

Q3 2020

QUARTERLY REPORT

1 JANUARY TO 30 SEPTEMBER 2020



SLIGHT RECOVERY OF BUSINESS DEVELOPMENT IN THE THIRD QUARTER OF 2020

- Confirmation of forecast for full year 2020: Revenue between €300 and 330 million and adjusted EBITDA of €27 to 30 million
- Revenue fell 10.8% to €258.1 million in the nine-month period
- Adjusted EBITDA drops disproportionately by 2.5% to €27.2 million, which means the adjusted EBITDA margin is higher than the target of 10%

The KAP Group's business performance was weaker in the first nine months of 2020 than in the previous year. This was largely a result of the outbreak of the COVID-19 pandemic in the first quarter and its serious impact on the global economy. Following significant decreases in unit sales in individual segments of the Group in the first half of 2020, the KAP Group's business recovered faster than expected in the third quarter. Especially the flexible films and it/services segments were able to successfully counteract the impact of the pandemic and hardly experienced any adverse effects. Operating profit at Group level even only decreased by 2,5% compared to the previous year, despite the impact of COVID-19. This was particularly due to the restructuring measures carried out and a higher quality product mix overall.

KAP Group

		9M 2020	9M 2019	Change in %
Revenue	€ millions	258.1	289.5	-10.8
EBITDA	€ millions	27.9	26.2	6.5
Normalisations	€ millions	-0.7	1.7	n.m.
Normalised EBITDA	€ millions	27.2	27.9	-2.5
Normalised EBITDA margin	%	10.5	9.6	9.4
Investments	€ millions	14.5	12.8	13.3
Employees as of 30 September		2,711	2,878	-5.8

DEVELOPMENT OF THE KAP GROUP IN THE FIRST NINE MONTHS OF 2020

Revenue was €258.1 million in the first nine months of 2020 and thus 10.8% below the previous year's level (previous year: €289.5 million). This is primarily due to the negative impact of the COVID-19 pandemic.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of €27.9 million were normalised for special items and non-recurring effects from insured losses in 2019, restructuring and severance payment costs and transaction-related advice fees by an amount totalling €-0.7 million. Adjusted EBITDA decreased by 2.5% to €27.2 million (previous year: €27.9 million). The adjusted EBITDA margin was thus 10.5%, meaning it was 0.9 percentage points higher than the previous year's figure (previous year: 9.6%) and higher than the target of 10%.

The equity ratio was 41.8% (31/12/2019: 46.5%) with total assets of €374.2 million (31/12/2019: €346.6 million).

The cash flow from operating activities in the first nine months of the 2020 financial year increased by 62% to €45.2 million (previous year: €27.9 million). €20 million of the increase resulted from the reduction of current assets. Investments amounted to €14.5 million (previous year: €12.8 million).

The number of staff fell by 5.8% compared to the previous year to 2,711 employees as of 30 September 2020 (previous year: 2,878 employees). The use of reduced working hours meant it was possible to retain important jobs in order to remain well equipped for sustainable growth after the coronavirus crisis has been overcome.

The IAS 36 impairment tests announced due to the global COVID-19 pandemic and the associated changes in the market continue to be planned for the 2020 annual financial statements, once all reliable general data and approved business plans are available. These tests could lead to impairments.

SEGMENT REPORTING: DEVELOPMENT OF THE SEGMENTS IN THE FIRST NINE MONTHS OF 2020

engineered products

		9M 2020	9M 2019	Change in %
Revenue	€ millions	99.5	119	-16.4
EBITDA	€ millions	-5.6	4.0	-240
Normalisations	€ millions	11.2	1.4	n.m.
Normalised EBITDA	€ millions	5.6	5.4	3.7
Normalised EBITDA margin	%	5.6	4.5	24.4
Investments	€ millions	1.0	2.3	-60.9
Employees as of 30 September		897	999	-10.2

The **engineered products** segment continued to be severely affected by the impact of the COVID-19 pandemic in the third quarter. Revenue decreased by 16.4% to €99.5 million in the first nine months of 2020 (previous year: €119.0 million). In particular, temporary production shut-downs by customers in China, India and the USA due to the coronavirus had a negative impact on the segment.

EBITDA fell to €-5.6 million due to restructuring expenses (previous year: €4.0 million) and the EBITDA margin decreased to -5.6%. Adjusted EBITDA rose by 3.7% to €5.6 million (previous year: €4.5 million). The adjusted special items and non-recurring effects, which total €11.2 million, particularly comprise non-cash write-downs of inventories, severance payments and restructuring costs. At 5.6%, the adjusted EBITDA margin was 1.3 percentage points above the previous year's level (previous year: 4.5%).

KAP AG is continuing the planned restructuring of the segment to sustainably improve profitability. The expenses associated with the reorganisation measures will therefore continue to affect the Group's development in the fourth quarter of 2020.

The investment volume totalled €1.0 million in the first nine months of 2020 and was thus 56.5% below the previous year's level (previous year: €2.3 million). KAP invested the majority of this in the replacement of machinery. The sites in Portugal in particular were the regional focus of our investment activities.

As at 30 September 2020, 897 people were employed in the segment, which is 10.2% fewer than at the same reporting date of the previous year (previous year: 999).

flexible films

		9M 2020	9M 2019	Change in %
Revenue	€ millions	77.8	70.7	10.0
EBITDA	€ millions	12.7	8.6	47.7
Normalisations	€ millions	0.0	0.0	n.m.
Normalised EBITDA	€ millions	12.7	8.6	47.7
Normalised EBITDA margin	%	16.3	12.2	33.6
Investments	€ millions	1.1	1.7	-35.3
Employees as of 30 September		319	327	-2.4

In the **flexible films** segment, opportunities arising as a result of the pandemic were successfully used. Revenue increased by 10.0% to €77.8 million in the first nine months of 2020 (previous year: €70.7 million). The increase is partly due to the new sales opportunities arising in the field of protective clothing in medical applications, which the segment also successfully made use of in the third quarter. In addition, business in the business areas affected by COVID-19 has recovered faster than expected. EBITDA improved by 47.7% to €12.7 million (previous year: €8.6 million). The EBITDA margin was 16.3% (previous year: 12.2%).

The investment volume was €1.1 million in the reporting period (previous year: €1.7 million) and was thus 35.3% lower than the previous year's level.

The number of staff decreased slightly by 2.4% to 319 people as of 30 September 2020 (previous year: 327).

surface technologies

		9M 2020	9M 2019	Change in %
Revenue	€ millions	38.9	49.2	-20.9
EBITDA	€ millions	13.2	9.7	36.1
Normalisations	€ millions	-6.6	-0.6	n.m.
Normalised EBITDA	€ millions	6.6	9.1	-27.5
Normalised EBITDA margin	%	17.0	18.5	-8.1
Investments	€ millions	9.9	5.5	80.0
Employees as of 30 September		741	767	-3.4

In the **surface technologies** segment, revenue dropped significantly by 20.9% to €38.9 million in the first nine months of 2020 (previous year: €49.2 million) due to the segment's high dependence on the automotive sector. As a result of the COVID-19 pandemic, the automotive sector experienced a significant slump in demand. Overall, however, business in this segment also recovered faster than originally expected in the third quarter.

Non-recurring effects totalling €6.6 million meant EBITDA increased by 36.1% to €13.2 million (previous year: €9.7 million). At €6.6 million, adjusted EBITDA was 27.5% down on the previous year (€9.1 million). The adjusted EBITDA margin fell to 17.0% and was thus 1.5 percentage points lower than the previous year's level (previous year: 18.5%). The result was adjusted for non-recurring effects in connection with the fire damage in 2019. These comprised an insurance settlement of €9.5 million, one-off expenses of €2.2 million that arose due to the business interruption as a result of the fire damage, and further expenses of €0.7 million in connection with this.

Segment companies invested €9.9 million in the first nine months, which was 80.0% more than in the previous year (previous year: €5.5 million). The investments primarily concerned the rectification of the fire damage and a new zinc nickel plant at the site in Poland.

As of 30 September 2020, 741 people were employed in the segment, which was 6.9% fewer than at the end of the same period of the previous year (previous year: 767).

precision components

		9M 2020	9M 2019	Change in %
Revenue	€ millions	28.3	38.6	-26.7
EBITDA	€ millions	1.1	4.2	-73.8
Normalisations	€ millions	-0.3	-0.5	n.m.
Normalised EBITDA	€ millions	0.8	3.7	-78.4
Normalised EBITDA margin	%	2.8	9.6	-70.8
Investments	€ millions	1.8	1.5	20.0
Employees as of 30 September		598	631	-5.2

The revenue trend in the **precision components** segment has been heavily affected by the COVID-19 pandemic, which is why revenue in the first nine months dropped significantly by 26.7% to €28.3 million (previous year: €38.6 million). In total, more than 90% of deliveries in this segment concern the automotive sector. In addition, the recovery in the third quarter did not take place faster than expected in the third quarter, unlike in the other segments.

EBITDA thus fell by €3.1 million to €1.1 million (previous year: €4.2 million). The result was adjusted for non-recurring effects in connection with the release of provisions in connection with the error corrections of the 2019 financial year and for employee severance payment claims of €0.3 million, as a result of which adjusted EBITDA was €0.8 million in the first nine months.

In the first nine months, the investment volume came to €1.8 million (previous year €1.5 million) and thus rose by €0.3 million. At around €1.1 million, approximately 60% of this was accounted for by replacement investments.

The number of employees fell to 598 as of 30 September 2020 and was thus 5.2% below the previous year's level (previous year: 631).

it/services

		9M 2020	9M 2019	Change in %
Revenue	€ millions	16.5	15.1	9.3
EBITDA	€ millions	3.1	1.9	63.2
Normalisations	€ millions	0.0	0.1	n.m.
Normalised EBITDA	€ millions	3.1	2.0	55.0
Normalised EBITDA margin	%	18.8	13.2	42.4
Investments	€ millions	0.4	1.2	66.7
Employees as of 30 September		119	122	-2.5

Revenue in the **it/services** segment increased by 9.3% to €16.5 million in the first nine months of 2020 (previous year: €15.1 million). No significant effects of the pandemic were felt in the third quarter either, and it was possible to carry out or continue projects as planned.

EBITDA increased to €3.1 million (previous year: €1.9 million). The EBITDA margin thus increased by 5.6 percentage points to 18.8% (previous year: 13.2%). The significant improvement in the operating profit margin is due to the successful implementation of measures to increase efficiency and to further margin improvement in the high-revenue areas.

The investment volume was €0.4 million in the reporting period (previous year: €1.2 million) and was thus 66.7% lower than the previous year. The decrease in investments is particularly due to the fact that significant investment was made in the computer centre in the previous year.

As of 30 September 2020, the segment companies employed 119 people (previous year: 122).

The process to sell the it/services segment was also initiated in the third quarter.

EVENTS AFTER REPORTING PERIOD

After the end of the period under review, fire damage occurred at the us production site at the end of October. The fire occurred at a plant in Spartanburg, South Carolina (Heiche us Surface Technology Inc.). The cause of the fire is assumed to be a technical defect following a power failure as a result of a hurricane. The plant was almost completely destroyed by the fire, but no persons were injured. The replacement delivery to customers was ensured by other Heiche Group plants. The insurance situation is currently still undergoing a final assessment. However, no significant effects on the revenue and earnings situation of the KAP Group are currently expected.

Vice Chairman of the Supervisory Board Fried Möller resigned from his position as a member of the Company's Supervisory Board for age-related reasons with a letter on 30 October 2020. The Company expects a successor to be appointed shortly.

CONFIRMATION OF THE 2020 FORECAST

For full year 2020, the Management Board continues to expect revenue between €300 and 330 million and adjusted EBITDA of €27 to 30 million. The risks of the COVID-19 pandemic currently known have been factored into this forecast. This does not take into account any currently unforeseeable further worsening of the COVID-19 pandemic and its impact on the KAP Group's business.

FINANCIAL INFORMATION

DEVELOPMENT OF THE KAP GROUP AS OF 30 SEPTEMBER 2020

CONSOLIDATED STATEMENT OF INCOME

FROM 1 JANUARY TO 30 SEPTEMBER 2020

in € thousands	9M 2020	9M 2019
Revenue	258,082	289,475
Change in inventories and other own work capitalised	-10,124	440
Total performance	247,958	289,915
Other operating income	18,663	13,454
Cost of materials	-126,134	-158,486
Personnel expenses	-72,741	-75,896
Depreciation and amortisation of intangible assets, property, plant and equipment and investment property	-20,940	-27,421
Other operating expenses	-40,023	-42,776
Result from divested assets and liabilities	0	0
Operating result	7,025	-1,210
Interest result	-2,250	-2,783
Other financial result	-2,393	-664
Financial result	-4,643	-3,447
Earnings from continuing operations before income taxes	2,382	-4,657
Income taxes	-2,560	1,588
Earnings from continuing operations	-178	-3,069
Earnings from discontinued operations after taxes	461	-30
Consolidated annual result after taxes	289	-3,099
Result share of non-controlling interests	-700	-412
Consolidated annual result of KAP AG shareholders	-411	-3,511
Undiluted earnings per share (€)		
Earnings from continuing operations	-0.02	-0.45
Earnings from discontinued operations	0.06	0.00
	-0.04	-0.45
Diluted earnings per share (€)		
Earnings from continuing operations	0	0
Earnings from discontinued operations	0	0
	0	0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

FROM 1 JANUARY TO 30 SEPTEMBER 2020

in € thousands	9M 2020	9M 2019
Consolidated result after taxes	289	-3,099
Unrealised gains from currency translation	-4,997	237
Unrealised gains from the disposal of available-for-sale financial assets	0	0
Items which may be reclassified in the income statement in the future	-4,997	237
Actuarial gains from defined-benefit pension plans	0	0
Deferred taxes on actuarial gains/losses from defined-benefit plans	0	0
Items which will not be reclassified in the income statement in the future	0	0
Other comprehensive income after taxes	-4,997	237
thereof result after taxes attributable to non-controlling interests	0	-7
of which other comprehensive income after taxes attributable to shareholders of KAP AG	-4,997	244
Total comprehensive income	-4,708	-2,861
thereof attributable to non-controlling interests attributable to total comprehensive income	700	406
thereof attributable to shareholders of KAP AG	-5,408	-3,267

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 SEPTEMBER 2020

in € thousands	30/09/2020	31/12/2019	30/09/2019
ASSETS			
ASSETS			
Non-current assets			
Intangible assets	28,765	35,417	39,028
Property, plant and equipment	147,887	161,904	174,327
Investment properties	1,446	4,368	4,444
Financial assets accounted for using the equity method	0	0	0
Other financial assets	1,244	1,296	1,315
Deferred tax assets	4,696	5,388	5,352
	184,038	208,373	224,466
Current assets			
Inventories	48,884	59,902	65,896
Trade receivables	51,309	58,950	62,367
Income tax refund claims	1,373	2,270	1,526
Other receivables and assets	6,670	12,063	6,936
Cash and cash equivalents	66,530	5,077	11,941
	174,766	138,262	148,666
Non-current assets held for sale and discontinued operations	15,424	-	-
	374,228	346,635	373,132

in € thousands	30/09/2020	31/12/2019	30/09/2019
EQUITY AND LIABILITIES			
EQUITY AND LIABILITIES			
Equity and reserves			
Subscribed capital	20,177	20,177	20,177
Capital reserve	86,840	86,840	86,840
Reserves	-21,439	-16,442	-14,806
Net result	67,996	68,413	77,924
Equity attributable to shareholders of KAP AG	153,574	158,988	170,135
Non-controlling interests	2,717	2,017	2,945
	156,291	161,005	173,080
Non-current liabilities			
Provisions for pensions and similar obligations	18,752	19,900	17,597
Non-current financial liabilities	109,294	78,143	75,742
Deferred tax liabilities	7,440	8,550	9,889
Other non-current liabilities	31	221	349
	135,517	106,815	103,576
Current liabilities			
Other provisions	26,016	22,799	27,659
Current financial liabilities	15,331	15,930	29,140
Trade payables	21,606	23,774	26,458
Income tax liabilities	6,668	6,600	4,163
Other liabilities	7,885	9,712	9,056
	77,506	78,815	96,476
Liabilities in connection with discontinued operations	4,914	-	-
	374,228	346,635	373,132

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY TO 30 SEPTEMBER 2020

in € thousands	9M 2020	9M 2019
Earnings before interest and income taxes	5,099	-1,904
Depreciation and amortisation of non-current assets (offset against write-ups)	20,940	27,421
Change in provisions	5,337	1,724
Other non-cash expenses and income	-589	4,251
Gains/losses from the disposal of non-current assets and discontinued operations	-145	55
Cash flow from operating activities before changes in assets and liabilities	30,643	31,546
Changes in inventories, receivables and other assets not attributable to investing and financing activities	20,030	-2,936
Changes in payables and other liabilities which are not attributable to investing and financing activities	-2,089	2,735
Cash flow from operating activities before interest and income taxes	48,583	31,346
Interest paid and received	-1,490	-2,598
Income taxes paid and received	-1,885	-833
Cash flow from operating activities	45,209	27,914
Proceeds from disposals of property, plant and equipment (including investment property)	464	854
Investments in property, plant and equipment (including investment property)	-14,351	-12,484
Investments in intangible assets	-519	-346
Proceeds from the disposal of financial assets	20	53
Investments in financial assets	-	-2
Cash inflow from the disposal of consolidated companies	-	-
Cash outflow from the addition of consolidated companies	-	-
Cash inflow from repayments of financial receivables	-51	-
Disbursements by granting loans	0	-86
Cash flow from investing activities	-14,437	-12,011

in € thousands	9M 2020	9M 2019
Proceeds from capital increase	-	-
Dividends paid to shareholders	-	-15,521
Cash inflow from borrowing	35,203	7,470
Disbursements for the repayment of financial liabilities	-4,223	-7,605
Cash flow from financing activities	30,980	-15,656
Net change in cash and cash equivalents	61,752	249
Effect of changes in foreign exchange rates, consolidation group and valuation-related changes in cash and cash equivalents	-140	-35
Cash and cash equivalents at beginning of period	5077	11,727
Cash and cash equivalents at end of period	66,690	11,941

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS OF 30 SEPTEMBER 2020

in € thousands	Subscribed capital	Capital reserve	Currency differences	Cash flow hedges	Financial assets available for sale
01/01/2019	20,177	86,840	-20,566	-	-
Consolidated result	-	-	-	-	-
Other comprehensive income before taxes	-	-	244	-	-
Deferred taxes on other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	244	-	-
Capital increase	-	-	-	-	-
Capital decrease	-	-	-	-	-
Dividends paid to shareholders	-	-	-	-	-
Change in consolidation group	-	-	-	-	-
Other changes	-	-	-	-	-
30/09/2019	20,177	86,840	-20,322	-	-
01/01/2020	20,177	86,840	-19,740	-	-
Consolidated result	-	-	-	-	-
Other comprehensive income before taxes	-	-	-4,997	-	-363
Deferred taxes on other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-4,997	-	-363
Capital increase	-	-	-	-	-
Capital decrease	-	-	-	-	-
Dividends paid to shareholders	-	-	-	-	-
Change in consolidation group	-	-	-	-	-
Other changes	-	-	-	-	-
30/09/2020	20,177	86,840	-24,737	-	-363

Revenue reserves

	Actuarial gains/losses	Other	Total	Consolidated balance sheet result	Equity attributable to KAP shareholders	Non-controlling interests	Total equity
	-5,247	10,455	-15,358	97,598	189,255	2,400	191,655
	-	-	-	-3,511	-3,511	412	-3,099
	-	-	244	-	244	-7	237
	-	-	-	-	-	-	-
	-	-	244	-3,511	-3,267	406	-2,861
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-15,521	-15,521	-	-15,521
	-	-	-	-	-	-	-
	-	308	308	-642	-334	139	-195
	-5,247	10,764	-14,806	77,924	170,135	2,945	173,080
	-7,073	10,372	16,441	68,413	158,988	2,017	161,005
	-	-	-	-412	-412	700	288
	-	363	-4,997	-	-4,997	-	-4,997
	-	-	-	-	-	-	-
	-	363	4,997	-412	-5,409	700	-4,709
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-7,073	10,735	-21,438	67,996	153,574	2,717	156,291

SEGMENT REPORTING BY BUSINESS AREA

in € thousands	engineered products*		flexible films		surface technologies ³		precision components ⁴	
	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019
Revenue	99,466	118,976	77,759	70,746	38,891	49,222	28,295	38,584
Segment result ¹	-5,545	4,009	12,698	8,924	13,139	9,705	1,147	4,214
Scheduled depreciation and amortisation	5,305	5,808	2,471	2,805	8,784	9,121	2,938	3,203
Operating result	-10,850	-1,799	10,227	6,119	4,355	-4,312	-1,791	1,011
Investments ²	954	2,253	1,140	1,743	9,924	5,516	1,759	1,503
Working capital	39,771	58,454	22,175	22,553	4,768	4,218	12,842	16,283
Employees as of 30 September	897	999	319	327	741	767	598	631

* Previous year's figures were adjusted due to error correction.

As the figures are presented in € thousands, the numbers may not add up due to rounding.

¹ The segment result is defined as the segment EBITDA.

² Relates to intangible assets and property, plant and equipment.

³ The previous year's figures were adjusted as a result of KAP Surface Holding GmbH being assigned to this segment.

⁴ The previous year's figures were adjusted as a result of GM Tec Industries Holding GmbH being assigned to this segment.

⁵ The disposal process has been initiated for the it/services segment. Its result is eliminated in the result of continuing operations.

it/services ⁵		Reconciliation		Consolidation		Group	
9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019
16,511	15,092	0	2	-2,840	-3,146	258,082	289,475
3,111	1,932	-4,087	-4,759	7,502	2,187	27,965	26,211
790	786	520	607	132	195	20,940	22,524
2,321	1,146	-4,607	-5,366	7,370	1,992	7,025	-1,210
356	1,161	356	651	0	0	14,490	12,826
1,781	2,298	-824	-1,821	-124	-180	80,389	101,805
119	122	37	32	0	0	2,711	2,878

FINANCIAL CALENDAR

8 December 2020	30th MKK Munich Capital Market Conference (virtual)
April 2021	Publication of the 2020 Annual Report
May 2021	Publication of the Q1 2021 quarterly report
July 2021	Annual General Meeting
September 2021	Publication of the six-month financial statements as of 30 June 2021
November 2021	Publication of the Q3 2021 quarterly report

All dates are subject to change. We publish all the dates above together with additional dates and any updates to these on <https://www.kap.de/en/investor-relations/calendar>.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These statements are based on current estimates and forecasts by the Executive Board and on the information currently available to the Executive Board. Such statements are subject to risks and uncertainties that are mostly difficult to assess and are generally outside the scope of KAP AG's and its subsidiaries' control. These include the future market environment and economic conditions, the behaviour of other market participants, the successful integration of new acquisitions, the realisation of anticipated synergy effects and measures taken by government agencies. Should any of these or other uncertainties and imponderables materialise, or should the assumptions on which the statements made are based prove to be inaccurate, actual results could differ materially from those expressed or implied by such statements. KAP AG does not assume any special obligation going beyond the legal requirements to update forward-looking statements made in this report.

ROUNDING

The figures in this report have been rounded in accordance with established commercial practice. Rounding differences may thus occur, meaning that the result of adding the individual figures together does not always precisely correspond to the total specified.

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