

# Q1

January–March 2021  
**BUSINESS REVIEW**



## DETECTION TECHNOLOGY PLC BUSINESS REVIEW JANUARY–MARCH 2021

**Detection Technology Q1 2021: Slow start but heading for double-digit growth****January–March 2021 highlights**

- Net sales decreased by -8.0% to EUR 18.3 million (19.9)
- Net sales of Industrial Solutions Business Unit (IBU) increased by 11.3% to EUR 2.4 million (2.2)
- Net sales of Medical Business Unit (MBU) increased by 20.1% to EUR 10.1 million (8.4)
- Net sales of Security Business Unit (SBU) decreased by -37.7% to EUR 5.8 million (9.4)
- Operating profit (EBIT) was EUR 1.4 million (1.2)
- Operating margin (EBIT-%) was 7.5% of net sales (5.9%)

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

**Key figures**

(EUR 1,000)	1-3/2021	1-3/2020	1-12/2020
Net sales	18,323	19,917	81,561
Change in net sales, %	-8.0%	-13.6%	-20.4%
Operating profit	1,382	1,181	8,714
Operating margin, %	7.5%	5.9%	10.7%
R&D costs	2,405	2,618	9,827
R&D costs, % of net sales	13.1%	13.1%	12.0%
Cash flow from operating activities	1,707	3,387	7,522
Net interest-bearing debt at end of period	-20,641	-23,076	-19,364
Investments	430	695	3,081
Gearing, %	-36.2%	-38.8%	-33.1%
Earnings per share, EUR	0.09	0.06	0.47
Number of shares at end of period	14,375,430	14,375,430	14,375,430

**President and CEO, Hannu Martola:**

"Despite the double-digit increase in both medical and industrial application sales, the beginning of the year was, all in all, slow: COVID-19 did not loosen its grip on the security market. We believe that the worst challenges in demand are behind us, and the company will head toward growth starting in Q2 of 2021. Demand in medical CT applications will increase and that of industrial applications will remain stable. In addition, there are early positive signals in the security market. We are cautiously optimistic that demand in security applications will take an upward turn in late Q2.

MBU sales grew strongly, driven by good demand for medical CT applications especially in China. Sales were mainly boosted by two market drivers: investments in healthcare infrastructure and demand for higher-end CT applications. New generation products supported MBU sales growth; for example, our standard X-Tile solution has sold particularly well. X-Panel sales have not started as expected, but we believe that commercial shipments will accelerate during this year.

Also, overall sales in industrial solutions were good, as demand in the food, pharmaceutical and mining industries remained stable. Demand in other industrial applications is recovering, although a slight wariness to invest still prevailed. Our success in customer acquisition from last year continued, and we were awarded interesting new product projects. We expect IBU sales to grow and especially that the business unit takes a long-term role in identifying new business opportunities and winning market shares through more advanced detector solutions. According to our "Beyond hardware" principle, we are looking for opportunities to commercialize not only hardware but software and services, too.

It is positive that domestic air transport has recovered in many countries close to the pre-pandemic levels and cargo transport is increasing. Stagnation in international passenger transport prevailed, however, which resulted in continuously record-low demand in the field of aviation. In addition, restrictions on gatherings and postponed investments both in critical infrastructure projects and border control points had a negative impact on security application demand. As a result, SBU sales declined, but the downward curve was already less steep than in the previous quarter.

Although our total net sales decreased, our profitability improved year-on-year. Since the beginning of 2021, we have no longer been granted government COVID support for employment contributions. Thanks to costs discipline, our product mix and the tax reductions related to the High and New Technology (HNTE) certification to our Chinese subsidiary, our profitability remained good.

We have continued to develop our business in line with the DT-2025 strategy to secure our competitiveness and future growth. We have focused on taking care of a record number of new customers, accelerating our product development cycle and arranging our organization in compliance with our new business model, among other things. We are now reporting net sales for our three business units for the first time.

Our business outlook have improved from the previous review period. We expect demand in medical CT applications to increase and MBU sales to grow even more in Q2 and H2 than in Q1. IBU sales is expected to be flat in Q2 and to grow in H2, but demand may fluctuate. According to our current view, SBU sales will start to increase in late Q2 and continue to grow in H2 but demand is characterized by uncertainty: vaccination coverage and the implementation of vaccination certificates, among other things, will have an impact on people flows and gatherings. At the Group level, we expect our total net sales to grow double-digit in Q2 and in H2 of 2021 driven mainly by the strong medical demand.

Although there are positive signals from the market and the COVID-19 pandemic is now better controlled, visibility in the security segment is still limited, albeit improving. In addition, there are risks related to the availability of electronic components and other materials. At the moment, it seems that we are able to manage the supply chain, but challenges in availability and longer delivery times may have an impact on our ability to respond to changes. Consequently, there is an element of uncertainty in our business. We will continue securing our growth and keep our medium-term growth and profitability targets unchanged."

## Markets

The impacts of the COVID-19 pandemic on market growth varied for each segment in Q1. Medical market grew better than Detection Technology expected, and industrial markets grew as forecasted by the company and experts in the field, but the market disturbance caused by the pandemic in the security application markets continued. The gap in security sales was too wide for medical and industrial sales to close. Detection Technology's total net sales decreased by -8.0% (-13.6%) to EUR 18.3 million (19.9).

Demand in imaging solutions for the food, pharmaceutical, and mining industries continued to be stable in January–March 2021. Demand in other industrial applications is recovering, although separate product projects have been postponed due to the persistent wariness to invest triggered by the COVID-19 pandemic. The overall demand in the industrial applications of the company was good, which resulted in an increase in the net sales of the Industrial Business Unit (IBU) by 11.3% to EUR 2.4 million (2.2). IBU generated a total of 13.3% (11.0%) of the company's net sales.

Demand in medical CT applications remained at a good level, particularly in China where, significant investments have been made in healthcare infrastructure, and demand in other main markets also increased. Demand was mainly targeted at higher-end CT imaging solutions. The net sales of Medical Business Unit (MBU) increased by 20.1% year-on-year to EUR 10.1 million (8.4). The increase in MBU sales was mainly attributed to new generation CT products, such as X-Tile standard solution. Driven by China, the demand in dental applications continued to normalize at an increasing speed in all target markets, and the company expects X-Panel sales from the said segment. MBU generated a total of 54.9% (42.1%) of the company's net sales.

Domestic air transport has been recovering in many countries and is now close to pre-pandemic levels, and cargo transport is increasing. Stagnation in international passenger transport continued, however, which resulted in record-low demand in the field of aviation. In addition, extensive restrictions on mass gatherings as well as the slow progress in recovery and other projects related to critical infrastructure and postponing investments in border control points eroded demand in security applications. As a result, the net sales of the Security Business Unit (SBU) decreased by -37.7% year-on-year, totaling EUR 5.8 million (9.4). SBU generated a total of 31.8% (47.0%) of the company's net sales.

The Asia-Pacific countries' (APAC) share of the company's net sales increased by nearly fifteen percentage points in Q1, and it was the company's largest geographical market area with its 76.5% (61.9%) share. The share of Europe, Middle East and Africa (EMEA) was 17.6% (21.6%) and Americas 5.9% (16.5%). Stagnation in the security market in Americas and medical application production transfer to Asia reflected the geographical distribution of sales. The company's top five customers accounted for 58.2% (62.7%) of the company's total net sales.

## Strategy

Detection Technology has continued to roll out its DT-2025 strategy and business development in order to secure its competitiveness. The company focused on customer acquisition, taking care of the record number of customers won in 2020, further improving customer service, the development of its product portfolio and new product solutions, and acceleration of the product development cycle. Furthermore, the company has been arranging its organization in compliance with the new business and reporting model.

Detection Technology implemented a new business and reporting structure on 1 January 2021. The company's Security and Industrial Business Unit (SBU) was divided into two separate business units. The new business units are called the Security Business Unit (SBU) and the Industrial Solutions Business Unit (IBU). The company's Medical Business Unit (MBU) remained unchanged. The company has adopted the net sales reporting method used in its financial reporting to match the new business structure as of Q1 of 2021.

The new organizational structure will enhance the recognition of weak market signals and customer needs as well as building a more market-oriented offering. The SBU focuses on security application sales whereas the IBU champions the industrial segment, in addition to which it will introduce higher-end detector solutions in which software and algorithms play a more significant role in the market. According to its "Beyond hardware" principle, the company is looking for opportunities to commercialize not only hardware but also software and services.

### **The impacts of the COVID-19 pandemic on business**

Detection Technology reported the impacts of the COVID-19 pandemic on the company's business in its financial statements review January–December 2020. No significant changes in the COVID-19 impacts on the company's business have taken place since the publication of the financial statements review.

The company estimates that the COVID-19 adversely impacted total net sales by about one-third in January–March 2021. Although the company's net sales decreased, its year-on-year profitability improved. Operating profit amounted to EUR 1.4 million (1.2), corresponding to 7.5% (5.9%) of net sales. Profitability was improved by emphasizing higher-end applications in the product mix, cost-savings and the tax reductions related to the High and New Technology (HNTE) certification of its Chinese subsidiary. The company did not receive government grants to employment contributions, of which it received a total of EUR 1.2 million due to the pandemic in the review period January–December 2020.

There were no significant challenges in the availability of electronic components and other materials in Q1, but risks related to the availability have increased. The pandemic has not had a direct impact on the number of personnel.

According to Detection Technology's view, it is still too early to assess the long-term consequences of the COVID-19 pandemic. The company works continuously and relentlessly to mitigate the ramifications of the COVID-19 pandemic that may have adverse effects on business.

### **Business outlook**

Prior to the outbreak of the COVID-19 pandemic, industry experts estimated that the global medical X-ray imaging equipment market would grow at an average rate of about 5% per annum, the security segment by 6%, and the industrial sector by about 5%. According to Detection Technology, the medical and industrial markets are growing in line with the estimates by the experts, but the market disturbance caused by the pandemic will continue to affect the security market, which will decrease in H1 of 2021, and take an upward turn in H2.

Detection Technology expects total net sales to grow double-digit in Q2 and in H2 of 2021. The company anticipates demand in medical CT applications to increase and MBU sales to grow more in Q2 and H2 than

in Q1. IBU sales is expected to be at the same level as in the comparison period in Q2 but to grow in H2. SBU sales will head for growth in late Q2 and will grow in H2, but demand is characterized by uncertainty.

The COVID-19 pandemic has created extraordinary and temporary uncertainty for the global economy and the company's business in particular in the security application markets, and the demand forecasting in the company's target markets 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.

### Half-yearly report 2021

Detection Technology will publish the half-yearly report on 3 August 2021.

Espoo 26 April 2021

Board of Directors  
Detection Technology Plc



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