KAP AG HAS ROBUST FIRST HALF YEAR – REVENUE AT PREVIOUS YEAR'S STRONG LEVEL

- Revenue of €199.5 million almost at previous year's strong level
- Adjusted EBITDA of €18.4 million
- Extraordinary non-cash one-off effects negatively impact result
- New forecast for the 2019 full year to be issued at the start of the fourth quarter

Fulda, 29 August 2019 – KAP AG, a listed SME in the industrial sector, proved highly robust in the first half of the year following a successful start to the 2019 financial year, despite a dynamic downturn of the economic environment. Its revenue of €199.5 million, for example, was almost at the previous year's strong level. "In terms of economic impacts, our segments were very resilient for a long period due to their good market position. However, in the middle of the year we faced worsening conditions in the engineered products and precision components segments in particular, with fewer incoming orders. Extraordinary non-cash one-off effects due to the fire at the Heinsdorfergrund site, write-downs to be made to goods and inventories due to irregularities identified and one-off effects also impacted the first-half result negatively," said Guido Decker, CEO of KAP AG.

Revenue of €199.5 million at strong level of previous year
and adjusted EBITDA of €18.4 million

The KAP Group's revenue was almost at the previous year's strong level in the first half of 2019 at €199.5 million (previous year: €200.3 million). It should be noted that for ease of comparability, the figure for the previous year was adjusted for the revenue of Geiger Fertigungstechnologie GmbH, which was sold in the 2018 financial year. Adjusted earnings before interest, taxes, depreciation and amortisation ("adjusted EBITDA") were below the strong level of the previous year at €18.4 million (previous year: €21.2 million). Financial performance in the first half of 2019 was shaped by extraordinary influences in the form of the fire at the Heinsdorfergrund site in the surface technology segment and the irregularities in the engineered products segment. These are briefly summarised below:

In the engineered product segment, additional expenses totalling €7.2 million were incurred due to the results of the investigation of irregularities. In accordance with accounting regulations (IAS 8), in 2019 €1.9 million of this is attributable to write-downs of inventories and €2.0 million to expenses connected with the irregularities (e.g. write-downs of receivables and additions to provisions). On this basis, a total of €3.3 million is attributable to previous periods.

The €1.9 million in write-downs include extraordinary items of €0.3 million and the remaining €2.0 million includes extraordinary items of €0.5 million, which were in each case adjusted at Group level. Including the costs to be adjusted that result from the fire, a total of €1.5 million was adjusted in accordance with reporting standards and thus deducted from EBITDA.

A further €4.9 million in non-scheduled depreciation on production facilities was also caused by the fire and impact EBIT for the 2019 financial year as an extraordinary item.

The equity ratio was a comfortable 49.4% on 30 June 2019 (previous year: 51.3%).

Differing economic developments in the individual segments

Revenue in the *engineered products* segment decreased by 8.0% to €81.9 million in the first half of 2019 (previous year: €89.0 million). This development is largely due to weaker demand for products for hoses and fan belts and to decreased revenues from fabrics for conveyor belts. At the same time, some of the applications experienced unexpected growth, particularly air suspension and flexible disc couplings, where a major new client has been acquired. Adjusted EBITDA fell to €3.8 million (previous year: €6.8 million). Growth in earnings is also affected by the necessary write-downs on inventories and goods and by one-off effects. Internal specifications were not adhered to and necessary write-downs were not carried out. The results of the subsequent review led to a non-cash effect on the result totalling €3.9 million, which was fully accounted for in the six-month financial statements.

At €48.3 million, the *flexible films* segment's revenue in the first half of 2019 was slightly below the previous year's level by 1.2% (previous year: €48.9 million). The positive performance of premium products in the areas of construction, sealing membranes and pool liners, with growth rates of more than 40% in some cases, almost completely compensated for the decrease in transport protection. EBITDA reached €5.8 million (previous year: €6.6 million). For the end of the year, it is expected that the targets will be achieved in this segment.

The *surface technologies* segment, the newest segment within the KAP Group, benefited from the acquisition of the Heiche Group completed in the second half of 2018. Revenue accordingly grew significantly in the first half of 2019 as a result of consolidation, reaching €34.4 million (previous year: €13.1 million). Adjusted EBITDA rose significantly to €5.8 million (previous year: €2.4 million). As a result of gaining market share, it was possible to largely compensate for the weaker demand caused by the economic climate.

Revenue in the *IT/services* segment fell by 16.3 % to €10.3 million (previous year: €12.3 million). It should be noted here that an exceptional major order with the German Federal Office of Administration with a volume of around €2.7 million was invoiced in the same period of the previous year. EBITDA was €1.3 million (previous year: €1.7 million). Here too, it is expected that the original targets will be achieved.

Revenue in the *precision components* segment decreased by 31.4% to €26.7 million in the first half of 2019 (previous year not including Geiger: €38.9 million). This decrease is due both to the strategic decision not to take orders with a low margin and to the delayed start-up of new products. In addition, the economic downturn led to a decrease in customer traffic rates. EBITDA fell by 37.3% to €3.2 million (previous year: €5.1 million).

New forecast for the 2019 full year to be issued at the start of the fourth quarter
The company revised its original forecast for the 2019 full year at the end of June. However, the Executive Board does not want to go public with a new forecast until comprehensive and valid information on the different factors is available. This includes in particular an estimate of the exact loss of income incurred by the fire and the revalidation of the plans for the engineered products segment to the end of the year. "Currently, this does not look likely to be available until the start of Q4 2019. We have fully reviewed the irregularities in the valuation of inventories and completed our investigations. All special effects are included in these half-year financial statements, so that no further charges are expected in the second half of the year. We have responded to negative effects on the result from a weakening economy with adequate countermeasures. For example, not only have sales activities been increased considerably with visible success, but the cost base has also been adjusted accordingly. Further measures will follow. Despite these measures, we expect lower revenue and lower income compared to the first half of the year," Decker explains.

The six-months report can be downloaded from the Investor Relations section of www.kap.de.

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About KAP AG
KAP AG is a mid-sized industrial group with approximately 3,000 employees. In the engineered products, flexible films, IT/services, surface technologies and precision components segments, we develop innovative industrial products and

technological solutions for international companies from trade and industry. As a result of our dedicated long-term strategy, we serve attractive niche markets with sustainable growth potential. Our focus is on the establishment of high-margin industrial segments and their development into highly specialised market leaders. As a reliable partner in the context of succession planning, we also acquire attractively positioned SMEs with a view to strengthening our existing segments or developing new ones. Our shareholders benefit from our company's growth trajectory through our earnings-based dividend policy.