

**Q3** 2019  
July–September

Business review



Detection  
Technology  
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## DETECTION TECHNOLOGY PLC BUSINESS REVIEW JANUARY–SEPTEMBER 2019

**Detection Technology Q3: Strong demand for airport CT solutions****July–September 2019 highlights**

- Net sales increased by 9.5% to EUR 26.9 million (24.6)
- Net sales of Security and Industrial Business Unit (SBU) increased by 42.3% to EUR 18.6 million (13.0)
- Net sales of Medical Business Unit (MBU) decreased by -27.6% to EUR 8.4 million (11.5)
- Operating profit (EBIT) was EUR 5.1 million (5.2)
- Operating margin (EBIT-%) was 19.1% of net sales (21.0%)

**January–September 2019 highlights**

- Net sales increased by 13.5% to EUR 77.5 million (68.3)
- Net sales of Security and Industrial Business Unit (SBU) increased by 30.9% to EUR 52.5 million (40.1)
- Net sales of Medical Business Unit (MBU) decreased by -11.3% to EUR 25.0 million (28.2)
- Operating profit (EBIT) was EUR 13.8 million (14.1)
- Operating margin (EBIT-%) was 17.8% of net sales (20.7%)

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

**Key figures**

(EUR 1,000)	<b>7-9/2019</b>	7-9/2018	<b>1-9/2019</b>	1-9/2018	1-12/2018
Net sales	26,934	24,596	77,459	68,264	93,916
Change in net sales, %	9.5%	10.6%	13.5%	11.0%	5.5%
Operating profit	5,148	5,161	13,807	14,115	18,522
Operating margin, %	19.1%	21.0%	17.8%	20.7%	19.7%
R&D costs	2,602	2,083	8,046	6,445	8,839
R&D costs, % of net sales	9.7%	8.5%	10.4%	9.4%	9.4%
Cash flow from operating activities	3,328	1,152	3,240	5,758	6,122
Net interest-bearing debt at end of period	-13,885	-19,072	-13,885	-19,072	-18,290
Capital expenditure	775	1,374	2,182	3,595	4,741
Gearing, %	-24.5%	-39.8%	-24.5%	-39.8%	-35.6%
Earnings per share, EUR	0.28	0.32	0.74	0.84	1.03
Number of shares at end of period	14,375,430	13,900,595	14,375,430	13,900,595	14,375,430

**President and CEO, Hannu Martola:**

"Q3 net sales outperformed market growth. The demand for computed tomography (CT) solutions was strong in airport applications, which resulted in a 10% increase in total net sales year on year, although the sales of the Medical Business Unit (MBU) fell short of our expectations. The operating margin was 19%. Cumulative increase in net sales was 14% in January–September, and profitability has remained at the target level from quarter to quarter. We have succeeded well in the challenging market conditions.

Expectations for smooth air travel, more stringent safety requirements, new standards, and the ever-increasing number of passengers and amount of cargo have accelerated CT equipment purchases at airports, which has

reflected positively on our Security and Industrial Business Unit's (SBU) business. CT demand for cabin and checked-in luggage as well as air cargo screening was strong in Europe and the US during the review period. In China, the standardization of airport CT equipment commenced, and the demand for other CT applications continued. Consequently, SBU sales increased by 42%, although the exceptionally high growth rate in sales is partly explained by low sales in Q3 of 2018.

MBU sales decreased by -28%. The high decline in sales was due to the softening of the medical CT market, the production ramp-down of a product family important to our MBU's sales, and the record high sales in the same quarter the year before. Nevertheless, sales increased compared to Q2, and we expect the growth in MBU's sales to continue from Q3 to Q4.

What comes to the other key figures of the review period, it is noteworthy that R&D costs increased due to new technology and product development projects, and we estimate that the cost level for the full year will be slightly under 11% of net sales. In addition, our cash flow turned positive as working capital decreased.

The number of our active customers has increased from 240 at the beginning of the year to over 260, thanks to our well-managed customer relationships and competitiveness. Both the Aurora and X-Panel product families have increased interest in our company. Our expectations in the long-term potential of the Multi-Energy (ME) product line are high.

Other significant events during the review period were the implementation of the new DT-2025 strategic target and continuing the strategy process. The development of our new production and service site in Wuxi, Greater Shanghai area, is also proceeding according the plan.

We expect total net sales of the company to grow in Q4 compared to the previous year. There have been no significant changes in our business risks, and the growth rates of our main markets are expected to remain at the same level in 2020 as this year. Our medium-term growth and profitability targets remain unchanged."

## Markets

According to industry estimates, the average annual growth rate of the global medical X-ray imaging market is around 5%, that of the security X-ray equipment market 6%, and around 5% in industrial X-ray imaging. Detection Technology has estimated a slowdown in the growth of the medical imaging market during the second half of 2019.

Detection Technology's net sales increased by 9.5% (10.6%) to EUR 26.9 million (24.6) in Q3. Operating profit amounted to EUR 5.1 million (5.2), corresponding to 19.1% of net sales (21.0%).

The upgrading of airport X-ray equipment to CT systems has accelerated. Several CT equipment models approved by the authorities for different standard categories have entered the market in Europe and the US. In addition, the standardization of airport CT equipment has been started in China. In Q3, demand in CT airport applications picked up in Europe and the United States, and demand for other CT applications continued in China. As a result, SBU's net sales increased by 42.3% (-2.2%) year on year, totaling EUR 18.6 million (13.0). The high net sales growth rate is partly attributed to lower-than-normal sales in Q3 2018. SBU's share of total net sales was 69.0% (53.0%).

Net sales of Medical Business Unit (MBU) decreased by -27.6% (29.8%) from the comparison period, and were EUR 8.4 million (11.5). A slowdown in demand for the medical CT market and the production ramp-down of a

product family significant to MBU sales contributed to the sales development as the company has previously announced. Furthermore, the record high comparison figure from last year has an impact on the change percentage. MBU's share of total net sales was 31.0 % (47.0 %).

Asia was the company's largest geographical market with 71.2% (64.8%). The Americas' share of net sales declined to 7.8% (18.9%), as the superpowers' tariff changes influenced the production location preferences of Detection Technology's customers. Europe's share was 21.0% (16.3%). Top five customers of the company accounted for 57.6% (60.2%) of net sales.

The company's net sales grew by 13.5% to EUR 77.5 million (68.3) in January–September 2019. Operating profit was EUR 13.8 million (14.1), corresponding to 17.8% of net sales (20.7%).

SBU's net sales totaled EUR 52.5 million (40.1), which is 30.9% higher year-on-year. MBU's net sales decreased by -11.3% to EUR 25.0 million (28.2). SBU's share of total net sales was 67.7% (58.7%) and that of MBU's 32.3% (41.3%).

In the review period January–September 2019, Asia's share of total net sales was 65.1% (61.7%), the Americas' 13.4% (19.0%) and Europe's 21.5% (19.3%). The top five customers accounted for 60.1% (56.1%) of net sales.

## Strategy

Detection Technology has continued to implement its new DT-2025 strategic target announced in the half-yearly report and to work on the strategy. In addition, the company has continued to invest in start of production (SOP) of new products, the expansion of its technology base and new customer acquisition.

During the review period, market interest in the Aurora product family has accelerated, and sales of the product family will begin towards the end of the year as previously announced by the company. The small series production of the X-Panel product family is up and running, and the company has built a Medical Device Quality Management System (MDQMS) based on the ISO 13485:2016 standard to ensure the sales and quality of production of the product family. The quality system was successfully audited in September.

The key projects of the multi-energy (ME) product line have progressed as planned; the company aims to start commercial production by the end of 2020 and expects a positive result from the new business in about three years.

The development of the second Detection Technology production and service site in China, in Wuxi, Greater Shanghai area, has progressed as planned. The company has started recruiting and aims to start production at the new plant in Q1 of 2020.

## Business outlook

Detection Technology expects growth in net sales, but growth to slow down in Q4 compared to the previous year. There are uncertainties regarding demand, and the intense competition might be reflected in product prices.

In the company's view, there have been no material changes in its business risks, and the X-ray imaging market will continue to grow according to the industry estimates in 2020.

Detection Technology's medium-term business outlook remains unchanged. Detection Technology aims to increase its sales by at least 15% per annum and to achieve an operating margin at or above 15% in the medium term.

### **Financial statements review 2019**

Detection Technology will publish its financial statements review for 2019 on 10 February 2020.

Espoo, Finland, 24 October 2019

Board of Directors  
Detection Technology Plc



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