

# RESULTS AND DEVELOPMENTS HALF YEAR 2020

11 August 2020

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# PROFILE

TKH Group NV (TKH) is focused on high-end innovative technologies in high growth markets within three business segments: Telecom, Building and Industrial Solutions.

Through a combination of technologies, TKH offers superior solutions that support to increase the efficiency, safety and security of its customers. The technologies are offered together with software to create smart technologies and one-stop-shop solutions with plug-and-play integrated technologies.

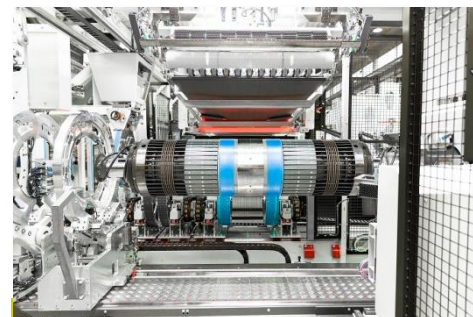
TKH operates on a global scale. Its growth is concentrated in Europe, North America and Asia.



TELECOM



BUILDING



INDUSTRIAL

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# HIGHLIGHTS – BUSINESS UPDATE

## H1 2020

(in million € unless stated otherwise)	H1 2020	H1 2019	Δ in %
Turnover	679.0	753.2	- 9.9%
EBITA <sup>1)</sup>	69.0	77.6	- 11.0%
ROS	10.2%	10.3%	
Net profit before amortization <sup>2)</sup> and one-off income and expenses attributable to shareholders	36.0	45.9	- 21.6%
Earnings per ordinary share	€ 0.63	€ 1.02	
ROCE	16.0%	18.7%	

1) Before one-off expenses that in H1 2020 relate to costs for restructuring and integrations of € 3.7 million.

2) Amortization of intangible non-current assets related to acquisitions (after tax).

- Turnover declined 9.9% – organically -7.5%, per segment:
  - Telecom Solutions -7.4%
  - Building Solutions -0.8%
  - Industrial Solutions -16.0%
- EBITA decreased 11.0% – Gross margin improvement and lower cost level limit decline
- ROS virtually stable at 10.2% (H1 2019: 10.3%) supported by Building Solutions
- One-off expenses of € 3.7 million due to costs associated with restructuring and integrations and impairments of € 1.5 million
- Net profit before amortization and one-off income and expenses attributable to shareholders decreased 21.6%
- Order book at 30 June 2020 was € 399.2 million and decreased organically with 2.5% compared to 31 December 2019 – Decrease mainly in Industrial Solutions, increase in Building Solutions

## Strategic highlights

- Good progress strategic development driven by 'Simplify & Accelerate' program, despite COVID-19:
  - Integrations and focus on margin improvement well on track
  - Divestments of ZTC (production of copper data communication-cables in China) and Cruxin (system integration-activities in the Netherlands)
  - Since start of program € 260 million revenue divested
- Successful introduction and progress of innovations in 3D-vision technology for 5G consumer electronics, UNIXX-tire building technology and Indivion (medicine dosing and dispensing system) – Strong basis for further growth and value creation
- Substantial orders in subsea and Airfield Ground Lighting (CEDD / AGL) activities
- Expansion of production capacity for energy cable systems for energy networks due to strong demand – Operational from Q3 2021

## COVID-19 situation

- Numerous measures have been taken to monitor and contain for effects of COVID-19, such as:
  - Measures, in accordance with guidelines of (local) authorities, to ensure safety of our working environment for our employees and to ensure the continuity of the company
  - Where necessary and appropriate, available government support and working time reductions have been used – Effect of government subsidies under COVID-19 on H1 result was limited
  - Increased focus on working capital management, limitations investment levels where possible and cost saving measures
- COVID-19 had negative effect on turnover and result
  - Major impact of lockdowns in France, Italy and US – As of June, easing of measures, but deliveries not yet at normal levels
  - Activity levels in China have recovered since March – Limited impact
  - Lower productivity in manufacturing companies due to measures taken for safe and healthy working environment
  - Lower market demand caused by limited capacity at customers to realize projects
  - Reduction and postponement of investments in number of market segments – In particular airports, parking garages and industrial sector




Turnover (in € millions)	FY 2012	FY 2018	FY 2019	H1 2019	H1 2020	Growth scenarios	
Fibre Optic Networks	80	134	137	71	64	175	200
Parking	20	58	59	28	20	150	200
Tunnel & Infra	30	96	133	67	67	150	200
Marine & Offshore	20	64	54	26	32	150	200
Care	30	57	58	34	26	70	100
Machine Vision	95	129	143	64	91	250	300
Tire Building Industry	175	331	330	171	142	450	550
<b>Growth verticals</b>	<b>450</b>	<b>869</b>	<b>914</b>	<b>461</b>	<b>442</b>	<b>1,395</b>	<b>1,750</b>
Other vertical markets	652	589	576	292	237	450	500
<b>Total</b>	<b>1,102</b>	<b>1,458</b>	<b>1,490</b>	<b>753</b>	<b>679</b>	<b>1,845</b>	<b>2,250</b>

The figures for 2018 and 2019 are presented based on 'continued operations' and thus excluding the divested industrial connectivity activities ('discontinued operations').

- Growth target verticals: € 300 - € 500 million coming 3-5 years
- Divestment non-vertical markets: € 300 - € 350 million revenue – growth at GDP within non-verticals
- Key developments and innovations offer strong basis for growth and further value creation:
  - Fibre Optic Networks – Increased demand for bandwidth and 5G roll-out
  - Parking – Addressable market increased due to new technology smaller garages
  - Tunnel & Infra – Major CEDD /AGL order for Tier-1 Airport – Increased market demand energy infra projects
  - Marine & Offshore – Demand subsea market increased and substantial orders won
  - Care – Successful breakthrough Indivion (high grade medicine dosage and dispensing system)
  - Machine vision – Growth with 3D-vision technology for 5G consumer electronics
  - Tire Building – Roll-out of UNIXX tire building technology
- Turnover share of vertical growth markets > 65%
- Due to good progress with 'Simplify & Accelerate' program, we are better positioned to utilize economies of scale and synergies – well on track to achieve targets

# DEVELOPMENTS PER SOLUTION H1 2020



	H1 2020	H1 2019
 Telecom Solutions	14.0%	13.6%
 Building Solutions	50.8%	48.5%
 Industrial Solutions	35.2%	37.9%



(in million €)	H1 2020	H1 2019	Δ %
Turnover <sup>1)</sup>	95.1	102.8	- 7.6%
EBITA	12.3	16.0	- 23.1%
ROS	13.0%	15.6%	

1) Organic turnover growth: -7.4%

## Fibre optic networks

- › Significant negative impact on deliveries from lockdown in Europe, particularly in France
- › Increased demand for bandwidth due to lockdown in combination with demand from 5G – Not yet translated into higher order intake
- › Price pressure on optical fibre in China – Offset by higher share of complementary connectivity portfolio

## Other markets

- › Growth in broadband products for home offices
- › Number of projects postponed due to COVID-19
- › In 2020, production of telecom copper cable portfolio will be terminated – Turnover already decreased significantly in recent years



(in million €)	H1 2020	H1 2019	Δ in %
Turnover <sup>1)</sup>	344.9	364.8	- 5.5%
EBITA <sup>2)</sup>	36.4	29.1	+ 25.2%
ROS	10.6%	8.0%	

1) Organic turnover growth: -0.8%

2) Before one-off expenses that in H1 2020 relate to costs for restructuring and integrations of € 3.6 million



## Care

- › Increased market demand for communication technology for care alarms and elderly care – Turnover decreased because of limited installation possibilities at care institutions due to COVID-19

## Marine & Offshore

- › Turnover growth due to orders for subsea connectivity systems acquired in 2019
- › New orders won with Kaskasi Offshore Wind Farm and Hollandse Kust Zuid – Increased production utilization in coming quarters
- › Drop in demand from stagnation in construction of cruise ships – More than offset by growth in subsea connectivity systems

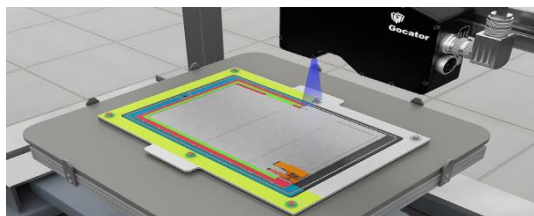
## Tunnel & Infra

- › Turnover remained stable despite restrictions for installers to carry out work
- › Increased investment needs for energy networks by network companies – Expansion of our production capacity – operational from Q3 2021
- › Airfield Ground Lighting (CEDD / AGL) technology faced COVID-19 effects and related investment constraints at airports – AGL technology is still well positioned – major order for Istanbul Sabiha Gökçen Airport

(in million €)	H1 2020	H1 2019	Δ in %
Turnover <sup>1)</sup>	344.9	364.8	- 5.5%
EBITA <sup>2)</sup>	36.4	29.1	+ 25.2%
ROS	10.6%	8.0%	

1) Organic turnover growth: -0.8%

2) Before one-off expenses that in H1 2020 relate to costs for restructuring and integrations of € 3.6 million



## Parking

- › Main market North America negatively impacted by shutdown of projects and tenders at airports and shopping centers due to COVID-19
- › Significant reduction of operating costs in anticipation of lower investment level at customers

## Machine Vision

- › Strong organic growth despite limitations from lockdowns
- › Increased demand for our 3D vision technology for new applications in consumer electronics industry – Significant contribution to turnover and EBITA growth
- › Achievement of cost efficiency through integration of 2D vision activities from last year's measures – Contribution to EBITA and ROS-improvement

## Other markets

- › Limitations in execution of projects in building & construction market
- › Effect from COVID-19 safety measures on efficiency and output of production

(in million €)	H1 2020	H1 2019	Δ in %
Turnover <sup>1)</sup>	239.0	285.6	- 16.3%
EBITA	27.0	42.0	- 35.7%
ROS	11.3%	14.7%	

1) Organic turnover growth: -16.0%



## Tire building

- › Postponement of completion of various projects at customer sites due to lockdown – Turnover decreased
- › Drop in demand at tire manufacturers led to postponement of investments – Lower order intake
- › Development of UNIXX (new tire-building platform) progressing well – Completion delayed due to temporary closure of location of launching customer

## Care

- › Breakthrough in the US for large-scale roll-out of Indivion technology, high-end automated medicine dosage and dispensing system

## Other markets

- › Industrial sector is reluctant to invest, particularly machine builders and robot industry – Reduction of inventories – Turnover in industrial connectivity activities decreased

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# FINANCIAL PERFORMANCE

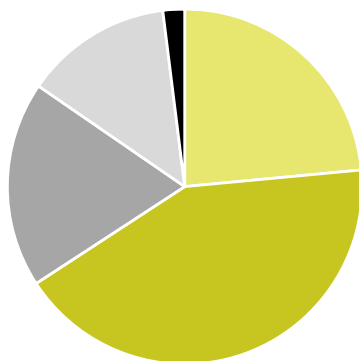
## H1 2020

In accordance with IFRS, the financial figures for H1 2019 are presented based on 'continued operations' and thus excluding the in H2 2019 divested majority industrial connectivity activities ('discontinued operations').






The comparative figures have not been adjusted for the divestment of ZTC and Cruxin in 2020.

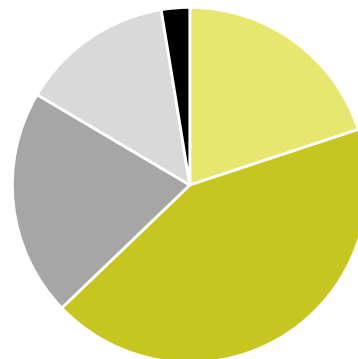
# GEOGRAPHICAL DISTRIBUTION OF TURNOVER

Geographical distribution of turnover (in %)








H1 2020

	Nederland	24
	Europa (overig)	42
	Azië	19
	Noord-Amerika	13
	Overig	2



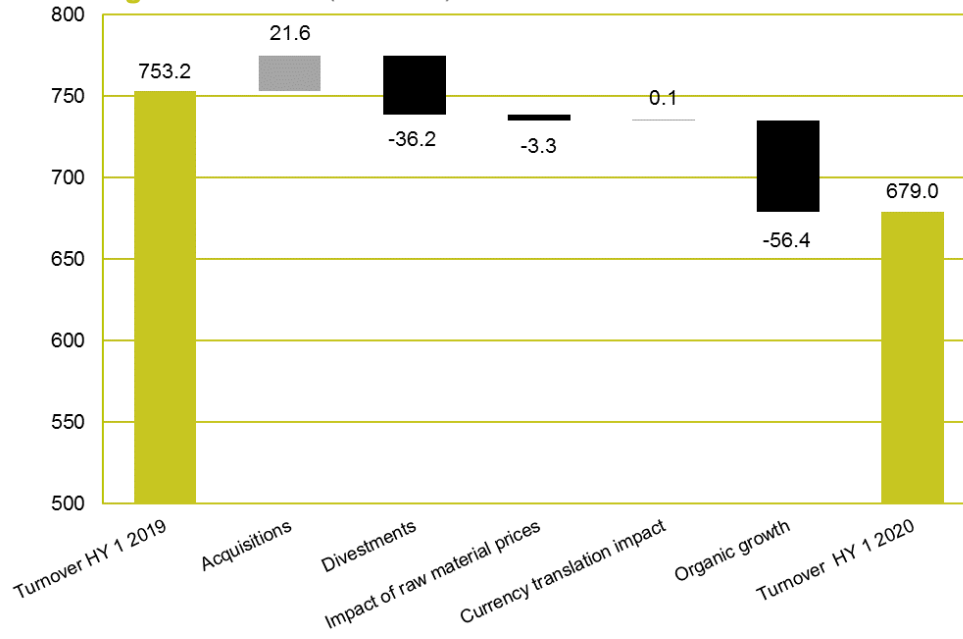
H1 2019

	Nederland	20
	Europa (overig)	43
	Azië	21
	Noord-Amerika	14
	Overig	2

# TURNOVER AND ADDED VALUE

(in € million)	H1 2020		H1 2019		Δ in %
<b>Turnover</b>	<b>679.0</b>		<b>753.2</b>		<b>- 9.9%</b>
Raw materials and subcontracted work	-343.3		-395.9		
<b>Added value</b>	<b>335.7</b>	<b>49.4%</b>	<b>357.3</b>	<b>47.4%</b>	<b>- 6.0%</b>

## Change in turnover (in € million)



- Organic turnover growth of -7.5%
- Turnover from acquisitions of 2.9%:
  - Commend AG (1 April 2019)
  - ParkEyes (1 April 2019)
  - SVS-Vistek (1 September 2019)
  - FocalSpec (31 October 2019)
- Turnover impact divestments of 4.8%
  - ZTC (1 January 2020)
  - Cruxin (1 April 2020)
- Limited turnover impact from raw material prices and foreign currencies (-0.4%)
- Gross margin increased to 49.4% (H1 2019: 47.4%) mainly due to:
  - Acquisitions with higher added value
  - Growth in Machine Vision
  - Divestments with lower added value

# OPERATING EXPENSES AND EBITA

(in € million)	H1 2020		H1 2019		Δ in %
<b>Turnover</b>	<b>679.0</b>		<b>753.2</b>		<b>- 9.9%</b>
Raw materials and subcontracted work	-343.3		-395.9		
<b>Added value</b>	<b>335.7</b>	<b>49.4%</b>	<b>357.3</b>	<b>47.4%</b>	<b>- 6.0%</b>
Operating expenses	266.7	39.3%	279.7	37.1%	- 4.7%
<b>EBITA before one-off expenses</b>	<b>69.0</b>	<b>10.2%</b>	<b>77.6</b>	<b>10.3%</b>	<b>-11.0%</b>

- › Operating expenses decreased with 4.7%.
  - › Acquisitions (+2.5%)
  - › Divestments (-1.7%)
  - › Decrease of turnover-related operating expenses
  - › Cost-saving programs and integrations
  - › Working time reduction resulted in savings – Mainly in Germany and France
  - › Use of COVID-19 government grants of € 1.3 million
  
- › Cost to turnover ratio increased from 37.1% to 39.3% mainly due to
  - › Divestments
  - › Lower productivity level at manufacturing companies
  
- › ROS virtually stable at 10.2% (H1 2019: 10.3%) supported by Building Solutions – Due to gross margin improvement and lower cost level



# ITEMS BELOW EBITA

(in € million)	H1 2020		H1 2019		Δ in %
<b>EBITA before one-off expenses</b>	<b>69.0</b>	<b>10.2%</b>	<b>77.6</b>	<b>10.3%</b>	<b>-11.0%</b>
One-off expenses	3.7				
Amortization	27.9		24.2		
Impairments	1.5		0.1		
<b>Operating result</b>	<b>35.9</b>		<b>53.3</b>		
Financial expenses	-5.0		-4.5		
Result from associates	3.2		0.2		
Change in value financial liabilities	0.6		-0.1		
<b>Result before taxes</b>	<b>34.7</b>		<b>49.0</b>		
Taxes	8.1		11.3		
<b>Net profit continuing operations</b>	<b>26.6</b>	<b>3.9%</b>	<b>37.7</b>	<b>5.0%</b>	<b>-29.6%</b>
Net profit discontinued operations			5.1		
<b>Total net profit</b>	<b>26.6</b>	<b>3.9%</b>	<b>42.8</b>	<b>5.7%</b>	<b>-38.0%</b>
<b>Net profit before amortization and one-off income and expenses attributable to shareholders</b>	<b>36.0</b>	<b>5.3%</b>	<b>45.9</b>	<b>6.1%</b>	<b>-21.6%</b>

- One-off expenses mainly related to 'Simplify & Accelerate' program
- Increase of amortization due to acquisitions and higher R&D investments in recent years
- Impairment of € 1.5 million was mainly recognized due to COVID-19
- Increase of financial expenses due to higher foreign currency losses (€ 0.7 million), which are partly offset by lower interest charges (€ 0.3 million)
- Result from associates rose by € 3.0 million due to:
  - Book profit of € 5.6 million from divestments
  - Amortization of purchase price allocations in CCG of € 2.2 million
- Effective tax rate increased to 25.3% (H1 2019: 23.2%) due to divestments and lower profits from companies with a lower tax rate
- Net profit from discontinued operations in 2019 related to divestment of majority of our industrial connectivity activities (CCG)

# BALANCE SHEET 30 JUNE 2020



(in € million)	30-06-2020	31-12-2019
Intangible non-current assets	585.3	596.4
Tangible non-current assets	224.2	230.9
Right-of-use assets	75.8	80.8
Other associates	26.0	28.6
Receivables	1.9	2.0
Deferred tax assets	19.6	21.0
<b>Total non-current assets</b>	<b>932.8</b>	<b>959.7</b>
Inventories	254.7	238.8
Receivables	189.6	176.5
Contract assets	144.2	115.7
Contract costs	4.3	1.9
Current income tax	1.4	1.6
Cash and cash equivalents	86.3	79.0
<b>Total current assets</b>	<b>680.5</b>	<b>613.5</b>
Assets held for sale	3.0	38.7
<b>Total assets</b>	<b>1,616.3</b>	<b>1,611.9</b>

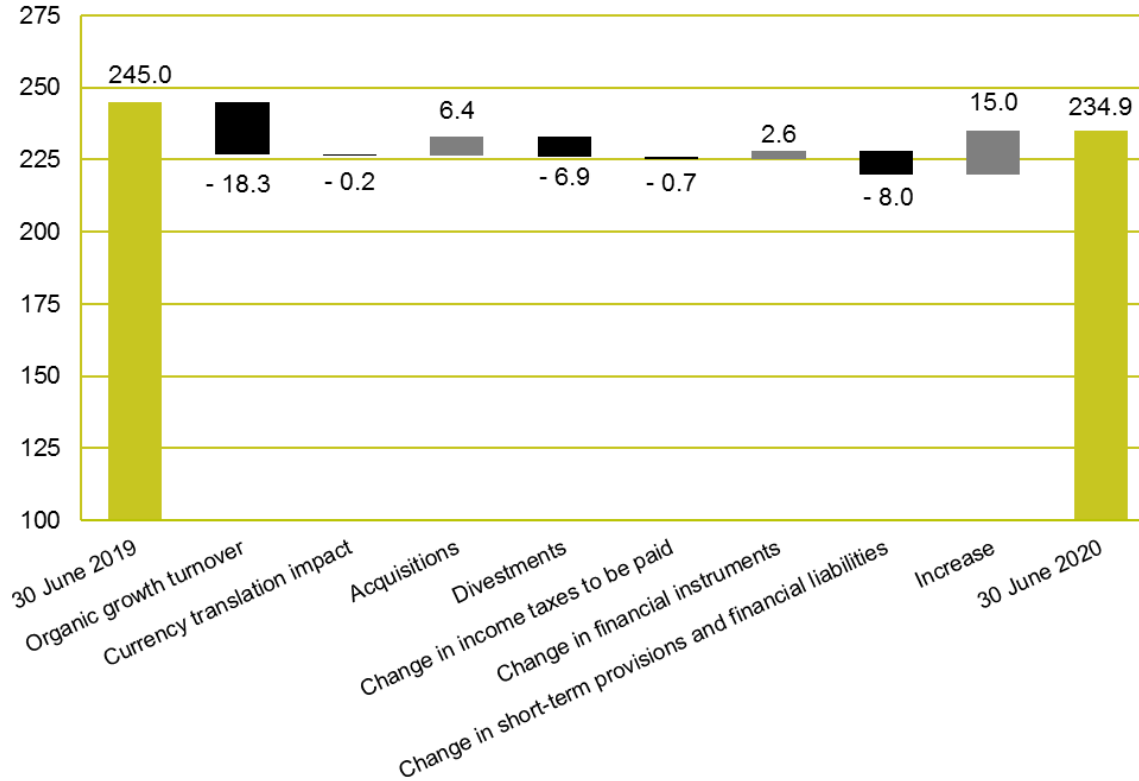
- › Cash and cash equivalents includes € 7.9 million (2018: € 10.0 million) that are part of a balance and interest compensation schemes
- › Assets held for sale decreased due to divestments of ZTC and Cruxin
- › Solvency of 40.5% (2019: 43.7%) decreased due to cash dividend of € 62.7 million

(in € million)	30-06-2020	31-12-2019
Shareholders' equity	654.2	704.5
Non-controlling interests	0.1	0.3
<b>Total group equity</b>	<b>654.3</b>	<b>704.8</b>
Interest bearing loans and borrowings	463.6	415.8
Deferred tax liabilities	62.0	65.5
Retirement benefit obligation	5.9	5.8
Financial liabilities	4.1	5.0
Provisions	6.1	6.3
<b>Total non-current liabilities</b>	<b>541.7</b>	<b>498.4</b>
Interest bearing loans and borrowings	61.0	54.9
Trade payables and other payables	287.2	257.4
Contract liabilities	38.2	49.2
Current income tax liabilities	8.9	11.8
Financial liabilities	3.4	3.7
Provisions	21.6	19.1
<b>Total current liabilities</b>	<b>420.3</b>	<b>396.1</b>
Liabilities directly associated with assets held for sale	0	12.6
<b>Total equity and liabilities</b>	<b>1,616.3</b>	<b>1,611.9</b>

- › Financial covenants:
  - › Net debt, based on financial covenant as agreed with banks, of € 357.6 million (2019: € 300.6 million)
  - › Net debt/EBITDA of 1.9 (31 December 2019: 1.5), well below agreed covenant of 3.0

# WORKING CAPITAL

## Changes in working capital (in € million)



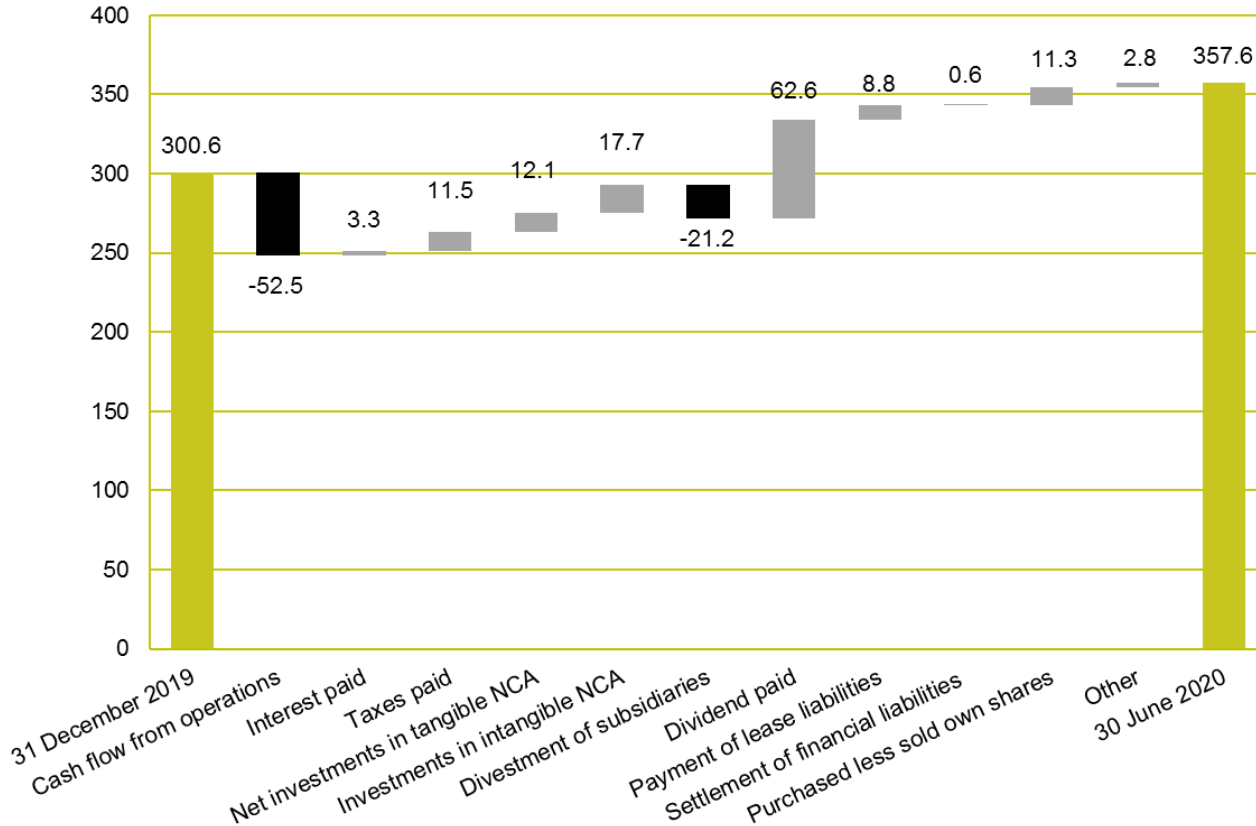
- > Working capital as percentage of turnover was virtually unchanged (16.6% versus 16.5% at 30 June 2019)
- > Short-term provisions increased due to 'Simplify & Accelerate' with € 8.5 million, which will be settled in H2 2020
- > COVID-19 effects on working capital included under 'Increase':
  - > Deferred tax payments – impact of € -22 million
  - > Postponement of delivery and completion of various projects, particularly in Industrial Solutions, due to lock-down – impact of € +40 million
  - > Buffer stock to safeguard supply chain
- > Use of non recourse factoring:
 

30-06-2020	€ 42.6 million
31-12-2019	€ 38.7 million
30-06-2019	€ 50.2 million
- > Use of supply chain finance:
 

30-06-2020	€ 25.3 million
31-12-2019	€ 24.8 million
30-06-2019	€ 43.4 million

# NET DEBT DEVELOPMENT

Change in net debt (in € million)



- Positive cash flow from operations of € 52.5 million, although impacted by an increase in working capital
- Investments in tangible and intangible assets (€ 29.8 million), mainly:
  - Investments in R&D
  - Expansion, replacement and upgrade of production capacity
- Cash flow from divestments (€ 21.2 million) does not include dividend paid out to TKH before transaction date
- Cash dividend of € 1.50 paid per (depository receipt of) ordinary share

# FREE CASH FLOW

(in € million)	H1 2020	H1 2019	H1 2018
Operating result from continued operations	35.9	53.3	66.2
Operating result from discontinued operations		7.2	7.8
Operating result <sup>1)</sup>	35.9	60.5	74.0
Depreciation, amortization and impairment	52.4	48.2	32.6
<b>EBITDA adjusted</b>	<b>88.3</b>	<b>108.7</b>	<b>106.6</b>
Change in working capital	-40.2	-39.0	-85.9
Taxes paid	-11.5	-11.9	-15.8
Other	4.5	2.2	1.1
<b>Cash flow from operations before interest</b>	<b>41.1</b>	<b>60.0</b>	<b>6.0</b>
Payment of lease liabilities	-8.8	-8.4	
Capital expenditure (tangible)	-12.1	-17.6	-18.1
Capital expenditure (intangible)	-17.7	-19.4	-16.9
<b>Free Cash Flow ('FCF')</b>	<b>2.5</b>	<b>14.6</b>	<b>-29.0</b>
EBITDA to FCF conversion	2.8%	13.4%	-27.2%

- › FCF-conversion traditionally low in the first half year
- › FCF additionally impacted by decrease in result and increase in working capital
- › Payments for acquisitions and proceeds from divestments have not been included in FCF

1) Including one-off expenses and impairments.

# OUTLOOK

Macro-economic uncertainties have increased since the outbreak of the COVID-19 virus. We expect this to have an impact on our operations in the second half of 2020, as it did in the first half of the year. Barring unforeseen circumstances and an escalation in the aforementioned situations, we expect the following developments per business segment for the second half of 2020.

## Telecom Solutions

- › Some recovery expected in demand for fibre optic networks in Europe – TKH's expect to benefit due to strong market positions in Europe
- › Turnover and result are expected remain stable compared to H1 2020

## Building Solutions

- › Turnover in Marine & Offshore and Tunnel & Infra will be higher compared to H1 due to well-filled order book
- › Growth in Machine Vision is expected to level off after strong H1
- › On balance, turnover and result are expected to remain stable compared to H1 2020

## Industrial Solutions

- › Turnover in Tire Building will decline due to postponed deliveries of existing contracts and reluctance to invest by tire manufacturers – Also have an effect on expected order intake in H2
- › In other markets, modest recovery is expected, as effects of inventory reduction will be more limited
- › On balance, turnover and result are expected to decrease compared to H1 2020

The current economic uncertainties have had an impact on TKH's operations activities and we expect this to continue in the second half of 2020. However, partly due to its solid financial position, TKH is also optimally positioned to benefit from the opportunities associated with its numerous innovations.

On balance, TKH expects, subject to unforeseen circumstances, a net profit for the full year 2020 from continuing activities, before amortization and one-off income and expenses attributable to shareholders, between € 63 million and € 69 million.



TKH Group the solution provider <

#### Disclaimer

Statements included in this press release that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements are only predictions and are not guarantees. Actual events or the results of our operations could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "will", "should", "expect", "could", "intend", "plan", "anticipate", "estimate", "believe", "continue", "predict", "potential" or the negative of such terms and other comparable terminology.

The forward-looking statements are based upon our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements.