

Q3

January–September 2024

Business review



DETECTION TECHNOLOGY PLC BUSINESS REVIEW JANUARY-SEPTEMBER 2024

Detection Technology Q3 2024: Improved result and double-digit growth**July-September 2024 highlights**

- Net sales increased by 10.6% to EUR 27.1 million (24.5)
- Net sales of Industrial Solutions Business Unit (IBU) increased by 24.0% to EUR 4.9 (4.0)
- Net sales of Medical Business Unit (MBU) increased by 0.6% to EUR 10.9 million (10.8)
- Net sales of Security Business Unit (SBU) increased by 16.2% to EUR 11.3 million (9.7)
- Operating profit (EBITA) excluding non-recurring items (NRI) was EUR 4.2 million (2.2)
- Operating margin (EBITA-%) excluding NRI was 15.3% of net sales (9.0%)
- Operating profit (EBITA) was EUR 4.2 million (1.3)
- Operating margin (EBITA-%) was 15.3% of net sales (5.4%)

January-September 2024 highlights

- Net sales increased by 4.7% to EUR 75.9 million (72.5)
- Net sales of IBU increased by 24.5% to EUR 13.9 (11.1)
- Net sales of MBU decreased by -15.9% to EUR 29.7 million (35.3)
- Net sales of SBU increased by 24.1% to EUR 32.3 million (26.1)
- Operating profit (EBITA) excluding non-recurring items (NRI) was 9.7 million (5.0)
- Operating margin (EBITA-%) excluding NRI was 12.8% of net sales (6.9%)
- Operating profit (EBITA) was EUR 9.7 million (4.2)
- Operating margin (EBITA-%) was 12.8% of net sales (5.7%)

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

President and CEO, Hannu Martola:

“The improved result in Q3 of 2024 was pleasing. Our result improved both year-on-year and from Q2 and was in line with our targets. Thanks to security and industrial sales, our overall net sales experienced double-digit growth, although medical sales lagged behind expectations. Our position as the trusted partner in X-ray imaging is stable in all segments, and our global long-term growth drivers are in the right place.

Good demand in our industrial solutions continued, and the food industry market also returned to a growth path. In addition to the food industry, demand was also strong in industrial computed tomography (CT) imaging and the specialty tire industry. We saw growing demand for our line scanner products in particular. Our industrial sales grew above the market, and we expect growth to continue in Q4, albeit clearly more moderately due to the excellent sales outcome in the comparison period.

Medical sales grew slightly despite the continuing impacts of the healthcare reform in China, globally stagnant investment, and price competition. Although the direction improved, we expected growth against a modest comparison period. In our view, despite the uncertainty, the sharp market decline has stopped, and the Chinese market is likely to recover slowly. We expect year-on-year medical sales to decline slightly in Q4.

Demand for security applications remained stable in the Western markets and, thanks to our position, our sales grew above the market. Growth was boosted by both CT and line scanner detector solutions for the

aviation industry. We expect the tail wind in the aviation industry to continue in the Western markets, and investments to accelerate also in border control and critical infrastructure security. We expect the growth of our security solution sales to continue from Q3 to Q4 but remain at the level of the exceptionally strong comparison period.

We are pleased with the decrease in working capital, the excellent cash flow and the improved result in Q3. Our result was in line with our medium-term profitability target of 15 percent. The growth in net sales, improved productivity, and sales mix enabled the good development. In our view, the direction will remain unchanged, and our result will slightly improve in Q4.

The development of our business operations progressed in the growing Indian market. We are establishing a service and production facility in the Greater Delhi area. Our goal is to dispatch first deliveries from our new facility in H1 of 2025. The project is important from the perspectives of developing local customer service and competitiveness, as well as risk management, as is the case with strengthening production in Finland.

The importance of regional business in relation to global operations is increasing, and we are renewing our operating model accordingly. The new regional business units to be established will be at the heart of the reform. We believe that this will strengthen our market and customer orientation as well as our competitive position in the fast-moving world. The new planned leadership model is intended to enter into force at the beginning of 2025.

Global growth in the medical market will continue to be modest, and the demand constraints indirectly affecting our business due to the healthcare reform in China will continue through the end of the year. We expect medical sales to decline slightly in Q4. Our security and industrial sales will continue to grow, but high year-on-year comparative figures will make security sales growth, in particular, appear modest. In our view, our security and industrial sales will grow in Q4. We expect our year-on-year total net sales to remain stable in Q4 of 2024 and Q1 of 2025."

Key figures

(EUR 1,000)	7-9/2024	7-9/2023	1-9/2024	1-9/2023	1-12/2023
Net sales	27,103	24,507	75,901	72,479	103,794
Change in net sales, %	10.6%	-10.2%	4.7%	3.0%	5.3%
EBITA excluding NRI	4,157	2,207	9,726	5,034	9,656
EBITA excluding NRI, %	15.3%	9.0%	12.8%	6.9%	9.3%
Non-recurring items (NRI)	0	-873	0	-873	-873
EBITA	4,157	1,334	9,726	4,161	8,784
EBITA, %	15.3%	5.4%	12.8%	5.7%	8.5%
R&D costs	2,694	2,938	8,255	8,979	11,702
R&D costs, % of net sales	9.9%	12.0%	10.9%	12.4%	11.3%
Cash flow from operating activities	6,415	3,279	13,242	5,598	9,672
Net interest-bearing debt at end of period	-20,797	-10,887	-20,797	-10,887	-12,665
Investments	248	11,389	1,733	12,217	14,426
Return on investment (ROI), %	17.0%	6.9%	17.0%	6.9%	9.9%
Gearing, %	-27.1%	-15.5%	-27.1%	-15.5%	-17.4%
Earnings per share, EUR	0.22	0.05	0.48	0.13	0.38
Earnings per share (diluted), EUR	0.22	0.05	0.48	0.13	0.38
Number of shares at the end of the period	14,655,930	14,655,930	14,655,930	14,655,930	14,655,930
Weighted average number of shares outstanding	14,655,930	14,655,930	14,655,930	14,655,930	14,655,930
Weighted average number of shares outstanding, diluted	14,666,184	14,655,930	14,661,289	14,662,573	14,660,912

The development of net sales

Detection Technology's total net sales increased by 10.6% (-10.2%) year-on-year, totaling EUR 27.1 (24.5) million in Q3 of 2024. The double-digit growth was the result of good demand continuing in particular in security and industrial applications, but also the levelling of the downturn in the medical sector.

Despite the continued uncertainty in the industrial market, demand in X-ray imaging applications continued to recover as expected in Europe in particular, in addition to which the food industry also returned to the growth path. In addition to the food industry, demand was strong in industrial CT imaging and the tire industry. The net sales of the Industrial Solutions Business Unit (IBU) grew by 24.0% (1.6%) year-on-year, totaling EUR 4.9 (4.0) million in Q3 of 2024. Improved growth in the sales of the company's legacy solutions was an important growth driver. IBU generated a total of 18.2% (16.2%) of the company's total net sales.

The healthcare reform in China and the related anticorruption campaign continued, which caused further delays in the purchasing processes of medical X-ray imaging solutions. In addition, similar to Q2, stagnant investment and price competition in the global market corroded demand in medical applications. The company's medical sales improved from Q2 and year-on-year, but, despite the soft Q3 of 2023, net sales from Q3 of 2024 lagged behind expectations. The net sales of the Medical Business Unit (MBU) increased by 0.6% (-27.0%) year-on-year, totaling EUR 10.9 (10.8) million in Q3 of 2024. MBU generated a total of 40.2% (44.1%) of the company's total net sales.

Growth in the demand for security applications remained stable in the Western markets. Regarding sales per applications, the main growth driver was aviation, but there is also increasing demand for X-ray imaging

solutions in border control and critical infrastructure security. The net sales of the Security Business Unit (SBU) increased above market by 16.2% (13.7%) year-on-year, totaling EUR 11.3 (9.7) million in Q3 of 2024. Growth was mainly generated by aviation CT and line scanner applications. SBU generated a total of 41.7% (39.6%) of the company's total net sales.

The Asia-Pacific countries (APAC) accounted for the company's largest geographical market area in Q3 of 2024, with its 66.1% (70.4%) share of total net sales. The share of Europe, Middle East and Africa (EMEA) was 26.5% (20.0%) and Americas 7.4% (9.6%). Sales in the Americas were still decreasing due to client structural reasons. A significant proportion of end products sold in the American markets are manufactured elsewhere. The share of net sales accounted for by Detection Technology's five largest customers was 56.9% (53.4%).

The company's total net sales grew by 4.7% (3.0%), totaling EUR 75.9 (72.5) million in January–September 2024. IBU's net sales grew by 24.5% (-2.6%), totaling EUR 13.9 (11.1) million. MBU's net sales decreased by -15.9% (-0.6%), totaling EUR 29.7 (35.3) million. SBU's net sales grew by 24.1% (11.2%), totaling EUR 32.3 (26.1) million. IBU generated a total of 18.3% (15.4%) of the company's net sales, MBU a total of 39.1% (48.7%) and SBU a total of 42.6% (36.0%).

APAC's share of total net sales was 67.8% (68.7%), that of EMEA's 26.3% (19.7%), and that of the Americas' 5.9% (11.6%) in January–September 2024. The company's five largest customers accounted for 52.1% (50.5%) of the company's total net sales.

Strategy implementation

During Q3 of 2024, Detection Technology commenced the establishment of a service and production facility in India, where significant infrastructural investments will be made in healthcare, transport and the manufacturing industry at the national level. For example, more than 100 airports will be built in India over the coming years. The objective of the establishment of the new facility is to enhance customer experience in the growing Indian market by offering a local service, shorter response and delivery times and cost-efficient local product solutions.

Deliveries from the new facility are scheduled to start in the first half of 2025. In its new Indian facility, the company will first focus on the end-assembly and final testing of X-ray detector solutions optimized for security applications. The company's goal is to also scale up production capabilities to cover TFT (thin-film transistor) flat panel detector solutions, so that it can offer local solutions to the diverse range of imaging needs in the industrial and medical sectors.

The new service and production facility is located in an industrial hub Cyberwalk Tech Park in the Delhi area with excellent connections to all corners of India and the rest of the world. The Indian subsidiary fully owned by Detection Technology is registered as DT Detection Technology India Private Ltd.

The manufacturing of EU Origin products at the company's Oulu site has progressed as planned and production capacity will be scaled up based on the demand. The company will have the capability to manufacture in Finland 10 percent of its sold products by the end of the year. Production in Finland has been expanded in order to offer a wider range of EU Origin products and to minimize risks.

Events after the review period ended

Detection Technology announced on 29 October 2024, that it will change its operating model and corresponding organization. The new sales and product organization will consist of three regional business units: Asia–Pacific (APAC), Europe, Middle East, India and Africa (EMEIA), and Americas. The Group level functions, which include research and development (R&D), operations, financial administration and IT, and HR, will remain the same. In addition, a member responsible for business development will be appointed to the management group. The planned new organization and reporting structure are intended to enter into force as of 1 January 2025.

Business outlook

Detection Technology expects its year-on-year total net sales to remain stable in Q4 of 2024 and Q1 of 2025.

Detection Technology refines its previous H2 of 2024 estimate of double-digit growth in total net sales (published 6 August 2024) to growth in total net sales for H2 of 2024.

Geopolitical situation, U.S.–China relations, global economy, the measures taken in China to reform its healthcare, price competition especially in China, the indirect impacts of the war in Ukraine, and events in the Middle East create uncertainty.

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

Financial statements review 2024

Detection Technology will publish its financial statements review for 2024 on Thursday 6 February 2025.

Espoo, Finland 28 October 2024

Board of Directors
Detection Technology Plc

CALCULATION OF KEY FINANCIAL RATIOS

EBITA	= Operating profit (EBIT) - Amortizations
Change in net sales, %	= (Net sales - Previous financial year's net sales) / Previous financial year's net sales x 100
EBITA, %	= EBITA / 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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