



Reka Industrial Plc: Profitable growth

20.10.2022 09:00:00 EEST | Reka Industrial Oyj | Interim report (Q1 and Q3)

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Reka Industrial Plc's Interim report for January-September 2022

In January-September 2022

- The Group's turnover was EUR 155.5 million (EUR 118.3 million)
- EBITDA was EUR 11.8 million (EUR 9.1 million)
- Operating result was EUR 7.5 million (EUR 4.9 million)
- The result for the period was EUR 3.5 million (EUR 1.1 million)

Near-term outlook: In 2022 EBITDA (EUR million) is expected to improve, provided that predominant conditions due COVID-19 pandemic and the geopolitical situation will not substantially affect to the company's capability to deliver. EBITDA will also be affected to what extent and how quickly we are able to pass on the continuous increase in costs to sales prices as well as metal price fluctuations.

Managing Director Jukka Poutanen:

Turnover increased in both the cable and rubber industries. About 40% of the turnover increase in the cable industry is explained by rising metal prices. The rubber industry's turnover in September was EUR 3.0 million, the largest in Reka Rubber's history.

The rise in energy prices and availability have not affected the company's market demand so far. Wind power construction is believed to continue to accelerate.

Strongly increased procurement prices, global material shortages and logistics challenges have required an increase in inventory to ensure availability and guarantee delivery reliability to customers. There is still a clear delay in passing on increased acquisition costs to customer prices in both industries.

In January-September 2022, the impact of metal prices on the value of inventories and the net effect of metal and currency hedging on the cable industry's EBITDA was approximately EUR -0.9 million.

Both industries have had procurement and delivery capacity challenges. COVID-19 and supply chain logistics have required a lot of effort to ensure material deliveries.

The cable industry has succeeded in serving customers reliably despite ongoing sourcing challenges. The delivery capacity of the rubber hose production in Poland was weak at the beginning of the year. Although delivery volumes have clearly increased, there have still been problems with the delivery capacity of rubber hose production.

The main focus of the remedial measures on hose production in Poland is to increase the production capacity of hose production and to streamline the production process. The changes made are already visible in the delivery volumes, although the personnel situation has remained challenging. The share of temporary labour has been increased.

Investments in current assets are reflected in the cash flow of the review period (January-September), which was 2.6 million euros.

The demand situation in both industries is good. The Nordic cable market is growing and is expected to grow in the coming years. Cable industry's market share in Finland is strong and we aim to increase our market share in the other Nordic countries. The rubber industry has a strong position in its selected market segments. Order volumes have continued to grow.

In the cable industry, investments have been made, specially to the projects relating to wind power and decreasing energy consumption. The rubber industry is currently working with customers on prototypes and pre-kits for products needed for electric commercial vehicles. Related volume deliveries will begin in 2023.

Green Bond funded projects have been taken forward and new ones are ongoing. Green bond investor letter was published in March 2022.

Major events during the financial period

Negotiations on the additional space of the rubber industry's Polish unit were completed in early January. The additional space was completed in early April and the first deliveries from the new warehouse were shipped after Easter. With the arrangement, the hose production capacity and productivity of the Polish production unit can be clearly increased. Customer demand is still growing, and the change will enable us to better meet the growing volume needs.

In the end of January 2022 cable industry received a strategically significant, renewable energy related cable order from Denmark for the construction of charging infrastructure for electric cars. The value of the order is approximately EUR 0.6 million and deliveries are scheduled for the first half of this year. In addition, the agreement includes an option to double the order quantity this year.

Russia started a large-scale invasion of Ukraine on February 24, 2022. In 2021, the value of sales in the cable business to Russia was 0.4 %, to Ukraine 0.0 % and to Belarus 0.0 % of the Group's net sales. In 2022, sales to Russia have stopped and related operations have been shut down. The rubber industry has no sales to these countries. The rubber industry also has no procurement from these countries. The cable industry has acquired some of the aluminum it uses from Russia. The share of Russian aluminum has now been replaced by suppliers from other regions.

In May the US-based Clearfield Inc. entered into an agreement to acquire the entire share capital of Nestor Cables Oy. The transaction was completed in July. As a result of the overall arrangement of the deal, Reka Industrial received EUR 2.4 million in cash and the impact on the third quarter's result is approximately EUR 1.4 million.

On August 10, 2022, Reka Industrial Plc's subsidiary Reka Cables Ltd started change negotiations regarding preliminary plans for transferring the operations of the Hyvinkää production plant mainly to the property in Riihimäki. The change negotiations took place in a good spirit of cooperation. The change will seek benefits from the centralization of expertise and investments, as well as future expansion opportunities. Change negotiations do not involve personnel layoffs.

In August Reka Industrial Plc's subsidiary Reka Cables committed to the international Science Based Targets initiative (SBTi), driving ambitious climate action. In accordance with the initiative, Reka Cables will set emission reduction targets, which support the policy of the Paris agreement on climate change to limit global heating to a maximum of 1.5 degrees Celsius. The targets apply both to Reka Cables' own operations (Scope 1 & 2) and the whole supply chain (Scope 3). Reka Cables has committed to the strictest Net Zero target, which obligates the company to set both short-term and long-term targets. On a global scale, Reka Cables is amongst the first 1,000 or so companies that have committed to the strictest Net Zero target. Already prior to its commitment to SBTi, Reka Cables has made sustained efforts to cut its emissions. In 2021, Reka Cables announced that it had cut the CO2 emissions of its operations by 80% compared to 2019 by switching to green process electricity and using solar power at its factories in Keuruu and Riihimäki, for example.

The Managing Director of Reka Industrial Plc's subsidiary Reka Rubber changed. Tero Manner (b.1969), M.Sc., started as the new Managing Director. Reka Rubber's former Managing Director Martti Aromaa moved to special duties in the company from 1 October 2022 until his retirement on 30 June 2023.

Key figures	1-9/2022	1-9/2021	1-12/2021
Turnover, EUR million	155.5	118.3	158.1
EBITDA, EUR million	11.8	9.1	11.3
Result for the period, EUR million	3.5	1.1	1.0
Earnings per share, EUR	0.58	0.19	0.17
Net cash provided by operating activities, EUR million	2.6	2.9	8.6
IAS 19 corrected Equity ratio, %	22.4	18.3	21.4

The Administrative Court has stated in its' decision in July 2021 that the subsidiary merge carried out in 2015 is not tax neutral. An appeal against the negative decision of the Administrative Court was made to the Supreme Administrative Court in August 2021, as the matter is significant in principle. The Supreme Administrative Court stated in the summer of 2022 that Reka Industrial's subsidiary merger implemented in 2015 is tax neutral. In accordance with the decision of the Supreme Administrative Court, the retroactive entry of EUR 1.1 million to equity made in 2021 has been cancelled and the comparison data from previous years has been updated accordingly. EUR 0.2 million has been taken into account through the income statement.

Reka Industrial presents alternative key figures so that the effects of IAS 19 recognition of defined benefit pension liabilities are eliminated from the key figures' income and balance sheet items in order to better monitor the development of operations.

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.

Interim report is unaudited.

COVID-19

The pandemic has not reduced customer demand in 2022. COVID-19 has caused additional costs as personnel has been more than usual on sick leave to eliminate the possible infection risk.

The COVID-19 pandemic has been reflected in material procurement in both industries. Most of the materials have been procured on time, but the shortage of raw materials, components and partly containers has brought additional work and challenges to procurement. In the cable industry, there has been a significant increase in material prices. The prices of materials and components in the rubber industry are rising and have rising pressure upwards. Logistics costs have risen clearly.

So far COVID-19 pandemic has not affected to the payment behaviour of the customers.

Segments

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

Cable segment

The Cable Industry's turnover for the review period was EUR 132.5 million (EUR 100.1 million). EBITDA was EUR 10.6 million (EUR 8.0 million). Sales grew strongly both domestically and in exports from the previous year.

The industry's key raw materials are copper, aluminum and plastics. During the review period, price fluctuations for copper and aluminum have been significant. The prices of plastics have risen strongly, and availability has become more difficult.

At the beginning of the year the price of copper was EUR 8,558 per tonne and the price of aluminium was EUR 2,478 per tonne. At the end of September 2022, the price of copper was EUR 7,845 per tonne and the price of aluminium was EUR 2,236 per tonne.

At its highest point, the daily price of copper during the review period was in March EUR 9,855 per tonne and lowest in July at EUR 7,101 per tonne. The price of aluminium has been at its highest in March, when it was EUR 3,660 per tonne, and its lowest in September, when it was 2,174 per tonne.

Rubber segment

Rubber segment's turnover was EUR 23.1 million (EUR 18.3 million). EBITDA was EUR 2.1 million (EUR 1.4 million).

EBITDA in the rubber industry is burdened by overtime at the Polish factory and high staff turnover. Processes and techniques are further developed and the number of temporary workers has been increased.

Financial position

At the end of the review period, the balance sheet totalled at EUR 82.5 million. On 31 December 2021 the balance sheet totalled at EUR 72.2 million.

Reka Cables Ltd has updated the financing of its EUR 3 million bank loan. In the arrangement, the loan repayment period was extended and the interest rate was clearly reduced.

Reka Cables Ltd has increased its loan limit from EUR 5.0 million to EUR 8.0 million. In addition, Reka Cables increased the limits related to trade receivables by EUR 3.0 million.

On September 30, 2022, the Group's interest-bearing loans excluding IFRS 16 leases were EUR 22.3 million (December 31, 2021, EUR 20.9 million). Of this amount EUR 12.5 million is long-term (December 31, 2021, EUR 14.4 million). Short-term interest-bearing loans include EUR 3.8 million of account limits used on September 30, 2022. Unused account limits at the end of September were EUR 5.2 million. Recourse related to financing of accounts receivables and included to interest-bearing loans was EUR 1.9 million in the end of September 2022 (December 31, 2021, EUR 1.2 million). Recourse arises in a situation where there is a delay in financing the accounts receivable at the end of the month and due to customer-specific or total limit being reached. The recourse is removed when the customer has paid the receivable in question.

The Supreme Administrative Court stated in the summer of 2022 that Reka Industrial's subsidiary merger implemented in 2015 is tax neutral. In accordance with the decision of the Supreme Administrative Court, the EUR 1.3 million previously paid by the company to the tax authority are in short-term receivables.

Personnel

In January-September 2022, the Group employed an average of 562 (552) people. At the end of the review period, the personnel of the Group was 565 (579) employees.

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 in order 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.

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. The availability of employees poses challenges to the growth of operations. In the Polish plant in particular, staff turnover and the relative share of sick leave are high and require active and multi-channel recruitment and measures to manage absences.

The increase in the price and availability of energy may directly and indirectly affect the market.

Major events after the review period

There have not been any major events after the review period.

Near-term outlook

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In Hyvinkää 20.10.2022

Reka Industrial Plc
Board of Directors

Further information:

Jukka Poutanen, Managing Director, tel. +358 40 833 9007

Disclaimer

All comments in this report that do not refer to actual facts are future estimates. Such estimates include expectations concerning market trends, growth and profitability as well as statements including the words "believe", "assume" or "will be" or a similar expression. Since these estimates are based on current plans and estimates, they involve risks and uncertainty factors that may cause the actual results to differ substantially from current statements.

Among other things, such factors include 1) operating conditions, such as continued success in production and the ensuing efficiency benefits, availability and cost of production inputs, demand for new products and changes in circumstances affecting the acquisition of capital under acceptable conditions; 2) sector-specific circumstances, such as the intensity of

demand for products, the competition, current and future market prices for the Group's products and related pricing pressures, the financial situation of the Group's customers and competitors and competitors' possible new products; and 3) the general economic situation, such as economic growth in the Group's main market areas and change in exchange rates and interest rates.

About Reka Industrial Plc

Reka Industrial is involved in the transition of both the energy and transport industries. As an industrial family company, we are committed to developing the performance and sustainability of the companies we own. The market is growing and we along with it. Reka Industrial class B shares are listed on the Nasdaq Helsinki Ltd.

www.rekaindustrial.fi/en

Disclosure regulation

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Figures in brackets refer to the same period a year earlier, unless otherwise stated.

Contacts

- Jukka Poutanen, Managing Director, +358 40 833 9007, jukka.poutanen@reka.fi

Attachments

- [Download announcement as PDF.pdf](#)