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Kendrion reports strong first quarter with increased profitability

- Q1 2024 revenue amounted to EUR 133.0 million, a decrease of 3% compared to Q1 2023 (EUR 136.8 million)
- Significantly improved profitability in Industrial Brakes compared to H2 2023, despite ongoing market weakness in Industrial Brakes
- Normalized EBITDA increased by 3% to EUR 16.1 million, up from EUR 15.7 million in Q1 2023
- With a strong emphasis on cashflow management, the leverage ratio remained stable at 2.7, unchanged from Q4 2023 (Q1 2023: 2.6)
- Kendrion to become a pure play Industrial company following the sale of the Automotive business in Europe and United States to Solero Technologies; closing expected in Q3 2024
- Reported net profit from continued operations of EUR 4.2 million, down from EUR 5.3 million in Q1 2023
- Loss from discontinued operations totaled EUR 1.5 million (compared to EUR 0.4 million loss in Q1 2023), which includes EUR 3.8 million measurement to fair value less expected transaction costs

Key figures

Reported (in EUR million)	Q1 2024	Q1 2023	delta
Revenue*	75,1	82,5	-9%
EBITDA*	10,1	12,5	-19%
EBITA*	6,2	9,2	-33%
Net profit from continuing operations*	4,2	5,3	-21%
Net profit from discontinued operations	(1,5)	(0,4)	NM
Net profit	2,7	4,9	-45%
EBITDA as a % of revenue*	13,4%	15,2%	
EBITA as a % of revenue*	8,3%	11,2%	

*From continuing operations exclusive of the Automotive business held for sale.

Normalized (in EUR million)²	Q1 2024	Q1 2023	delta
Revenue	133,0	136,8	-3%
EBITDA	16,1	15,7	3%
EBITA	10,0	9,9	1%
Net profit before amortization	5,8	5,6	4%
EBITDA as a % of revenue	12,1%	11,5%	
EBITA as a % of revenue	7,5%	7,2%	
Return on invested capital ¹ (12 months rolling)	13,2%	14,5%	

¹ Invested capital excluding intangibles arising from acquisitions.

² Normalized in Q1 2024: EUR 3.8 million from measurement to fair value and EUR 1.3 million income tax expense related to tax benefit due to change in estimate.

Normalized in Q1 2023: EUR 0.1 million restructuring costs and EUR 0.1 million net finance costs (EUR 0.1 million after tax).

Joep van Beurden, Kendrion CEO:

"We had a strong first quarter, particularly considering the continued challenging market circumstances. Although our revenues were down slightly from a record Q1 last year, our added value margin saw a 70-bps increase, with all Groups contributing to this improvement. We implemented strict cost control measures, particularly in Industrial Brakes, which continues to be impacted by the market slowdown. As a result, we achieved a healthy normalized EBITDA of 16.1 million or 12.1% of revenue, slightly higher than Q1 2023. We continued our emphasis on cashflow management and kept both the net debt and our leverage ratio at the same level as year-end 2023.

Revenues in Industrial Brakes significantly declined year-over-year, even though the negative effect of destocking is behind us. To address this, we have implemented various measures to ensure that IB remains prepared for higher revenue levels in the longer term while aligning our cost base with the current lower activity levels. The measures include the introduction of short-time work in Germany and a thorough review of our business processes to identify opportunities for efficiency gains. As a result, we witnessed a significant increase in profitability in Q1 2024 compared to the second half of 2023.

Industrial Actuators and Controls demonstrated more revenue stability, and Automotive continued its upward trajectory driven by increased volumes and improved margins attributed to continued price increases. Profitability further increased in Automotive Core, and in Automotive E, we benefitted from robust growth on the back of ramping projects especially in smart suspension and in China.

On April 12, we announced an important strategic decision to put our focus exclusively on opportunities within our Industrial Brakes and Industrial Actuators and Controls business groups in Europe, China, and the US as we entered into an agreement to sell our electromechanical Automotive business in Europe and the United States to Solero Technologies LLC ("Solero Technologies") and affiliates. At the same time, we announced to stop all investments in product development for Automotive Sound. We expect that our shift towards a pure Industrial company will enable us to strengthen our position in driving the global transition to electrification and sustainable energy. Over the coming months, we will focus our efforts on the carve-out of our Automotive business and the associated restructuring. We expect to close the transaction in Q3 2024.

For the near term, we expect a comparable economic environment to that of H2 2023 and Q1 2024. We will continue our strict cost measures in IB. With our China factory fully operational, we are prepared for the ramp up of our China based automotive business from Q2 onwards.

Looking ahead we maintain a positive outlook on our long-term prospects as a pure-play Industrial company focused on the global shift towards cleaner energy. We look forward to the opportunity to share our plans and to outline our medium- and long-term ambitions at our Capital Markets Day of September 5 of this year."

Progress on strategy

As a global company dedicated to innovative actuator products that facilitate the shift to clean energy sources, Kendrion currently operates in three business groups: Automotive (Core and E), Industrial Brakes (IB) and Industrial Actuators and Controls (IAC). In IB, we capitalize on the growing market for electromotors and electrified solutions in areas such as intralogistics, robotics, and wind power. The IAC portfolio includes induction heating systems, circuit breakers for electricity distribution systems, and safety actuators for power plants. Following the decision to sell the Automotive business in Europe and the US to Solero Technologies, Kendrion will integrate its remaining automotive activities, including Automotive Sound and Electronics business and China Automotive, into IAC. We expect the transaction to close in Q3 2024.

As part of the strategic repositioning, Kendrion will focus its product development resources solely on the industrial segments and China. Investments in product development for Automotive Sound will be halted. Kendrion will commence rightsizing the organization, aligning its resources more effectively with the remaining activities.

This, combined with the discontinuation of Automotive Sound product development, this is expected to yield annual cost savings of around EUR 8 million. The cost savings are expected to be fully effective as from 1 January 2025.

Financial review

Revenue

Our normalized revenue in the first three months of the year totaled EUR 133.0 million, a decrease of 3% compared to the record level in the same period last year (Q1 2023: EUR 136.8 million). Weakness in IB was almost offset by growth in Automotive. Currency translation had no significant impact on first-quarter revenue. In IAC, revenues were flat, with weakness observed in segments related to the machine building industry and electrical infrastructure, and strength noted in Aerospace, medical and 3T. This resulted in revenues of EUR 32.3 million, compared to EUR 33.1 million a year earlier.

In IB we contended with continued lower activity in both Germany and China, aligning with the activity levels seen in the second half of 2023. This led to a revenue decrease of 27% to EUR 28.2 million. The market for capital goods such as robots and wind turbines remained slow.

Revenues in the Automotive Group increased by 12%. In Automotive E, first-quarter revenues reached EUR 22.4 million, up 41% from EUR 15.9 million a year earlier, driven by new project ramps and increased demand for existing programs. Revenue in Automotive Core increased by 3% to EUR 50.1 million from EUR 48.9 million, attributed to higher average sales prices.

Results

Strong revenues in Automotive, stable performance in IAC, and weakness in IB, partly offset by cost-saving measures, resulted in improved profitability over Q1 2024. Normalized EBITDA increased by 3% from EUR 15.7 million in Q1 2023 to EUR 16.1 million, despite the slight decrease in revenue. The added value margin increased in all business groups and came in at 47.1%, 70 bps higher than in Q1 2023, despite the negative impact of the higher proportion of Automotive business.

Depreciation charges increased by EUR 0.3 million to EUR 6.1 million in the first quarter of 2024, resulting in a normalized EBITA of EUR 10.0 million compared to EUR 9.9 million in the same period last year. The effective tax rate on normalized income in Q1 2024 was 26.4% (Q1 2023: 26.6%). Normalized net finance costs were EUR 2.1 million, consistent with EUR 2.2 million a year earlier. Normalized net profit before amortization charges stemming from acquisitions amounted to EUR 5.8 million (Q1 2023: EUR 5.6 million).

A total of EUR 3.8 million (EUR 2.5 million net of tax) in costs were normalized in Q1 2024. These normalized operating costs are associated with the measurement to fair value of the held-for-sale Automotive business, which includes expected EUR 3.9 million transaction costs and EUR 4.5 million in goodwill allocated to the transaction. In addition, a EUR 1.4 million tax benefit due to a revaluation of carry-forward tax losses due to the sale of Automotive activities in the US has been normalized in the first-quarter results. Normalized net costs in Q1 of the previous year amounted to EUR 0.2 million. Reported net profit for Q1 amounted to EUR 2.7 million, down from EUR 4.9 million a year earlier.

Results from continuing operations

In accordance with IFRS 5, all assets and liabilities related to the Automotive activities that will be discontinued following the announcement on 12 April 2024 are classified as held for sale and discontinued operations.

Results of discontinued operations are reported separately from continuing operations in the financial statements. The net loss from discontinued operations was EUR 1.5 million (Q1 2023: EUR 0.4 loss), which includes a EUR 3.8 million loss on the measurement to fair value less expected transaction costs.

First quarter revenue from continued operations amounted to EUR 75.1 million, compared to EUR 82.5 million in Q1 2023. Reported EBITDA from continued operations was EUR 10.1 million (Q1 2023: EUR 12.5 million), while net profit from continued operations totaled EUR 4.2 million, compared to EUR 5.3 million in the previous year.

Following the closing of the transaction, expected in Q3 2024, Kendrion will initiate a rightsizing of the organization, aligning its overhead resources more effectively with its remaining activities.

Financial Position

Despite the seasonal effects on working capital, the total net debt increased by just EUR 0.7 million to EUR 145.7 million at the end of Q1. The leverage ratio, based on total net debt divided by 12 months rolling EBITDA was 2.7 (Q1 2023: 2.6), well below the financial covenant of 3.25. As of 31 March 2024, Kendrion had EUR 65 million available in cash and unused credit lines.

Capital investments of EUR 6.3 million were in line with depreciation and well below the EUR 10.0 million in the same period last year. Total working capital ended at EUR 70.3 million in Q1, 4% below last year's EUR 73.5 million. The improvement compared to last year was driven by significantly lower inventory and trade receivables.

Number of employees

At the end of the first quarter of 2024, the total count for FTE was 2.570, compared to 2.606 at year-end 2023 and 2.713 FTEs at the end of Q1 2023. The reduction of 143 FTE compared to Q1 2023 consists of 87 direct FTE and 56 indirect FTE. The lower FTE number is due to a decline of 100 FTEs in IB as part of the cost-saving measures.

Outlook

For the near term, we expect a similar economic environment as in H2 2023 and Q1 2024. Longer-term, we are confident that as a pure-play Industrial company we can fully leverage significant organic growth opportunities fueled by the global transition toward cleaner energy sources. We expect to share our plans and our medium- to long-term financial targets at our Capital Markets Day on 5 September of this year.

Analysts' call Q1 2024 results

Kendrion CEO Joep van Beurden and CFO Jeroen Hemmen will present the Q1 2024 results on Tuesday, 7 May 2024, at 11:00 a.m. CET via an analysts' conference call.

Capital Markets Day

Kendrion will hold a Capital Markets Day for analysts, investors, and shareholders, following the publication date of the half-year results on Thursday, 5 September 2024 2.00 p.m. CET in Amsterdam. More details and an official invitation will follow.

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 industrial and automotive applications. As a leading technology pioneer, Kendrion invents, designs, and manufactures complex components and customized systems as well as providing local solutions on demand.

We are committed to the engineering challenges of tomorrow, and 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, 7 May 2024

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)	Q1 2024	Q1 2023	full year 2023
Revenue	75,1	82,5	309,0
Other income	0,1	0,0	0,1
Total revenue and other income	75,2	82,5	309,1
Changes in inventories of finished goods and work in progress	(1,0)	(2,0)	0,3
Raw materials and subcontracted work	37,5	41,3	151,4
Staff costs	23,6	24,9	97,8
Depreciation and amortization	4,7	4,1	17,3
Other operating expenses	5,0	5,8	21,1
Result before net finance costs	5,4	8,4	21,2
Finance income	0,0	0,0	0,2
Finance expense	(1,3)	(1,3)	(6,3)
Profit before income tax	4,1	7,1	15,1
Income tax expense	0,1	(1,8)	(4,0)
Profit from continuing operations	4,2	5,3	11,1
Result of discontinued operations (net of income tax)	(1,5)	(0,4)	(1,2)
Profit for the period	2,7	4,9	9,9
Basic earnings per share (EUR), based on weighted average	0,18	0,33	0,65
Basic earnings per share (EUR), based on weighted average (diluted)	0,17	0,32	0,64

* Not adjusted for non-recurring items

Annex 2 – Consolidated statement of financial position

(EUR million)	31 March 2024	31 March 2023	31 Dec. 2023
Assets			
Non-current assets			
Property, plant and equipment	97,2	135,6	134,5
Intangible assets	119,0	125,6	125,8
Other investments, including derivatives	0,2	0,4	0,5
Deferred tax assets	20,0	19,9	20,1
Contract costs	-	0,3	0,6
Total non-current assets	236,4	281,8	281,5
Current assets			
Inventories	60,5	92,1	87,4
Current tax assets	3,8	2,8	5,7
Trade and other receivables	44,9	80,1	65,2
Cash and cash equivalents	16,0	34,6	20,6
Assets classified as held for sale	103,7	1,9	1,9
Total current assets	228,9	211,5	180,8
Total assets	465,3	493,3	462,3
Equity and liabilities			
Equity			
Share capital	30,6	30,2	30,6
Share premium	37,3	38,4	37,3
Reserves	105,0	105,5	94,2
Retained earnings	2,7	4,9	9,9
Total equity	175,6	179,0	172,0
Liabilities			
Loans and borrowings	146,7	164,0	153,2
Employee benefits	6,1	10,4	8,7
Deferred tax liabilities	17,4	17,5	19,0
Provisions	0,7	0,7	0,7
Total non-current liabilities	170,9	192,6	181,6
Bank overdraft	9,1	9,0	7,1
Loans and borrowings	2,9	9,3	5,3
Provisions	-	0,9	-
Current tax liabilities	7,3	11,9	7,4
Contract liabilities	0,2	4,6	4,4
Trade and other payables	53,6	86,0	84,5
Liabilities classified as held for sale	45,7	-	-
Total current liabilities	118,8	121,7	108,7
Total liabilities	289,7	314,3	290,3
Total equity and liabilities	465,3	493,3	462,3

Annex 3 – Financial calendar 2024

2024

Publication of HY1 2024 results

Wednesday, 21 August 2024 07.30 a.m.

Analysts' meeting

Wednesday, 21 August 2024 11.00 a.m.

Capital Markets Day

Thursday, 5 September 2024 02.00 p.m.

Publication of Q3 2024 results

Tuesday, 12 November 2024 07.30 a.m.

Analysts' call

Tuesday, 12 November 2024 11.00 a.m.