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Kendrion posts record revenues and strong profitability under difficult market conditions

- Revenue increased by 13% to a record EUR 129.9 million, compared to EUR 115.3 million in Q1 2021, driven by the Industrial Groups
- Stable added value margin of 49.0% (Q1 2021: 49.1%) despite the upward pressure on raw material prices
- Normalized EBITDA of EUR 16.8 million, 4% higher than in Q1 2021 (EUR 16.1 million)
- Normalized net profit before amortization increased by 19% to EUR 7.6 million (Q1 2021: EUR 6.4 million)
- Closed new EUR 175 million financing arrangement, including EUR 102.5 million credit facilities and EUR 72.5 million in *Schuldschein* private placement loans
- Strong financial position with leverage ratio of 2.4 (Q1 2021: 2.3) and solvency of 45.3% (Q1 2021: 46.8%)

Key figures

Reported (in EUR million)	Q1 2022	Q1 2021	delta
Revenue	129.9	115.3	13%
EBITDA	14.7	16.3	-9%
EBITA	9.3	10.0	-7%
Net profit	5.1	5.9	-13%
EBITDA as a % of revenue	11.3%	14.1%	
EBITA as a % of revenue	7.2%	8.7%	
Return on invested capital ¹ (12 months rolling)	12.9%	9.9%	

Normalized (in EUR million)²	Q1 2022	Q1 2021	delta
Revenue	129.9	115.3	13%
EBITDA	16.8	16.1	4%
EBITA	11.4	9.8	16%
Net profit before amortization	7.6	6.4	19%
EBITDA as a % of revenue	12.9%	14.0%	
EBITA as a % of revenue	8.8%	8.5%	
Return on invested capital ¹ (12 months rolling)	15.9%	11.6%	

¹ Invested capital excluding intangibles arising from acquisitions.

² Normalized in Q1 2022: EUR 2.1 million (EUR 1.6 million after tax) restructuring costs and income. Normalized in Q1 2021: EUR 0.2 million (EUR 0.2 million after tax) restructuring costs and EUR -0.4 million (EUR -0.4 million after tax) tax claim receipt.

Joep van Beurden, Kendrion CEO:

“We delivered a strong first quarter under difficult economic circumstances. Group revenue grew by 13% compared to a strong Q1 2021, reaching a record level of EUR 129.9 million. On a normalized basis we grew our EBITDA by 4% and net profit before amortization by 19%. I am proud of this achievement given the combination of macroeconomic uncertainty, supply chain volatility, high inflation, and restrictive COVID measures affecting our operations in China.

While this year started with a certain degree of optimism, the Russia-Ukraine conflict, and the ongoing impact of the COVID pandemic, particularly in China, have caused economic uncertainty and volatility.

As a global company, focused on delivering smart actuator products that support the broad energy transition towards cleaner forms of energy, we benefited from the continued strong demand for products related to energy transition, especially in the Industrial Groups. Here, our revenue increased by 28% compared to a year ago. Automotive revenue was flat.

Demand for industrial brakes continues to be strong in all segments and across all regions, driven by the accelerating electrification. In Industrial Actuators and Controls our business development efforts in recent years are beginning to pay off. Demand for new products such as rotary locks for industrial washing machines and inductive heating for industrial baking is increasing. Recently acquired electronics and embedded systems specialists 3T performed well, and we have started recruiting software and electronics engineers for our Automotive Group. To accommodate anticipated FTE growth at 3T, we are opening an office at the High-Tech Campus in Eindhoven per 1 July 2022.

In Automotive, the market continues to be difficult, driven by ongoing semiconductor shortages, demand volatility and high inflation in raw materials. European car production declined with 18% year-over-year. Despite these challenges, we protected our added-value margin and delivered revenues in line with Q1 2021.

The growth opportunity for products supporting the global push towards electrification and cleaner energy is not affected by the current economic situation. We expect this energy transition to continue to drive business opportunities in all three Business Groups. While we believe that the economic environment will remain unpredictable for the foreseeable future, we reiterate our medium-term financial targets: 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 the years, product development decisions and acquisitions have transformed Kendrion into a global and innovative company, focused on the delivery of actuator products that support the move from oil, natural gas, and coal towards cleaner forms of energy. Kendrion operates in three Business Groups: Industrial Brakes (IB), Industrial Actuators and Controls (IAC) and Automotive Group (AG). IB and AG, as well as China, focus on organic growth. In IAC, the emphasis lies on profitability and cash generation.

At the start of 2022, the COVID pandemic appeared to be entering a more predictable phase. Lockdowns eased and consumer demand increased. Demand for our industrial products was strong and a backlog in the production of passenger cars seemed to promise a potential upturn in automotive. Reality turned out to be different as the Russia-Ukraine conflict and COVID outbreaks in China caused additional economic uncertainty. Despite these challenges, Kendrion delivered good results thanks to a continued strong demand for our industrial products, especially those related to the energy transition.

The construction of our new 28,000 m² manufacturing facility in Suzhou's renowned Industrial Park in China has been delayed due to new COVID outbreaks. We expect to start production in the new facility early in 2023.

As the global energy transition continues to accelerate, we see additional opportunities for organic growth in all three Business Groups, despite the current economic uncertainties. In the remaining quarters, we will continue to protect our added-value margin and focus on securing the necessary raw materials with a view to leveraging our strong position in segments related to electrification and other forms of clean energy.

Financial review

Revenue

In the first quarter of 2022, we continued to drive organic growth with our focus on the energy transition, resulting in record revenues of EUR 129.9 million, up 13% compared to the first quarter last year (EUR 115.3 million). 3T contributed 3% to our revenue growth, while currency translation effects positively influenced our revenue by 1.5%. Inflation affected our first quarter revenue and represented approximately 50% of the organic revenue growth. The volume growth was driven entirely by the Industrial Groups.

Revenues in IB continued its strong growth momentum and increased by 24%. Revenue pressure in China, which was affected by COVID-19 restrictions, particularly in Shanghai, was more than offset by strong growth in Europe and the US. IAC saw a 34% growth in nominal revenues with strong and widespread demand across its segments. IAC's revenue growth was 22% excluding the contribution of 3T.

Revenue in the Automotive Group decreased by 1% due to a drop in car production. The Russia-Ukraine conflict forced some European manufacturers to temporarily stop production. Car production was particularly weak in Europe where it declined by 18% according to analysts.

Results

Normalized operating result before depreciation and amortization (EBITDA) came in at EUR 16.8 million, 4% higher than in the same period last year (EUR 16.1 million). Profitability as a percentage of revenue was affected by the passing on of higher input prices. This caused around half of the 100 basis points to decrease our EBITDA margin to 13.0% in the first quarter. The added-value margin fell by 10 basis points to 49.0%, as increased sales prices and the higher comparative share of Industrial revenue compensated for the further increased input prices. Staff and other operating expenses increased by 9% on an organic basis and represented 36.4% of revenue (Q1 2021: 36.1%). Higher energy costs and high labor costs because of ongoing order volatility affected our operational leverage in the first quarter. Depreciation charges dropped by EUR 0.9 million to EUR 5.4 million in the first quarter of 2022, leading to a normalized EBITA of EUR 11.4 million, 16% above the EBITA of EUR 9.8 million in Q1 2021.

The effective tax rate on normalized income in Q1 2022 was 27.3% (Q1 2021: 30.7%). Net finance costs were EUR 1.0 million, EUR 0.3 million higher than in Q1 2021, affected by realized and unrealized currency gains. Normalized net profit before amortization charges arising from acquisitions increased to EUR 7.6 million, up 19% compared to last year.

EUR 2.1 million (net of tax EUR 1.6 million) in net costs were normalized in the first quarter and related mainly to a EUR 0.4 million gain on the sale of our building in the UK and expected closure costs of the Automotive manufacturing location in Eibiswald, Austria. The closure was announced in 2020 and is expected to be finalized in 2022. Reported net profit came in at EUR 5.1 million (Q1 2021: EUR 5.9 million).

Financial position

Total net debt including IFRS 16 lease liabilities increased to EUR 137.0 million, compared with EUR 130.6 million at year end 2021. The debt increase was caused by the traditional seasonal effects (increased working capital following higher activity levels) in Q1 compared to Q4 2021.

First quarter free cash flow amounted to EUR 6.0 million negative, compared to EUR 5.4 million negative over the same period last year. The leverage ratio based on total net debt divided by 12 months rolling EBITDA was 2.4 (Q1 2021: 2.3), well below the financial covenant of 3.25.

Capital investments amounted to EUR 7.4 million, compared to EUR 5.1 million in the first quarter of 2021 and ahead of the depreciation level of EUR 5.4 million. EUR 2.2 million related to the construction of the new production facility in Suzhou, China. Kendrion's solvency ratio remained strong at 45.3% at the end of March 2022 (46.8% at the end of March 2021).

Kendrion secured a financing arrangement of in total EUR 175 million to refinance its existing EUR 162.5 million credit facilities. The refinancing comprises a EUR 72.5 million transaction in the *Schuldschein* private placement market and a revolving facility agreement of EUR 102.5 million with ING Bank and HSBC. The revolving credit facility has a maturity of 3 years with two one-year extension options, while the *Schuldschein* exists of a EUR 52.5 million loan maturing in 5 years and EUR 20 million maturing in 3 years. Both instruments are sustainability linked based on Kendrion's sustainability rating by EcoVadis. With the refinancing transaction, Kendrion has extended its debt maturity profile at competitive terms. Financial covenants remained unchanged with a leverage ratio coverage of 3.25.

Number of employees

The total number of employees (in FTE's) was 2.716, compared to 2.728 at year end 2021 and 2.531 at the end of Q1 2021. The increase compared to the same time last year can be attributed to the addition of 3T employees and new hires in the Industrial Groups to accommodate growth. The total FTE number includes 173 temporary employees, compared to 181 at the end of Q1 2021.

Outlook

We expect the economic climate to continue to be unpredictable for the foreseeable future. Irrespective of the economic climate we see substantial opportunity for growth with products that help advance the global transition towards electrification and clean energy.

Our balanced product portfolio supports this transition, without being dependent on any specific vertical or market segment. Our products include brakes for wind power, robotics, automated warehouses, inductive heating technology, circuit breakers for electricity distribution stations and sound actuators for electrical vehicles. In all our Business Groups, and in China, the broad push towards electrification has determined our product development and strategic decisions over the past couple of years and will continue to do so.

We are confident that our strong position in the growth markets of Industrial Brakes, and selected segments of Industrial Actuators and Controls, Automotive and China will help deliver our medium-term financial targets of on average 5% organic growth per year between 2019 and 2025, an EBITDA of at least 15% in 2025 and an ROIC of at least 25% in 2025.

Analysts' call Q1 results 2022

Kendrion CEO Joep van Beurden and CFO Jeroen Hemmen will present the results today, 3 May 2022, 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, 8 September 2022, at 11.00 a.m. CET in Amsterdam. More details and an official invitation will follow in due course.

About 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, 3 May 2022

The Executive Board

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Annexes

1. Consolidated statement of comprehensive income
2. Consolidated statement of financial position
3. Financial calendar 2022 – 2023

Annex 1 - Consolidated statement of comprehensive income

(EUR million)	Q1 2022	Q1 2021	full year 2021
Revenue	129.9	115.3	464.0
Other income	0.5	0.0	0.2
Total revenue and other income	130.4	115.3	464.2
Changes in inventories of finished goods and work in progress	(0.8)	(2.3)	(3.5)
Raw materials and subcontracted work	66.6	59.8	241.9
Staff costs	39.6	33.5	138.1
Depreciation and amortization	6.6	7.2	27.8
Other operating expenses	10.3	8.0	36.0
Result before net finance costs	8.1	9.1	23.9
Finance income	0.0	0.0	0.0
Finance expense	(1.0)	(0.7)	(3.7)
Share profit or loss of an associate	-	-	(0.1)
Profit before income tax	7.1	8.4	20.1
Income tax expense	(2.0)	(2.5)	(5.7)
Profit for the period	5.1	5.9	14.4
Basic earnings per share (EUR), based on weighted average	0.35	0.40	0.97
Basic earnings per share (EUR), based on weighted average (diluted)	0.35	0.40	0.97

Annex 2 - Consolidated statement of financial position

(EUR million)	31 March 2022	31 March 2021	31 Dec. 2021
Assets			
Non-current assets			
Property, plant and equipment	123.8	118.9	121.9
Intangible assets	183.4	158.0	183.4
Other investments, including derivatives	0.4	3.0	0.4
Deferred tax assets	18.7	18.6	18.3
Contract costs	0.4	0.6	0.5
Total non-current assets	326.7	299.1	324.5
Current assets			
Inventories	87.7	67.5	79.7
Current tax assets	2.8	1.3	2.7
Trade and other receivables	77.3	70.7	65.3
Cash and cash equivalents	13.9	14.7	18.6
Total current assets	181.7	154.2	166.3
Total assets	508.4	453.3	490.8
Equity and liabilities			
Equity			
Share capital	29.9	29.9	29.9
Share premium	45.8	51.7	45.8
Reserves	149.6	124.8	132.9
Retained earnings	5.1	5.9	14.4
Total equity	230.4	212.3	223.0
Liabilities			
Loans and borrowings	140.6	113.9	136.4
Employee benefits	13.8	15.1	14.0
Deferred tax liabilities	17.4	15.8	17.7
Provisions	0.9	0.7	0.9
Total non-current liabilities	172.7	145.5	169.0
Bank overdraft	4.0	3.4	6.1
Loans and borrowings	6.3	7.1	6.7
Provisions	2.9	1.3	1.2
Current tax liabilities	7.8	6.0	6.0
Contract liabilities	4.5	5.8	4.5
Trade and other payables	79.8	71.9	74.3
Total current liabilities	105.3	95.5	98.8
Total liabilities	278.0	241.0	267.8
Total equity and liabilities	508.4	453.3	490.8

Annex 3 - Financial calendar 2022 - 2023**2022**

Publication of Q1 2022 results	Tuesday, 3 May 2022	07.30 a.m.
Analysts' call	Tuesday, 3 May 2022	11.00 a.m.
Publication of HY1 2022 results	Wednesday, 24 August 2022	07.30 a.m.
Analysts' meeting	Wednesday, 24 August 2022	11.00 a.m.
Capital Markets Day	Thursday, 8 September 2022	11.00 a.m.
Publication of Q3 2022 results	Tuesday, 8 November 2022	07.30 a.m.
Analysts' call	Tuesday, 8 November 2022	11.00 a.m.

2023

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