

A hand is shown holding a glass bottle filled with a purple smoothie. The bottle is the central focus, with a hand visible on the right side. The background is a light, textured surface. A large purple diagonal shape is overlaid on the top half of the image, containing white text.

Q2 2018
January-June

Half-yearly report

Detection
Technology

DETECTION TECHNOLOGY PLC HALF-YEARLY REPORT JANUARY-JUNE 2018

Detection Technology Q2 2018: Strong growth and result, year-end outlook improved**April-June 2018 highlights**

- Net sales increased by 19.5% to EUR 24.4 million (20.4)
- Net sales of Security and Industrial Business Unit (SBU) increased by 16.4% to EUR 15.2 million (13.1)
- Net sales of Medical Business Unit (MBU) increased by 25.0% to EUR 9.1 million (7.3)
- Operating profit (EBIT) was EUR 5.2 million (4.1)
- Operating margin (EBIT-%) was 21.4% of net sales (20.3%)

January-June 2018 highlights

- Net sales increased by 11.3% to EUR 43.7 million (39.2)
- Net sales of SBU increased by 7.3% to EUR 27.0 million (25.2)
- Net sales of MBU grew by 18.4% to EUR 16.7 million (14.1)
- Operating profit (EBIT) was EUR 9.0 million (7.8)
- Operating margin (EBIT-%) was 20.5% of net sales (19.9%)

(Figures in parentheses refer to the corresponding period of the previous year.)

President and CEO, Hannu Martola:

“In the second quarter, we managed to grow sales in both of our business units with a double digit growth rate and stronger than the market growth. MBU sales grew by 25% due to the good demand from key customers and the growth in demand in emerging markets. This mainly explains also the significant increase of Asia’s share of total net sales. SBU sales increased by 16% from the corresponding period, the growth was driven by all application areas, and it was geographically distributed evenly. Our financial performance was strong despite increased research and development costs, which grew by 30% from the corresponding period last year. Operating profit was EUR 5.2 million, which corresponds to 21% of net sales.

The launch of X-Panel product family in May was a milestone for our company. We made an opening to the CMOS X-ray detector market, whose annual market potential we calculate to be over EUR 100 million. X-Panel 1511 is the first flat panel detector of the new product family. It is optimized to dental applications, and we believe there will also be demand for it in other medical and industrial imaging. It is noteworthy that it takes time to generate revenue from the new product family.

The business outlook for the second half of 2018 has improved from the beginning of year estimation, as in medical applications the production ramp-down of a key customer’s system that uses DT’s detector will last longer than anticipated. We believe that MBU sales growth will be double-digit in the second half of the year, and we expect single-digit growth for SBU sales.

However, the end of the year will be challenging from a sales growth point of view, especially in the SBU business, which is reflected in Chinese competitors’ aggressive price competition globally and a slow down by Chinese authorities in investments locally. We do not believe that US customs tariff increases will have a significant impact on our business in the current year. If needed, we can adjust our business flexibly to meet existing situations. We do, however, consider the possibly increasing and unpredictable trade policies of different countries as a risk to sales growth in the longer term.

We will focus on managing active accounts with first-class service and on winning new customers and projects, in addition we will invest in strengthening our product portfolio and product quality. We will keep our medium-term growth targets unchanged.”

Key figures

(EUR 1,000)	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Net sales	24,350	20,375	43,669	39,239	89,003
Change in net sales, %	19.5%	16.8%	11.3%	19.5%	17.9%
Operating profit	5,213	4,131	8,954	7,821	19,892
Operating margin, %	21.4%	20.3%	20.5%	19.9%	22.3%
R&D costs	2,414	1,856	4,362	3,385	7,157
R&D costs, % of net sales	9.9%	9.1%	10.0%	8.6%	8.0%
Cash flow from operating activities	-599	4,376	4,606	5,491	18,625
Net interest-bearing debt at end of period	-19,294	-9,489	-19,294	-9,489	-21,774
Capital expenditure	1,261	821	2,221	1,145	1,833
Return on investment (ROI), %			49.9%	43.7%	47.0%
Gearing, %	-43.7%	-28.9%	-43.7%	-28.9%	-52.3%
Earnings per share, EUR	0.31	0.25	0.52	0.44	1.09
Number of shares at end of period	13,900,595	13,425,775	13,900,595	13,425,775	13,900,595

Net sales

Detection Technology's net sales for the second quarter were EUR 24.4 million (20.4). Net sales grew by 19.5% (16.8%) from the corresponding period. Sales grew faster than the market in the both business units.

In Medical Business Unit (MBU), net sales grew by 25.0% and totaled EUR 9.1 million (7.3). The growth in MBU's net sales was due to continued demand from key customers and successful customer deliveries as well as increased demand in emerging markets. MBU's share of total net sales was 37.5% (35.8%).

Compared with the corresponding period last year, net sales of the Security and Industrial Business Unit (SBU) grew by 16.4% to EUR 15.2 million (13.1). SBU's net sales grew in all application areas, and it was geographically distributed evenly. SBU's share of total net sales was 62.5% (64.2%).

In the second quarter of 2018, sales in Asia grew by 73.5% from the corresponding period, and it was the company's biggest market. Asia's share of net sales was 67.2% (46.3%), Americas' 12.9% (30.0%) and Europe's 19.9% (23.7%). The share of the five largest customers accounted for 61.6% (59.6%) of net sales in the review period.

The company's net sales for January-June 2018 grew by 11.3% to EUR 43.7 million (39.2). Net sales of MBU grew by 18.4%, and totaled EUR 16.7 million (14.1). Net sales of SBU increased by 7.3% to EUR 27.0 million (25.2). MBU's share of total net sales was 38.2% (35.9%) and SBU's 61.8% (64.1%).

In the first half of 2018, Asia's share of net sales was 60.0% (51.6%), Americas' 19.0% (26.9%) and Europe's 21.0% (21.5%). The share of the five largest customers accounted for 55.3% (56.6%) of net sales in the review period.

NET SALES BY BUSINESS UNITS

(EUR 1,000)	4-6/2018	4-6/2017	Change, %	1-6/2018	1-6/2017	Change, %	1-12/2017
MBU	9,125	7,300	25.0%	16,661	14,073	18.4%	31,119
SBU	15,225	13,075	16.4%	27,008	25,166	7.3%	57,884
TOTAL	24,350	20,375	19.5%	43,669	39,239	11.3%	89,003

NET SALES BY GEOGRAPHY

(EUR 1,000)	4-6/2018	4-6/2017	Change, %	1-6/2018	1-6/2017	Change, %	1-12/2017
Asia	16,370	9,433	73.5%	26,207	20,253	29.4%	56,403
Americas	3,137	6,115	-48.7%	8,303	10,567	-21.4%	21,817
Europe	4,844	4,827	0.3%	9,159	8,419	8.8%	10,783
TOTAL	24,350	20,375	19.5%	43,669	39,239	11.3%	89,003

Operating result and profitability

The company's operating profit for the second quarter amounted to EUR 5.2 million (4.1), 21.4% (20.3%) of net sales. Productivity gains and moderate fixed costs lifted profitability despite increased research and development costs.

Fixed costs for the second quarter were EUR 7.1 million (5.5), of which personnel expenses totaled EUR 3.9 (3.3) and other operating expenses EUR 3.1 (2.2) million. Depreciation amounted to EUR 0.7 million (0.5), financial items were EUR -0.2 million (-0.09), and income taxes were EUR 1.1 million (0.9).

The result for the second quarter totaled EUR 4.3 million (3.3). Earnings per share were EUR 0.31 (0.25).

The operating profit for the review period January-June 2018 was EUR 9.0 million (7.8), 20.5% (19.9%) of net sales.

In January-June 2018, fixed costs were EUR 12.6 (11.0) million, of which personnel expenses totaled EUR 7.2 (6.9) and other operating expenses EUR 5.4 (4.1) million. Depreciation totaled EUR 1.2 million (1.1), financial items were EUR 0.08 million (0.2), and income taxes were EUR 1.6 million (1.7).

The result for the first half of 2018 was EUR 7.2 million (6.0). Earnings per share were EUR 0.52 (0.44).

Cash flow and financing

Cash flow from financing activities for the second quarter of 2018 totaled EUR -6.7 million (0.0). Cash flow from financing activities for January-June 2018 was EUR -9.6 million (-3.0).

Cash flow from operations for the second quarter 2018 was EUR -0.6 million (4.4). Cash flow from operations for January-June 2018 amounted to EUR 4.6 million (5.5).

At the end of the review period, the company's net interest-bearing debt totaled EUR -19.3 million (-9.5), and gearing was -43.7% (-28.9%). Cash and cash equivalents amounted to EUR 19.3 million (17.1) at the end of the review period.

Capital expenditure

Capital expenditure during the second quarter amounted to EUR 1.3 million (0.8). Capital expenditure was mainly directed at information and testing systems, as well as production equipment and machines. Capital expenditure during the first half of 2018 totaled EUR 2.2 million (1.1).

Research and development

Second-quarter research and development (R&D) costs totaled EUR 2.4 million (1.9), 9.9% of net sales (9.1%). During the review period January-June 2018, R&D expenses were EUR 4.4 million (3.4), corresponding to 10.0% of net sales (8.6%). The company estimates that R&D costs will increase in the second half of 2018. All R&D costs are written off as expenses.

Personnel

At the end of June 2018, Detection Technology employed 456 people (419), 386 of whom were in China, 64 in Finland and 6 in the US. Personnel expenses for the second quarter amounted to EUR 3.9 million (3.3). In the first half of 2018, personnel expenses totaled EUR 7.2 million (6.9).

PERSONNEL BY GEOGRAPHY

	30.6.2018	30.6.2017	Change, %	31.12.2017
Asia	386	358	7.8%	341
America	6	7	-14.3%	6
Europe	64	54	18.5%	58
TOTAL	456	419	8.8%	405

Strategy implementation

According to its strategy, Detection Technology announced that it has widened its product portfolio to the CMOS X-ray detector market. In May, the company introduced a flat panel detector named X-Panel 1511, which is the first solution of the company's new product family based on the CMOS (complementary metal oxide semiconductor) technology.

X-Panel 1511 is optimized to dental cone beam computed tomography (CBCT) and panoramic X-ray imaging applications. In addition to the dental applications, the X-Panel product family is an ideal solution for a number of different applications in medical imaging like mini-C arm and mammography systems. There is also demand for CMOS-based flat panels in the industrial imaging.

The company estimates the annual market potential for CMOS X-ray detectors to be over EUR 100 million. During the initial public offering in 2015, the company communicated about the possible widening of its technology base to CMOS applications for the first time.

In the first half of 2018, product development projects and new customer acquisitions continued as planned. In addition, the company proceeded to implement the Enterprise Resource Planning (ERP) system and focused on finalizing the Product Data Management (PDM) system.

Shares and shareholders

The average share price of Detection Technology was EUR 18.89 in the second quarter and EUR 19.00 in January-June 2018. The highest share price during the second quarter was EUR 21.40 and the lowest EUR 16.65. The highest price for the first half of 2018 was EUR 21.50 and the lowest EUR 16.65.

At the end of June, the closing price was EUR 20.70 and the company had a market capitalization of around EUR 288 million. The number of shares traded between 2 January and 29 June was 1.32 million, which is 9.5% of the total number of shares. The number of shares outstanding in Detection Technology was 13,900,595 at the end of the review period.

At the end of the review period, the total number of shareholders was 2,299. Approximately 64% of the shares were held by the ten largest shareholders. The nominee-registered foreign holding of shares in the company was about 16.7% at the end of the review period.

Detection Technology has one share series and all shares have equal voting rights. The company's shares are listed on the Nasdaq First North Finland marketplace under the ticker symbol DETEC.

Risks and uncertainties

The company's management has not identified substantial changes to Detection Technology's risks and uncertainties during the first half of 2018. The company's main short-term risks are associated with uncertainties in the global economies, like protectionist trade policies of different countries, and operating in the emerging markets.

Other risks are related to price competition, a significant share of net sales being generated from the top five customers, APAC countries' large share of sales, product quality, SOP (startup of production) of new products, renewal of information systems, customer liquidity, exchange rate fluctuations, an overall rise in costs especially in China, the adequacy and competence of personnel and organizational efficiency.

The company aims to mitigate these risks with normal control and precautionary measures. The company's and its businesses' risks were described in more detail in the 2017 financial statements.

Business outlook

According to industry estimates, the average growth rate of global medical X-ray imaging market is around 5% per year, 7% in security X-ray equipment market and around 5% in industrial X-ray imaging. Detection Technology estimates that the annual growth rate of the market will remain at the current level in the all segments.

In the second half of 2018, the company expects sales to increase in the both business units as in medical applications the production ramp-down of a key customer's system using a DT detector will last longer than estimated. There is uncertainty regarding demand, and the intensification of competition might be reflected in product prices. The company does not believe that protectionist trade policies pursued by different countries will have a significant impact on the company's business in the second half of 2018, but sees it as a potential risk in the longer term.

Detection Technology's medium-term business outlook is unchanged. Detection Technology aims to increase sales by at least 15% per annum and to achieve an operating margin at or above 15% in the medium term.

Business review January-September 2018

Detection Technology will publish a business review January-September 2018 on 24 October 2018.

UNAUDITED HALF-YEARLY REPORT 1.1.-30.6.2018

ACCOUNTING PRINCIPLES

This unaudited half-yearly report for the period 1.1.-30.6.2018 has been prepared according to Finnish Accounting Standards (FAS).

CONSOLIDATED INCOME STATEMENT (FAS)

(EUR 1,000)	04-06/2018	04-06/2017	01-06/2018	01-06/2017	1-12/2017
Net sales	24,350	20,375	43,669	39,239	89,003
Other operating income	44	0	205	40	143
Materials and services	-11,456	-10,261	-21,091	-19,324	-44,026
Personnel expenses	-3,927	-3,267	-7,161	-6,881	-13,412
Depreciation and amortization	-651	-532	-1,232	-1,116	-2,226
Other operating expenses	-3,147	-2,184	-5,436	-4,137	-9,589
Operating profit (-loss)	5,213	4,131	8,954	7,821	19,892
Financial income and expenses	229	88	-83	-176	-524
Profit (-loss) before taxes	5,442	4,219	8,870	7,645	19,368
Income taxes	-1,116	-881	-1,625	-1,675	-4,216
Profit (-loss) for the reporting period	4,326	3,338	7,245	5,971	15,152

CONSOLIDATED BALANCE SHEET (FAS)

(EUR 1,000)	30.6.2018	30.6.2017	31.12.2017
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	2,117	1,465	1,209
Tangible assets	4,718	4,659	4,637
Investments	11	11	11
TOTAL NON-CURRENT ASSETS	6,846	6,135	5,856
CURRENT ASSETS			
Inventories	9,812	10,023	8,568
Receivables	22,590	16,327	20,557
Current receivables	1,845	1,284	892
Cash and cash equivalents	19,294	17,069	26,500
TOTAL CURRENT ASSETS	53,541	44,703	56,516
TOTAL ASSETS	60,387	50,838	62,372
EQUITY AND LIABILITIES			
EQUITY			
Share capital	80	80	80
Share premium account	5,130	5,130	5,130
Other funds	22,453	22,453	22,453
Retained earnings (-loss)	9,231	-804	-1,176
Profit for the financial period (-loss)	7,245	5,971	15,152
TOTAL EQUITY	44,139	32,830	41,639
LIABILITIES			
Non-current liabilities			
Loans from financial institutions	0	0	0
Other liabilities	0	683	0
Total	0	683	0
Current liabilities			
Loans from financial institutions	0	6,691	4,726
Advances received	448	206	223
Trade payables	10,560	6,818	8,710
Other liabilities	0	122	1,077
Accrued liabilities	5,240	3,488	5,998
Total	16,248	17,325	20,733
TOTAL LIABILITIES	16,248	18,008	20,733
TOTAL EQUITY AND LIABILITIES	60,387	50,838	62,372

CONSOLIDATED CASH FLOW STATEMENT (FAS)

(EUR 1,000)	04-06/2018	04-06/2017	01-06/2018	01-06/2017	1-12/2017
Cash flow from operations					
Operating profit (-loss)	5,213	4,131	8,954	7,821	19,892
Depreciation	651	532	1,232	1,116	2,226
Change in working capital	-5,577	1,963	-3,872	-139	628
Financial income and expenses	229	-1,369	-83	-1,633	-799
Taxes	-1,116	-881	-1,625	-1,675	-3,322
Cash flow from operations	-599	4,376	4,606	5,491	18,625
Cash flow from investments					
Investments in tangible and intangible assets	-1,261	-821	-2,221	-1,145	-1,833
Cash flow from investments	-1,261	-821	-2,221	-1,145	-1,833
Free cash flow	-1,860	3,555	2,385	4,346	16,792
Cash flow from financing					
Repayment of non-current loans	0	0	0	0	-683
Withdrawal of current loans	0	0	0	417	417
Repayment of current loans	-1,819	0	-4,726	0	-2,331
Dividend (capital repayment)	-4,865	0	-4,865	-3,356	-3,356
Cash flow from financing	-6,684	0	-9,591	-2,939	-5,954
Change in cash and cash equivalents	-8,544	3,556	-7,206	1,407	10,838
Cash and cash equivalents at beginning of reporting period	27,838	13,513	26,500	15,662	15,662
Cash and cash equivalents at end of reporting period	19,294	17,069	19,294	17,069	26,500

STATEMENT OF EQUITY CHANGES

(EUR 1,000)	Share capital	Share premium	Invested unrestricted equity fund	Retained earnings	Profit (-loss) for the period	Total
Balance on 1.1.2018	80	5,130	22,453	13,976	0	41,639
Dividend	0	0	0	-4,865	0	-4,865
Translation differences	0	0	0	120	0	120
Profit (-loss) for the period	0	0	0	0	7,245	7,245
Balance on 30.6.2018	80	5,130	22,453	9,231	7,245	44,139
Balance at 1.1.2017	80	5,130	25,809	-109	0	30,909
Capital repayment	0	0	-3,356	0	0	-3,356
Translation differences	0	0	0	-695	0	-695
Profit (-loss) for the period	0	0	0	0	5,971	5,971
Balance on 30.6.2017	80	5,130	22,453	-804	5,971	32,830
Balance on 1.1.2017	80	5,130	25,809	-109	0	30,909
Capital repayment	0	0	-3,356	0	0	-3,356
Translation differences	0	0	0	-1,067	0	-1,067
Profit (-loss) for the period	0	0	0	0	15,152	15,152
Balance on 31.12.2017	80	5,130	22,453	-1,176	15,152	41,639

Espoo 19 July 2018

Board of Directors
Detection Technology Plc

CALCULATION OF KEY FINANCIAL RATIOS

Change in net sales, % = $(\text{Net sales} - \text{previous financial year's net sales}) / \text{previous financial year's net sales} \times 100$

Operating margin, % = $\text{Operating profit} / \text{net sales} \times 100$

Net interest-bearing debt = $\text{Interest-bearing loans} - \text{cash and cash equivalents}$

Gearing, % = $(\text{Interest-bearing liabilities} - \text{cash and cash equivalents}) / \text{equity} \times 100$

Return on investment (ROI), % = $(\text{Net result} + \text{financial items} + \text{taxes (12 months)}) / (\text{equity} + \text{interest-bearing liabilities (average 12 months)}) \times 100$



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