



Reka Industrial Plc: The year of profitable growth and changes

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Reka Industrial Plc: The year of profitable growth and changes

January - December 2022:

- The Group's turnover was EUR 202.9 million (EUR 158.1 million)
- EBITDA was EUR 15.2 million (EUR 11.3 million)
- The result for the period was EUR 9.0 million (EUR 1.0 million)
- Cash flow from operating activities was EUR 9.9 million (EUR 8.6 million)

In November 2022 Reka Industrial signed an agreement with Nexans Group regarding the sale of all outstanding shares in company's wholly owned subsidiary Reka Cables Ltd. The purchase price of Reka Cables Ltd's shares is 53 million euros. The purchase price is paid in cash. The acquisition is expected to be completed in the first half of 2023. With the signed agreement, Reka Industrial's Cable industry ended. The rubber industry will continue as part of Reka Industrial's business.

Near-term outlook:

The acquisition of Reka Cables is a significant change for the group. Because of this, the near-term outlook is given after the acquisition is completed. The acquisition of Reka Cables is expected to be completed in the first half of 2023. The strategy work of Reka Industrial's board of directors is ongoing.

Managing Director Jukka Poutanen:

In 2022, Reka Industrial Group's net sales of more than 200 million euros will be the largest in the company's history.

Reka Industrial bought Reka Rubber in 2020, when Reka Rubber's turnover was around EUR 20 million. Now the turnover of the rubber industry exceeded 30 million and the market prospects create good conditions for reaching the next turnover category. Both Reka Rubber and Reka Cables made the biggest turnover in their history. The demand situation is good in both industries.

The group's EBITDA of 15 million euros is proof of success in difficult circumstances. Strongly increased procurement prices, global material shortages and logistical challenges have required a lot of effort to ensure deliveries. There is still a clear delay in the transfer of increased costs to customer prices in both industries.

Delivery capacity at our factories in Finland was mostly good throughout the year. Despite overtime and hired labor, the supply capacity of the rubber industry's Polish hose production was challenging for most of the year. The contributions to increase the production capacity and to make the production process more efficient were visible at the end of the year, and the delivery capability was brought to a good level.

Key Figures

	2022	2021	2020
Turnover, EUR million	202.9	158.1	120.4
EBITDA, EUR million	15.2	11.3	9.4
Operating profit, %	5.0	3.5	3.8
Results for the period, EUR million	9.0	1.0	1.0
IAS 19 corrected ROI, %	23.5	14.7	13.5
IAS 19 corrected Return on Equity, %	32.3	12.4	17.9

IAS 19 corrected Gearing, %	125.2	190.0	238.9
IAS 19 corrected Equity ratio, %	22.8	21.4	17.7
Earnings per share	1.50	0.17	0.16
Gross investment, EUR million	5.8	4.1	12.7

The Administrative Court has stated in its' decision in July 2021 that the subsidiary merge carried out in 2015 is not tax neutral. A total of 1.3 million euros was taken into account in the figures for the 2021 financial year due to the Administrative Court. All payments to the tax authority were made by the end of 2021.

Since the tax treatment of subsidiary mergers is significant in principle, Reka Industrial appealed the Administrative Court's decision to the Supreme Administrative Court in August 2021. 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 in equity made in 2021 has been canceled and the comparison data from previous years has been updated accordingly. EUR 0.2 million was taken into account through the income statement. The total amount of EUR 1.3 million has been recorded in short-term receivables.

The Reka Industrial Group (Reka Industrial) uses alternative key figures in its financial reporting in accordance with the guidelines of the European Securities and Markets Authority (ESMA).

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 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.

According to Reka Industrial's interpretation, alternative key figures in accordance with ESMA's guidelines include EBITDA, operating profit, IAS 19 corrected Return on Equity (ROE), IAS 19 corrected Gearing, IAS 19 corrected Equity ratio %, Return on Investment (ROI) and Gross Investments.

The financial statement release is unaudited.

Turnover and operating result

The Reka Industrial Group's (Reka Industrial) turnover in 2022 was EUR 202.9 million (158.1). The result for the financial period was EUR 9.0 million (1.0). EBITDA was 15.2 million euros (11.3) and the operating profit was 10.2 million euros (5.6).

Major events during the financial period

Negotiations on the additional space of the rubber industry's Polish unit were completed in early January 2022. 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 were scheduled for the first half of 2022. In addition, the agreement included an option to double the order quantity.

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 did not involve personnel layoffs.

In August Reka Cables Ltd 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.

In October, Reka Cables Ltd signed a significant cable supply contract with a Nordic wind power construction company. The total value of the contract is approximately EUR 6 million which will be invoiced mainly during the first quarter of 2023.

In November, Reka Industrial signed an agreement with Nexans Group regarding the sale of all outstanding shares of Reka Cables Ltd. Reka Cables operates the cable business of Reka Industrial. Nexans is one of the leading suppliers in cable technologies and services.

Purchase price of the shares is EUR 53 million which will be paid in cash. The transaction is conditional to the approval of the Extraordinary General Meeting of Reka Industrial and approvals by the competent regulatory authorities. The Extraordinary General Meeting approved the arrangement in December. The approval processes of the competent regulatory authorities are still in progress. The completion of the transaction is expected to take place during the first half of 2023.

With the signed agreement, Reka Industrial's Cable industry is ending. The rubber industry will continue as part of Reka Industrial's business. The board of Reka Industrial has started strategy work.

In December, Reka Cables Ltd signed a substantial cable supply contract with network construction company Andel Holding AS operating in the Denmark. The total value of the contract is approximately EUR 9 million which will be invoiced mainly during year 2023.

Balance sheet and financing

At the end of the financial year the interest-bearing liabilities were EUR 27.6 million (27.5), of which other than finance lease liabilities were EUR 17.5 million (20.9).

The group's interest-bearing liabilities to external parties on 31 December 2022:

EUR million	Continuing operations	Discontinued operations	Total
Lease liabilities	5.6	4.5	10.1
Other interest-bearing liabilities	11.9	5.6	17.5
Total	17.5	10.1	27.6

The interest-bearing liabilities of continuing operations are presented separately in the balance sheet. Interest-bearing liabilities of discontinued operations are included in liabilities related to non-current assets held for sale.

Some of the interest-bearing liabilities involve financial covenants. All covenants were fulfilled at the time of the financial statements. More information about the financial covenants is provided in the notes.

The balance sheet total at the end of the financial year was EUR 87.1 million (72.2).

The EUR 10 million "Green bond" issued by Reka Industrial in 2019 is denominated in euros and matures on December 6, 2024. The fixed annual interest rate on the bond is 6.00 percent, payable annually on December 6th. The loan is taken into account in liabilities of continuing operations. The bond will be used to finance projects that meet the eligibility of the Green Bond Framework document, which are related to Reka Cables Ltd's product range and the improvement of the environmentally friendly operating capacity of Reka Cables Ltd's production facilities and processes. Part of the bond has been used for refinancing in accordance with the terms of the agreement. A separate investor letter is published annually in March.

Sustainability

Reka Industrial is advancing the energy transition and the electrification of vehicles. Our sustainability actions are guided by the UN Sustainable Development Goals. Sustainable development is based on energy efficiency, the circular economy, and the production and use of renewable energy.

Sustainability and building a sustainable future are a key part of our strategy. We are committed to the UN Sustainable Development Goals, which to support we have set environmental goals. We have launched a Green Bond to improve the sustainability of the cable business. We report the results of our bond-financed operations annually in an investor letter, which will be published in March. More information about the Green Bond Framework is available on the company's website.

The share of electricity in energy use is increasing, especially in vehicles and industry. Wind and solar power will reduce CO2 emissions from energy production, save natural resources and achieve a carbon-neutral future. The operation of electricity networks is an important part of a functioning infrastructure. Reka Cables, which participates in energy industry solutions, is involved in renewable energy projects and the construction of functional infrastructure. Reka Rubber, which participates in solutions for the vehicle industry, is involved in the electrification of the vehicle industry. Reka Rubber is a manufacturer of small and medium-sized series of rubber components for the vehicle and mechanical engineering industries.

Reducing CO2 emissions and measures to achieve carbon neutrality have been emphasized in recent years. In addition to calculating the carbon footprint, processes, technologies and products are actively developed to reduce the carbon footprint.

Our production plants in Finland use green electricity and efforts are made to reduce the carbon footprint in production facilities, production processes and product development. Reka Cables is the most advanced of the companies in this regard, as it has already invested in things through Green Bond financing for several years.

In August 2022, Reka Cables Ltd 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.

In the future, climate-related issues will require investments and development effort both to reduce one's own carbon footprint and to meet the growing demands of customers. We are involved in the energy transition and the electrification of vehicles, and climate-related issues increase the demand for our operations.

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 had no sales to these countries. The rubber industry has also had no procurement from these countries. The cable industry has acquired some of the aluminum it uses from Russia. The share of Russian aluminum was replaced by suppliers from other regions.

The war in Ukraine has been reflected in a general increase in the prices of metal parts as the total supply decreases. The war in Ukraine has also been reflected in matters related to personnel, as there are Ukrainians working especially at our production plant in Poland.

Macroeconomic environment

Part of the group's financing is tied to a reference interest rate, part to a fixed interest rate. The rise in reference interest rates has increased the total interest costs both for the financing of trade receivables and for traditional loans. Reference rates are actively monitored and updated to the group's forecasts and plans. Since there were more repayments than repayment programs in 2022, this will reduce the impact of a rise in reference rates in the future.

Inflation can be seen as an increase in the cost of both labor and materials and components and services. The price of electricity is partially protected at the Finnish production plants, but the Polish production plant's energy costs will clearly increase in 2023. In 2022, the electricity price of the Polish production plant was fixed and the price increase therefore did not affect the year 2022. The increase in the price of electricity and the high level of inflation in Poland accelerate some production arrangements and efficiency measures. Change and efficiency measures are also being carried out at the factories in Finland. In the rubber industry, suppliers have added an electricity surcharge to their charges. The electric surcharge has also been used in the customer interface of the rubber industry. There is still a delay in getting the costs into customer prices.

The COVID-19 has not reduced customer demand and has not affected to the payment behavior of the customers so far. Additional costs and delivery delays have been accumulated as personnel has been more than usual on sick leave to eliminate the possible infection risk.

The COVID-19 has been reflected in material procurement. 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. Inflation continues to increase costs. Logistics costs have risen.

Segments

The rubber industry will continue to be Reka Industrial's industrial business segment.

Rubber segment

The rubber segment's turnover was EUR 30.6 million (EUR 24.6 million). EBITDA was EUR 2.6 million (EUR 1.5 million). The rubber segment's EBITDA is burdened by staff turnover in Poland and overtime, as well as increased material and logistics costs. There is a clear delay in the transfer of increased procurement costs to customer prices.

Negotiations on additional space for the Polish subsidiary were completed at the beginning of January 2022, and the additional space was taken into use at the beginning of April 2022.

Despite overtime and hired labor, delivery capacity was challenging for most of 2022 for hose production in Poland. Production volumes were increased, but customer order volumes grew even faster. At the end of the year, the delivery capability reached a good level.

In order to support growth and the productivity of the Polish production unit, the rubber segment initiated the transfer of mold product manufacturing made with injection technology from Poland to Finland at the end of 2022. The transfer will take place in stages and will be completely completed in April 2023. With the arrangement, the mold product manufacturing of the Aura production unit will increase and the Polish production unit will be able to increase the delivery quantities of black hoses and silicone hoses.

Customer demand is still growing, and with the help of the change, it is possible to better meet the growing volume needs.

In November, the rubber segment sold its property in Aura to Reka Pension Fund. The IFRS capital gain of EUR 0.6 million resulting from the arrangement is included in other income.

To support the solvency of the Reka Pension Fund Reka Rubber made a guarantee capital investment of EUR 5.7 million in Reka Pension Fund. The interest on the guarantee capital investment is 4 % p.a.

Discontinued operations

Reka Industrial announced on 10 November 2022 that it had signed an agreement with the Nexans group on the sale of shares in Reka Cables Ltd. With the agreement, Reka Industrial's Cable segment ended and Reka Cables Ltd and its subsidiaries were classified as a discontinued operations.

The transaction is conditional to the approval of the Extraordinary General Meeting of Reka Industrial and approvals by the competent regulatory authorities. The Extraordinary General Meeting approved the arrangement in December. The approval processes of the competent regulatory authorities are still in progress. The completion of the transaction is expected to take place during the first half of 2023. Preparation for the separation of functions is progressing according to plans.

Reka Industrial presents the income statement separately for both continuing and discontinued operations and for the entire group. Therefore, the essential issues related to Reka Cables' business are described below.

Reka Cables turnover was EUR 172.4 million (133.7). EBITDA was EUR 11.0 million (7.0).

Reka Cables Ltd's domestic 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. The prices of plastics have risen strongly, and availability has become more difficult.

In the beginning of the year, the price of copper was EUR 8,558 per tonne and the price of aluminum was EUR 2,478 per tonne. In the end of December 2022, the price of copper was EUR 7,858 per tonne and the price of aluminum was EUR 2,212 per tonne.

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

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

Major events after the financial period

There have not been any major events after the end of the financial period.

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 fluctuations on the load rates of production plants. In cable business, COVID-19 has caused extra costs and delivery delays.

In the cable segment of Reka Industrial 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. Price fixings are used to hedge the price of 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.

Dividend Policy

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

Profit distribution proposal

The parent company's distributable funds are EUR 4,170,940.00, of which the result for the period is EUR 1,323,166.97. The Board of Directors proposes to the Annual General Meeting that the Board of Directors be authorized to decide on a maximum dividend of EUR 0.20 per share (a maximum of EUR 1.2 million in total) and the payment date by June 30, 2023. A dividend of EUR 0.09 per share was paid for the financial year 2021.

In December 2022, the Extraordinary General authorized in accordance with the Board of Directors' proposal that EUR 0.20 per share will be distributed to shareholders from the company's unrestricted equity after the completion of the acquisition. In accordance with the Board of Directors' proposal, the Extraordinary General Meeting authorized the Board of Directors to decide the record and payment dates of the distribution from the non-restricted equity, however having the payment date within a month from completion of the corporate sale.

Near-term outlook

The acquisition of Reka Cables is a significant change for the group. Because of this, the near-term outlook is given after the acquisition is completed. The acquisition of Reka Cables is expected to be completed in the first half of 2023. The strategy work of Reka Industrial's board of directors is ongoing.

Annual General Meeting 2023

Reka Industrial Plc's Annual General Meeting will be held in Hyvinkää on 12 April 2023 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

Hyvinkää, 23 February 2023

Reka Industrial Plc
Board of Directors

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

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Attachments

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