)	(3.7)
Share profit or loss of an associate	-	-	-	-	(0.1)
Profit before income tax	5.6	4.2	18.1	20.1	20.1
Income tax expense	(1.6)	(1.3)	(5.3)	(5.9)	(5.7)
Profit for the period	4.0	2.9	12.8	14.2	14.4
Basic earnings per share (EUR), based on weighted average	0.26	0.20	0.86	0.96	0.97
Basic earnings per share (EUR), based on weighted average (diluted)	0.26	0.20	0.86	0.96	0.97

* Not adjusted for non-recurring items

Annex 2 – Consolidated statement of financial position

(EUR million)	30 Sept. 2022	30 Sept. 2021	31 Dec. 2021
Assets			
Non-current assets			
Property, plant and equipment	134.5	123.6	121.9
Intangible assets	187.1	179.3	183.4
Other investments, including derivatives	0.3	2.8	0.4
Deferred tax assets	20.6	17.2	18.3
Contract costs	0.3	0.5	0.5
Total non-current assets	342.8	323.4	324.5
Current assets			
Inventories	92.0	80.6	79.7
Current tax assets	3.5	1.9	2.7
Trade and other receivables	80.8	66.5	65.3
Cash and cash equivalents	35.7	19.0	18.6
Total current assets	212.0	168.0	166.3
Total assets	554.8	491.4	490.8
Equity and liabilities			
Equity			
Share capital	30.2	29.9	29.9
Share premium	38.4	45.8	45.8
Reserves	158.6	128.1	132.9
Retained earnings	12.8	14.2	14.4
Total equity	240.0	218.0	223.0
Liabilities			
Loans and borrowings	178.1	147.5	136.4
Employee benefits	12.6	14.7	14.0
Deferred tax liabilities	17.0	15.6	17.7
Provisions	1.0	0.9	0.9
Total non-current liabilities	208.7	178.7	169.0
Bank overdraft	6.1	5.9	6.1
Loans and borrowings	5.6	6.8	6.7
Provisions	1.8	0.9	1.2
Current tax liabilities	10.0	4.0	6.0
Contract liabilities	4.3	4.2	4.5
Trade and other payables	78.3	72.9	74.3
Total current liabilities	106.1	94.7	98.8
Total liabilities	314.8	273.4	267.8
Total equity and liabilities	554.8	491.4	490.8

Annex 3 – Financial calendar 2023

Publication Q4 and FY 2022 results	Tuesday, 28 February 2023	07.30 a.m.
Analysts' meeting	Tuesday, 28 February 2023	11.00 a.m.
Publication Annual Integrated Report 2022	Tuesday, 28 February 2023	03.00 p.m.
Annual General Meeting of Shareholders	Monday, 17 April 2023	02.00 p.m.
Publication Q1 2023 results	Tuesday, 9 May 2023	07.30 a.m.
Analysts' call	Tuesday, 9 May 2023	11.00 a.m.
Publication Q2 and HY1 2023 results	Wednesday, 23 August 2023	07.30 a.m.
Analysts' meeting	Wednesday, 23 August 2023	11.00 a.m.
Publication Q3 2023 results	Tuesday, 7 November 2023	07.30 a.m.
Analysts' call	Tuesday, 7 November 2023	11.00 a.m.