Corporate news

KAP AG: DEVELOPMENT IN THE FIRST HALF OF 2023 IN LINE WITH EXPECTATIONS

- Sale of subsection of the *flexible films* segment successfully closed
- Difficult economic environment impacts demand in key markets in second quarter
- Group revenue in the first half of the year without divested companies reaches €180.9 million (down 5.8%)
- Normalised EBITDA without divested companies stands at €14.3 (down 17.3%)
- Normalised EBITDA margin stands at 7.9% (previous year: 10.1%)
- Guidance forecast for the full year 2023 adjusted

Fulda, 29 August 2023 – KAP AG ("KAP"), a listed, medium-sized industrial holding company (German securities identification number: WKN 620840, ISIN DE0006208408), recorded a less than satisfactory performance in the first half of 2023, as expected, particularly on the back of declining demand in the second quarter. Nevertheless, the company believes to be strategically on track following the sale of a subsection of the *flexible films* segment completed in April 2023.

Marten Julius, CFO of KAP AG: "After a good start to the year, we were faced with significantly declining demand in the second quarter. With our diversified business model specialising in attractive niches, we nevertheless succeeded in navigating the company soundly through a challenging environment. At the same time, we again sharpened our investment portfolio and have thus gained the planned headroom for further capital expenditures in our segments and sub-segments. However, like many other companies with a diversified footprint, our sense is that we will not see the anticipated upturn after the summer break and that our business will remain challenging in the coming months."

The KAP Group's revenue amounted to €201.2 million, down 12.3% on the previous year's level of €229.4 million. This development must be seen against the background of the sale closed in April 2023 of a subsection of the *flexible films* segment and the completion of a larger customer contract at year-end 2022. On a comparable basis (without the contribution to revenue of the companies divested in April 2023), revenue decreased by 5.8% to €180.9 million (previous year: €192.0 million). Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased in the reporting period by 87.3% to €60.3 million (previous year: €32.2 million). Adjusted for factors not relevant for operations amounting to €-44.4 million (previous year: €9.1 million) – mainly the effect of the closed sale of a subsection of the *Flexible Films* segment – normalised EBITDA decreased by 31.2% to €15.9 million (previous year: €23.1 million). In the year to date, the company was increasingly able to pass on the higher production costs resulting from increased material and energy costs to customers, albeit not in full. Although the price situation for important raw materials and energy sources eased, pressure on margins persists at a high level. Accordingly, the normalised EBITDA margin came to 7.9% (previous year: 10.1%).

Heterogeneous development of the segments in the first half of 2023

Although the *precision components* and *surface technologies* segments developed satisfactorily in the first half of 2023, this served to merely partly offset the weak performance of the two segments *engineered products* and *flexible films*.

The *flexible films* segment generated revenue of €71.3 million in the reporting period, down 27.8% compared with the strong previous-year period (previous year: €98.7 million). This decrease is mainly due to the sale of a subsection of the segment. Without the contribution of the divested companies, the decrease is of 16.8% to €51.0 million (previous year: €61.3 million). Normalised EBITDA decreased by 36.1% to €9.2 million (previous year: €14.4 million) and without the contribution of the divested companies by 11.6% to €7.6 million (previous year: €8.6 million). The normalised EBITDA margin narrowed by 1.7 percentage points to 12.9% (previous year: 14.6%). Without the contribution of the segment's divested subsection, however, it increased by 0.9 percentage points to 14.9% (previous year: 14.0%).

In the *engineered products* segment, revenue fell by 14.8% to a current €65.1 million (previous year: €76.4 million), partly due to a larger customer order that was completed at the end of 2022. Coupled with an increasing reticence on the part of customers in the automotive sector with respect to call volumes, this led to a 39.6% decline in normalised EBITDA to €3.2 million (previous year: €5.3 million). The segment's normalised EBITDA margin thus came to 4.9% (previous year: 6.9%).

The *surface technologies* segment recorded a 12.6% increase in revenue to €36.6 million (previous year: €32.5 million). Contributors to this positive development were volume growth from the newly operational U.S. site in Jasper and improved capacity utilisation at the zinc-nickel coating facility in Poland. There was a fire at the latter facility at the end of June, although no people were injured. A large plant and part of our buildings were destroyed, although the losses are insured. By shifting production of almost all orders it was possible to keep the impact on our customers as well as on revenue and earnings at a manageable level. Expenses incurred in connection with the optimisation of the production process in Jasper had an impact on the segment result, as did the higher energy and production costs that have not yet been fully passed on to customers. Normalised EBITDA decreased by 10.3% to €3.5 million in the first half of 2023 (previous year: €3.9 million); the normalised EBITDA margin came to 9.6% (previous year: 12.0%).

The *precision components* segment reports a marked increase in revenue of 26.6% to €28.1 million (previous year: €22.2 million). This positive development reflects the increased ability to pass on the rise in energy and raw materials costs to the segment's customers as well as higher unit sales. Normalised EBITDA more than doubled year on year to €1.7 million (previous year: €0.7 million). The normalised EBITDA margin improved in the first half of 2023 to 6.0% (previous year: 3.2%).

Guidance forecast for the 2023 financial year adjusted
For the full financial year, the Management Board expects that the course of business will be significantly impacted by challenges in KAP's relevant end markets. Partly in light of the fact that following a weak second quarter of 2023 the Management Board no longer expects the economy to recover quickly after the summer break, as previously anticipated, KAP adjusted its full-year guidance forecast in August 2023. It is expected that the economy will remain at the current low level or indeed weaken. This applies in particular to the markets of relevance for KAP. Accordingly, the Management Board now expects significantly lower revenue and significantly lower normalised EBITDA for the full year 2023, in each case with an anticipated year-on-year deviation in the low double-digit percentage range. To date, revenue and normalised EBITDA were expected to be slightly above the previous year. In the previous year, without the divested entities in the flexible films segment, revenue of €360.1 million and normalised EBITDA of €23.5 million were generated.

The complete half-year report 2023 is available to download at this link.

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About KAP AG
KAP AG is a listed industrial holding company focused on upper mid-size operating companies that seizes attractive growth opportunities in their respective niche markets. Specifically, KAP AG currently focuses on four distinct operating segments: engineered products, flexible films, surface technologies and precision components. The Group lets its shareholders participate in the long-term sustainable value development through an attractive dividend. KAP AG currently has some 2,700 employees at 24 locations in eleven countries. KAP AG is a Participant of the United Nations Global Compact and adheres to its principles-based approach to responsible business. KAP AG's shares are listed on the Regulated Market of the Frankfurt Stock Exchange (Prime Standard, ISIN DE0006208408).