



**Q3** **INTERIM REPORT**  
**JANUARY-SEPTEMBER 2015**

**DETECTION TECHNOLOGY PLC**

[www.deetee.com](http://www.deetee.com)

## DETECTION TECHNOLOGY INTERIM REPORT JANUARY-SEPTEMBER 2015

Figures in brackets refer to the corresponding period the previous year.

### THIRD QUARTER 2015 HIGHLIGHTS

- Net sales amounted to EUR 9.31 million (8.71), a growth of 7% (-4% at comparable exchange rates)
- Operating profit (EBIT) excl. non-recurring costs (NRC) amounted to EUR 0.80 million (1.48)
- Operating margin (EBIT %) excl. NRC was 8.6% of net sales (17.0)
- NRC relating to DT's new factory amounted to EUR 0.41 million. 2014 third quarter NRC totaled EUR 0.35 million
- R&D costs totaled EUR 1.68 million (1.18), an increase of 43%
- R&D 18.1% of net sales (13.5)
- Operating profit (EBIT) amounted to EUR 0.39 million (1.13)
- Operating margin (EBIT%) was 4.2% of net sales (13.0)
- Earnings per share were -0.02 euros (0.10)

### HIGHLIGHTS OF THE REVIEW PERIOD JANUARY-SEPTEMBER 2015

- Net sales amounted to EUR 27.6 million (23.4), a growth of 18% (6% at comparable exchange rates)
- Operating profit (EBIT) excl. NRC amounted to EUR 2.10 million (3.04)
- Operating margin (EBIT%) excl. NRC was 7.6% of net sales (13.0)
- NRC relating to DT's new factory amounted to EUR 0.41 million. NRC for the review period 1-9/2014 amounted to EUR 0.65 million
- R&D costs totaled EUR 4.34 million (2.94), an increase of 47%.
- R&D 15.7% (12.6) of net sales
- Operating profit (EBIT) amounted to EUR 1.70 million (2.39)
- Operating margin (EBIT%) was 6.2% of net sales (10.2)
- DT was listed on the Nasdaq First North Finland market place on March 16<sup>th</sup>
- The result for the period was affected by non-recurring financial expenses of EUR 1.43 million related to the IPO
- Earnings per share were -0.03 euros (0.17)

### PRESIDENT AND CEO, HANNU MARTOLA:

#### IMPORTANT NEW CUSTOMER PROJECTS WON – INCREASED R&D SPENDING IN 2015

" I am pleased with DT's development during the third quarter. MBU secured new projects within its current customer base and we were successful in winning several new projects from important security customers in the US and Europe.

During the quarter we received new long-term customer projects within security CT, a technology where we see interesting potential also going forward as EU aviation security regulation is becoming more stringent. The new long-term projects will contribute to DT's mid- and long-term growth and profitability.

The factory move affected quarterly sales temporarily as some deliveries were shifted from September to October. All in all, I am very pleased because setting up the new factory is proceeding faster than expected and the ramp up of production is currently being finalized. 90% of our employees and manufacturing has been moved to the new site, which means that we will be

able to close the old factory earlier than expected. This project has demanded substantial involvement from our organization during this year and we will start seeing the benefits from the new setup and focused efforts from the beginning of 2016.

The long-term customer projects won during the quarter require product development efforts in the initial phase. We are also currently putting focus on broadening the technology base and exploring new application opportunities. Consequently, DT's R&D costs will remain at a higher than normal level throughout 2015."

## KEY FIGURES

(EUR 1 000)	7-9/2015	7-9/2014	Change	1-9/2015	1-9/2014	Change	1-12/2014
Net sales	<b>9 305</b>	8 710	7%	<b>27 570</b>	23 387	18%	33 112
Net sales growth	<b>7%</b>	1%		<b>18%</b>	9%		9%
Operating profit excl. NRC	<b>799*</b>	1 482	-46%	<b>2 101*</b>	3 043	-12%	4 127
Operating margin excl. NRC	<b>8.6%</b>	17.0%		<b>7.6%</b>	13.0 %		12.5%
Non-Recurring Costs**	<b>410</b>	350		<b>410</b>	650		1 048
Operating profit (EBIT)	<b>394</b>	1 132	-65%	<b>1 696</b>	2 393	-29%	3 079
Operating margin (EBIT)	<b>4.2%</b>	13.0%		<b>6.2%</b>	10.2%		9.3%
R&D costs	<b>1 681</b>	1 178	43%	<b>4 339</b>	2 943	47%	4 121
R&D costs of net sales, %	<b>18.1%</b>	13,5%		<b>15.7%</b>	12.6%		12.4%
Cash flow from operating activities	<b>-663</b>	861	-177%	<b>-2 722</b>	995	-374%	3 085
Net interest bearing debt at end of period	<b>-5 187</b>	10 156	-151%	<b>-5 187</b>	9 542	-154%	8 678
Capital expenditure	<b>463</b>	199	133%	<b>1 302</b>	346	148%	1 280
Gearing, %	<b>-27%</b>	-1 194%		<b>-27%</b>	-1 194 %		654%
Earnings per share, EUR	<b>-0.02</b>	0.66	-103%	<b>-0.03</b>	1.14	-103%	1.45
Earnings per share diluted, EUR	<b>-0.02</b>	0.10		<b>-0.03</b>	0.17	-100%	0.21
Number of shares at the end of the period	<b>12 950 975</b>	1 900 195		<b>12 950 975</b>	1 900 195		1 900 195

\*As of 2015 DT has made a change in the treatment of potential future warranty costs and makes a provision of 1.5% of net sales. The warranty provision affects the July-September 2015 operating profit by EUR 0.13 million and January-September 2015 operating profit by EUR 0.37 million.

\*\* In 2015, NRC relates to the new factory setup. In 2014, DT recognized NRC relating to quality and NPI costs.

The earnings per share information for 2014 figures was computed as if the shares issued in conjunction with the IPO had been outstanding for the entire comparison period.

## NET SALES

Detection Technology's net sales for the third quarter totaled EUR 9.31 million (8.71), a growth of 7%. At comparable exchange rates third quarter net sales decreased by 4%. The factory move affected quarterly sales temporarily, as some deliveries were shifted from September to October. MBU net sales grew 28% to EUR 3.31 million (2.60). MBU successfully secured new projects within its current customer base and continued to explore opportunities for new customer applications. SBU third quarter net sales totaled EUR 5.99 million (6.12). SBU third quarter 2014 deliveries were exceptionally high. SBU successfully continued pursuing its strategy and acquired 5 new customers. So far, DT has gotten 20 new customers during 2015 which is well above the target of 10 new customers per year.

Net sales for January-September 2015 grew 18% to EUR 27.6 million (23.4). Growth at comparable exchange rates was 6%. MBU net sales totaled EUR 11.0 million (9.00), an increase of

22%. SBU's net sales increased by 15% and totaled EUR 16.6 million (14.4). Of the total net sales, MBU accounted for 40% and SBU for 60%.

Asia was DT's biggest geographical market with 54% of net sales for the review period January-September 2015. Net sales from Asia amounted to EUR 14.8 million, a growth of 18% compared to the corresponding period 2014. Net sales from Europe totaled 22% and from North America 24% of total net sales.

Quarterly variations in DT's net sales are usual due to the timing of bigger customer deliveries.

### NET SALES BY BUSINESS UNIT

(EUR 1 000)	7-9/2015	7-9/2014	Change	1-9/2015	1-9/2014	Change	1-12/2014
Medical Business Unit (MBU)	3 314	2 595	28%	10 975	8 986	22%	12 764
Security and Industrial Business Unit (SBU)	5 991	6 115	-2%	16 595	14 401	15%	20 348
TOTAL	9 305	8 710	7%	27 570	23 387	18%	33 112

### NET SALES BY GEOGRAPHY

(EUR 1 000)	7-9/2015	7-9/2014	Change	1-9/2015	1-9/2014	Change	1-12/2014
Asia	5 696	4 914	16%	14 838	12 525	18%	17 936
North America	1 939	1 915	1%	6 103	5 507	11%	7 676
Europe	1 669	1 881	-11%	6 628	5 355	24%	7 500
TOTAL	9 305	8 710	7%	27 570	23 387	18%	33 112

### OPERATING RESULT AND PROFITABILITY

DT's operating profit excluding non-recurring costs (NRC) for the third quarter amounted to EUR 0.80 million (1.48), 8.6% of net sales (17.0). Non-recurring costs relating to DT's new factory set up totaled EUR 0.41 million. 2014 third quarter NRC totaled EUR 0.35 million. Operating profit for the quarter totaled EUR 0.39 million (1.13), 4.2% of net sales (13.0). The third quarter profitability was impacted by large product development and R&D projects which will contribute to DT's long-term growth as well as costs related to building the new factory in Beijing. As of 2015 DT has made a change to the treatment of potential future warranty costs and makes a provision of 1.5% of net sales. The warranty provision affects the July-September 2015 operating profit by EUR 0.13 million. The underlying, third quarter 2014 profitability was particularly strong due to sales mix and lower R&D costs.

The operating profit excluding non-recurring costs for the review period January-September 2015 amounted to EUR 2.10 million (3.04), 7.6% of net sales (13.0). NRC relating to DT's new factory amounted to EUR 0.41 million. NRC for the review period 1-9/2014 amounted to EUR 0.65 million. The operating profit for the review period January-September 2015 amounted to EUR 1.70 million (2.39), 6.2% of net sales (10.2). The 1.5% warranty provision affects the January-September 2015 operating profit by EUR 0.37 million.

January-September 2015 other operating expenses totaled EUR -4.57 million (-3.69). Financial items amounted to EUR -2.02 million (-0.14) including EUR -1.43 million non-recurring financial expenses related to the Initial Public Offering of the company. Income taxes in January-September were EUR -0.06 million (-0.08). DT's effective tax rate for 2015 is expected to be 15-20 percent.

The result for the review period was EUR -0.38 million (2.17). Earnings per share were -0.03 (0.17).

### **CASH FLOW AND FINANCING**

Cash flow from operations for the third quarter 2015 totaled EUR -0.66 million (0.86). Cash flow was impacted by prepayments related to the new factory and its equipment, the build-up of inventory buffers as well as other costs related to the factory setup. Operating cash flow for the review period January-September 2015 amounted to EUR -2.72 million (0.99).

Third quarter cash flow from financing activities totaled EUR 0.00 million (-0.71). The company received EUR 17.9 million in its Initial Public Offering conducted during the first quarter. Cash flow from financing activities for the January-September 2015 period totaled EUR 7.98 million (-3.11). Cash and cash equivalents amounted to EUR 7.39 million (1.65) at the end of the review period. In addition DT had unused credit limits amounting to EUR 3.00 million at the end of the review period.

Net interest bearing debt totaled EUR -5.19 million (9.54).

### **CAPITAL EXPENDITURE**

DT is currently investing in the new factory in Beijing, China and production ramp up is currently being finalized. The new facility supports DT's growth targets, and consequently the need for higher production volumes, as well as the company's efficiency and cost targets. DT estimates that the total amount of investments will amount to EUR 4.5-5.0 million in 2015. Capital expenditure for the review period January-September 2015 totaled EUR 1.32 million (0.35). In addition, DT has made prepayments related to the new factory and its equipment amounting to EUR 2.26 million.

### **R&D AND PRODUCT DEVELOPMENT**

The third quarter R&D costs totaled EUR 1.68 million (1.18), 18.1% of net sales (13.5). During the review period January-September 2015, DT expensed EUR 4.34 million (2.94) in product development projects, corresponding to 15.7% (12.6) of net sales. R&D and product development costs are not capitalized.

EU regulation relating to aviation security, and more specifically EDS (detection of explosives), applied to all automated baggage inspection equipment installed in Europe and also in a number of countries around Europe European Union is becoming more stringent. As of September 1<sup>st</sup>, 2014 the minimum required levels of EDS must be CAT (Computed Axial Tomography) type detectors. EDS detector equipment has to be replaced by September 1<sup>st</sup>, 2020 to meet these requirements.

These regulatory changes offer good opportunities for DT and its security CT offering and during the review period DT received new customer projects within security CT. These long-term programs which support DT's growth and profitability targets require more product development efforts than normal in the initial phase. They will contribute more broadly to DT's mid- and long-term growth and profitability, as of 2017.

Thanks to these programs and R&D projects related to the broadening of DT's technology base, DT expects its R&D costs to be at a higher, approximately 15%, level in 2015.

## PERSONNEL

At the end of the review period January-September 2015, DT employed 324 people (282), out of which 279 in China, 42 in Finland and 4 in the US. Personnel expenses amounted to EUR 6.87 million (5.17). The growth in personnel expenses is mainly due to the addition of headcount, especially in China.

## PERSONNEL BY GEOGRAPHY

	30.9.2015	30.9.2014	Change	31.12.2014
Asia	279	253	10%	242
Americas	4	4	-	4
Europe	42	37	11%	37
TOTAL	324	294	10%	283

## STRATEGY

Our goal is to be the leader in Computed Tomography and Line-Scan X-ray detectors and solutions; and a significant player in other technologies where we see good business opportunities. The corner stones of our strategy are: focus on X-ray technology, customer and equipment specific tailoring, investments in research and product development and geographical reach. Our business model enables growth as we focus on producing only the core components and purchase other components from our suppliers. This business model is asset light and allows flexibility in production and delivery of the products.

## FINANCIAL TARGETS

DT has set the following targets with a goal of achieving them during the medium term:

- To increase sales by at least 15 per cent per annum
- To achieve an operating margin at or above 15 per cent

## SHARES AND SHAREHOLDERS

The trading in Detection Technology Plc's shares started on the 16<sup>th</sup> of March on the NASDAQ First North Finland market under the trading code DETEC. Detection Technology issued a total of 3,450,000 new shares in its initial public offering and as a result, the number of shares in the company increased to 12,950,975 shares in total. The final subscription price was EUR 5.20 per share in both the institutional offering and the public offering and EUR 4.68 in the personnel offering. DT received EUR 17.9 million in proceeds before taking into account offering related charges, fees and estimated costs to be paid by DT. Following the offering, Oy G.W.Sohlberg Ab's ownership has decreased from approximately 70% to 40%. GWS remains DT's largest shareholder. Approximately 80% of the shares are held by the 20 biggest shareholders.

DT has one share series and all shares have equal voting rights. Each share is entitled to one vote at the annual general meeting.

## GOVERNANCE

Detection Technology's Board of Directors has five members: Heikki Allonen, Henrik Roos, Petri Niemi, Ari Saarenmaa and Chairman of the Board Andreas Tallberg. The Board has an Audit Committee and a Remuneration Committee. The Board has appointed the following members to its Committees:

Audit Committee: Chairman Heikki Allonen, other members Ari Saarenmaa

Remuneration Committee: Chairman Andreas Tallberg, other members Henrik Roos and Petri Niemi

## RISKS AND UNCERTAINTIES

During the third quarter no significant changes to DT's risks and uncertainties occurred.

Detection Technology's main short term risks are associated with operating in emerging markets, setting up the new factory in Beijing and the ramp up of production in the new facilities during 2015. Other risks are related to exchange rate fluctuations and cost pressure which could have an impact on the competitiveness of the company's products. Detection Technology has taken measures to mitigate these risks.

The prospectus published in relation to Detection Technology's Initial Public Offering contains a more detailed description of the company's risks and risk management.

## MARKET OUTLOOK

No significant changes to the market outlook have occurred during the third quarter of 2015 and the medium-term outlook stated in DT's January-June 2015 review is reiterated:

### Medical imaging equipment markets

Emerging economies, such as China, Brazil, India and Turkey are currently investing in healthcare and medical infrastructure. Aging population is also a growing concern which drives healthcare investments. These factors, in combination with CT equipment adoption especially in emerging countries drive demand for medical imaging equipment.

According to Frost & Sullivan estimates, the global medical imaging equipment market is expected to grow at approximately 5% CAGR in 2012-2017. The CT equipment market is expected to grow at a higher CAGR than other types due to its early adoption phase in emerging markets. Detection Technology is well positioned in the emerging markets and especially China. On short term the biggest potential for DT's current and potential medical applications comes from the Chinese market.

### Security and Industrial x-ray equipment markets

Increased security concerns have resulted in increased spending on security. Homeland Security Research Corporation (HSRC) forecasts the global X-ray security screening market to grow at approximately 7% CAGR from 2013 to 2020. The strongest growth geographically is expected from Asia-Pacific, the largest market for security screening, and Latin America, clearly the smallest market at the moment. Moderate growth is expected in both North America and Europe.

The main drivers for the industrial x-ray equipment market are the need for efficiency and cost as well as an increased need for quality control.

## DETECTION TECHNOLOGY'S PROSPECTS FOR 2015 REFINED

Detection Technology's sales outlook for 2015 is in accordance with its medium term target to increase sales by at least 15% per annum.

The total capital expenditure related to the new factory in Beijing, China and other investments are estimated to amount to EUR 4.5- 5.0 million in 2015. Non-recurring costs relating to setting up the new factory in Beijing are estimated to be close to EUR 1.0 million in 2015. R&D costs for 2015 are expected to be approximately 15% of net sales, thanks to new long-term customer projects won during the second part of 2015.

DT's profitability is developing in accordance with its medium term target.

**UNAUDITED INTERIM REPORT 1.1.-30.9.2015****ACCOUNTING PRINCIPLES**

This unaudited interim report for the period 1.1.-30.9.2015 has been prepared according to the Finnish Accounting standards (FAS).

**CONSOLIDATED INCOME STATEMENT (FAS)**

(EUR 1 000)	7-9/2015	7-9/2014	1-9/2015	1-9/2014	1-12/2014
<b>Net sales</b>	<b>9 305</b>	<b>8 710</b>	<b>27 570</b>	<b>23 387</b>	<b>33 112</b>
Other operating income	63		63		
Materials and services	-4 331	-4 509	-13 723	-11 607	-18 370
Personnel expenses	-2 562	-1 845	-6 873	-5 173	-7 298
Depreciation and amortization	-283	-185	-768	-523	-722
Other operating expenses	-1 798	-1 039	-4 573	-3 691	-3 643
<b>Operating profit (-loss)</b>	<b>394</b>	<b>1 132</b>	<b>1 696</b>	<b>2 393</b>	<b>3 079</b>
Financial income and expenses	-635	213	-2 018	-139	-321
<b>Profit (-loss) before taxes</b>	<b>-241</b>	<b>1 345</b>	<b>-322</b>	<b>2 254</b>	<b>2 757</b>
Income taxes	17	-83	-61	-83	0
<b>Profit (-loss) for the reporting period</b>	<b>-224</b>	<b>1 262</b>	<b>-383</b>	<b>2 171</b>	<b>2 757</b>



**CONSOLIDATED BALANCE SHEET (FAS)**

(EUR 1 000)	<b>30.9.2015</b>	<b>30.9.2014</b>	<b>31.12.2014</b>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	756	324	716
Tangible assets	3 693	2 993	2 970
Investments	11	11	11
<b>TOTAL NON-CURRENT ASSETS</b>	<b>4 460</b>	<b>3 328</b>	<b>3 696</b>
<b>CURRENT ASSETS</b>			
Inventories	6 994	6 457	5 605
Receivables	7 475	7 089	6 622
Current receivables	2 909	490	732
Cash and cash equivalents	7 385	1 647	3 449
<b>TOTAL CURRENT ASSETS</b>	<b>24 763</b>	<b>15 683</b>	<b>16 409</b>
<b>TOTAL ASSETS</b>	<b>29 223</b>	<b>19 011</b>	<b>20 105</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	80	69	69
Share premium account	5 130	5 130	5 130
Other funds	26 716	8 818	8 818
Retained earnings (loss)	-12 020	-15 337	-15 407
Profit for the financial year (loss)	-383	2 171	2 757
<b>TOTAL EQUITY</b>	<b>19 523</b>	<b>851</b>	<b>1 367</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Capital loans	852	852	852
Loans from financial institutions	0	5 502	8 517
Other liabilities	1 145	1 466	1 354
Total	1 997	7 820	10 722
<b>Current liabilities</b>			
Loans from financial institutions	200	3 983	1 404
Advances received	653	439	623
Trade payables	5 056	5 358	5 003
Other liabilities	86	73	77
Accrued liabilities	1 707	488	909
Total	7 702	10 341	8 015
<b>TOTAL LIABILITIES</b>	<b>9 700</b>	<b>18 161</b>	<b>18 737</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>29 223</b>	<b>19 011</b>	<b>20 105</b>

**CONSOLIDATED CASH FLOW STATEMENT (FAS)**

(EUR 1 000)

	7-9/2015	7-9/2014	1-9/2015	1-9/2014	1-12/2014
<b>Cash flow from operations</b>					
Operating profit/loss	394	1 132	1 696	2 393	3 079
Depreciation	283	185	768	523	722
Change in working capital	-722	-263	-3 107	-1 376	18
Financial income and expenses	-635	-110	-2 018	-462	-734
Taxes	17	-83	-61	-83	
<b>Cash flow from operations</b>	<b>-663</b>	<b>861</b>	<b>-2 722</b>	<b>995</b>	<b>3 085</b>
<b>Cash flow from investments</b>					
Investments in tangible and intangible assets	-463	-323	-1 320	-669	-1 280
<b>Cash flow from investments</b>	<b>-463</b>	<b>-323</b>	<b>-1 320</b>	<b>-669</b>	<b>-1 280</b>
<b>Free Cash Flow</b>	<b>-1 126</b>	<b>538</b>	<b>-4 042</b>	<b>326</b>	<b>1 805</b>
<b>Cash flow from financing</b>					
Withdrawal of non-current loans	0	0	0	223	312
Repayment of non-current loans	0	-706	-9 920	-3 335	-3 101
Investment in invested non-restricted equity funds	0	0	17 898	0	0
<b>Cash flow from financing</b>	<b>0</b>	<b>-706</b>	<b>7 978</b>	<b>-3 112</b>	<b>-2 789</b>
<b>Change in cash and cash equivalents</b>	<b>-1 126</b>	<b>-168</b>	<b>3 936</b>	<b>-2 787</b>	<b>-984</b>
Cash and cash equivalents at beginning of the period	8 511	1 815	3 449	4 433	4 433
Cash and cash equivalents at end of the period	7 385	1 647	7 385	1 647	3 449

**STATEMENT OF EQUITY CHANGES**

(EUR 1 000)	Share Capital	Share Premium	Invested unrestricted equity fund	Retained earnings	Profit (loss) for the period	Total
<b>Balance at 1.1.2015</b>	<b>69</b>	<b>5 130</b>	<b>8 818</b>	<b>-12 650</b>	<b>0</b>	<b>1 367</b>
Dividends						
Share issue	11		17 898			17 909
Translation Differences				630		630
Profit (loss) for the period					-383	-383
<b>Balance at 30.9.2015</b>	<b>80</b>	<b>5 130</b>	<b>26 716</b>	<b>-12 021</b>	<b>-383</b>	<b>19 523</b>
<b>Balance at 1.1.2014</b>	<b>69</b>	<b>5 130</b>	<b>8 818</b>	<b>-15 915</b>	<b>0</b>	<b>-1 898</b>
Dividends						
Share issue						
Translation Differences				578		578
Profit (loss) for the period					2 171	2 171
<b>Balance at 30.9.2014</b>	<b>69</b>	<b>5 130</b>	<b>8 818</b>	<b>-15 337</b>	<b>2 171</b>	<b>851</b>
<b>Balance at 1.1.2014</b>	<b>69</b>	<b>5 130</b>	<b>8 818</b>	<b>-15 915</b>		<b>-1 898</b>
Dividends						
Share issue						
Translation Differences				508		508
Profit (loss) for the period					2 757	2 757
<b>Balance at 31.12.2014</b>	<b>69</b>	<b>5 130</b>	<b>8 818</b>	<b>-15 407</b>	<b>2 757</b>	<b>1 367</b>

**CALCULATION OF KEY FINANCIAL RATIOS**

Net interest bearing liabilities = Interest-bearing liabilities - cash and cash equivalents

Gearing, % = Interest-bearing liabilities - cash and cash equivalents / equity x 100

28.10.2015

Board of Directors  
Detection Technology Plc