



Reka Industrial Plc: Profitable growth

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Reka Industrial Plc: Profitable growth

In January-March 2023

- The Group's turnover was EUR 55.4 million (EUR 46.7 million)
- EBITDA was EUR 6.4 million (EUR 3.5 million)
- The result for the period was EUR 4.1 million (EUR 0.6 million)
- Cash flow from operating activities was EUR 5.9 million (EUR 1.8 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.

Interim report is unaudited.

Reka Cables was classified as discontinued operations starting November 2022. After the classification according to IFRS 5 the depreciations of Reka Cables have not been noticed. In January-March 2022 the depreciations of Reka Cables were EUR 1.2 million.

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. Due classification of discontinued operations according to IFRS 5 the IAS 19 entries have not been noticed in the income statement January - March 2023. In January - March 2022 IAS 19 cost entries were EUR 0.2 million.

Managing Director Jukka Poutanen:

The Group's turnover in the first quarter, over EUR 55 million, is largest in the company's history. Both Reka Rubber and Reka Cables made their record high turnover in January - March 2023.

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. The turnover of March, EUR 3.1 million, was highest ever in the history of Reka Rubber. Investments for the growth are carried out both by recruitments and capex.

The group's EBITDA, EUR 6.4 million, is proof of awesome success. Strongly increased cost levels, 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.

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The demand situation in is good and the delivery capacity at all factories was good in January - March 2023.

Green Bond investor letter was published in March 2023.

Major events during the financial period

There has not been any major events to publish during the financial period.

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 and in January – March 2023, 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 have clearly increased 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 the transfer the costs into customer prices.

Segments

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

Rubber segment

The rubber segment's turnover was EUR 8.8 million (EUR 7.7 million). EBITDA was EUR 0.8 million (EUR 0.7 million). There is a clear delay in the transfer of increased costs to customer prices.

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 last transfers will be carried out 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. Change enables growing volumes.

The delivery capacity at all factories was good in January – March 2023.

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.

The turnover of Reka Cables was EUR 46.7 million (39.0). EBITDA was EUR 5.5 million (2.6).

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

The industry's key raw materials are copper, aluminum and plastics. During the review period, price fluctuations for copper and aluminum were moderate compared to previous year. The prices of plastics were rather stable.

In the beginning of the year, the price of copper was EUR 7,858 per tonne and the price of aluminum was EUR 2,212 per tonne. In the end of March 2023, the price of copper was EUR 8,222 per tonne and the price of aluminum was EUR 2,150 per tonne.

At its highest point, the daily price of copper during the review period was EUR 8,718 per tonne in January, and at its lowest in January, at EUR 7,739 per tonne. The price of aluminum has been at its highest in March, when it was EUR 2,435 per tonne, and its lowest in January, when it was EUR 2,070 per tonne.

Balance sheet and financing

At the end of the review period, the balance sheet totalled at EUR 94.0 million. On 31 December 2022 the balance sheet totalled at EUR 87.1 million.

The group's interest-bearing liabilities to external parties on 31 March 2023:

EUR million	Continuing operations	Discontinued operations	Total
Lease liabilities	5.5	4.0	9.5
Other interest-bearing liabilities	11.2	4.2	15.4
Total	16.7	8.2	24.9

Recourse related to financing of accounts receivables and included to interest-bearing loans was EUR 3.3 million in the end of March 2023 (December 31, 2022, EUR 1.8 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.

Reka Cables Ltd has loan limit of EUR 8.0 million. At the end of the review period the loan limit was not in use.

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 was published in March.

Personnel

In January-March 2023, the Group's continuing operations employed an average of 304 people (289). Including discontinued operations, the number of employees in January-March was an average of 579 employees (561).

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.

For Reka Cables 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.

For Reka Cables 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.

Major events after the review period

Reka Industrial published 7 March 2023 invitation to the Annual General Meeting to be held on Wednesday 12 April 2023. Due to the acquisition situation, Reka Industrial Plc's Board of Directors decided to postpone the date of the Annual General Meeting. The company canceled the Annual General Meeting convened on April 12, 2023. The Annual General Meeting of Reka Industrial Plc will be held on Wednesday, 24 May 2023.

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.

In Hyvinkää 20.4.2023

Reka Industrial Plc
Board of Directors

Further information:

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Disclosure regulation

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.

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

Contacts

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About Reka Industrial Oyj

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.

Attachments

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