

Q2 2017
January-June

Half-yearly report



DETECTION TECHNOLOGY PLC HALF-YEARLY REPORT JANUARY-JUNE 2017

Detection Technology Q2 2017: Growth in line with targets, profitability improved**April-June 2017 highlights**

- Net sales increased by 16.8% to EUR 20.4 million (17.5)
- Net sales of Security and Industrial Business Unit (SBU) decreased 12.6% to EUR 13.1 million (15.0)
- Net sales of Medical Business Unit (MBU) increased 193.9% to EUR 7.3 million (2.5)
- Operating profit (EBIT) was EUR 4.1 million (3.2)
- Operating margin (EBIT-%) was 20.3% of net sales (18.3%)

January-June 2017 highlights

- Net sales increased by 19.5% to EUR 39.2 million (32.8)
- Net sales of SBU decreased 6.3% to EUR 25.2 million (26.9)
- Net sales of MBU grew 135.9% to EUR 14.1 million (6.0)
- Operating profit (EBIT) was EUR 7.8 million (5.5)
- Operating margin (EBIT-%) was 19.9% of net sales (16.7%)

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

President and CEO, Hannu Martola:

"During the second quarter, business went well and grew in line with our targets. Operating profit increased about 30% compared to last year to EUR 4.1 million. Our net sales exceeded EUR 20 million and grew about 17% from the corresponding period. Operating profit margin was 20%. The company's cash flow improved fundamentally over the year. The reason for this was a decrease in the amount of working capital tied up in operations and an increase in business profitability.

Sales split between businesses, application areas as well as geographically continued to balance. The exceptional growth period in X-ray imaging equipment demand for security applications in China has slowed. However, we have performed very well in the medical X-ray imaging market. Because of this, the net sales of MBU grew 194% compared to the second quarter last year.

The good performance of MBU was due to the favorable market environment, but also due to our successful customer projects. The improving US economy and good demand in emerging markets have increased our sales. In addition, our recently developed products are now being shipped at full-speed. On the other hand, the relative improvement is partly because of the low level of net sales last year. MBU's deliveries to the US market also increased the Americas' share of our net sales.

Net sales of SBU decreased 13%, which is mainly because the strong demand growth in China has stopped. Thanks to official regulations in China, demand was exceptionally strong last year. Investments required by the regulations to scan parcels have been completed for now, and deliveries have evened out. In addition, the competitive environment has tightened, and there is more price pressure.

Our R&D expenses were lower than usual because of the timing of the projects. We expect R&D expenses to increase during the second half of the year.

We continue to develop the business in line with our strategy. In connection with this, we will start new product development projects, and focus on improving our customer relationships and competitiveness further, as well as winning new customers. Our medium-term business outlook remains unchanged.”

Key figures

(EUR 1,000)	4-6/2017	4-6/2016	1-6/2017	1-6/2016	1-12/2016
Net sales	20,375	17,451	39,239	32,823	75,509
Net sales growth, %	16.8%	87.8%	19.5%	79.7%	76.5%
Operating profit	4,131	3,189	7,821	5,475	14,808
Operating margin, %	20.3%	18.3%	19.9%	16.7%	19.6%
R&D costs	1,856	1,155	3,385	2,778	6,071
R&D costs, % of net sales	9.1%	6.6%	8.6%	8.5%	8.0%
Cash flow from operating activities	4,376	-1,525	5,491	-1,200	5,412
Net interest-bearing debt at end of period	-9,489	-2,329	-9,489	-2,329	-8,337
Capital expenditure	821	133	1,145	1,008	1,612
Gearing, %	-28.9%	-9.9%	-28.9%	-9.9%	-27.0%
Earnings per share, EUR	0.25	0.18	0.44	0.28	0.81
Number of shares at the end of the period	13,425,775	12,950,975	13,425,775	12,950,975	13,425,775

Net sales

Detection Technology's net sales for the second quarter were EUR 20.4 million (17.5). Net sales grew 16.8% (87.8%).

Demand grew strongly in MBU business, where net sales increased 193.9% to EUR 7.3 million (2.5). The growth in net sales was due to continued good demand, especially in North America, for products that were transferred to production last year, controlled ramp-up of volume production, successful customer shipments, and increasing demand also in emerging markets. Detection Technology's customer intimacy, flexible business model and ability to respond quickly to customer need enabled MBU to grow much faster than the medical X-ray imaging market. MBU's share of total net sales was 35.8% (14.2%).

Net sales of SBU totaled EUR 13.1 million (15.0), which is 12.6% less than in the corresponding period April-June 2016. The decline in net sales was due to the stabilization of demand for security products in China, where an exceptional demand peak occurred in 2016 because of tightened regulation of parcel screening. SBU's sales breakdown was more balanced than in the corresponding period between different security and industrial application areas. SBU's share of total net sales was 64.2% (85.8%).

Geographically Asia's share of the company's net sales has decreased, but it was still the biggest market with its 46.3% (77.7%) share in the second quarter. Americas' share of net sales was 30.0% (8.5%) and Europe's 23.7% (13.9%). The top five customers accounted for 59.6 % (66.1%) of net sales in the review period.

The company's net sales for January-June 2017 grew 19.5% to EUR 39.2 million (32.8). Net sales of MBU grew 135.9% to EUR 14.1 million (6.0). Net sales of SBU were EUR 25.2 million (26.9), which is 6.3% less than in the corresponding period. MBU's share of total net sales was 35.9% (18.2%) and SBU's 64.1% (81.8%).

In January-June, Asia's share of net sales was 51.6% (76.9%), Americas' 26.9% (9.8%) and Europe's 21.5% (13.3%). Over the first half of 2017, the top five customers accounted for 56.6% (66.7%) of net sales.

NET SALES BY BUSINESS UNITS

(EUR 1,000)	4-6/2017	4-6/2016	Change, %	1-6/2017	1-6/2016	Change, %	1-12/2016
MBU	7,300	2,484	193.9%	14,073	5,966	135.9%	19,755
SBU	13,075	14,967	-12.6%	25,166	26,858	-6.3%	55,754
TOTAL	20,375	17,451	16.8%	39,239	32,823	19.5%	75,509

NET SALES BY GEOGRAPHY

(EUR 1,000)	4-6/2017	4-6/2016	Change, %	1-6/2017	1-6/2016	Change, %	1-12/2016
Asia	9,433	13,556	-30.4%	20,253	25,241	-19.8%	54,201
Americas	6,115	1,478	313.9%	10,567	3,228	227.3%	11,143
Europe	4,827	2,417	99.7%	8,419	4,354	93.4%	10,164
TOTAL	20,375	17,451	16.8%	39,239	32,823	19.5%	75,509

Operating result and profitability

The company's operating profit for the second quarter amounted to EUR 4.1 million (3.2), 20.3% of net sales (18.3%). Higher production volumes improved profitability. The company had no non-recurring items (NRI) to be reported for the review period.

Other operating expenses in the second quarter totaled EUR 2.2 million (2.8). Financial items amounted to EUR 0.09 million (-0.2), and income taxes were EUR -0.9 million (-0.6).

The result for the second quarter was EUR 3.3 million (2.4). Earnings per share were EUR 0.25 (0.18).

The operating profit for the review period January-June 2017 was EUR 7.8 million (5.5), 19.9% of net sales (16.7%). During the review period, the company had no NRI to be reported.

January-June 2017 other operating expenses amounted to EUR 4.1 million (4.8). Financial items totaled EUR -0.2 million (-0.6), and income taxes were EUR -1.7 million (-1.0).

The result for the first half of 2017 was EUR 6.0 million (3.8). Earnings per share were EUR 0.44 (0.28).

Cash flow and financing

Cash flow from operations for the second quarter 2017 was EUR 4.4 million (-1.5). Cash flow from operations for January-June 2017 amounted to EUR 5.5 million (-1.2). The main reasons for the improved cash flow were a reduction in the amount of invested operating capital and the growth in operational profitability.

Cash flow from financing activities for the second quarter totaled EUR 0.0 million (0.7). Cash flow from financing activities for January-June 2017 was EUR -3.0 million (-0.2).

Net interest-bearing debt totaled EUR -9.5 million at the end of the review period (-2.3). Gearing was -28.9% (-9.9%).

Cash and cash equivalents amounted to EUR 17.1 million (5.0) at the end of the review period.

Capital expenditure

Capital expenditure during the second quarter amounted to EUR 0.8 million (0.1). Investments were mainly due to expansion of the Beijing factory as well as to production technology. Investments during January-June 2017 totaled EUR 1.1 million (1.0).

Research and development

Second-quarter research and development (R&D) costs totaled EUR 1.9 million (1.2), 9.1% of net sales (6.6%). During the review period January-June 2017, R&D expenses were EUR 3.4 million (2.8), corresponding to 8.6% of net sales (8.5%). The R&D costs of the first half's net sales were slightly lower than usual due the timing of projects. In the second half of 2017, the company expects its R&D expenses to increase. All R&D costs are written off as expenses.

Personnel

At the end of June 2017, Detection Technology employed 419 people (391) of whom 358 were in China, 54 in Finland and 7 in the US. Personnel expenses for the second quarter amounted to EUR 3.3 million (3.3). In the first half, personnel expenses totaled EUR 6.9 million (6.2).

PERSONNEL BY GEOGRAPHY

	30.6.2017	30.6.2016	Change, %	31.12.2016
Asia	358	339	5.6%	358
Americas	7	5	40.0%	7
Europe	54	47	14.9%	51
TOTAL	419	391	7.2%	416

Strategy implementation

During the review period, the company completed the expansion of its Beijing factory. The expansion of the production floor area and investments in production automation will ensure sufficient capacity in the medium term and enable better flexibility to manage the changes in the production product mix. R&D projects and investments in developing new technologies are proceeding as planned.

Shares and shareholders

On 21 June 2017, Ahlström Capital Oy's wholly owned subsidiary acquired around 39% of Detection Technology Plc's shares from Oy GW Sohlberg Ab (GWS). GWS sold all its shares in Detection Technology to Ahlström Capital. As a result of the deal, Ahlström Capital became the company's largest shareholder. The acquisition price for the shares acquired in Detection Technology was EUR 18.27 per share, totaling approximately EUR 95.1 million.

At the end of the review period, the total number of shareholders was 2,108. Approximately 69% of the shares were held by the ten largest shareholders. The nominee-registered foreign holding of shares in the company was about 9%.

The average share price during the second quarter was EUR 16.43 and EUR 15.34 in the first half of the year 2017. The highest price during the second quarter was EUR 18.30 and the lowest EUR 14.81. The highest price for the first half 2017 was EUR 18.30 and the lowest EUR 13.20.

At the end of June, the closing price was EUR 17.24 and the company had a market capitalization of EUR 231 million. The number of shares traded between 2 January and 30 June was 6.02 million, which is 44.8% of the total number of shares. This amount includes a share transaction between GWS and Ahlström Capital.

The number of shares at the end of the review period was 13,425,775. Detection Technology has one share series and all shares have equal voting rights. The company's shares are listed at the Nasdaq First North Finland market place under the ticker symbol DETEC.

Risks and uncertainties

The company's management has not identified significant changes to Detection Technology's risks and uncertainties during the first half of 2017. The company's main short-term risks are associated with uncertainties in the global economies and operating in the emerging markets.

Other risks are related to price competition, a significant share of net sales generated from the top five customers, APAC countries' large share of sales, product quality, SOP (startup of production) of new products, 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 are described in more detail in the 2016 financial statements.

Business outlook

According to industry estimates, an average annual growth rate of global medical X-ray imaging market will be around 5%, security X-ray imaging equipment market 7% and industrial X-ray imaging about 5%.

The company estimates that in the second quarter, the computed tomography (CT) market grew by an annual rate of 3-5%. The company estimates that the medical X-ray imaging market will develop positively. Both in China and in North America the demand is expected to remain good.

Globally, the company expects the demand to remain at the current level. Competition is expected to tighten. The growth of security imaging market in China has slowed down.

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 2017

Detection Technology will publish a business review January-September 2017 on 25 October 2017.

UNAUDITED HALF-YEARLY REPORT 1.1.-30.6.2017

ACCOUNTING PRINCIPLES

This unaudited financial statements review for the period 1.1.-30.6.2017 has been prepared according to the Finnish Accounting Standards (FAS).

CONSOLIDATED INCOME STATEMENT (FAS)

(EUR 1,000)	04-06/2017	04-06/2016	01-06/2017	01-06/2016	1-12/2016
Net sales	20,375	17,451	39,239	32,823	75,509
Other operating income	0	0	40	0	75
Materials and services	-10,261	-7,639	-19,324	-15,494	-38,025
Personnel expenses	-3,267	-3,312	-6,881	-6,151	-12,036
Depreciation and amortization	-532	-529	-1,116	-889	-2,521
Other operating expenses	-2,184	-2,782	-4,137	-4,814	-8,194
Operating profit (-loss)	4,131	3,189	7,821	5,475	14,808
Financial income and expenses	88	-161	-176	-630	-686
Profit (-loss) before taxes	4,219	3,028	7,645	4,845	14,122
Income taxes	-881	-591	-1,675	-1,020	-3,232
Profit (-loss) for the reporting period	3,338	2,437	5,971	3,825	10,890

CONSOLIDATED BALANCE SHEET (FAS)

(EUR 1,000)	30.6.2017	30.6.2016	31.12.2016
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	1,465	2,026	1,626
Tangible assets	4,659	5,238	4,709
Investments	11	11	11
TOTAL NON-CURRENT ASSETS	6,135	7,275	6,346
CURRENT ASSETS			
Inventories	10,023	11,190	10,596
Receivables	16,327	17,359	20,351
Current receivables	1,284	1,177	1,265
Cash and cash equivalents	17,069	5,042	15,662
TOTAL CURRENT ASSETS	44,703	34,768	47,874
TOTAL ASSETS	50,838	42,043	54,220
EQUITY AND LIABILITIES			
EQUITY			
Share capital	80	80	80
Share premium account	5,130	5,130	5,130
Other funds	22,453	25,810	25,809
Retained earnings (loss)	-804	-11,250	-10,000
Profit for the financial period (loss)	5,971	3,825	10,890
TOTAL EQUITY	32,830	23,594	30,909
LIABILITIES			
Non-current liabilities			
Loans from financial institutions	0	0	0
Other liabilities	683	785	683
Total	683	785	683
Current liabilities			
Loans from financial institutions	6,691	1,928	6,641
Advances received	206	739	697
Trade payables	6,818	10,655	10,251
Other liabilities	122	652	1,888
Accrued liabilities	3,488	3,690	3,149
Total	17,325	17,664	22,627
TOTAL LIABILITIES	18,008	18,449	23,311
TOTAL EQUITY AND LIABILITIES	50,838	42,043	54,220

CONSOLIDATED CASH FLOW STATEMENT (FAS)

(EUR 1,000)	04-06/2017	04-06/2016	01-06/2017	01-06/2016	1-12/2016
Cash flow from operations					
Operating profit/loss	4,131	3,188	7,821	5,475	14,808
Depreciation	532	529	1,116	889	2,521
Change in working capital	1,963	-5,002	-139	-7,135	-10,692
Financial income and expenses	-1,369	32	-1,633	-85	-2
Taxes	-881	-273	-1,675	-344	-1,223
Cash flow from operations	4,376	-1,525	5,491	-1,200	5,412
Cash flow from investments					
Investments in tangible and intangible assets	-821	-133	-1,145	-1,008	-1,612
Cash flow from investments	-821	-133	-1,145	-1,008	-1,612
Free cash flow	3,555	-1,658	4,346	-2,208	3,800
Cash flow from financing					
Repayment of non-current loans	0	987	0	987	-1,052
Withdrawal of current loans	0	-272	417	-272	6,379
Capital repayment	0	0	-3,356	-907	-907
Cash flow from financing	0	715	-2,939	-192	4,420
Change in cash and cash equivalents	3,556	-943	1,407	-2,400	8,220
Cash and cash equivalents at beginning of the reporting period	13,513	5,985	15,662	7,442	7,442
Cash and cash equivalents at end of the reporting period	17,069	5,042	17,069	5,042	15,662

STATEMENT OF EQUITY CHANGES

(EUR 1,000)	Share capital	Share premium	Invested unrestricted equity fund	Retained earnings	Profit (loss) for the period	Total
Balance at 1.1.2017	80	5,130	25,809	-109	0	30,909
Capital repayment			-3,356			-3,356
Translation differences				-695		-695
Items belonging to previous financial years						0
Profit (loss) for the period					5,971	5,971
Balance 30.6.2017	80	5,130	22,453	-804	5,971	32,830
Balance at 1.1.2016	80	5,130	26,716	-10,827	0	21,099
Capital repayment			-907			-907
Translation differences				-423		-423
Items belonging to previous financial years						0
Profit (loss) for the period					3,825	3,825
Balance at 30.6.2016	80	5,130	25,809	-11,250	3,825	23,594
Balance at 1.1.2016	80	5,130	26,716	-10,827	0	21,099
Capital repayment			-907			-907
Translation differences				-448		-448
Items belonging to previous financial years				275		275
Profit (loss) for the period					10,891	10,891
Balance at 31.12.2016	80	5,130	25,809	-11,000	10,890	30,909

Espoo 25 July 2017

Board of Directors
Detection Technology Plc

CALCULATION OF KEY FINANCIAL RATIOS

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

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

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



www.deetee.com