

Q1

January–March 2023

Business review



DETECTION TECHNOLOGY PLC BUSINESS REVIEW JANUARY-MARCH 2023

Detection Technology Q1 2023: Sales in medical and security applications in line with expectations, temporary softening in industrial

January-March 2023 highlights

- Net sales increased by 12.0% to EUR 22.8 million (20.3)
- Net sales of Industrial Solutions Business Unit (IBU) decreased by -3.0% to EUR 3.4 (3.5)
- Net sales of Medical Business Unit (MBU) increased by 14.6% to EUR 12.0 million (10.5)
- Net sales of Security Business Unit (SBU) increased by 16.2% to EUR 7.3 million (6.3)
- Operating profit (EBIT) was EUR 1.5 million (1.5)
- Operating margin (EBIT-%) was 6.5% of net sales (7.4%)

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

Key figures

(EUR 1,000)	1-3/2023	1-3/2022	1-12/2022
Net sales	22,753	20,313	98,580
Change in net sales, %	12.0%	10.9%	9.8%
Operating profit excluding NRI	1,477	1,506	6,135
Operating margin excluding NRI, %	6.5%	7.4%	6.2%
Non-recurring items (NRI)	0	0	-335
Operating profit	1,477	1,506	5,801
Operating margin, %	6.5%	7.4%	5.9%
R&D costs	2,962	3,069	12,549
R&D costs, % of net sales	13.0%	15.1%	12.7%
Cash flow from operating activities	-485	666	-294
Net interest-bearing debt at end of period	-19,572	-28,247	-20,584
Investments	452	201	1,628
Return on investment (ROI), %	7.1%	17.0%	7.5%
Gearing, %	-28.0%	-40.0%	-28.4%
Earnings per share, EUR	0.06	0.09	0.35
Earnings per share (diluted), EUR	0.06	0.09	0.35
Number of shares at the end of the period	14,655,930	14,655,930	14,655,930
Weighted average number of shares outstanding	14,655,930	14,655,930	14,655,930
Weighted average number of shares outstanding, diluted	14,669,582	14,816,245	14,717,042

President and CEO, Hannu Martola:

"Sales in both medical and security applications in Q1 of 2023 were in line with our expectations, but industrial sales softened temporarily. Nevertheless, our total net sales saw double-digit growth. Lower-than-expected total net sales, sales mix and spot purchases impaired profitability. The period of component shortages is mostly behind us, and we believe demand will normalize and profitability will improve.

Although sales in industrial applications lagged behind our expectations, the industrial market continued to grow. Our sales were lower than expected as some key customers reduced inventories. Demand disturbances that affected Q1 are expected to disappear in H2 of 2023.

There were no significant changes in the medical market. Demand for our detector solutions focused mainly on higher-end computed tomography (CT) applications both in emerging and developed markets. Demand would have allowed for a slightly higher growth rate, but tighter management of accounts receivables pushed out some deliveries.

The recovery in the security market continued more slowly than expected in aviation applications, and demand was particularly low in China. Thanks to our strong market position, our SBU sales still outperformed the average market growth rate. Growth mainly originated from security applications in urban environments, such as mass transportation, and logistics, especially from Americas. We sold detector solutions for these applications to new customers, too.

There were positive developments in the aviation sector after the end of the review period. The Transportation Security Administration (TSA), which is responsible for the operations and security system acquisitions of airports in the United States, published the single largest order in security CT applications. Based on this we will, for the next three to four years, have solid growth enablers in the security market.

Lower-than-expected Q1 sales, sales mix and spot purchases impaired our profitability. We expect profitability to improve toward the end of the year but then remain slightly below our target level for 2023. Our measures to improve the efficient use of working capital have progressed as planned.

In March, we announced the acquisition of Haobo Imaging and our plan to invest in thin-film transistor (TFT) flat panel detectors. These strategic moves will nearly double our total addressable market.

The acquisition is the missing technology piece of the DT-2025 strategy and a key enabler for our long-term growth. In our view, the new business will grow faster than our current business. It will create customer and technology synergies, and there are no overlaps in the current offering. Our product portfolio will cover all digital X-ray detector technologies.

Customer feedback regarding the acquisition has been encouraging. It has been particularly pleasing to see how much positive energy and buzz the news generated in both DT's and Haobo Imaging's teams. We have started to plan corporate integration and look forward to starting it as soon as the deal is officially closed.

Despite uncertainty in the market, we expect double-digit sales growth and improving quarterly profitability. The planned Haobo Imaging acquisition is expected to generate additional sales in H2 of 2023. We expect double-digit growth in medical and security sales and growth in industrial sales in Q2 of 2023, as well as double-digit growth in total net sales in H1 of 2023."

Sales development

Demand for Detection Technology's X-ray detector solutions continued at a good level in medical and security applications but softened temporarily in industrial imaging applications. The company's total net sales grew by 12.0% (10.9%), totaling EUR 22.8 million (20.3).

The industrial market grew, but the sales of Detection Technology's industrial solutions lagged behind expectations due to the high inventories of the company's key customers. Sales for certain food sector X-ray OEMs (original equipment manufacturer) remained below average, because clients cleared the inventories that they had accumulated during the period of component shortage. As a result, net sales of the Industrial Solutions Business Unit (IBU) decreased by -3.0% (45.2%), totaling EUR 3.4 million (3.5). IBU generated a total of 15.0% (17.4%) of the company's total net sales.

Growth and demand drivers in the medical market remained unchanged. Demand for Detection Technology's medical detector solutions focused mainly on higher-end computed tomography (CT) applications both in emerging and developed markets. The net sales of the company's Medical Business Unit (MBU) increased by 14.6% (4.5%) year-on-year, driven by demand in CT applications, and totaled EUR 12.0 million (10.5). Demand would have allowed for a slightly higher growth rate in net sales for Q1, but tighter management of accounts receivables pushed out some deliveries. MBU generated a total of 52.9% (51.8%) of the company's total net sales.

Demand in the security market continued to recover in all applications in Q1 but lagged behind expectations in aviation applications and in China, in particular. Nevertheless, thanks to its strong market position, the net sales of the Security Business Unit (SBU) increased by 16.2% (7.5%) year-on-year, totaling EUR 7.3 million (6.3). Growth originated mainly from security applications of urban environments and logistics. SBU generated a total of 32.0% (30.9%) of the company's net sales.

Asia-Pacific (APAC) accounted for the company's largest geographical market area in Q1 of 2023, with its 68.5% (71.1%) share. The share of net sales of Europe, Middle East and Africa (EMEA) was 20.5% (23.3%) and Americas 11.0% (5.6%). The share of total net sales for Detection Technology's top five customers decreased to 51.6% (58.2%).

Strategy implementation

On 15th of March, Detection Technology announced its plan to acquire X-ray flat panel detector supplier Shanghai Haobo Imaging Technology Co., Ltd and to invest in the thin-film transistor (TFT) technology in order to double its total addressable market. This acquisition enables Detection Technology to enter the TFT flat panel detector market segment, which will represent over 40% of the total digital X-ray detector market of EUR 3.1 billion by 2025, according to estimates. The main application for TFT flat panel detectors is in medical X-ray imaging, and there is also growing demand in industrial and veterinary applications.

Haobo Imaging, established in 2018, has solid product platforms and strong know-how in static and dynamic TFT flat panel detectors based on a-Si (Amorphous Silicon) and IGZO (Indium Gallium Zinc Oxide) technologies. Its solutions include both hardware and software. The company has a well-established customer base, and it employs around 40 professionals in Shanghai, China.

In the first phase, Detection Technology will acquire 90% of the shares in Haobo Imaging for the consideration of around EUR 12.5 million from its founders and the main owner, Guangzhou Haozhi Imaging Technology Ltd., a group company of Haozhi Capital. The founders and management of Haobo Imaging will continue to hold 10% of the shares. It is envisioned that Detection Technology will acquire the remaining shares in the future subject to certain conditions.

In the financial period from 1 January to 31 December 2022, the net sales of the business to be acquired totaled EUR 3.0 million (3.0). The company's operating margin was 5.2% (2.3%). Haobo Imaging's balance sheet total was EUR 2.7 million at the end of 2022, with an equity of EUR 1.4 million. Apart from possible ordinary working capital items, no material liabilities will be transferred in the acquisition.

It is estimated that the business to be acquired will be earnings positive in 2025. The acquisition will be financed with cash reserves and a new term loan. In addition, Detection Technology has agreed on an increase in the existing revolving credit line. It is estimated that the acquisition will be closed by the end of June 2023. The final purchase price will be determined at the time of closing.

Thanks to the acquisition, Detection Technology's product range will cover all digital X-ray imaging detector technologies, and the company will, following technology transfer, have comprehensive X-ray flat panel competence in both Finland and China. Detection Technology sees the acquisition as an enabler for achieving its growth targets and long-term success. This strategic move creates customer and technology synergies, and there are no overlaps in the current offering.

Detection Technology plans to invest in developing and introducing new TFT flat panel detector solutions to current and new customers. This will have an impact on the company's relative profitability over the next three years.

Detection Technology has completed product modifications launched as a result of the component shortages, and they have improved the company's ability and reliability of delivery in all of its businesses as of Q4 of 2022. The product modification projects, started at the beginning of 2022, have covered the entire product portfolio of the company.

Business outlook

According to Detection Technology's view, demand will continue to be strong in medical and good in security applications. Demand in industrial applications has, however, temporarily softened. The company expects double-digit growth in its total net sales in Q2 and H1 2023.

However, indirect impacts of the war in Ukraine, inflation, the energy crisis, U.S.–China relations, the geopolitical situation, and high inventories of certain customers create uncertainty.

Detection Technology aims to increase its sales by at least 10% per annum and to achieve an operating margin of 15% in the medium term.

Half-yearly report 2023

Detection Technology will publish its half-yearly report on 3 August 2023.

Espoo 26 April 2023

Board of Directors

Detection Technology Plc

CALCULATION OF KEY FINANCIAL RATIOS

Change in net sales, %	= (Net sales - Previous financial year's net sales) / Previous financial year's net sales x 100
Operating margin, %	= Operating profit / Net sales x 100
Net interest-bearing debt	= Interest-bearing liabilities - Cash and cash equivalents
Return on investment (ROI), %	= (Net result + Financial expenses + Taxes (12 months)) / (Equity + Interest-bearing liabilities (average 12 months)) x 100
Gearing, %	= (Interest-bearing liabilities - Cash and cash equivalents) / Equity x 100
Earnings per share, EUR	= Profit for the reporting period / Weighted average number of shares outstanding
Earnings per share (diluted), EUR	= Profit for the reporting period / Weighted average number of shares outstanding, diluted



Detection
Technology

www.deetee.com