



## Reka Industrial Plc: Profitable growth

25.2.2021 09:00:00 EET | Reka Industrial Oyj | Financial Statement Release

January – December 2020

- The Group's turnover was EUR 120.4 million (EUR 97.5 million)
- EBITDA was EUR 9.4 million (4.8 million)
- Operating result was EUR 4.5 (0.4) million
- The result for the period was EUR 1.0 (-1.4) million

Near-term outlook: In 2021 EBITDA (EUR million) is expected to remain at the same level or improve, provided that predominant conditions due COVID-19 pandemic will not substantially affect to the company's capability to deliver.

### Managing Director Jukka Poutanen:

The turnover of Reka Cables Ltd increased clearly from last year, even though COVID-19 pandemic restricted the growth during the second quarter of the year.

The COVID -19 pandemic has not affected to the market demand in the cable business.

Cable industry's EBITDA improved significantly even though COVID-19 pandemic caused extra costs and delivery delays. In the first half of the year fluctuations in aluminium and copper prices weighed on operating profit. In the second half of the year, metal prices rose and levelled off. On an annual basis, metals supported EBITDA by EUR 0.6 million.

The strong growth of the cable industry and the preparation for supply chain disruptions tied up working capital and affected the operating cash flow. The Group's operating cash flow was still positive.

As a result of purchase of Reka Rubber, implemented in June, the company formed new business, rubber industry, adjacent to cable industry. This is step from Investment company to an industrial conglomerate. At the preliminary purchase price allocation there is no goodwill. COVID-19 pandemic has affected the rubber industry's volumes, but the customer demand is recovering.

The Extraordinary General meeting accepted the name change from Neo Industrial to Reka Industrial in November 2020.

Green Bond funded projects have been taken forwards and new ones are ongoing. Investments have been made specially to the projects relating to wind power and decreasing energy consumption. The first Green Bond investor letter was published in March 2020. The next investor letter will be published in March 2021.

### Key Figures

	2020	2019
Turnover, EUR million	120.4	97.5
EBITDA, EUR million	9.4	4.8
Operating profit, %	3.8	0.4
Results for the period,	1.0	-1.4
ROI, %	10.8	2.4
IAS 19 corrected Return on Equity, %	16.1	-14.3
IAS 19 corrected Gearing, %	219.1	188.2
IAS 19 corrected Equity ratio, %	19.3	16.8
Earnings per share	0.16	-0.24

The Group joined the pension fund in 2015. Reka Industrial presents alternative key figures so that the effects of IAS 19 recognition of defined benefit pension liabilities are eliminated from the balance sheet items of the key figures to better monitor the development of operations. The items included in the operating result of the income statement have been changed in the 2020 reporting and the comparative information has been changed accordingly. The entries of the IAS 19 defined benefit plan in the income statement are presented below the operating result as a separate item before the share of the result of associated companies. In this way, the development of Reka Industrial's business can be better monitored.

On 31 December 2020, Reka Industrial Group companies entered into an arrangement to eliminate the defined benefit plan in accordance with IAS 19 by entering into an agreement with Reka Ltd whereby Reka Industrial Group companies pay a fixed (24%) pension contribution and are not liable for any other obligations arising from the operations, liabilities or financial situation of Reka Pension Fund. According to the management of Reka Industrial Group, this is a defined contribution plan, in which case a change will be made in 2021 IFRS reporting.

The company itself monitors the EBITDA ratio and thus it has been added to the reported alternative key figures. The comparative information has been added accordingly.

The financial statement release is unaudited.

## **Turnover and operating result**

The Reka Industrial Group's (Reka Industrial) turnover in 2020 was EUR 120.4 million (97.5). Its result for the full year was EUR 1.0 million (-1.4 million).

## **Balance sheet and financing**

At the end of the financial year the interest-bearing liabilities were EUR 33.5 (25.0) million, of which other than finance lease liabilities were EUR 25.6 (15.6) million. Some of the interest-bearing liabilities involve financial covenants, all of which were fulfilled at the balance sheet date. More information about the covenants is provided in the notes of the consolidated financial statements. In the end of the financial period the balance sheet total stood at EUR 73.2 million (58.9).

Reka Industrial Plc bought in June 2020 all shares of Reka Rubber. The purchase price, EUR 7.5 million, was paid by cash. The purchase was funded by EUR 7.5 million bank loan. Reka Rubber was consolidated to the Group figures as of 30 June 2020.

The Group arranged the ownership of real estate situating in Keuruu. Reka Industrial Plc bought the real estate by using purchase option of related sale and lease agreement. Purchase price due purchase option was EUR 1.0 million. Reka Industrial Plc sold the real estate further to Reka Pension fund with fair value of EUR 2.3 million. 10-year rental agreement was made with Reka Pension fund relating the real estate. The fair value of the real estate was defined by third party experts. With the funding occurred due arrangements, Reka Industrial paid back its short-term loan EUR 1.2 million. The arrangement did not have significant result effect.

Subsidiary Reka Cables Ltd did EUR 2.3 million guarantee capital investment into Reka Pension fund. The arrangement is described more in detail in the notes in the consolidated financial statements.

## **Major events during the financial period**

Subsidiary Reka Cables received in January 2020 a substantial contract for underground power cables from Scandinavia. The total value of the contract is approximately EUR 9 million. The deliveries will be made during 2020-2022.

The company bought June 2020 all shares of Reka Rubber from the biggest shareholder, Reka Ltd. The purchase price, EUR 7.5 million, was paid by cash. According to the third-party expert fairness opinion, acquired by the independent committee of the Board of Directors, the price paid for the shares is fair from financial point of view for Reka Industrial Plc.

On 24th of June 2020, the AGM approved the corporate acquisition of Reka Rubber and the acquisition was implemented after the AGM on 25th of June 2020. The financial figures of Reka Rubber were consolidated to the Group figures as of 30 June 2020 as there was no significant difference between implementation and end of June figures. On the purchase price allocation, positive difference of EUR 0.4 million was formed and this amount was booked through consolidated income statement. The operating result includes EUR 0.2 million of expenses relating the acquisition.

Via corporate acquisition the company formed a new business, rubber industry, adjacent to the cable industry. This is step from investment company to an industrial conglomerate.

The new Group is expected to benefit bigger size, different seasons of the businesses and sharing best practices. Different seasons of the businesses lessens the effects of seasonal fluctuations to the result of the company.

Extraordinary Shareholders Meeting held in November, accepted the name change. The company's business name was decided Reka Industrial Plc and the old business name remained as auxiliary business name.

## **COVID-19**

The COVID-19 pandemic has not affected to the market demand in the cable business. However, COVID-19 pandemic restricted the growth during the second quarter of the year. COVID-19 has caused additional costs and delivery delays as personnel has been more than usual on sick leave to eliminate the possible infection risk. The additional costs due COVID-

19 pandemic is estimated to stress operating result of cable business EUR 0.6 - 0.9 million. The additional costs have arisen from increased sick leave, overtime to replace them and additional staff, as well as increased freight costs due to the efforts to minimize delays due to sick leave through small and express deliveries.

In rubber business the COVID-19 pandemic has affected the customer demand. The volumes of part of the customers have been lower than usual due to whether the market demand of the customer, delivery problems of other suppliers, temporal closing of factories or combination of these factors.

COVID-19 pandemic has not significantly affected to the material procurement of cable nor rubber businesses. So far COVID-19 pandemic has not affected to the payment behaviour of the customers.

## Acquisitions

Reka Industrial Plc bought June 2020 all shares of Reka Rubber from the biggest shareholder of Reka Industrial, Reka Ltd. The purchase price, EUR 7.5 million, was paid by cash. On 24th of June 2020, the AGM approved the corporate acquisition of Reka Rubber and the acquisition was implemented after the AGM on 25th of June 2020. The financial figures of Reka Rubber were consolidated to the Group figures as of 30 June 2020 as there was no significant difference between implementation and end of June figures. On the purchase price allocation, positive difference of EUR 0.4 million was formed and this amount was booked through consolidated income statement. The operating result include EUR 0.2 million of expenses relating the acquisition.

Reka Rubber is one of the leading European manufacturers of small and medium-sized rubber components to the heavy vehicle and machine building industries. Reka Rubber has manufacturing units in Finland (Aura) and in Poland (subsidiary in Dopiewo). In addition to that the rubber products are manufactured in Asia through the subcontracting network managed by Reka Rubber.

**Via corporate acquisition the company formed a new business, rubber industry, adjacent to cable industry.**

## Segments

**Reka Industrial's business segments are Cable Industry and Rubber Industry.**

### Cable segment

	H2/2020	H2/2019	Change	2020	2019	Change
Turnover, EUR million	55.5	48.0	15.6 %	111.2	97.4	14.2 %
EBITDA, EUR million	6.3	2.0	215.0 %	10.0	5.1	94.9 %

The Cable segment's turnover was EUR 111.2 million (97.4). EBITDA was EUR 10.0 million (5.1 million).

Reka Cables Ltd's sales increased compared to last year. Also export sales volumes grew.

The industry's key raw materials are copper, aluminum and plastics. During the review period, price fluctuations for copper and aluminum have been significant.

At the beginning of the year the price of copper was EUR 5,481 per tonne and the price of aluminum was EUR 1,603 per tonne. At the end of the December 2020, the price of copper was EUR 6,308 and the price of aluminum EUR 1,612.

At its highest point, the daily price of copper during the review period was EUR 6,499 per tonne in December, and at its lowest in March, at EUR 4,283 per tonne. The price of aluminum has been at its highest in December, when it was EUR 1,709 per tonne, and its lowest in April, when it was EUR 1,308 per tonne.

In purchasing metals, partial price hedging is utilized through commodity derivatives.

Investments fulfilled, EUR 4.9 million (8.2 million in 2019) were targeted at developing new products, and improving productivity, material- and energy efficiency.

Turnover for Nestor Cables Group, an associated company in the segment, was in 2020 EUR 32.0 million (31.5). The operating result was positive and better than year before. Nestor Cables' equity turned positive and the profit share of EUR 0.4 million has been taken into Groups result and in the balance sheet value of the associated company.

### Rubber segment

Reka Rubber was consolidated to the Group as of 30 June 2020. The rubber segment's turnover in the Group was EUR 9.2 million and EBITDA was EUR 0.2 million. EBITDA is burdened by EUR 0.1 million of expenses relating the acquisition.

COVID-19 pandemic has affected rubber industry's volumes. Customers production plants have mainly opened now.

## Major events after the review period

In January 2021 Reka Cables Ltd made an agreement of EUR 5.0 million loan limit. The limit is fixed term. There are covenant terms associated with the loan limit.

## Risks and uncertainty factors

Reka Industrial's financial risks include currency, interest rate, commodity, liquidity, credit, and investment risks. Financial risks and the related protection measures are described in more detail in notes to the financial statements. The company's future risk factors are related to the development of its business segments.

In the cable segment, the most significant risks are related to market development, fluctuations of raw material prices and currencies as well as working capital management in various situations. During considerable seasonal changes, suppliers' terms of payment effect significantly on the ability to ensure competitive delivery times through sufficient inventories. Also, operation models are being developed to balance out the effects of seasonal changes on the load rates of factories. In cable business, COVID-19 pandemic has caused extra costs and delivery delays. It is difficult to estimate the effect of the pandemic for the future. The additional costs are expected to continue in 2021.

In the cable segment the key raw materials are metals (copper and aluminum) and plastics. In the metals purchases partial price hedging is used with the aid of commodity derivatives. Important with metals are the development of both the dollar-denominated price and the USD / EUR exchange rate. Currency hedges are also made for the main selling currencies. Partial price fixing is used with electricity.

The financial situation in euro area and political uncertainties may have effect on purchase amount of the customers in rubber business as well to the start of new projects. COVID-19 pandemic has affected to the purchase amounts in customers and it is difficult to estimate the effect of pandemic for the future. COVID-19 pandemic is expected to have negative effect on purchase amounts of the customers also in 2021. Due COVID-19 pandemic the rubber business got EUR 100 thousand support from Business Finland to develop its products, marketing, and competitiveness. The development measures ongoing.

The trade sanctions of USA increase of customs tariffs for the products as well Brexit can have negative effect on customer volumes in rubber industry. Also, the increased competition by Asian actors in euro area can have effect on customer's purchase decisions.

The Group has carried out and is carrying out the simplifications of the Group structure with mergers. Tax authority has questioned the tax neutrality of the subsidiary merge carried out in 2015. Reka Industrial has filed for changes in its tax assessment notice. Reka Industrial has the opinion that the merge is universal succession and therefore tax neutral. The difference of opinion of the Reka Industrial and tax authority is EUR 1.2 million.

## Near-term outlook

In 2021 EBITDA (EUR million) is expected to be stay the same or improve, provided that predominant conditions due COVID-19 pandemic will not substantially affect to the company's capability to deliver.

## Dividend Policy

Reka Industrial aims to distribute at least 30 percent of its net earnings as dividends.

## Annual General Meeting 2021

Reka Industrial Plc's Annual General Meeting will be held in Hyvinkää on 8 April 2021 at 2.00 pm. A separate notice will be published in March.

## Disclosure procedure of financial review

Reka Industrial follows the disclosure procedure enabled by Standard 5.2b published by the Finnish Financial Supervision Authority, and discloses relevant information related to its Financial Statement Release with this Stock Exchange Release. Reka Industrial's Financial Statement Release is attached to this release and is also available on company's website at [www.rekaindustrial.fi](http://www.rekaindustrial.fi)

Hyvinkää, 25 February 2021

Reka Industrial Oyj  
Board of Directors

## Contacts

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## About Reka Industrial Oyj

*Reka Industrial invests in modern society and reforms the industry that is the foundation of society. As an industrial family company, Reka Industrial is committed to developing the performance and sustainability of the companies it owns over the long term. Through the group's companies, we are involved in the transformation of the energy and vehicle industries. Reka Industrial class B shares are listed on the Nasdaq Helsinki Ltd.*

## Attachments

- [Download announcement as PDF.pdf](#)
- [Reka Industrial Plc Financial statement release 2020.pdf](#)