

Press release

Regulated information

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Connect Group reports 2nd half and annual results 2016

2ND HALF RESULTS:

Sales of EUR 54.8 million compared with EUR 56.5 million in 2015.

Improvement of operating result from EUR 566 K profit in 2015 to EUR 1,480 K profit in 2016.

Net profit of EUR 966 K compared to a net profit of EUR 38 K in 2015.

ANNUAL RESULTS:

Sales of EUR 116.8 million compared with EUR 113.4 million in 2015.

Improvement of operating result from a loss of EUR 5,821 K in 2015 to a profit of EUR 2,058 K in 2016.

Net profit of EUR 1,161 K in 2016 compared with a loss of EUR 6,979 K in 2015.

The order book at the end of financial year 2016 amounted to EUR 89.4 million (EUR 86.6 million at the end of 2015).

Management discussion and analysis of the results

Discussion of the 2nd half results

The 2nd half of 2016 closed with sales of EUR 54.8 million compared with EUR 62 million in the 1st half of 2016 and EUR 56.5 million in the 2nd half of 2015. When account is taken of the loss of ASML as a customer in mid-2016, sales on a comparable basis totalled EUR 50.4 million in the 2nd half of 2015, EUR 53.4 million in the 1st half of 2016 and EUR 53.8 million in the 2nd half of 2016, indicating that sales are back on the rise.

The cost of sales remained stable at 88 percent. R&D, administrative and sales costs decreased, amounting to about 8.7 percent of sales in the 2nd half of 2016 compared to 10.3 percent in the 2nd half of 2015.

After making a small profit of EUR 38 K in the 2nd half of 2015, improving to a net profit of EUR 165 K (including restructuring charges of EUR 1,156 K) in the 1st half 2016, the result for the 2nd half of 2016 was substantially better at EUR 996 K.

Discussion of the annual results

Already known at the start of the year, the loss of ASML as a customer in the Netherlands was the main event in 2016. This customer had accounted for annual sales of more than EUR 12 million in the past years and the cessation of the relationship had an immediate effect, causing the redundancy of 33 employees in the Netherlands. In the first half of 2016, measures were taken to counteract the effects. The restructuring plan was carried out and all outstanding orders fulfilled. While this meant that we achieved high sales to ASML in the 1st half of 2016 (EUR 8.8 million), it also imposed

restructuring costs of EUR 1,156 K, pushing our net profit down to EUR 165 K. Our 2nd half results show that we are on the right track.

In preparing the half-year figures in 2015, the Board of Directors decided, on the basis of an impairment analysis, to write off goodwill amounting to EUR 4.5 million.

This impairment charge in turn caused a 1st half net loss of EUR 7 million in 2015. The Board of Directors was well aware that this negative result would raise questions with customers, suppliers and bankers about the company's future prospects. To counteract this, the Board of Directors decided in summer 2015 to request a capital increase from key shareholders. In December 2015, these shareholders undertook to subscribe EUR 3 million in a capital increase which would take place in 2016.

The capital increase was successfully completed in April 2016, with the maximum amount of EUR 4.939 million being subscribed.

Jeroen Tuik (CEO):

“In the 1st half, we were still involved in the restructuring resulting from the loss of ASML in our Dutch plant. The results achieved in the 2nd half show that we are on the right track. We are pleased that our strict cost control programme has produced results. Sales are on the rise again, and for the first time in many years we have achieved a good net profit of EUR 1.2 million. Our order book is also developing positively. Despite the loss of ASML (whose orders amounted to EUR 7.7 million at the end of 2015), orders have risen from EUR 86.6 million at the end of 2015 (including the EUR 7.7 million from ASML) to EUR 89.4 million at the end of 2016, constituting an increase of over 13 percent. As a result, we are entering 2017 on a positive note.

Nevertheless, we are still not where we want to be, and more cost adjustments will be necessary in 2017 to further improve our profitability. We also need to invest in skill development in our plants in Romania and the Czech Republic to meet all customer demands.”

Annual figures

Connect Group NV announces 2016 **sales** of EUR 116.8 million, against EUR 113.4 million in the previous year (+ 3 %). Without the ASML impact (sales of EUR 12.2 million in 2015 and EUR 9.6 million in 2016), sales rose 5.9 percent.

The **gross margin** on sales increased from 9.2 to 11.9 percent, due to better cost containment and pricing. R&D, administrative and sales costs dropped 8 percent from EUR 11.3 million to EUR 10.5 million.

Other operating income / expenses in 2015 totalled EUR -369 K, mainly due to the write-off of receivables of EUR 465 K and gains on selling fixed assets amounting to EUR 115 K. Other operating income / expenses in 2016 total EUR -282 K, this time mainly due to reversals / write-offs of revenues from customers amounting to EUR 360 K and an EUR 285 K gain on the sale of a building, as well as lease costs totalling EUR 289 K and a provision for litigation of € 650 K.

In preparing the half-yearly results 2015, the Board of Directors carried out an impairment analysis. This led to the decision being taken to book a EUR 4.5 million goodwill impairment for 2015. At the end of 2016 the Board conducted a new impairment analysis, finding that no further impairments were necessary with regard to intangible and tangible assets.

The net financial result improved to EUR 260 K, mainly due to lower financing costs amounting to EUR 123 K (through lower financing requirements due to the capital increase and a positive operating cash-flow) and lower exchange losses (EUR 93 K). The company makes only limited use of foreign currency hedging contracts.

The group's **net result** thus improved from a loss of EUR 6,979 K in 2015 to a profit of EUR 1,161 K in 2016.

The order book at the end of the 2016 financial year stood at EUR 89.4 million (against EUR 86.6 million at the end of 2015).

Balance sheet

Trade receivables increased from EUR 17.5 million to EUR 19.1 million at the end of 2016. Q4 2016 sales were slightly higher than Q4 2015 sales.

Inventories increased slightly from EUR 27.0 million at the end of 2015 to EUR 28.4 million at the end of 2016.

New investments (replacements and new technologies) amounting to EUR 1.0 million were made in 2016. Given annual depreciation of EUR 2.6 million, and the sale of a company property with a carrying value of EUR 590 K, **tangible and intangible assets** declined from EUR 10.4 million at the end of 2015 to EUR 8.2 million at the end of 2016.

Total financial debt dropped significantly from EUR 21 million at the end of 2015 to EUR 14.4 million at the end of 2016 as a result of the capital increase (net impact of EUR 4.7 million) and free cash from operations. The group's working capital consists of short-term bank credit lines of EUR 3 million, of which EUR 968 K had been taken up at the end of the year, long-term bank loans of EUR 5.2 million, of which EUR 1.1 million have been taken up, and a long-term subordinated shareholder loan of EUR 0.8 million. In addition, the group makes use of factoring its receivables (EUR 10.7 million at the end of 2016, against EUR 13.3 million at the end of 2015). The group has bank investment loans and leasing debts amounting to EUR 0.8 million.

At year-end 2016, Connect Group met all bank covenants.

Trade debts dropped from EUR 15.7 million at the end of 2015 to EUR 14.9 million at the end of 2016.

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 moment that production starts up. If component availability slows down, sales too will be 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 partly in Romania and the Czech Republic: large fluctuations of these currencies against the Euro can impact costs.
 - ✓ Since foreign currency needs cannot be accurately timed, the group can only cover its foreign currency positions to a limited extent.
- The group has a credit agreement with its bankers that includes a minimum solvency ratio, equity and cash flow covenants and EBITDA. Customer insolvency can have a major impact on the results.
- Risk of order postponements, 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.

Outlook for 2017

The current economic climate makes it difficult to establish clear expectations for 2017. Connect Group is positive about its position with its current and new customers and expects a further positive impact in 2017 of the restructuring and other measures taken in 2016, but as a subcontractor, Connect Group remains largely dependent on the general evolution of its customers.

Significant events in 2016

End of February, the appointment of Jeroen Tuik as new Chief Executive Officer (CEO) as of 1 May 2016, was announced. With the appointment of Jeroen Tuik as CEO, the management team was back to full strength, meaning that Flor Peersman could fully focus on operations again in his role as COO.

At the end of April, the result of the public offering of shares and the private placement of scrips in the context of the capital increase was announced. All shares were taken up by the Group's major shareholders, institutional investors and the public at large. Payment of the subscription price, the determination of the capital increase and the listing of the new shares on Euronext Brussels took place on 28 April 2016. As a result of this transaction, the total number of shares in Connect Group increased from 10,290,024 to 26,754,062 and the capital of Connect Group NV from EUR 637,981.49 to EUR 1,658,751.85. Through this transaction, the group's shareholder equity increased by EUR 4.697.817 (including the costs of the capital increase).

In the course 2016, IPTE Factory Automation NV, a Huub Baren BVBA affiliated company, has acquired the total package of shares of LRM NV and QuaeroQ CVBA, divided over different transactions. As a result of these transactions, IPTE Factory Automation now has a holding of over 80%, while LRM NV and QuaeroQ CVBA no longer hold shares in Connect Group.

End 2016 and end 2015, the shareholders' structure is as follows:

Name shareholder	Number declared (*) 2016	% 2016	Number declared (*) 2015	% 2015
Huub Baren (**)	21,405,546	80.01	2,324,155	22.59 %
QuaeroQ cvba	-	-	2,229,874	21.67 %
LRM NV	-	-	1,870,786	18.18 %
Overige onder de meldingsdrempel	5,348,516	19.99	3,865,209	37.56 %
Totaal	26,754,062	100 %	10,290,024	100 %

(*) Shareholders holding 3 % or more of the shares need to declare their interests

(**) companies controlled by Huub Baren

Important events after the closing of the financial year

No important events after the closing of the financial year have occurred.

Connect Group annual results 2016

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

However, in an explanatory paragraph the statutory auditor draws readers' attention to the major sensitivity of the assumptions underlying the business plan used to check the recoverable amount of intangible and tangible non-current assets.

Condensed consolidated income statement for the 12 months to 31 December 2016 and 31 December 2015

<i>(in 000 EUR)</i>	H 2 2016	%	H 2 2015	%	Year 2016	%	Year 2015	%
Sales	54,793	100.0	56,529	100.0	116,809	100,0	113,436	100.0
Cost of sales	-48,206	-87.9	-49,727	-88.0	-102,848	-88,1	-102,978	-90.8
Gross profit	6,587	12.1	6,802	12.0	13,961	11,9	10,458	9.2
Research and development expenses	-572	-1.0	-750	-1.3	-1,280	-1,1	-1,451	-1.3
General and administrative expenses	-2,337	-4.3	-2,728	-4.9	-5,129	-4,4	-5,292	-4.7
Selling expenses	-1,880	-3.4	-2,292	-4.1	-4,064	-3,5	-4,588	-4.0
Other income	623	1.1	38	0	670	0,6	115	0.1
Other expenses	-948	-1.8	-474	-0.8	-952	-0,8	-484	-0.4
Operating result before goodwill impairment and restructuring costs	1,473	2.7	596	1.0	3,206	2,7	-1,242	-1.1
Goodwill impairment	-	-	-	-	-	-	-4,549	-4.0
Restructuring costs	7	-	-30	-	-1,148	-0,9	-30	0
Operating result	1,480	2.7	566	1.0	2,058	1,8	-5,821	-5.1
Financial income	103	0.2	292	0.5	258	0,2	451	0.4
Financial charges	-582	-1.1	-814	-1.4	-1,148	-0,9	-1,601	-1.4
Pre-tax result	1,001	1.8	44	0	1,168	1,0	-6,971	-6.1
Income taxes	-5	-	-6	0	-7	-	-8	0
Profit / (loss)	996	1.8	38	0	1,161	1,0	-6,979	-6.1
Attributable to								
Equity holders of the parent	996		38		1.161		-6,979	
Minorities			-					
Basic earnings / (loss) per share	0.04		0		0.04		-0.68	
Diluted earnings / (loss) per share	0.04		0		0.04		-0.68	

Condensed consolidated statement of comprehensive income

<i>(in 000 EUR)</i>	2016	2015
Profit/(Loss)	1,161	-6,979
Other comprehensive income		
Elements not subsequently reclassified to profit/loss	-	-
Elements that can be subsequently reclassified to profit/loss	-	-
Total comprehensive income	1,161	-6,979
Total comprehensive income attributable to:		
Equity holders of the parent	1,161	-6,979
Minority interest	-	-

Condensed consolidated balance sheet at 31 December 2016 and 31 December 2015

<i>(in 000 EUR)</i>	31 December 2016	31 December 2015
Assets		
Current assets:		
Cash and cash equivalents	166	653
Trade receivables	19,055	17,505
Other receivables	2,274	1,391
Inventories	28,428	27,038
Other current assets	95	180
Other current assets	50,018	46,767
Non-current:		
Other receivables from sale of discontinued activity	132	264
Deferred tax assets	1,500	1,500
Property, plant and equipment	8,018	10,087
Intangible assets	216	339
Goodwill	0	0
Total non-current assets	9,866	12,190
TOTAL ASSETS	59,884	58,957
Liabilities and equity		
Current liabilities:		
Bank loans and overdrafts	11,679	13,331
Current portion of long-term debt	641	624
Trade payables	14,922	15,723
Accrued expenses, payroll and related taxes and deferred income	7,327	5,775
Provisions	1,492	852
Other current liabilities	1,241	918
Total current liabilities	37,302	37,223
Non-current liabilities:		
Long-term debt less current portion	2,054	7,065
Total non-current liabilities	2,054	7,065
Equity attributable to equity holders of the parent		
Shareholders' capital	1,659	638
Legal reserve	43	43
Share premium	45,767	42,091
Retained earnings	(27,009)	(28,170)
Cumulative translation adjustment	67	67
Equity attributable to equity holders of the parent	20,528	14,669
Total Equity	20,528	14,669
TOTAL LIABILITIES AND EQUITY	59,884	58,957

Condensed consolidated statement of changes in equity

<i>(in 000 EUR)</i>	Number of outstanding shares	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2014	10,290,024	638	43	42,091	-21,191	67	21,648
Net result					-6,979		-6,979
Other comprehensive income							
31/12/2015	10,290,024	638	43	42,091	-28,170	67	14,669

<i>(in 000 EUR)</i>	Number of outstanding shares	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2015	10,290,024	638	43	42,091	-28,170	67	14,669
Net result					1,161		1,161
Capital increase	16,464,038	1,021		3,676			4,697
Other comprehensive income							
31/12/2015	26,754,062	1,659	43	45,767	-27,009	67	20,528

Condensed consolidated cash flow table for the year ended 31 December 2016 and 31 December 2015

<i>(in 000 EUR)</i>	2016	2015
Operating result after restructuring	2,058	-5,821
Adjustments for:		
Goodwill impairment	-	4,549
Allowance for doubtful receivables and obsolete stock	-85	877
Depreciation and amortization	2,566	2,665
Provisions	640	-3,264
Capital gain/loss on the sale of fixed assets	-305	
Operating profit before changes in working capital	4,874	-994
Inventories	-1,665	4,124
Trade receivables	-1,190	-736
Trade payables	-801	1,442
Accrued expenses, payroll and related taxes and deferred income	1,552	188
Other current assets	-666	-292
Other payables	322	171
Cash flow from operating activities	2,426	3,903
Taxes	-7	-8
Exchange differences	-55	-148
Financial charges	-881	-217
Interests	-	-817
Other	-	18
Net cash from/(used in) operating activities	1,483	2,731
Cash flow from investing activities		
Investments in intangible assets	-19	-102
Investments in property, plant and equipment	-975	-2,069
Interest received	45	14
Revenue from the sale of fixed assets	926	-
Cash flows from (used in) investing activities	-23	-2,157
Cash flows from financing activities		
Financial debt repaid	-6,645	-993
Financial debt incurred	-	864
Revenues from the capital increase	4,939	-
Costs associated with the capital increase	-241	-
Net cash provided by financing activities	-1,947	-129
Increase/(decrease) in cash and cash equivalents	-487	444
Cash and cash equivalents at the beginning of the period	653	209
Cash and cash equivalents at the end of the period	166	653

