CONNECT GROUP
INTEGRATED SUBCONTRACTORS

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PRESS RELEASE
Regulated information

27 August 2019 - Embargo until 18.00h

Financial report for the first half of 2019

Turnover in the 1st half of 2019 of 84.2 million Euros compared to 75.8 million Euros in the 1st half of 2018.

Positive EBITDA of 4,068 K Euro for the 1st half of 2019 compared to a positive EBITDA of 4,097 K Euro in the 1st half of 2018.

Operating profit of 2,826 K Euro profit in the 1st half year 2019 compared to 3,007 K Euro profit in the 1st half year 2018.

Net profit of 2,372 K Euro in the first half of 2019 compared to 2,410 K Euro in the first half of 2018.

Stable Orderbook of 124.8 million euros at the end of the first half of 2019 compared to 123.7 million euros at the end of 2018.

Management discussion and analysis of the results

Jeroen Tuik (CEO):

"In spite of the economic uncertainty, Connect has again experienced a Double-digit Growth compared to the first half of 2018. It is therefore safe to say that the unchanged mission of Connect Group, to continue to contribute to the success of its customers, and the efforts made in this context are bearing fruit.

Our investment program is still in full swing; efficient investments are made to excel in all relevant domains and to continue to serve our customers excellently in the future. The focus must remain on improving efficiency (speed) and customer satisfaction through investments in People, Resources and Machines.

Looking back at the first half of 2019, we see a relaxation of the component market as well as an increasing demand from a majority of our customers and due to the healthy sales (market) distribution of Connect Group we are only expecting a small impact in the event of an economic stagnation within the automotive market.

Furthermore, there is positive news from the German branch of the Connect group where an additional sales office was opened in Bad Hersfeld (Hesse, central Germany) and where our production location in Frickenhausen also made the transition to a Customer Focus Center accompanied by a move to a new office in nearby Neuffen.

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As reported in a separate press release, we received the final tax assessment based on some peculiar findings on their part from the Romanian Tax Authorities (ANAF) in mid-May 2019. The continuity is currently guaranteed by issuance of a bank guarantee; however, the legal process will still take some time.

With regard to the second half of 2019, we take into account the possible inhibitory effect of the economy and general market conditions. This emphasizes the necessity of putting an extra focus on the previously reported targets in view of the expected wage increases and inflation rates, caused by low unemployment rates and general shortages in the labor market in the regions relevant for Connect Group."

H1 results

Connect Group NV (Euronext Brussels: CONN) reports a turnover of 84.2 million euros for the 1st half of 2019. In the comparable period in 2018, sales were 75.8 million euros. This amounts to a sales growth of 11% and 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 it can achieve 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	H1 2019
62.0 mio	54.8 mio	59.4 mio	65.5 mio	75.8 mio	74.2 mio	84.2 mio

The gross margin amounted to 11.4 percent compared to 12.3 percent in 2018. Research and development costs and general and administrative costs remained virtually constant (1.0 and 4.0 percent respectively on sales). Selling costs (3.2 percent on sales) decreased by 0.3 percentage points.

Operating profit amounted to 2,826 K Euro positive in the 1st half of 2019 compared to 3,007 K Euro positive in the 1st half of 2018.

The net financial costs amounted to 415 K Euro (576 K Euro in 2018). Debt financing costs were in line with the costs recorded during the second half of 2018. The decrease in net financial costs is mainly due to the lower average withdrawal of the bank's cash facility, as a result of improved working capital management. In addition, the financial result was negatively influenced by the rise of the US dollar during the first half of 2019. Connect Group can only to a limited extent settle the impact of these exchange rate differences with its customers.

Orders remained stable from EUR 123.7 million at the end of 2018 to EUR 124.8 million at the end of the first half of 2019. The order book contains formal commitments from customers but may be subject to changes in numbers and time. For that reason, it cannot be used as a financial indicator for future results.

During the 1st half of 2019, investments worth 2.5 million euros (2.4 million euros in 2018) were made mainly for replacement, automation and expansion investments of the machinery in the various factories, mainly in Eastern Europe.

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Inventories rise from 36.9 million euros to 38.9 million. Taking into account the increase in turnover during the first half of 2019 and the associated need for additional working capital (introduction of various new projects), we note an improvement in inventory management. In addition, we note a relaxation in the supply chain of delivery times and availability of components.

Trade receivables increase from EUR 29.5 million to 31.6 million as a result of the strong invoicing in the months of May and June 2019. The trade receivables do not contain any known increased collection risks.

The total **financial debts** increased by 12.0 million euros (from 22.0 million euros at the end of 2018 to 34.0 million euros in the first half of 2019). Of this increase, 15.1 million is the result of the implementation of IFRS 16 (leasing). Without the presentation-effect of IFRS 16, the financial debts would show a net decrease of EUR 3.4 million. The presentation of IFRS 16 leases has an effect of EUR 15.1 million on the balance sheet total.
During 2018, the banks approved an investment program of EUR 6.0 million. Of this, EUR 4.0 million of investment credits were already drawn as of 30 June.

As of 30 June 2019, the Group met all required bank covenants.

Shareholder's equity increased from 27.6 million euros to 29.9 million euros due to the net profit for the period. However, the solvency of the group fell from 30.0 percent to 28.6 percent as a result of the increased balance sheet total due to the implementation of IFRS 16. Without the impact of IFRS 16, solvency would have increased to 33.5 percent.

The risk analysis is to be found in the Annual Report and is available on our website (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 may 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 costs.
  - ✓ 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 and cash flow. Customer insolvency can have a significant impact on results.
- There is a risk of orders being postponed, leading to a temporary under-coverage 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 is involved in an ongoing dispute with the VAT authorities in Romania which could have a negative impact on the result in the long term.

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Significant events in the first half of 2019

Apart from some development in the Romanian VAT dispute as mentioned earlier, no additional important events occurred during the first 6 months of 2019.

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Connect Group H1 2018 results

These condensed consolidated interim financial statements (as well as the accompanying notes) as of 30 June 2019 have not been audited.

Condensed consolidated profit and loss statement at 30 June 2019 and 30 June 2018

(in 000 Euro)	H1 2019	%	H1 2018	%
Sales	**84,163**	**100.0**	**75,784**	**100.0**
Cost of sales	(74,602)	(88.6)	(66,453)	(87.7)
Gross margin	9,561	11.4	9,331	12.3
Research and development expenses	(838)	(1.0)	(775)	(1.0)
General and administrative expenses	(3,288)	(3.9)	(3,043)	(4.0)
Selling expenses	(2,721)	(3.2)	(2,625)	(3.5)
Other operating income	263	0.3	130	0.2
Other operating expenses	(151)	(0.2)	(11)	(0.0)
Operating result before restructuring costs	**2,826**	**3.4**	**3,007**	**4.0**
Restructuring costs	-	-	-	-
Operating result	**2,826**	**3.4**	**3,007**	**4.0**
Financial income	108	0.1	93	0.1
Financial charges	(523)	(0.6)	(669)	(0.9)
Pre-tax result	**2,411**	**2.9**	**2,431**	**3.2**
Taxes	(39)	(0.0)	(21)	(0.0)
Net result	**2,372**	**2.8**	**2,410**	**3.2**
Attributable to				
Group	2,372		2,410	
Third parties				
Profit per share				
Basic profit / (loss) per share	0.09		0.09	
Diluted profit / (loss) per share	0.09		0.09	

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Condensed consolidated statement of comprehensive income

(in ooo Euro)	**H1 2019**	**H1 2018**
Profit / (loss)	**2,372**	**2,410**
Total comprehensive income		**2,410**
Total comprehensive income attributable to:		
Equity holders of the parent	2,372	2,410
Minority interests		-

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Condensed consolidated balance sheet at 30 June 2019 and 31 December 2018

(in 000 Euro)	30 June 2019	31 December 2018
Assets		
Current assets:		
Cash and cash equivalents	485	728
Trade receivables	31,637	29,531
Contract assets	5,240	5,750
Other receivables	1,219	1,228
Inventories	38,903	36,919
Other current assets	1	4
Total current assets	**77,485**	**74,160**
Non-current assets:		
Other receivables	0	0
Deferred taxes - assets	1,500	1,500
Property, plant and equipment	10,282	8,952
Non-current intangible assets	122	116
Right of use corresponding assets (IFRS 16)	15,120	-
Total non-current assets	**27,024**	**10,567**
TOTAL ASSETS	104,509	84,728
Liabilities and equity		
Current liabilities		
Bank loans and overdrafts	13,220	19,907
Current portion of long-term debt	3,520	1,010
Trade payables	28,971	23,457
Accrued expenses, payroll and related taxes and deferred income	8,721	6,878
Provisions	1,075	1,000
Other payables	967	2,604
Total current liabilities	**56,474**	**54,856**
Non-current liabilities		
Long-term debt less current portion	17,714	1,821
Provisions	367	469
Total non-current liabilities	**18,081**	**2,290**
Equity attributable to equity holders of the parent	**29,954**	**27,582**
TOTAL LIABILITIES AND EQUITY	104,509	84,728

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Condensed consolidated statement of changes in equity

(in 000 Euro)	Number of outstand-ing 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 elements of the total result	-	-	-	-	-	-	-
31/12/2018	**26,754,062**	**1,659**	**43**	**45,768**	**(19,954)**	**67**	**27,582**

(in 000 Euro)	Number of outstand-ing shares	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
01/01/2019	**26,754,062**	**1,659**	**43**	**45,768**	**(19,954)**	**67**	**27,582**
Net result	-	-	-	-	2,372	-	2,372
Other elements of the total result	-	-	-	-	-	-	-
30/06/2019	**26,754,062**	**1,659**	**43**	**45,768**	**(17,582)**	**67**	**29,954**

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Condensed consolidated cash flow for the period from 1 January 2019 to 30 June 2019 and from 1 January 2018 to 30 June 2018

(in 000 Euro)	**H1 2019**	**H1 2018**
Operating profit/(loss) before goodwill impairment and restructuring costs	**2,826**	**3,007**
Adjustments for:		
Allowance for doubtful receivables and obsolete stock	(85)	(160)
Depreciation and amortization	1,241	1,090
Provisions	(27)	184
IFRS 15	25	170
Gains on the sale of fixed assets	(45)	(7)
Cash flow before changes in working capital	**3,935**	**4,284**
Inventories	(1,613)	(6,494)
Trade receivables	(1,907)	(4,362)
Trade payables	5,515	7,427
Accrued expenses, payroll and related taxes and deferred income	1,843	1,062
Other current assets	13	(16)
Other payables	(1,637)	619
Cash flow from operating activities	**6,149**	**2,520**
Taxes	(40)	(21)
Exchange differences	(65)	(201)
Financial charges	(170)	(106)
Interest charges	(184)	(274)
Interest received	7	7
Other	(1)	(2)
Net cash from/(used in) operating activities	**5,696**	**1,923**
Cash flow from investing activities		
Investments in intangible assets	(46)	(41)
Investments in property, plant and equipment	(2,531)	(2,379)
Revenue from sale of fixed assets	45	7
Cash flows from (used in) investing activities	**(2,532)**	**(2,413)**
Cash flows from financing activities		
Increase/(decrease) in long-term debt	(5,590)	2,530
Increase / (decrease) in subordinated loans		(800)
Increase / (decrease) in bank debts	2,185	(1,165)
Cash flow from financing activities	**(3,405)**	**565**
Increase / (decrease) in in cash and cash investments	**(241)**	**75**
Cash and cash investments at the beginning of the period	727	200
Cash and cash investments at the end of the period	486	275

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Notes to the condensed consolidated financial statements

Declaration of Conformity

These condensed consolidated financial statements (and the associated notes) for the period ending on 30 June 2019 have not been audited.

The condensed consolidated financial statements for the first six months ending on 30 June 2019 cover the financial statements of the company and its subsidiaries (hereinafter jointly referred to as the "Group").

The condensed interim consolidated financial statements were prepared in accordance with IAS 34 (Interim Financial Reporting) as adopted by the European Union. These statements do not contain all information necessary for a full financial statement and therefore should be read in conjunction with the consolidated annual financial statements and associated press release for the period ended 31 December 2018, as published in the 2018 Annual Report to Shareholders.
These condensed consolidated financial statements were approved for publication by the Board of Directors on 26 August 2019.

Seasonality

Seasonality is limited (during the annual holiday period (July-August) deliveries takes place at a reduced rate).

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Changes in accounting policies and presentation rules

In comparison with the consolidated annual report as at 31 December 2018, the following new Standards and Interpretations became applicable.

- IFRS 16 *Lease agreements* (applicable for financial years from January 1, 2019)
- IFRIC 23 *Uncertainty about the tax treatment of income*
- Amendment of IAS 19 *Plan changes, curtailments and settlements*
- Amendment of IAS 28 *Long-term investments in associates and joint ventures*
- Adjustment of IFRS 9 *Characteristics of early repayment with negative compensation*
- Annual improvements to the IFRS 2015-2017 cycle

No significant changes were made to our valuation rules used to prepare these condensed consolidated interim financial statements compared to those used to prepare the most recent consolidated financial statements as of 31 December 2018, with the exception of the application of new standards and interpretations, described below.

IFRS 16 Lease Agreements, and clarifications of this IFRS (applicable for annual periods beginning on or after 1 January 2020)

With regard to the applicability of IFRS 16 - *Lease Agreements* - the company has analyzed its impact and incorporated it in its balance sheet. IFRS 16 essentially stipulates that all leases, currently classified as operating leases, must be reflected in the balance sheet. The net impact on the balance sheet total is 15,120 KEUR. Connect Group uses operational leasing for some of its buildings abroad and as financing for the company car fleet.

Other new standards and interpretations applicable for the annual period beginning at 1 January 2019 had no significant impact on our condensed interim consolidated financial statements.
The Group did not opt to implement new standards or changes at an earlier date.

The same accounting policies were followed in the unaudited interim condensed consolidated financial statements as in the audited consolidated financial statements at 31 December 2018 and for the year that ended then.

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Transactions with related parties

In the first half of 2019, certain transactions were carried out under normal market conditions with IPTE Factory Automation NV concerning the purchase of certain machines for an amount of 360 K Euro.

Significant events after the balance sheet date

No significant events have occurred after the balance sheet date.

INFORMATION ABOUT THE COMPANY

Connect Group

Connect Group is a leading certified supplier of technology, production systems, printed circuit boards and cable assembly services for industry. Connect Group develops products to user specifications from the concept stage onwards with optimal production, price and quality results.
Connect Group references include Alstom, Atlas Copco, Esterline, Faiveley, Grammer en Transics. The company currently employs around 2,000 people in various facilities in Europe. The company's shares are traded on NYSE Euronext Brussels: CONN (www.euronext.com).

Investor relations

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Declaration of the responsible persons

The undersigned declare that:
- The condensed financial statements, drawn up in accordance with applicable accounting standards, give a true view of the assets, the financial situation and the results of the issuing company and of those companies included in the consolidation;
- The interim report gives a fair overview of important events and major transactions with related parties having occurred in the first six months of the financial year and their impact on the condensed financial statements, together with a description of the principal risks and uncertainties for the remaining months of the financial year.

Arnaud Devooght, CFO
Jeroen Tuik, CEO