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Kendrion protects profitability and cashflow amidst economic slowdown

- Q3 2023 revenue was EUR 124.5 million, down by 6% compared to Q3 2022 (EUR 132.9 million)
- Normalized Q3 2023 EBITDA was EUR 13.1 million, compared to EUR 14.9 million in Q3 2022
- Group added value as a percentage of revenue rose to 48.7% from 47.3% in Q3 2022, driven by the implementation of price increases
- Automotive business improved on the back of more stable demand and higher added value margins
- Industrial Brakes business encounters a significant market slowdown
- The ransomware attack late August 2023 was successfully mitigated without causing substantial financial or reputational damage
- China-based automotive projects ramping up according to plan

Key figures

Reported (in EUR million)	Q3 2023	Q3 2022	delta	YTD 2023	YTD 2022	delta
Revenue	124,5	132,9	-6%	398,2	389,7	2%
EBITDA	12,3	13,3	-8%	41,8	41,4	1%
EBITA	6,6	7,3	-10%	24,5	24,2	1%
Net profit	2,4	4,0	-40%	11,0	12,8	-14%
EBITDA as a % of revenue	9,9%	10,0%		10,5%	10,6%	
EBITA as a % of revenue	5,3%	5,5%		6,2%	6,2%	
Return on invested capital ¹ (12 months rolling)				-12,6%	11,3%	

Normalized (in EUR million) ²	Q3 2023	Q3 2022	delta	YTD 2023	YTD 2022	delta
Revenue	124,5	132,9	-6%	398,2	389,7	2%
EBITDA	13,1	14,9	-12%	42,8	45,4	-6%
EBITA	7,4	8,9	-17%	25,5	28,2	-10%
Net profit before amortization	3,6	6,1	-41%	13,6	19,0	-28%
EBITDA as a % of revenue	10,5%	11,2%		10,7%	11,6%	
EBITA as a % of revenue	5,9%	6,7%		6,4%	7,2%	
Return on invested capital ¹ (12 months rolling)				13,3%	14,7%	

¹ Invested capital excluding intangibles arising from acquisitions.

² Normalised for costs incurred outside the ordinary course of business:

Q3 2023: EUR 0.8 million (EUR 0.6 million after tax) restructuring costs and one-off consulting costs.

Q3 2022: EUR 1.6 million (EUR 1.2 million after tax) restructuring costs and one-off consulting costs

YTD 2023: EUR 1.0 million (EUR 0.7 million after tax) restructuring and one-off consulting costs and EUR 0.1 million net finance costs (EUR 0.1 million after tax) related to tax audits.

YTD 2022: EUR 4.0 million (EUR 3.0 million after tax) restructuring and one-off consulting 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.

Joep van Beurden, Kendrion CEO:

"After achieving record revenues in the first quarter of this year, we have witnessed a deterioration in market conditions throughout 2023. In this challenging macroeconomic environment, we have successfully focused on protecting our profitability and cashflow. Looking at our Business Groups, Industrial Brakes encounters a significant revenue slowdown related to the lower economic activity in Germany and China and specifically in the industrial automation and wind power segments. Industrial Actuators and Controls remained relatively stable, with revenue only slightly decreasing, supported by the strong performance of our 2021 acquisition, 3T.

We partially mitigated the decline in Industrial revenue through growth in our Automotive Group. Automotive increased its added value margin due to the successful implementation of sales price increases negotiated in the first half of the year. The split of Automotive into Core and E provided added transparency, enabling us to enhance focus on growth and profitability in the E and Core segment, leading to cost reductions and overall improved profitability. In China, the economy continues to be challenging. Our factory is now fully operational, and the China-based automotive projects are ramping up according to plan.

In August 2023, we have been victim of a ransomware attack. Our IT team and production staff across all locations worked tirelessly, managing to resume production within one week. Besides external consulting costs and a temporary increase in working capital caused by a week-long delay in the invoicing process, we experienced no substantial financial impact. All customer deliveries were made without significant delays. While it's impossible to completely rule out such attacks, we are implementing additional safeguards to enhance the security of our systems further.

I am proud that amidst these circumstances we were able to deliver healthy profitability and cashflow, with strict cost control and working capital management. In the near term, we expect the current economic environment to remain challenging in Q4 2023 and in the first half of 2024. Longer term, we remain confident in the growth opportunities presented by the global push towards electrification and clean energy underpinning our longer-term ambitions."

Progress on strategy

Kendrion is a global, innovative company, with a focus on smart actuator products that facilitate the transition towards electrification and clean energy. Kendrion operates through three Business Groups: Industrial Brakes (IB), Industrial Actuators and Controls (IAC), and Automotive, which consists of Automotive Core and Automotive E. Automotive E is responsible for products pertinent to electric vehicles with a clear mission to achieve profitable growth and innovation. Automotive Core manages our business linked to combustion engines, with a strong emphasis on cash and cashflow as its KPIs.

Despite the current economic challenges, particularly in the German machine industry and in China, we foresee substantial growth potential for our products, as our actuators contribute to the global shift towards electrification and sustainable energy solutions. Our products include wind power brake systems, robotics, automated warehouse solutions, inductive heating technology, circuit breakers for electricity distribution stations, and sound actuators for electric vehicles, spanning a wide spectrum. This diversity ensures that we are not overly reliant on any particular industry or market segment. With our new manufacturing facility in Suzhou, China, fully operational, we are gearing up for the launch of seven new Automotive E projects in the upcoming quarters.

Financial review**Revenue***Third quarter of 2023*

Revenue in Q3 2023 came in at EUR 124.5 million, down 6% from EUR 132.9 million in the same period last year. This decline was influenced by the anticipated slowdown in economic activity in Germany and China, which was impacting industrial revenues.

When measured at constant exchange rates, the revenue decrease was 5%. Higher average sales prices played a significant role, contributing 5% to the Group revenue. The contribution of sales prices in Automotive was 8% and in IAC, the contribution was 5%. In IB, sales prices remained stable as metal and logistical cost surcharges decreased.

The revenues of our Automotive Group increased by 7%, rising from EUR 60.3 million in Q3 2022 to EUR 64.8 million in Q3 2023, or 9% at constant exchange rates. On a pro forma basis, revenue of Automotive Core grew by 8% year-on-year to EUR 47.2 million, while Automotive E generated EUR 17.6 million, a 7% increase compared to the same period last year. The growth in Core was solely due to successful implementation of sales price increases, whereas the rise in E resulted from higher volumes. Due to the further deterioration of the macroeconomic conditions, the revenue of our Industrial businesses declined in Q3 2023. IB saw a sharp decrease by 30% to EUR 28.2 million (Q3 2022: EUR 40.0 million), or 28% at constant exchange rates, owing to a significant drop in demand from industrial automation and wind power segments. Longer term, we see substantial growth opportunities for IB related to the global trend towards electrification and sustainable energy solutions. In IAC, the revenue decrease was much less severe, with a decrease of 3%, or 2% at constant exchange rates, bringing the total to EUR 31.5 million (Q3 2022: EUR 32.6 million). IAC's revenue is significantly less exposed to the Chinese market and is also more diversified, with robust activity growth in control technology, aviation and medical fields, partially offsetting weaknesses in industrial automation.

First nine months of 2023

Due to a strong start of the year, revenue in the first nine months of 2023 grew 2%, or 3% at constant exchange rates, reaching EUR 398.2 million compared to EUR 389.7 million in the same period last year. Automotive revenue increased by 9% to EUR 197.4 million, with Core and E growing by 8% and 13% respectively on a pro forma basis. Revenue in IB decreased by 9% to EUR 103.0 million, while revenue in IAC increased by 3% to EUR 97.8 million.

Results

Third quarter of 2023

Normalized EBITDA, the normalized operating result before depreciation and amortization amounted to EUR 13.1 million (compared to 14.9 million in Q3 2022:). The profit impact of reduced revenues was mitigated to some extent by a 140bp higher added value margin and lower costs. The added value margin saw improvement in all Business Groups, driven by successful implementation of sales price increases and a positive sales mix. Structural cost savings in Automotive, implemented in the previous year, along with reductions in discretionary operating expenses, more than compensated for wage inflation, leading to slightly lower operating costs.

Depreciation charges decreased slightly to EUR 5.7 million (compared to EUR 6.0 million in Q3 2022) leading to a normalized EBITA of EUR 7.4 million (compared to EUR 8.9 million in Q3 2022) and an EBITA margin of 5.9% (compared to 6.7% in Q3 2022). Operating expenses of EUR 0.8 million (compared to EUR 1.6 million in Q3 2022), incurred outside the ordinary course of business, were normalized from the results. These costs primarily related to the move to the new facility in China and one-off advisory costs related to the ransomware attack.

First nine months of 2023

Normalized EBITDA for the first nine months of 2023 decreased by 6% to EUR 42.8 million (compared to EUR 45.4 million in the same period in 2022), with a normalized EBITDA margin of 10.7% (compared to 11.6% in YTD 2022). Depreciation charges slightly increased to EUR 17.3 million resulting in an EBITA of EUR 25.5 million, which is 10% lower than in the first nine months of the previous year.

Normalized net finance costs in the first nine months of 2023 amounted to EUR 7.1 million, a significant increase from EUR 1.9 million of the same period last year. This rise can be attributed to higher debt levels, substantial increases in interest rates and unfavorable currency results. Currency results were negative, amounting to EUR 1.0 million in the first nine months of 2023, whereas they contributed EUR 0.9 million in the same period last year. Normalized income tax expenses for the first nine months of 2023 stood at EUR 4.1 million (compared to EUR 6.4 million in YTD 2022), with a normalized effective tax rate of 26.0% (compared to 28.7% in YTD 2022).

Normalized net profit before amortization of intangibles arising from acquisitions decreased to EUR 13.6 million in the first nine months of 2023 million, down from EUR 19.0 million in the same period of the previous year.

In the first three quarters, a total of EUR 1.1 million in operating costs has been normalized from the results (YTD 2022: 4.6 million).

Financial Position

The total net debt decreased by EUR 0.7 million, reaching EUR 160.2 million at the end of Q3 2023. The slight decrease in net debt was driven by a positive free cash flow of EUR 3.0 million, partially offset by increased lease liabilities. Despite a temporary negative effect from the ransomware attack, which caused a one-week delay in customer invoicing, working capital was reduced by EUR 1.4 million.

The year-to-date capital expenditure amounted to EUR 20.9 million (compared to EUR 30.4 million in YTD 2022). This figure was above the depreciation level of EUR 17.3 million over the same period and included EUR 6.3 million for the finalization of the China building (compared to EUR 11.9 million in YTD 2022). We remain focused on reducing uncommitted investments and further reducing the amount of cash absorbed in working capital and expect to reduce debt significantly in the final quarter of the year.

The leverage ratio at the end of Q3 stood at 2.9, compared to 2.8 at the end of Q2, remaining well below the financial covenant of 3.25. As of the end of the third quarter, Kendrion had EUR 49 million availability in liquidity, comprising cash and undrawn credit lines.

Number of employees

The total number of FTE at the end of Q3 2023 was 2.624, compared to 2.652 at the end of Q2 and 2.694 at the end of Q3 2022. The decrease of 70 FTEs compared to last year is evenly split between direct and indirect labor. The reduction in indirect labor can be attributed to the merger of our Shanghai branch and our new factory in Suzhou, China, as well as the restructuring of the Automotive business group. In direct labor, we observed a decrease in the industrial groups due to lower activity levels, while Automotive added 20 FTEs.

Audit tender

Following the initiation of a comprehensive tender process to which various audit firms were invited, Kendrion intends to nominate Mazars Audit & Assurance for appointment by the general meeting shareholders in 2024 as its statutory auditor for a three-year period starting financial year 2024.

Outlook

We expect trading conditions to remain challenging in Q4 and the first half of 2024. Our focus will continue to be on stringent cost management, optimizing working capital and prudent investment. These measures are crucial to safeguard our profitability and maintain a strong financial position in the face of the ongoing challenging market conditions. Our cost-saving measures include the implementation of short-time work (*Kurzarbeit*) in some of our German based facilities, along with reductions in discretionary expenses. Despite addressing these short-term challenges, we remain committed to strategic investments across our Business Groups to ensure we capitalize on our longer-term growth opportunities.

We maintain a positive long-term outlook, driven by the global shift towards cleaner energy sources. We are confident that this rapidly advancing trend will create significant organic growth prospects for all our Business Groups in the coming years.

Analysts' call Q3 2023 results

Kendrion CEO Joep van Beurden and CFO Jeroen Hemmen will present the Q3 2023 results on Tuesday 7 November 2023, 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 over 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 dedicated to addressing the engineering challenges of tomorrow, and our commitment to responsible sourcing, manufacturing, and business practices is ingrained in our culture of innovation. Rooted in Germany, headquartered in the Netherlands and listed on the Amsterdam stock exchange, Kendrion's expertise extends across Europe, to the Americas and Asia. Created with passion and engineered with precision.

Amsterdam, 7 November 2023

The Executive Board

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Annexes

1. Consolidated statement of comprehensive income
2. Consolidated statement of financial position
3. Financial calendar 2024

Annex 1 – Consolidated statement of comprehensive income *

(EUR million)	Q3 2023	Q3 2022	period ended 30-9-2023	period ended 30-9-2022	full year 2022
Revenue	124,5	132,9	398,2	389,7	519,3
Other income	0,0	0,0	0,0	0,5	0,5
Total revenue and other income	124,5	132,9	398,2	390,2	519,8
Changes in inventories of finished goods and work in progress	1,7	2,3	(0,5)	1,7	1,8
Raw materials and subcontracted work	62,9	68,8	211,6	200,1	268,7
Staff costs	37,7	38,1	113,8	115,0	153,6
Depreciation and amortization	6,5	7,2	19,7	20,8	28,0
Impairments of fixed assets	0,0	0,0	0,0	0,1	58,7
Other operating expenses	9,9	10,4	31,5	31,9	43,6
Result before net finance costs	5,8	6,1	22,1	20,6	(34,6)
Finance income	0,1	0,0	0,1	0,0	0,0
Finance expense	(2,3)	(0,5)	(7,3)	(2,5)	(5,1)
Profit before income tax	3,6	5,6	14,9	18,1	(39,7)
Income tax expense	(1,2)	(1,6)	(3,9)	(5,3)	(6,6)
Profit for the period	2,4	4,0	11,0	12,8	(46,3)
Basic earnings per share (EUR), based on weighted average	0,16	0,26	0,73	0,86	(3,09)
Basic earnings per share (EUR), based on weighted average (diluted)	0,16	0,26	0,71	0,86	(3,05)

* Not adjusted for non-recurring items

Annex 2 – Consolidated statement of financial position

(EUR million)	30 Sept. 2023	30 Sept. 2022	31 Dec. 2022
Assets			
Non-current assets			
Property, plant and equipment	134,4	134,5	131,6
Intangible assets	125,8	187,1	126,5
Other investments, including derivatives	0,4	0,3	0,4
Deferred tax assets	20,3	20,6	19,7
Contract costs	0,2	0,3	0,3
Total non-current assets	281,1	342,8	278,5
Current assets			
Inventories	91,0	92,0	85,1
Current tax assets	4,5	3,5	2,8
Trade and other receivables	77,4	80,8	70,5
Cash and cash equivalents	27,5	35,7	37,8
Assets classified as held for sale	1,9	-	1,9
Total current assets	202,3	212,0	198,1
Total assets	483,4	554,8	476,6
Equity and liabilities			
Equity			
Share capital	30,6	30,2	30,2
Share premium	37,3	38,4	38,4
Reserves	97,3	158,6	152,7
Retained earnings	11,0	12,8	(46,3)
Total equity	176,2	240,0	175,0
Liabilities			
Loans and borrowings	174,8	178,1	166,6
Employee benefits	9,9	12,6	10,7
Deferred tax liabilities	17,2	17,0	17,5
Provisions	0,7	1,0	0,7
Total non-current liabilities	202,6	208,7	195,5
Bank overdraft	6,6	6,1	3,1
Loans and borrowings	6,3	5,6	8,4
Provisions	0,3	1,8	1,3
Current tax liabilities	9,5	10,0	10,3
Contract liabilities	4,4	4,3	4,7
Trade and other payables	77,5	78,3	78,3
Total current liabilities	104,6	106,1	106,1
Total liabilities	307,2	314,8	301,6
Total equity and liabilities	483,4	554,8	476,6

Annex 3 – Financial calendar 2024

Publication Q4 and FY 2022 results	Wednesday, 28 February 2024	07.30 a.m.
Analysts' meeting	Wednesday, 28 February 2024	11.00 a.m.
Publication Annual Integrated Report 2023	Wednesday, 28 February 2024	03.00 p.m.
Annual General Meeting of Shareholders	Monday, 15 April 2024	02.00 p.m.
Publication Q1 2023 results	Tuesday, 7 May 2024	07.30 a.m.
Analysts' call	Tuesday, 7 May 2024	11.00 a.m.
Publication Q2 and HY1 2023 results	Wednesday, 21 August 2024	07.30 a.m.
Analysts' meeting	Wednesday, 21 August 2024	11.00 a.m.
Publication Q3 2023 results	Tuesday, 12 November 2024	07.30 a.m.
Analysts' call	Tuesday, 12 November 2024	11.00 a.m.