panostaja

Business Review

14 March, 2024

Q1

November 2023
– January 2024

Panostaja Oyj's Business Review November 1, 2023–January 31, 2024

Measures to improve profitability continue

NOVEMBER 2023–JANUARY 2024 (3 months) in brief:

- Net sales increased in one of our four segments. Net sales for the Group as a whole dropped by 6.1% to MEUR 33.3 (MEUR 35.5).
- EBIT improved in one of the four segments. The entire Group's EBIT declined from the reference period, standing at MEUR -0.4 (MEUR 0.1).
- Grano's net sales for the review period dropped by 8% from the reference period. EBIT totaled MEUR 0.2 (MEUR 0.8).
- Earnings per share (undiluted) were -1.6 cents (-1.5 cents).

CEO Tapio Tommila:

"In the first quarter of the financial period, the market environment remained challenging and customer caution with regard to procurement decisions continued to be high. The general economic slump was evident particularly in the relatively poor demand of our largest segment Grano before the turn of the year and the slow realization of profits from Oscar Software's deals in terms of customer acquisition. Grano's net sales for the review period dropped by 6.1%.

In the first quarter, we continued the measures to improve profitability. Grano began change negotiations in January to improve the company's profitability and strengthen its competitiveness in the long term. The planned structural and organizational changes as well as other streamlining measures are expected to yield annual cost savings of about MEUR 4.5. At Hygga, the improvement of the clinic business continued thanks to measures to boost productivity, even though the market situation for private business remained fairly poor. At CoreHW, we were able to bring challenging design projects to the final phases, which frees up specialists for other design projects. At Oscar Software, the delays in the investment decisions of customers was evident in the poor development of expert sales, which dragged down the profitability of the review period. That said, the growth of the ARR software business continued. Overall, the EBIT for the review period declined from the reference period, standing at MEUR -0.4 (MEUR 0.1).

The phase in the corporate acquisition market is slow, and the number of available targets and closed deals is significantly lower than normal. We are actively focusing on generating our own project flow and focusing on exploring new corporate acquisition opportunities in our target sectors, in accordance with our goals."

Segments 3 months

Grano

Grano is Finland's leading content and marketing services company

Grano's net sales for the review period were MEUR 26.3, which is a decline of 8% from the reference period (MEUR 28.5). The EBIT for the review period dropped due to the decline in net sales and was MEUR 0.2 (MEUR 0.8).

The market demand in the review period was fairly challenging. The demand for printed communications was generally poor due to the uncertain general economic situation. The net sales development compared to the reference period continued strong, particularly for marketing logistics, the labels business and language services, whereas the demand for construction printing services continued to weaken as expected.

On January 23, 2024, Panostaja announced that Grano will be initiating change negotiations that apply to the entire staff of Grano Group, excluding the subsidiary Grano Diesel. The change negotiations are intended to improve the company's profitability and strengthen its competitiveness in the long term. The planned structural and organizational changes as well as other streamlining measures are expected to yield annual cost savings of about MEUR 4.5. The streamlining goals are expected to bear fruit fully in the financial period of 2025. If realized, the plans can lead to dismissal, a change in employment terms or part-time arrangements for up to 84 people. Due to the current market situation, it may be necessary to lay off employees for fixed periods or until further notice.

The company will continue to carry out its strategy with the focuses of developing the Grano 360 range of solutions, increasing the packaging and labels business, and optimizing production and processes. As regards sales, the company is in the middle of multiple measures to increase net sales.

MEUR	**3 months**	**3 months**	**12 months**
	11/23-1/24	11/22-1/23	11/22-10/23
Net sales, MEUR	26.3	28.5	109.1
EBIT, MEUR	0.2	0.8	1.9
Interest-bearing net liabilities	35.7	42.9	39.4
Panostaja's holding	55.2%		

Oscar Software

Oscar Software provides ERP systems and financial management services

Oscar Software's net sales of MEUR 2.9 for the review period decreased by 6% from the reference period (MEUR 3.1). EBIT dropped slightly from the reference period to MEUR 0.1 (MEUR 0.2).

The general market demand remained satisfactory in the review period. There is interest toward the company's products and services, but customer uncertainty in terms of larger investment projects persists. Moreover, the competitive situation on the market is fierce in places, which is reflected by the pricing, for example. The operations have remained active with regard to expansions and further development projects for existing customers.

The growth of the continuously invoiced software business, which is the company's strategic focus, continued, but the development of selling expert services was modest in the review, as there were continued challenges in securing new projects. There are active efforts to acquire new customers. The company will also continue significant investments in the development of a cloud-based business platform, which has progressed as planned.

On January 26, 2024, Panostaja announced that M.Sc. (Eng.), eMBA Jakke Vyyryläinen has been appointed as the new CEO of Oscar Software. Vyyryläinen will assume the position of CEO by the end of May. Markku Virtanen will serve as the company's interim CEO.

MEUR	**3 months**	**3 months**	**12 months**
	11/23-1/24	11/22-1/23	11/22-10/23
Net sales, MEUR	2.9	3.1	11.5
EBIT, MEUR	0.1	0.2	0.4
Interest-bearing net liabilities	3.0	3.3	3.2
Panostaja's holding	58.4%		

CoreHW

CoreHW provides high added value RF IC design and consulting services

CoreHW's net sales for the review period were MEUR 2.0, which was 6% below the reference period level (MEUR 2.2) but almost at the expected level. Correspondingly, EBIT for the review period declined slightly from the reference period to MEUR -0.2 (MEUR -0.1). The profitability for the review period was encumbered by the lead-through of challenging customer projects, which were brought to the final phases during the review period.

Customer project activity continued at a high level, and the demand for design services remained satisfactory in the review period. There has still been slight sluggishness with the investment decisions of customers. The company's order book continued to develop well in the review period. In addition to the uniquely high proficiency of the development teams, the competitiveness of the company's design services is strongly based on the IP portfolio built by the company. The new focus area of design services is the automotive industry, in which CoreHW has special expertise that yields added value and its own technology for sensor technology applications, in particular. There are plenty of favorable drivers for growing semiconductor demand now and in the future.

CoreHW continued the active development and commercialization of its own products with almost MEUR 4 in additional funding, which was announced in 2023. Based on customer feedback, CoreHW's technology offers excellent performance, and the company sees that product development investments in indoor positioning applications are currently increasing substantially thanks to the availability of sufficiently reliable technology for demanding applications. There are many potential customers, even though ramping up product sales will continue to require long-term efforts and depend upon the product development cycles and commercialization of customers' end products. The first customer relationships have progressed in product development, and the gradual growth in order sizes promises a transition to production. In the current financial period, we will seek significant growth in product business net sales as a result of the growth investments.

MEUR	**3 months**	**3 months**	**12 months**
	11/23-1/24	11/22-1/23	11/22-10/23
Net sales, MEUR	2.0	2.2	7.9
EBIT, MEUR	-0.2	-0.1	-1.2
Interest-bearing net liabilities	9.8	6.8	9.9
Panostaja's holding	55.8%		

Hygga

Hygga provides dental care and health care ERP services with a new operating concept

Hygga's net sales for the review period were MEUR 2.0, which was an 18% increase from the reference period (MEUR 1.7). The increase in net sales was accelerated by the increased volumes of the outsourcing services provided to the City of Helsinki. EBIT improved clearly from the reference period, standing at MEUR 0.1 (MEUR -0.2).

There were no essential changes in the market situation of the clinic business during the reporting period. The demand in the private sector remained poor, which contributed to imposing pressure on profitability development. On the other hand, the volume of the City of Helsinki outsourcing business was at a good level in the review period. The company continued its measures to improve the productivity of the clinic business successfully, which also clearly impacted the positive profitability development in the review period.

In terms of software business, there were no significant changes in the market situation. In Finland, there is an ongoing, active dialogue with the wellbeing services counties on the possibilities of utilizing the Hygga Flow system in oral health care and basic health care. The competitive situation on the market is currently very demanding, which places significant pressure on pricing. Health care pilot projects were initiated in the Pirha and OmaHäme wellbeing services counties in the review period. The production use of Hygga Flow has been initiated in Sweden with the Västernorrland region.

MEUR	**3 months**	**3 months**	**12 months**
	11/23-1/24	11/22-1/23	11/22-10/23
Net sales, MEUR	2.0	1.7	7.8
EBIT, MEUR	0.1	-0.2	-0.1
Interest-bearing net liabilities	9.9	9.9	10.0
Panostaja's holding	79.8%		

Gugguu

Gugguu designs and manufactures first-rate children's clothing

Gugguu is Panostaja's associated company, which is why its figures are not incorporated into Panostaja Group in the same way as those of other segments. Instead, its result impact is presented on a separate row in the Group's income statement. The company does not report its figures according to IFRS standards, and the figures presented here are largely indicative. In contrast to Panostaja, Gugguu's financial period will conclude at the end of March, but the figures presented adhere to Panostaja's financial period.

Gugguu's demand situation remained challenging in the review period, even though signs of a slight recovery could be seen toward the end of the period. It has been difficult to anticipate the demand, since the purchasing power of consumers has weakened and buying behavior has become heavily needs-oriented. Overall, the net sales for the review period were at the level of the reference period. Fixed costs have been adapted well to match the requirements of the lower net sales level.

Significant changes are not expected in the short-term market outlook. The company has launched a new loyal customer program, the purpose of which is to increase the average single purchases, annual purchases and life cycle value of customers. The after-sales market has also changed. Small and large operators have filed for bankruptcy or ceased their operations. This has choked the market for children's clothing – also on an international level. This provides the company with the opportunity to secure a larger market share through its own online shop and new retailers.

MEUR	**3 months**	**3 months**	**12 months**
FAS (illustrative figures)	11/23-1/24	11/22-1/23	11/22-10/23
Net sales, MEUR	0.9	0.9	3.4
EBIT, MEUR	-0.0	-0.1	-0.1
Panostaja's holding	43%		

FINANCIAL DEVELOPMENT November 1, 2023–January 31, 2024

KEY FIGURES

MEUR

	Q1	Q1	12 months
	11/23- 1/24	11/22- 1/23	11/22- 10/23
Net sales, MEUR	33.3	35.5	136.2
EBIT, MEUR	-0.4	0.1	-1.1
Profit before taxes, MEUR	-1.1	-0.5	-4.3
Profit/loss for the financial period, MEUR	-1.1	-0.7	-3.6
Distribution:			
Shareholders of the parent company	-0.9	-0.8	-2.9
Minority shareholders	-0.2	0.1	-0.8
Earnings per share, undiluted, EUR	-0.02	-0.01	-0.05
Interest-bearing net liabilities	38,9	40.1	42.4
Gearing ratio, %	75.3	69.8	80.5
Equity ratio, %	36.9	39.8	37.5
Equity per share, EUR	0.60	0.71	0.62

NOVEMBER 2023–JANUARY 2024

Net sales for the review period dropped by 6% and were MEUR 33.3 (MEUR 35.5). Exports amounted to MEUR 1.9, or 5.7% (MEUR 0.6, or 1.8%), of net sales. Net sales increased in one of our four segments.

EBIT totaled MEUR -0.4 (MEUR 0.1). EBIT improved in two of the four segments. The comparable EBIT improved in one of the four segments. The development of net sales and EBIT for each of our investments has been commented on separately. The result for the review period was MEUR -1.1 (MEUR -0.7).

Distribution of net sales by segment
MEUR

Net sales	Q1 11/23- 1/24	Q1 11/22- 1/23	12 months 11/22- 10/23
Grano	26.3	28.5	109.1
Hygga	2.0	1.7	7.8
CoreHW	2.0	2.2	7.9
Oscar Software	2.9	3.1	11.5
Others	0.0	0.0	0.0
Eliminations	0.0	0.0	-0.1
Group in total	33.3	35.5	136.2

Distribution of EBIT by segment

MEUR

EBIT	Q1 11/23- 1/24	Q1 11/22- 1/23	12 months 11/22- 10/23
Grano	0.2	0.8	1.9
Hygga	0.1	-0.2	-0.1
CoreHW	-0.2	-0.1	-1.2
Oscar Software	0.1	0.2	0.4
Others	-0.6	-0.6	-2.2
Group in total	-0.4	0.1	-1.1

Panostaja Group’s business operations for the current review period are reported in five segments: Grano, Hygga, CoreHW, Oscar Software and Others (parent company and associated companies).

One associated company, Gugguu Group Oy, provided a report for the review period. The impact on profit/loss of the reported associated companies in the review period was MEUR -0.0 (MEUR -0.0), which is presented in a separate row in the consolidated income statement.The development of Gugguu’s net sales and EBIT has been commented on more specifically in the Segments section.

OUTLOOK FOR THE 2024 FINANCIAL PERIOD

As regards the corporate acquisition market, new opportunities are available and the market is active.SMEs will still need to utilize ownership arrangements and growth opportunities, but the consistently high market liquidity and the high price expectations of sellers, which tend to follow changes in economic trends with some delay, make the operating environment challenging for corporate acquisitions.We will continue exploring new possible investment targets in accordance with our strategy and assess divestment possibilities as part of the ownership strategies of the investment targets.

It is thought that the demand situation for different investments will develop in the short term as follows:

- The demand for Grano, Oscar Software, CoreHW and Hygga will remain satisfactory.

The demand situation presented above involves uncertainties relating to any geopolitical and macroeconomic impacts that are difficult to anticipate. In addition to this, uncertainties related to the prevalent labor market situation have increased. The effects of the war in Ukraine and the related economic sanctions and geopolitical tensions will increase economic uncertainty in Finland and abroad, which may negatively impact segment demand or the availability of materials, and thereby material prices and delivery capabilities. If strengthened and prolonged, the inflation may have a negative impact on the purchasing power of consumers and the willingness of companies to make investments, which may weaken the demand situation of our segments from the estimate provided above.

Panostaja Oyj

Board of Directors

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Panostaja Oyj

Tapio Tommila

CEO

All forecasts and assessments presented in this business report are based on the current outlook of Panostaja and the views of the management of the various investments with regard to the state of the economy and its development. The results attained may be substantially different.
This is not an interim report compliant with the IAS 34 standard. The company observes the six-monthly reporting practice prescribed in the Finnish Securities Markets Act and publishes business reports for the initial three and nine months of each year, presenting the key information on the company's financial development. The financial information presented in the business report has not been audited.

Interest-bearing net liabilities by segment

EUR 1,000	January 31, 2024	January 31, 2023
Grano	35,685	42,908
Hygga	9,899	9,894
CoreHW	9,840	6,760
Oscar Software	3,010	3,268
Parent company	-19,488	-23,059
Others	0	371
Group in total	38,946	40,142

The interest-bearing net liabilities for operations sold and discontinued in the reference period are presented in the row Others. The introduction of the IFRS 16 standard on the Group’s net liabilities is MEUR 30.4 (MEUR 33.5).

Write-downs per segment

EUR 1,000	January 31, 2024	January 31, 2023
Grano	-2,470	-2,502
Hygga	-160	-147
CoreHW	-156	-128
Oscar Software	-225	-309
Others	-17	-18
Group in total	-3,027	-3,104

The impact of the IFRS 16 standard on the Group’s depreciations is MEUR 2.2 (MEUR 2.2).

Panostaja is an investment company developing Finnish companies in the growing service and software sectors as an active shareholder. The company aims to be the most sought-after partner for business owners selling their companies as well as for the best managers and investors. Together with its partners, Panostaja increases the Group's shareholder value and creates Finnish success stories.

Panostaja has a majority holding in four investment targets. Grano Oy is the most versatile expert of content services in Finland. Hygga Oy is a company providing health care services and the ERP system for health care providers. CoreHW provides high added value RF IC design services. Oscar Software provides ERP systems and financial management services.