

Press release

Regulated information

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Connect Group reports 2nd half and annual results 2018

2ND HALF RESULTS:

Sales in the 2nd half of 2018 up to EUR 74.2 million, against EUR 65.5 million in the 2nd half of 2017.

2nd half operating profit of EUR 2,459 K, against a profit of EUR 2,073 K in the 2nd half of 2017.

Net profit of EUR 2,004 K in the 2nd half compared to a net profit of EUR 1,778 K in the 2nd half of 2017.

ANNUAL RESULTS:

Sales of EUR 150.0 million compared with EUR 125.0 million in 2017.

Improvement of operating result, up from a profit of EUR 2,598 K in 2017 to EUR 5,466 K in 2018.

Net profit of EUR 4,414 K in 2018 compared with a profit of EUR 2,025 K in 2017.

Impact valuation and application IFRS 15 - revenue from contracts with customers

The application of the new IFRS 15 standard shows a positive impact on the annual turnover of EUR 1,950 K and an impact on the net profit of EUR 95 K. This new standard entails causing certain finished products that have not yet been delivered at year end, but for which there is no alternative use and Connect Group has an enforceable right to payment for the performances already performed, to be recognized as turnover.

Without this new standard, the annual turnover would amount to EUR 148.0 million and the net result EUR 4,319 K.

Orders at the end of financial year 2018 amounted to EUR 123.7 million (EUR 116.5 million at the end of 2017).

Management discussion and analysis of the results

Discussion of the 2nd half results

The 2nd half of 2018 closed with sales of EUR 74.2 million compared with EUR 75.8 million in the 1st half of 2017 and EUR 65.5 million in the 2nd half of 2017.

Compared to the 2nd half of 2017, the gross margin fell from 11.7 percent to 11.4 percent. The continuing shortage on the component market, coupled with at times significant price increases of components for certain product groups, explains the increasing pressure on the margins.

Due to high efficiency measures, the costs of research and development, administrative and sales costs decreased from 8.5 percent of sales at the end of the first half of the year to about 7.7 percent of the turnover at the end of the second half of the year.

Discussion of the annual results

The consolidated turnover shows an increase of 20 percent compared to the financial year 2017 and an increase of more than 28 percent compared to the 2016 financial year. We can say that our main achievement in 2018 was the increase in turnover from EUR 125.0 million to EUR 150.0 million.

This increase in turnover can mainly be explained by rising demand and turnover in the product range for existing and new customers. This is not immediately attributable to one or more specific markets or customer groups. The volume of new orders reached a record high again in 2018.

The order book at the end of December evolved from EUR 89.4 million in 2016 to EUR 116.5 million at the end of 2017 to EUR 123.7 million at the end of 2018.

Jeroen Tuik (CEO):

"Economic developments combined with our efforts result in a rising growth in turnover from EUR 125 million to EUR 150 million for Connect Group and its customers in 2018.

Our mission remains unchanged; Connect Group wants to continue to contribute to the success of its customers. Several new customers have been successfully introduced and both our cable and electronics divisions can present good growth figures. We stay on our chosen path and continue to invest in people, resources and machines.

The increase in turnover was mainly realized in our factories in the Czech Republic and Romania, which put these factories under heavy pressure in recent months to increase their production capacity. The low level of unemployment and the increased demand for employees presented us with a huge challenge which we, given the growth figures of Connect, successfully tackled.

Looking back on the last six quarters, the deteriorated situation on the component market (scarcity) does not stop us from growing. On the contrary, this situation drives us to carry out further optimisations and further stimulate growth. An accelerated adjustment of capacity (flexibilisation), streamlining of different processes and acting as one CONNECT GROUP has ensured that the output has risen considerably during 2018. The aforementioned points regarding the scarcity on the component market, newly attracted customers and the bi-divisional growth figures have contributed to the fact that our inventories have increased.

However, we are not yet at the level that we would like to be. In 2019 we will continue to focus on delivering more added value for our customers. We also have to invest further in our competences in order to meet all customer requests. In the third quarter of 2018 we have made additional production space available in the Romanian site in order to continue the growth and to be able to continue to guarantee future flexibility to our customers.

The growth in relation to the low unemployment figures in the countries where we are represented also pose major challenges. However, currently we still manage to find the right balance between resources, people and degree of automation.

Although the height of the order book does not fully reflect the expected turnover in the short term (certain orders can have a long lead time), we are positive about 2019."

Annual figures

Connect Group NV (Euronext Brussel: CONN) announces **annual sales** of EUR 150.0 million for 2018, against EUR 125.0 million in the previous year (+20%).

The operational revenue increase (excluding the impact of IFRS 15 valuation) amounts to 18.4 percent. This revenue growth was achieved with existing and various new customers. More than ever, the focus remains on customers within the various niche markets in which Connect believes that it can realize the most added value. The success of Connect as a subcontractor is very much dependent on the success and growth of its customers.

H1 2016	H2 2016	H1 2017	H2 2017	H 1 2018	H 2 2018
62.0 million	54.8 million	59.4 million	65.5 million	75.8 million	74.2 million

The **gross margin** on sales rose from 11.0% to 11.9%, mainly thanks to increased efforts and investments in efficiency in Eastern Europe. R&D, administrative and selling expenses increased from EUR 11.1 million to EUR 12.1 million, though showed a percentage drop from 8.7% to 8.1% of turnover.

Other operating income/expenses in 2018 amounted to EUR -125 K, mainly attributable on the one hand to a reversal of provisions on several customer risks in the amount of EUR 150 K and on the other hand to a write-off of one new customer risk of EUR 227 K.

The net financial result deteriorated in total by EUR 424 K mainly due to lower exchange rate results realized on the US dollar.

The net Group result thus improved from a profit of EUR 2,025 K in 2017 to a profit of EUR 4.414 K in 2018.

Balance sheet

Trade receivables increased from EUR 26.3 million to EUR 29.5 million at the end of 2018. The turnover realized in the fourth quarter of 2018 was almost 15 percent higher than in the 4th quarter of 2017. The trade receivables do not contain any known increased collection risks.

Inventories increased from EUR 36.0 million at the end of 2017 to EUR 36.9 million at the end of 2018. This increase in inventory is mainly due to the introduction of several new customers (increase in order book). In addition, delivery times and availability of components are deteriorating in the supply chain. This creates the situation that the bulk of material for an order to be produced is in stock, but due to lack of availability of a small number of components it is not possible to start production.

With regard to the applicability of IFRS 15 - *Revenues from contracts with customers* - the company has analyzed its impact. IFRS 15 stipulates that if the company's performance does not create an asset with an alternative use option for the company, and the company has an enforceable right to payment for already performed services, the performance obligation will be fulfilled over a period. Various products that Connect Group sells have no alternative use.

As of 1 January 2018 Connect Group has made a positive correction booking on the opening balance sheet of shareholders' equity for an amount of EUR 615 K for the margin to be recognized in this way on certain goods in stock as per 31 December 2017 (modified retrospective approach). Based on the analysis of the figures as at 31 December 2018, the company has valued EUR 5.750 K in **Contract Assets** on the balance sheet. The impact on the result for the financial year 2018 amounts to EUR 95 K.

Without application of IFRS 15 with effect from 1 January 2018, net inventories would have increased by EUR 5.9 million to EUR 41.9 million.

In 2018, EUR 4.1 million of new investments (adjustment works, replacement and technology investments) were carried out (In 2017, 1.6 million new investments were made). Taking into account the annual depreciation of EUR 2.4 million, the **tangible and intangible assets** increased from EUR 7.4 million at the end of 2017 to EUR 9.1 million at the end of 2018.

Total financial liabilities increased by EUR 2.7 million to EUR 22.7 million at the end of 2018. This increase is the result of the higher working capital requirement in the final quarter of 2018 (increased inventories and trade receivables).

To finance the working capital, the group has short-term bank credit facilities of EUR 5 million, of which EUR 0 K was withdrawn at year-end and EUR 2.8 million in revolving credit facilities. In addition, the group uses factoring on its customer receivables for EUR 19.9 million at the end of 2018 and EUR 16.2 million at the end of 2017.

During 2018, the banks approved an investment program of EUR 6.0 million. At the end of the financial year, EUR 1.5 million of this investment credit was already in use.

At year-end 2018, Connect Group complied with all required bank covenants.

As a result of the increased inventory, **trade payables** increased from EUR 19.6 million at the end of 2017 to EUR 23.4 million at the end of 2018.

Shareholders' equity increased from EUR 23.1 million to EUR 27.6 million as a result of the net profit for the financial year. The group's solvency increased from 31.6 percent to 32.6 percent.

The analysis of the risk management can be found in the annual report and is available on the Internet (www.connectgroup.com).

The most significant risks for the company are:

- Production is completely dependent on the availability of all components at the start of production. The unavailability of components will lead to sales being delayed.
- Currency risk:
 - ✓ The group buys a portion of its components in dollars/yen, of which the exchange rate risk is only partially covered in the selling price.
 - ✓ Production takes place mainly in Romania and the Czech Republic: major fluctuations of these currencies against the Euro can have an impact on the cost.
 - ✓ As currency needs cannot be exactly timed, the group can only hedge foreign currencies to a limited extent.
- The group has a credit agreement with its bankers coupled to a number of bank ratios including solvency, equity, cash flow and EBITDA. Customer insolvency can have a significant impact on results.
- Risk of orders being postponed, leading to a temporary underfunding of costs incurred.
- The group is dependent on a number of customers each accounting for more than 10% of sales. Should any one of them terminate its business relationship, this will impact results.
- The group has been subject to a VAT audit in its subsidiary in Romania since December 2015. To date, no final decisions have been received from the local Romanian VAT authorities. The main dispute is over a very strict interpretation by the local VAT authorities of the VAT-relevant documentation required to justify intra-EU deliveries of goods from Romania. The Board of Directors is however of the opinion that a number of claims are still refutable.

Moreover, the local Romanian authorities have arrived at a number of further findings, for which the VAT that would be due should in principle always give rise to VAT recovery insofar as the limitation period for such has not expired. The decision has therefore been taken to only make a provision for any fines and interest that might be due.

Outlook for 2019

The current economic climate and economic boom make it difficult to establish a clear expectation pattern for 2019. Connect Group is positive about its market position with existing and new customers and expects a further positive impact in 2019 of the various measures taken in 2018. However, as a subcontractor, it remains highly dependent on the general evolution among its customers.

Key events in 2018

As a result of the increasing business volume, during the third quarter of 2018 Connect Group leased and commissioned an additional production area of 8,000 square meters in its Romanian office. With this expansion, Connect Group remains one of the main suppliers for EMS products in Europe. This investment increases the production floor area in Romania by 35%.

On 3 October 2018, the main shareholder, Mr. Huub Baren, announced via the Company IPTE Factory Automation NV the intention to consider a bid for the remaining shares of Connect Group. To date, IPTE Factory Automation NV has submitted a draft prospectus for approval to the FSMA.

The shareholder structure is as follows at the end of December 2018 and end of 2017:

Name of the shareholder	Number of declared shares (*) 2018	% 2018	Number of declared shares (*) 2017	% 2017
Huub Baren (**)	22.428.512	83,83 %	22.055.241	82,44 %
Others under the declaration threshold	4.325.550	16,17 %	4.698.821	17,56 %
Totaal	26.754.062	100 %	26.754.062	100 %

(*) Shareholders holding 3% or more of a company's shares are required to declare their holdings

(**) + companies controlled by Huub Baren

Significant events after the closing of the financial year

No significant events that could affect the audited annual results with a material impact occurred after the closing of the financial year.

Connect Group Annual Results 2018

The statutory auditor has confirmed that the audit procedures, which have been substantially completed, have not revealed any material adjustments which would have to be made to the accounting data included in this press release. Barring changes in circumstances in the intervening period, the statutory auditor intends to certify the financial statements without qualification.

Condensed consolidated profit and loss statement for the periods ending 31 December 2018 and 31 December 2017

<i>(in 000 Euro)</i>	2H 2018	2H 2017	%	Year 2018	%	Year 2017	%	
Sales	74,234	100.0	65,522	100	150,018	100.0	124,950	100.0
Cost of sales	(65,758)	(88.6)	(57,878)	(88.3)	(132,211)	(88.1)	(111,246)	(89.0)
Gross margin	8,476	11.4	7,644	11.7	17,807	11.9	13,704	11.0
Research and development expenses	(708)	(1.0)	(651)	(1.0)	(1,483)	(1.0)	(1,318)	(1.1)
General and administrative expenses	(2,497)	(3.4)	(2,661)	(4.1)	(5,540)	(3.7)	(5,243)	(4.2)
Selling expenses	(2,469)	(3.3)	(2,259)	(3.4)	(5,094)	(3.4)	(4,589)	(3.7)
Other operating income	49	0.1	142	0.2	179	0.1	176	0.1
Other operating expenses	(293)	(0.4)	(39)	(0.1)	(304)	(0.2)	(29)	-
Operating result before restructuring costs	2,557	3.4	2,177	3.3	5,564	3.7	2,702	2.2
Restructuring costs	(98)	(0.1)	(104)	(0.2)	(98)	0	(104)	(0.1)
Operating result	2,459	3.3	2,073	3.2	5,466	3.6	2,598	2.1
Financial income	11	0.0	188	0.3	104	0.1	403	0.3
Financial charges	(426)	(0.6)	(479)	(0.7)	(1,095)	(0.7)	(970)	(0.8)
Pre-tax result	2,044	2.8	1,778	2.7	4,475	3.0	2,030	1.6
Income taxes	(40)	(0.1)	(3)	-	(61)	(0.0)	(5)	-
Net Result	2,004	2.7	1,778	2.7	4,414	2.9	2,025	1.6
Attributable to								
Group	2,004	2.7	1,778		4,414	2.9	2,025	
Minorities								
Basic profit / (loss) per share	0,07		0,07		0,16		0,08	
Diluted profit / (loss) per share	0,07		0,07		0,16		0,08	

Condensed consolidated statement of comprehensive income

<i>(in 000 Euro)</i>	2018	2017
Profit/loss	4,414	2,025
Other comprehensive income		
Items not subsequently reclassified to profit/loss	-	-
Items that can be subsequently reclassified to profit/loss	-	-
Total comprehensive income	4,414	2,025
Total comprehensive income attributable to:		
Equity holders of the parent	4,414	2,025
Minority interests	-	-

Condensed consolidated balance sheet at 31 December 2018 and 31 December 2017

<i>(in 000 Euro)</i>	31 december 2018	31 december 2017
Assets		
Current assets:		
Cash and cash equivalents	728	200
Trade receivables	29,531	26,334
Contract Assets	5,750	-
Other receivables	1,228	1,058
Inventories	36,919	36,018
Other current assets	4	5
Total current assets	74,160	63,616
Non-current assets:		
Other long-term receivables	-	-
Deferred tax assets	1,500	1,500
Property, plant and equipment	8,952	7,263
Intangible assets	116	162
Goodwill	-	-
Total non-current assets	10,567	8,925
TOTAL ASSETS	84,728	72,541
Liabilities and equity		
Current liabilities		
Bank loans and overdrafts	19,907	17,032
Current portion of long-term debt	1,010	2,476
Trade payables	23,457	19,609
Accrued expenses, payroll and related taxes and deferred income	6,878	6,767
Provisions	1,000	1,095
Other current liabilities	2,604	1,950
Total current liabilities	54,856	48,929
Non-current liabilities		
Long-term debt less current portion	1,821	458
Provisions	469	601
Total non-current liabilities	2,290	1,059
Equity attributable to equity holders of the parent		
Shareholders' capital	1,659	1,659
Legal reserve	43	43
Share premium	45,767	45,767
Retained earnings	(19,954)	(24,984)
Cumulative translation adjustment	67	67
Equity attributable to equity holders of the parent	27,582	22,552
Total equity	27,582	22,552
Total liabilities and equity	84,728	72,541

<i>(in 000 Euro)</i>	Number of outstanding shares	Capital	Legal reserve	Share premium	Profit/(loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2016	26,754,062	1,659	43	45,768	(27,009)	67	20,528
Net result	-	-	-	-	2,025	-	2,025
31/12/2017	26,754,062	1,659	43	45,768	(24,984)	67	22,553

<i>(in 000 Euro)</i>	Total shares	Capital	Legal reserve	Share premium	Profit/(loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2017	26,754,062	1,659	43	45,768	(24,984)	67	22,553
Adjustment IFRS 15	-	-	-	-	615	-	615
01/01/2018	26,754,062	1,659	43	45,768	(24,369)	67	23,168
Net result	-	-	-	-	4,414	-	4,414
Other comprehensive income	-	-	-	-	-	-	-
31/12/2018	26,754,062	1,659	43	45,768	(19,954)	67	27,582

Condensed consolidated cash flow table for the year ended 31 December 2018 and 31 December 2017

<i>(in 000 Euro)</i>	2018	2017
Operating profit/(loss)	5,466	2,598
Adjustments for:		
Allowance for doubtful receivables and obsolete stock	84	(849)
Depreciation and amortization	2,427	2,360
Provisions	(227)	204
IFRS 15	(95)	-
Capital gain/loss on the sale of fixed assets	(44)	(51)
Cash flow before changes in working capital	7,611	4,261
Inventories	(5,978)	(6,908)
Trade receivables	(3,243)	(7,112)
Trade payables	3,847	4,688
Accrued expenses, payroll and related taxes and deferred income	111	940
Other current assets	(169)	(64)
Other payables	654	709
Cash flow from operating activities	2,834	(3,485)
Taxes	(61)	(5)
Exchange differences	(298)	80
Financial charges	(212)	(171)
Interest charges	(486)	(501)
Other	(3)	25
Net cash from/(used in) operating activities	1,781	(4,058)
Cash flow from investing activities		
Investments in intangible assets	(54)	(73)
Investments in property, plant and equipment	(4,127)	(1,516)
Interest received	155	89
Revenue from the sale of fixed assets	(4,026)	(1,500)
Cash flows from (used in) investing activities		
Cash flows from financing activities	(1,683)	(1,634)
Financial debt repaid	5,255	7,227
Financial debt incurred	(800)	-
Revenues from the capital increase	2,772	5,592
Costs associated with the capital increase	528	34
Cash flows from (used in) financing activities	200	166
Increase/(decrease) in cash and cash equivalents	727	200

Information about the company

Connect Group

Connect Group is a leading and certified supplier of technology, assembly of total systems, PCB and cable assembly for the professional industry, Connect Group develops products based on user specifications, and supports the development of products from the concept phase with optimal results in terms of production, price and quality.

Connect Group's references include companies such as Alstom, Atlas Copco, Esterline, Faiveley, Grammer, Nedap and Transics. Today the company employs approximately 1,900 people across various European sites. The shares of the company are traded on NYSE Euronext Brussels: CONN (www.euronext.com).

Update financial calendar

Annual General Meeting 2019

30 April 2019

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