

Q2 2020
January-June

Half-yearly report



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DETECTION TECHNOLOGY PLC HALF-YEARLY REPORT JANUARY-JUNE 2020

Detection Technology Q2 2020: Strong headwind and some tailwind in the COVID-19 waves**April-June 2020 highlights**

- Net sales decreased by -23.2% to EUR 21.1 million (27.5)
- Net sales of Security and Industrial Business Unit (SBU) decreased by -42.1% to EUR 11.2 million (19.4)
- Net sales of Medical Business Unit (MBU) increased by 22.5% to EUR 9.9 million (8.1)
- Operating profit (EBIT) was EUR 2.6 million (4.8)
- Operating margin (EBIT-%) was 12.3% of net sales (17.5%)

January-June 2020 highlights

- Net sales decreased by -18.8% to EUR 41.0 million (50.5)
- Net sales of SBU decreased by -32.8% to EUR 22.8 million (33.9)
- Net sales of MBU increased by 9.7% to EUR 18.3 million (16.6)
- Operating profit (EBIT) was EUR 3.8 million (8.7)
- Operating margin (EBIT-%) was 9.2% of net sales (17.1%)

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

President and CEO, Hannu Martola:

“The first wave of COVID-19 gained strength outside China during the spring and hit our business. Sales in security applications faced headwinds, whereas winds in medical CT sales were favorable. Despite growth in medical CT sales, the Group’s net sales and results decreased year-on-year. However, we managed to weather the challenging markets and beat our way forward as both our sales and results improved from Q1 and we had a double-digit operating margin.

Due to the turmoil in the global economy and politics, as well as extensive restrictions on travel and gatherings, the global security market was characterized by stagnation. In industrial applications, demand increased only in the food and pharmaceutical industries, but growth remained below usual. Although the global crises escalated during Q2, SBU sales decreased only slightly compared to Q1. When comparing the current and year-on-year figures, it is obvious that the prolonged first wave of COVID-19 hit our security application sales hard.

Radiology plays an important part in the diagnosis and treatment of COVID-19. The demand in medical CT imaging solutions that started at the end of Q1 continued strong. Escalation of the pandemic created a peak in demand of basic CT equipment as healthcare professionals focused on combatting the crisis, and this halted the installations of higher-end CT equipment. Demand in CT applications by product categories is expected to normalize during H2 as sales for higher-end devices is foreseen to increase. The dental market in China showed signs of recovery, but the recovery was slower than expected due to the second wave of COVID-19 in Beijing. Our X-Panel product family reached mass production capability, and we are ready to flexibly increase our flat panel X-ray detector production capacity to meet the demand. MBU growth is expected to be attributed mainly to new CT products, such as X-Tile sales, in H2.

We launched a number of new products during H1. We brought to the market new products in all our market segments, and received encouraging feedback from markets. We were the first in the industry to introduce a

standard CT detector product family – branded as Aurora CT – for demanding security and industrial imaging systems. The Aurora CT meets the requirements of the most stringent security standards of the aviation industry, and we have high expectations for sales as soon as the markets start to recover. Another important product launch in terms of both strategy and sales was introduction of the X-Panel 1615 product family for the medical market in June. We expanded our X-Panel product family to surgical and dental applications, where a larger imaging area is required. In addition, we launched the X-Scan C X-ray line camera for demanding industrial environments.

We boosted interaction with our customers, and continued to push our R&D projects forward. New product launches are scheduled also for H2 2020.

The security market is volatile, and our customers request increasingly shorter delivery times. We want to be a reliable partner who is ready to deliver products flexibly both during exceptional times and as soon as the security and industrial markets recover. We have therefore improved our ability to react to changes fast, which has contributed to the increase in our stocks and decrease in cash flow.

Product migration to the Wuxi site have progressed as planned, and the new production and service site will make its mark in terms of productivity and cost efficiency. The key projects of the multi-energy (ME) product line have progressed as planned, and the company's operations in France will move to new premises in the fall.

COVID spring turned into COVID summer. We are now expecting COVID fall, because the first wave of COVID-19 is still pushing forward headstrong, particularly in the Americas, and a second wave is looming in the horizon. Visibility is still extremely poor, and we are navigating in thick fog, in particular in the security markets. We do not expect the security market to return to a growth path this year. Demand in the security segment will continue at a lower level, and in the industrial segment, it will increase slightly. SBU net sales are thus expected to decrease in Q3 year-on-year, and start to improve towards the end of the year. In MBU, we expect the sales growth to continue in the second half driven by the demand in CT applications.

Although the COVID-19 consequences do not seem to be passing by quickly, visibility is limited and our business has been hit by exceptionally high – albeit temporary – levels of uncertainty, we keep our medium-term targets unchanged. Our company has a solid financial standing and growth drivers are in the right place. We will continue our operative business determinedly and vigorously develop our business in line with the DT-2025 strategy.”

Key figures

(EUR 1,000)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Net sales	21,108	27,473	41,025	50,525	102,480
Change in net sales, %	-23.2%	12.8%	-18.8%	15.7%	9.1%
Operating profit	2,589	4,804	3,770	8,659	17,019
Operating margin, %	12.3%	17.5%	9.2%	17.1%	16.6%
R&D costs	2,688	2,945	5,306	5,443	10,706
R&D costs, % of net sales	12.7%	10.7%	12.9%	10.8%	10.4%
Cash flow from operating activities	-1,218	-5,136	2,169	-88	11,599
Net interest-bearing debt at end of period	-16,082	-11,332	-16,082	-11,332	-20,385
Investments	314	700	1,009	1,407	4,041
Return on investment (ROI), %			20.5%	35.9%	28.5%
Gearing, %	-29.1%	-21.5%	-29.1%	-21.5%	-34.9%
Earnings per share, EUR	0.12	0.22	0.19	0.47	0.87
Number of shares at end of period	14,375,430	14,375,430	14,375,430	14,375,430	14,375,430

Net sales

Detection Technology's net sales in Q2 were EUR 21.1 million (27.5). Due to the COVID-19 pandemic, net sales decreased by -23.2% (12.8%) year-on-year.

The exceptionally challenging market situation due to the outbreak of the COVID-19 pandemic continued in the security segment. The plummeting volumes in air travel continued in the review period and restrictions related to mass gatherings mainly largely remained in force. The increasing financial and political uncertainty caused by the pandemic on the one hand, and the targeting of government recovery measures primarily outside the scope of our Security and Industrial Business Unit (SBU) in its main markets on the other hand, halted investments in other target segments too, apart from the food and the pharmaceutical industries. However, growth in these segments also remained below industry forecasts, i.e., below 5%. The ramifications of COVID-19 had a significant adverse impact on demand for X-ray devices, as a result of which the net sales of SBU decreased by -42.1% to EUR 11.2 million (19.4). SBU generated 53.2% (70.7%) of the company's net sales.

COVID-19, however, had a positive impact on the demand in medical computed tomography (CT) applications, in addition to which the dental market started to recover in Asia in Q2. The increase in the demand for medical CT imaging solutions, which started at the end of Q1, continued strong, as CT imaging is used to detect pulmonary changes caused by the COVID-19 virus during the diagnosis and the treatment of patients. CT demand focused on basic X-ray systems as the COVID-19 pandemic escalated. The sales of X-Panel for dental applications started in the review period, but its share of net sales in the Medical Business Unit (MBU) is still marginal. MBU's net sales grew by 22.5% and totaled EUR 9.9 million (8.1). MBU's share of total net sales was 46.8% (29.3%).

Asia-Pacific's (APAC) share of the company's net sales increased in Q2, and geographically it was the company's largest market despite changes in product mix. APAC's share of total net sales was 69.8% (61.5%), Americas' 10.1% (16.4%) and EMEA's (Europe, Middle East, Africa) 20.1% (22.1%). The share of net sales generated by the company's top five customers decreased in Q2 to 53.3% (59.5%).

The company's net sales in January–June 2020 decreased by -18.8% to EUR 41.0 million (50.5). Net sales of SBU decreased by -32.8% to EUR 22.8 million (33.9). Net sales of MBU grew by 9.7%, and totaled EUR 18.3 million (16.6). SBU's share of total net sales was 55.5% (67.1%) and MBU's 44.5% (32.9%).

In the first half of 2020, APAC's share of net sales was 66.0% (61.8%), Americas' 13.2% (16.4%) and EMEA's 20.8% (21.8%). The share of the five largest customers accounted for 55.1% (62.9%) of net sales in the review period.

NET SALES BY BUSINESS UNITS

(EUR 1,000)	4-6/2020	4-6/2019	Change, %	1-6/2020	1-6/2019	Change, %	1-12/2019
MBU	9,874	8,062	22.5%	18,253	16,636	9.7%	33,568
SBU	11,234	19,411	-42.1%	22,772	33,890	-32.8%	68,912
TOTAL	21,108	27,473	-23.2%	41,025	50,525	-18.8%	102,480

NET SALES BY GEOGRAPHY

(EUR 1,000)	4-6/2020	4-6/2019	Change, %	1-6/2020	1-6/2019	Change, %	1-12/2019
APAC	14,732	16,899	-12.8%	27,066	31,216	-13.3%	66,724
Americas	2,130	4,508	-52.8%	5,421	8,278	-34.5%	14,645
EMEA	4,246	6,066	-30.0%	8,538	11,032	-22.6%	21,111
TOTAL	21,108	27,473	-23.2%	41,025	50,525	-18.8%	102,480

Operating result and profitability

The company's operating profit in Q2 amounted to EUR 2.6 million (4.8), which was 12.3% (17.5%) of net sales. The decrease in personnel expenses, a nearly complete stop in traveling, and other cost saving activities improved profitability compared to Q1.

Q2 fixed costs were EUR 8.2 million (8.5), of which personnel expenses were EUR 4.7 million (4.8), depreciation EUR 0.8 million (0.7) and other operating expenses EUR 2.7 million (3.0). Financial items were EUR 0.3 million (0.7) and income taxes EUR 0.5 million (1.0).

The Q2 result was EUR 1.8 million (3.2). Earnings per share were EUR 0.12 (0.22).

The company's operating profit in January–June 2020 amounted to EUR 3.8 million (8.7), which was 9.2% (17.1%) of net sales.

Fixed costs in January–June 2020 totaled EUR 16.3 (16.2) million, of which personnel expenses were EUR 9.2 million (8.9), depreciation EUR 1.6 million (1.4) and other operating expenses EUR 5.5 million (5.9). Financial items were EUR 0.2 million (0.1) and income taxes EUR 0.9 million (1.9).

The H1 2020 net result was EUR 2.7 million (6.7). Earnings per share were EUR 0.19 (0.47).

The company has been granted by the local government in China employer's contribution relief of some EUR 0.3 million in Q2 and EUR 0.5 million in the review period January–June 2020.

Cash flow and financing

Cash flow from financing activities in Q2 was EUR -4.0 million (0.5). Cash flow from financing activities in January–June 2020 was EUR -5.3 million (-4.7).

Cash flow from operations in Q2 was EUR -1.2 million (-5.1). Cash flow from operations in January–June 2020 was EUR 2.2 million (-0.1).

The company's net interest-bearing debt totaled EUR -16.1 million (-11.3) at the end of the review period, and gearing was -29.1% (-21.5%).

Cash and cash equivalents amounted to EUR 21.9 million (16.1) at the end of the review period.

The company has secured its liquidity by agreeing with banks on lines of credit totaling EUR 15.5 million (9.3). At the end of the review period, the unused line of credit was EUR 9.8 million (4.7).

Investments

Investments totaled EUR 0.3 million (0.7) in Q2. Investments were mainly made in production equipment, machinery, and measuring equipment at the new Wuxi site. Investments in January–June 2020 amounted to EUR 1.0 million (1.4).

Research and development

Q2 research and development (R&D) costs totaled EUR 2.7 million (2.9), which was 12.7% (10.7%) of net sales. The company's R&D costs in review period January–June 2020 amounted to EUR 5.3 million (5.4), which was 12.9% (10.8%) of net sales. The company expects R&D costs to remain at the same level in H2 2020. All R&D costs are recognized as expenses.

Personnel

At the end of June 2020, Detection Technology employed 481 people (506), of whom 372 were in China, 86 in Finland, 18 in France, and 5 in the US. Q2 personnel expenses totaled EUR 4.7 million (4.8). Personnel expenses in the review period January–June 2020 totaled EUR 9.2 million (8.9).

PERSONNEL BY GEOGRAPHY

	30.6.2020	30.6.2019	Change, %	31.12.2019
APAC	372	403	-7.7%	393
Americas	5	5	0.0%	5
EMEA	104	98	6.1%	98
TOTAL	481	506	-4.9%	496

Strategy implementation

Detection Technology has developed its business in line with its DT-2025 strategy despite the COVID-19 pandemic. In the company's view, the pandemic has not changed its long-term business fundamentals. The company's X-Panel product family, based on the complementary metal oxide semiconductor (CMOS)

technology, reached production capability, and the sales of the new product family for dental applications started in Q2. The dental market started to show signs of recovery in Asia in April–May, after the market disruption created by the COVID-19 pandemic. It will take time for the market to stabilize, and the company expects moderate X-Panel sales in dental applications in 2020. The company is prepared to increase the production capacity of the product family to meet demand.

Detection Technology launched several new products in all of the company's market segments in the review period. The X-Panel product family was expanded to applications with a larger imaging area. The company launched its X-Panel 1615 X-ray flat panel detector, which is available in two models optimized for application-specific requirements, in June. The 1615s is designed for mini C-arm systems used in surgical operations, whereas the 1615d is targeted to meet the imaging needs of dental medicine. In addition to medical applications, there is demand for CMOS X-ray flat panel detectors in industrial imaging.

The sales of the Aurora product family in the line-scan segment have made good progress, and the company expanded the product family to demanding CT imaging systems of the security and industrial segments in May. The company was the first in the industry to introduce a plug-and-play-type detector family, brand-named Aurora CT. The product family includes detector boards and a control unit, and software library to support system integration. Aurora CT meets the requirements of the most stringent security standards of the aviation industry. The applications of the Aurora CT product family include carry-on baggage, hold baggage, and cargo scanning systems at airports and other critical infrastructure in particular, as well as rapid industrial 3D imaging systems.

The company also launched the X-Scan C X-ray line camera product family in May. X-Scan C is intended for wet industrial environments where high wear-resistance properties are required. The product family is designed in particular for line scanners in the food and pharmaceutical industry, where the high quality of imaging and fast through-put times, along with high mechanical durability, bring added value to the end-user.

Product migration to the Wuxi site has progressed as planned, and this new production and service site in the Greater Shanghai area will be a profitable investment in terms of productivity, cost-efficiency, and corporate strategy. The key projects of the multi-energy (ME) product line have progressed as planned, and the company's operations in France will move to new premises, which better support product development and small-series production, in the fall 2020.

Shares and shareholders

The average share price of Detection Technology was EUR 19.32 in Q2 and EUR 21.34 in January—June 2020. The highest share price for Q2 was EUR 21.40 and the lowest EUR 17.25. The highest price for H1 of 2020 was EUR 28.90 and the lowest EUR 15.05.

The closing price at the end of June was EUR 19.25, and the company had a market capitalization of approximately EUR 277 million. The number of shares traded between 2 January and 30 June was 1.29 million, which is 9.0% of the total number of shares. The number of shares outstanding in Detection Technology was 14,375,430 at the end of the review period.

The number of shareholders at the end of the review period was 3,258. Approximately 61.1% of the shares were held by the ten largest shareholders. The nominee-registered foreign holding of shares in the company was 13.8% at the end of the review period.

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

Risks and uncertainties

According to the view of Detection Technology's management, the most significant short-term risks and uncertainties of the company are the escalation of the COVID-19 pandemic, increasingly volatile geopolitical situation, and development of international security. Other short-term risks are associated with factors related to political and trade policy uncertainty, and operating in emerging markets.

Other risks are related to price competition, a significant share of net sales being generated by the five largest customers, APAC countries' large share of sales, the commissioning of the new production and service site in Wuxi, product quality, the startup of production of new products, customer liquidity, exchange rate fluctuations, an overall cost development — particularly in China, the adequacy and competence of personnel, and organizational efficiency.

Other risks related to the company and its business operations have been described in more detail in the company's financial statements for 2019. The company takes continuous measures to mitigate the aforementioned risks.

Business outlook

Prior to the outbreak of the COVID-19 pandemic, industry experts estimated that the global medical X-ray imaging equipment market was growing at an average rate of about 5% per annum, the security segment by 6% and the industrial sector by about 5%. In Detection Technology's view, the market disruption caused by the pandemic will continue until at least the end of 2020, and the annual growth rate in all segments, with the exception of medical CT imaging, will be lower than the aforementioned estimates in 2020.

Demand in the security segment will continue at a lower level, and SBU sales is expected to decrease in Q3. The company estimates demand in the security segment to decrease at least until the end of the year and industrial segment demand to increase, but growth is likely to fall short of the 5% forecast for the industry. As a result, the company expects SBU sales to decrease in 2020. Whereas demand in medical CT applications will continue at a good level, and MBU sales are expected to grow in Q3. The company expects demand in medical CT applications to continue at a good level in H2, and MBU sales to increase in 2020.

The COVID-19 pandemic creates extraordinary uncertainty for the global economy and the company's business, and the predictability of the market is still lower than usual. Detection Technology aims to increase sales by at least 10% per annum and to achieve an operating margin at or above 15% in the medium term.

Business review January-September 2020

Detection Technology will publish a business review January-September 2020 on 27 October 2020.

UNAUDITED HALF-YEARLY REPORT 1.1.-30.6.2020

ACCOUNTING PRINCIPLES

This unaudited half-yearly report for the period 1.1.-30.6.2020 has been prepared according to Finnish Accounting Standards (FAS).

CONSOLIDATED INCOME STATEMENT (FAS)

(EUR 1,000)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Net sales	21,108	27,473	41,025	50,525	102,480
Other operating income	400	62	401	64	142
Materials and services	-10,689	-14,246	-21,318	-25,766	-52,616
Personnel expenses	-4,728	-4,751	-9,190	-8,863	-18,016
Depreciations	-786	-719	-1,618	-1,422	-2,881
Other operating expenses	-2,716	-3,014	-5,529	-5,879	-12,090
Operating profit	2,589	4,804	3,770	8,659	17,019
Financial income and expenses	-334	-661	-229	-54	-140
Profit before taxes	2,255	4,143	3,541	8,605	16,879
Income taxes	-488	-950	-861	-1,861	-4,404
Profit for the reporting period	1,766	3,193	2,680	6,744	12,475

CONSOLIDATED BALANCE SHEET (FAS)

(EUR 1,000)	30.6.2020	30.6.2019	31.12.2019
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	4,071	3,629	4,548
Tangible assets	5,582	5,089	5,714
Investments	11	14	11
TOTAL NON-CURRENT ASSETS	9,664	8,731	10,273
CURRENT ASSETS			
Inventories	17,577	16,092	14,121
Other long-term receivables	215	0	0
Trade receivables	22,023	29,147	24,865
Other receivables	456	610	603
Accrued income	1,372	1,070	1,050
Cash and cash equivalents	21,916	16,131	26,012
TOTAL CURRENT ASSETS	63,559	63,050	66,651
TOTAL ASSETS	73,223	71,782	76,923
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	24,857	18,299	18,217
Profit for the financial period	2,680	6,744	12,475
TOTAL EQUITY	55,200	52,706	58,355
LIABILITIES			
Current liabilities			
Loans from financial institutions	5,834	4,799	5,627
Trade payables	7,752	9,158	6,892
Other liabilities	860	530	1,214
Accrued liabilities	3,578	4,589	4,836
Total	18,024	19,076	18,569
TOTAL LIABILITIES	18,024	19,076	18,569
TOTAL EQUITY AND LIABILITIES	73,223	71,782	76,923

CONSOLIDATED CASH FLOW STATEMENT (FAS)

(EUR 1,000)	4-6/2020	4-6/2019	1-6/2020	1-6/2019	1-12/2019
Cash flow from operations					
Operating profit	2,589	4,804	3,770	8,659	17,019
Depreciations	786	719	1,618	1,422	2,881
Other non-cash business activities	-493	0	-450	0	-706
Change in working capital	-2,921	-9,048	-736	-8,255	-2,472
Financial income and expenses	-224	-661	-172	-54	-128
Income taxes paid	-955	-950	-1,861	-1,861	-4,996
Cash flow from operations	-1,218	-5,136	2,169	-88	11,599
Cash flow from investments					
Investments in intangible and tangible assets	-314	-700	-1,009	-1,407	-4,041
Cash flow from investments	-314	-700	-1,009	-1,407	-4,041
Free cash flow	-1,532	-5,835	1,160	-1,495	7,558
Cash flow from financing					
Change in current loans	1,413	478	207	743	1,571
Dividend paid	-5,463	0	-5,463	-5,463	-5,463
Cash flow from financing	-4,049	478	-5,256	-4,720	-3,892
Change in cash and cash equivalents	-5,581	-5,357	-4,096	-6,215	3,666
Cash and cash equivalents at beginning of reporting period	27,497	21,488	26,012	22,346	22,346
Cash and cash equivalents at end of reporting period	21,916	16,131	21,916	16,131	26,012

STATEMENT OF EQUITY CHANGES

(EUR 1,000)	Share capital	Share premium	Invested unrestricted equity fund	Retained earnings	Profit for the period	Total
Balance on 1.1.2020	80	5,130	22,453	30,692	0	58,355
Dividend paid	0	0	0	-5,463	0	-5,463
Translation differences	0	0	0	-372	0	-372
Profit for the period	0	0	0	0	2,680	2,680
Balance on 30.6.2020	80	5,130	22,453	24,857	2,680	55,200
Balance on 1.1.2019	80	5,130	22,453	23,721	0	51,384
Dividend paid	0	0	0	-5,463	0	-5,463
Translation differences	0	0	0	41	0	41
Profit for the period	0	0	0	0	6,744	6,744
Balance on 30.6.2019	80	5,130	22,453	18,299	6,744	52,706
Balance on 1.1.2019	80	5,130	22,453	23,721	0	51,384
Dividend paid	0	0	0	-5,463	0	-5,463
Translation differences	0	0	0	-41	0	-41
Profit for the period	0	0	0	0	12,475	12,475
Balance on 31.12.2019	80	5,130	22,453	18,217	12,475	58,355

Espoo 3 August 2020

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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