

Q3

January–September 2022

Business review



DETECTION TECHNOLOGY PLC BUSINESS REVIEW JANUARY-SEPTEMBER 2022

Detection Technology Q3 2022: Double-digit growth in sales, unsatisfactory profitability

July-September 2022 highlights

- Net sales increased by 17.5% to EUR 27.3 million (23.2)
- Net sales of Industrial Solutions Business Unit (IBU) increased by 2.8% to EUR 3.9 (3.8)
- Net sales of Medical Business Unit (MBU) increased by 24.0% to EUR 14.8 million (11.9)
- Net sales of Security Business Unit (SBU) increased by 14.6% to EUR 8.5 million (7.5)
- Operating profit (EBIT) was EUR 0.6 million (3.3)
- Operating margin (EBIT-%) was 2.3% of net sales (14.1%)

January-September 2022 highlights

- Net sales increased by 8.1% to EUR 70.4 million (65.1)
- Net sales of Industrial Solutions Business Unit (IBU) increased by 22.6% to EUR 11.4 (9.3)
- Net sales of Medical Business Unit (MBU) decreased by -0.3% to EUR 35.5 million (35.6)
- Net sales of Security Business Unit (SBU) increased by 16.2% to EUR 23.4 million (20.2)
- Operating profit (EBIT) excluding non-recurring items (NRI) was EUR 3.3 million (7.6)
- Operating margin (EBIT-%) excluding NRI was 4.7% of net sales (11.7%)
- Operating profit (EBIT) was EUR 3.0 million (7.6)
- Operating margin (EBIT-%) was 4.3% of net sales (11.7%)

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

President and CEO, Hannu Martola:

“Demand continued at a good level in all our main markets, and our net sales experienced double-digit growth despite continuing challenges in the availability of components. Without this limitation to growth, sales in all our business segments and profitability would have naturally been better. In addition, profitability took a hit due to a one-off provision. Our ability to deliver improved at the end of Q3 of 2022 when we completed most of product modifications. Thanks to this, we will be able to meet demand even better.

Demand in the industrial market continued at a good level, and growth in the sales of mining applications was noteworthy. Despite demand, quarterly sales growth of IBU was mild, as we had anticipated.

The medical market continued to grow, and the boom in computed tomography (CT) applications driven by COVID has turned into a normal growth level. Our MBU sales in Q3 grew faster than the market, driven by new products. In addition, sales transferred from the previous quarter due to technical problems in our supply chain partly explain the growth in Q3.

Demand in security applications continued to improve in all segments, and CT investments in aviation progressed. Driven by aviation applications, SBU sales saw double-digit growth. Our position in the CT market strengthened further, and we are well positioned for the Green Channel deliveries that will start next year in China.

We have carefully tended to the prerequisites of our sales, for which investments were needed. This way, we have ensured that we will not lose customers. Spot purchases, increased logistics costs, our product modification project as well as the timing of deliveries temporarily eroded our profitability.

In addition, a EUR 1.3 million provision made at the end of Q3 of 2022, when one of our customers in North America sought protection against creditors, had an impact on our result. This one-off event does not affect our projected sales, because no significant deliveries were made to the said customer in Q3 of 2022, nor are there any outstanding orders.

As component availability improve, we expect profitability to improve toward the end of the year. We completed the second stage of our product modification project, which help mitigate possible future supply chain risks.

We continued to develop our business in line with our DT-2025 strategy to secure our future growth. The myDT+ service portfolio, launched in the spirit of our “Beyond hardware” strategic target, has received an encouraging welcome in the markets. We have also made progress in the commercialization of software and algorithms, which will support hardware sales.

Our business risks have increased. The indirect impacts of the war in Ukraine, inflation, energy crisis, U.S.–China relations and the overall geopolitical situation create uncertainty. In addition, some of our customers have higher inventories. We have started further measures to minimize risks.

Our order book is strong, and we are well placed in new customer projects. We have managed to maintain our strong market position, and we grow faster than the market. We target that our annual net sales will exceed the EUR 100 million threshold. We expect double-digit growth in all our business operations both in Q4 of 2022 and Q1 of 2023.”

Key figures

(EUR 1,000)	7-9/2022	7-9/2021	1-9/2022	1-9/2021	1-12/2021
Net sales	27,276	23,210	70,354	65,066	89,813
Change in net sales, %	17.5%	12.5%	8.1%	5.5%	10.1%
Operating profit excluding NRI	631	3,282	3,331	7,618	10,580
Operating margin excluding NRI, %	2.3%	14.1%	4.7%	11.7%	11.8%
Non-recurring items (NRI)	0	0	-335	0	0
Operating profit	631	3,282	2,997	7,618	10,580
Operating margin, %	2.3%	14.1%	4.3%	11.7%	11.8%
R&D costs	3,203	2,706	9,480	7,913	10,951
R&D costs, % of net sales	11.7%	11.7%	13.5%	12.2%	12.2%
Cash flow from operating activities *	-496	453	-4,024	3,833	7,121
Net interest-bearing debt at end of period	-17,997	-23,261	-17,997	-23,261	-27,633
Investments *	166	306	973	695	1,359
Return on investment (ROI), %	10.9%	15.8%	10.9%	15.8%	16.5%
Gearing, %	-24.7%	-34.4%	-24.7%	-34.4%	-37.6%
Earnings per share, EUR	0.05	0.20	0.19	0.44	0.64
Earnings per share (diluted), EUR	0.05	0.19	0.18	0.43	0.63
Number of shares at the end of the period	14,655,930	14,578,430	14,655,930	14,578,430	14,655,930
Weighted average number of shares outstanding	14,655,930	14,578,430	14,655,930	14,465,652	14,500,514
Weighted average number of shares outstanding, diluted	14,737,413	14,904,648	14,764,574	14,739,008	14,766,934

* Reporting of conversion differences in Group cash flow statement has been changed during the financial year 2021. Material conversion differences have been eliminated from cash flows, both in current and comparable reporting period.

The development of net sales

In Q3 of 2022, demand continued to be strong in all of Detection Technology's main markets: industrial, medical and security X-ray imaging applications. The company's total net sales grew by 17.5% (12.5%), totaling EUR 27.3 million (23.2). Demand would have allowed for a higher growth rate in net sales in all of the company's businesses, if global component shortages would have not postponed some of the sales. The company's ability to deliver improved as the product modifications containing substitutive components were completed at the end of Q3.

Demand in the food segment of the industrial market continued at a good level, and demand increased in particular in mining and NDT (nondestructive testing) applications. As a result, the net sales of the Industrial Solutions Business Unit (IBU) grew by 2.8% (21.5%), totaling EUR 3.9 million (3.8). There would have been higher potential for growth in sales, but the company's ability to deliver was eroded by component shortage, and some of the sales of industrial solutions were postponed. Growth percentage is also moderate with respect to the high comparison figure from the previous year. IBU generated a total of 14.4% (16.4%) of the company's net sales.

Similar to previous quarters, demand in medical applications focused mainly on computed tomography (CT) applications both in emerging and developed markets. The net sales of the Medical Business Unit (MBU) increased by 24.0% (18.8%) year-on-year, driven by demand in CT applications, totaling EUR 14.8 million (11.9). In addition to demand, the strong growth is attributed to the sales postponed from Q2 due to the one-off

technical problems in the supply chain. Demand would also have allowed for a higher growth rate in medical application sales, if global component shortages had not eroded the company's ability to deliver and had its indirect impacts not been reflected in MBU sales. MBU generated a total of 54.3% (51.5%) of the company's net sales.

Demand in the security market continued to gain strength in all applications in Q3 of 2022. Investments in CT in the aviation sector progressed in the United States, and the company strengthened its position in the said segment. Net sales of the Security Business Unit (SBU) increased by 14.6% (0.2%) year-on-year, totaling EUR 8.5 million (7.5). Growth in sales mainly originated from aviation applications. Delivery challenges attributed to component shortages, however, eroded the outcome from the review period, and some of the SBU sales were postponed. SBU generated a total of 31.3% (32.1%) of the company's net sales.

The Asia-Pacific countries (APAC) accounted for the company's largest geographical market in Q3 of 2022, with its 80.1% (74.2%) share. The share of net sales from Europe, Middle East, and Africa (EMEA) was 13.2% (20.8%) and the Americas' 6.6% (5.0%). The share of net sales accounted for by Detection Technology's top five customers was 55.2% (55.8%).

The company's net sales in January–September 2022 grew by 8.1% (5.5%) to EUR 70.4 million (65.1). IBU's net sales grew by 22.6% (6.4%), totaling EUR 11.4 million (9.3). MBU's net sales decreased by -0.3% (25.7%), totaling EUR 35.5 million (35.6). SBU's net sales grew by 16.2% (-18.0%) to EUR 23.4 million (20.2). IBU's share of total net sales was 16.3% (14.3%), MBU's 50.4% (54.7%) and SBU's 33.3% (31.0%).

In the review period January–September 2022, APAC's share of total net sales was 74.1% (72.6%), that of EMEA 18.5% (19.1%), and that of the Americas 7.4% (8.3%). The company's top five customers accounted for 51.5% (54.1%) of the company's total net sales.

Strategy implementation

Detection Technology continued to develop its business in line with the DT-2025-strategy to secure its competitiveness and future growth. In line with the "Beyond hardware" strategic target, the company aims to commercialize not only hardware but also software, algorithms, and services, in order to support hardware sales. The company made progress in the commercialization of software and algorithms during the review period. In addition, the myDT+ service portfolio launched in Q2 of 2022 has been well received on the markets.

The company's tactical measures to solve challenges in the availability of special materials and electronic components also progressed as planned. Due to component shortages, Detection Technology launched a major product modification project at the beginning of the year. The project has covered the company's entire product portfolio including industrial, medical, and security solutions.

The company completed the first stage of the product modification project in Q2, and the second stage was completed according to plan in Q3. The company has now completed most of the product modifications and expects the changes to improve its ability and reliability of delivery in all of its businesses as of Q4 of 2022.

Business outlook

According to Detection Technology's view, demand will continue to be strong in all of its main markets: medical, security and industrial X-ray imaging solutions. The company expects double-digit growth in total net sales in Q4 of 2022, although the shortage of materials and components is expected to postpone at least some sales. Detection Technology expects double-digit growth in its total net sales also in Q1 of 2023.

The company's business risks have increased. The indirect impacts of the war in Ukraine, inflation, energy crisis, U.S.–China relations and the overall geopolitical situation create uncertainty. In addition, some of the company's customers have higher inventories, and direct and indirect risks related to the availability of materials remain elevated. The impacts of material and component shortage have been acknowledged as a limiting factor in the outlook, however a further degradation in supply chain might affect business outlook.

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.

Financial statements review 2022

Detection Technology will publish its financial statements review for 2022 on 2 February 2023.

Espoo, Finland 25 October 2022

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



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