

panostaja

# Q3

**BUSINESS REVIEW**  
3 SEPTEMBER, 2020

November 2019 – July 2020

## PANOSTAJA OYJ'S BUSINESS REPORT

### Cutbacks support result in a challenging market situation

#### May 1, 2020–July 31, 2020 (3 months)

- Net sales increased in two of the seven segments. For the group as a whole, net sales dropped by 20% to MEUR 34.5 (MEUR 43.0).
- EBIT improved in five of the seven segments. The entire Group's EBIT improved from the reference period, standing at MEUR 1.0 (MEUR 0.0).
- Grano's net sales for the review period declined by 22% from the reference period in the previous year. EBIT totaled MEUR 0.7 (MEUR 0.0). The EBIT for the reference period includes an impairment of fixed assets in the amount of MEUR 0.9.
- Earnings per share (undiluted) were -0.4 cents (3.6 cents).

#### November 1, 2019–July 31, 2020 (9 months)

- Net sales increased in three of the seven segments. Net sales for the Group as a whole weakened by 13% to MEUR 118.3 (MEUR 135.2).
- EBIT improved in five of the seven segments. The entire Group's EBIT declined from the reference period, standing at MEUR 1.5 (MEUR 2.1). The reference period's EBIT includes sales profit for Ecosir Group in the amount of MEUR 1.6 and a fixed asset impairment of MEUR 0.9.
- Grano's net sales for the review period declined by 32% from the reference period in the previous year. EBIT totaled MEUR 1.5 (MEUR 2.3).
- Earnings per share (undiluted) were -3.6 cents (3.7 cents).

#### CEO Tapio Tommila:

"During the nine-month review period, the total net sales dropped by 13% from the reference period. However, after nine months, the operational EBIT of the investment targets was almost at the reference year level, not including the Ecosir Group sales profit of MEUR 1.6 and fixed asset impairment of MEUR 0.9, which were included in the profit/loss of the reference period.

In the third quarter, the total net sales were further increased from the reference period by CoreHW and Oscar Software, which were fairly unaffected by the coronavirus pandemic. At the same time, the net sales of Grano and Carrot in particular declined during the third quarter due to the pandemic and related uncertainties. As a result of the decrease in net sales and the increase in general uncertainty, significant cutbacks were continued in the Panostaja segments. The streamlining measures supported the segments' net sales, and, overall, the operational EBIT remained at the level of the reference during the third quarter.

The decline in Grano's demand during the third quarter primarily affected sheet printing and large-scale prints. Net sales for the period dropped 22% from the reference period. Thanks to the adaptation measures, however, the operational EBIT increased nearly to the reference period level.

During the third quarter, Carrot's net sales dropped by 34% from the reference period due to the slowdown in general economic activity. The development project initiated in March was actively continued and the company managed to significantly cut back on its expenditures. The company also furthered a number of measures to build growth by expanding its operations to two new municipalities.

During the spring season, the coronavirus pandemic had a significant impact on the corporate acquisition market as the effects of the economic lockdown measures, the growth in uncertainty and deteriorated loan terms led to a clear decline in activity as well as the suspension of many ongoing projects on the markets. That being said, activity in the corporate acquisitions market has increased after the summer. The availability of new projects has increased substantially, and we are still actively exploring new corporate acquisition opportunities.”

## Segments 3 months

### Grano

Grano is Finland's leading content and marketing services company



Grano's net sales for the third quarter were MEUR 23.1, which was 22% below the reference period level (MEUR 29.6). Grano's EBIT for the third quarter totaled MEUR 0.7 (MEUR 0.0). The EBIT for the reference period includes an impairment of fixed assets in the amount of MEUR 0.9.

The third quarter was characterized by a clear drop in demand due to the coronavirus pandemic, the effects of which were strongest on production lines with high net sales levels, such as sheet printing and large-scale prints, as well as marketing logistics services. Conversely, demand was good for asset management solutions, translation services, construction services and the packaging business. During the period under review, the company also manufactured protective aprons used for health care and the treatment of COVID 19 patients. It is also actively exploring new business opportunities to compensate for the decreased demand for other product lines.

As a result of the dramatic drop in demand, significant cutbacks, such as layoffs and reductions to fixed costs, were carried out during the review period in order to compensate for the decline in net sales. Thanks to the measures, the company's profit/loss was maintained at a reasonable level. The depreciations for the review period include a MEUR 0.9 depreciation related to the reorganizations of the company's ERP systems.

After the review period, the company's orders have seen positive development, but the order numbers remain at a lower level compared to the reference period. The decline from the reference period is evident especially in sheet printing where the general shrinking is impacting the demand, alongside the abnormal conditions. After the review period, the company initiated joint efforts to update, adapt and streamline operations. According to a preliminary estimate, the reorganizations may lead to the full-time or part-time lay-off or dismissal of up to 120 people as well as changes in operating models and work tasks.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/20-7/20	5/19-7/19	11/19-7/20	11/18-7/19	11/18-10/19
Net sales, MEUR	23.1	29.6	80.9	96.4	129.7
EBIT, MEUR	0.7	0.0	1.5	2.3	4.1
Interest-bearing net liabilities	64.3*	54.2	64.3*	54.2	50.9
Panostaja's holding	55.2%				

\*includes the impact of IFRS 16 and is therefore not comparable with prior figures

## Helakeskus

Helakeskus is a major wholesaler of furniture fittings in Finland



Helakeskus' net sales for the third quarter were MEUR 1.8, which was a 9% drop from the reference period (MEUR 2.0). The market situation improved in June as the markets began to open up after a slow May. EBIT improved to a level slightly above the reference period due to cost savings, standing at MEUR 0.2 (MEUR 0.1).

The market outlook remains murky due to the coronavirus pandemic. The competitive situation has remained tense with the continuation of the general uncertainty, which has also led to customers postponing many major decisions.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/20-7/20	5/19-7/19	11/19-7/20	11/18-7/19	11/18-10/19
Net sales, MEUR	1.8	2.0	5.6	5.9	8.0
EBIT, MEUR	0.2	0.1	0.4	0.3	0.5
Interest-bearing net liabilities	4.4*	4.5	4.4*	4.5	4.7
Panostaja's holding	100.0%				

\*includes the impact of IFRS 16 and is therefore not comparable with prior figures

**Hygga**

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



Hygga's net sales of MEUR 1.0 for the third quarter were MEUR 0.2 below the level of the reference period (MEUR 1.2). EBIT stood at MEUR 0.1, which was only slightly higher than in the reference period (MEUR 0.0).

In terms of the clinic business, the strong fluctuations in demand continued. The market situation recovered somewhat once the coronavirus emergency evened out, and demand was high particularly during July, which provided an opportunity to compensate for demand lost in the spring season. As a result of the poor net sales development early in the year, costs were cut through layoffs, postponements or other reductions in expenditures. The demand for clinic services is expected to remain at the level of the end of the third quarter, but the possibility of the coronavirus pandemic taking a turn for the worse introduces an element of uncertainty. Set to begin in November, the cooperation with the City of Helsinki dental care services will increase the clinic's net sales going forward.

As regards the licensing business, there were signs of incremental market recovery over the course of June. However, dental health care units especially in the public sector have been forced to spend a great deal of time on working through existing waiting lists, leaving insufficient time for developing business operations and finding new applications. In addition to the Netherlands, international business has taken steps forward in Belgium where preparations for the opening of the first pilot clinic are currently under way.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/20-7/20	5/19-7/19	11/19-7/20	11/18-7/19	11/18-10/19
Net sales, MEUR	1.0	1.2	3.1	3.6	4.7
EBIT, MEUR	0.1	0.0	0.0	-0.1	-0.2
Interest-bearing net liabilities	7.3*	6.2	7.3*	6.2	6.4
Panostaja's holding	79.8%				

\*includes the impact of IFRS 16 and is therefore not comparable with prior figures

## Heatmasters

Heatmasters offers metal heat treatment services and technology



Heatmaster's net sales of MEUR 1.0 for the third quarter were at the level of the reference period. EBIT was slightly higher than in the reference period, standing at MEUR 0.1 (MEUR 0.0).

In the third quarter, domestic furnace treatment and field services were mainly at a satisfactory level. Equipment trade, on the other hand, dropped quickly as a result of the coronavirus pandemic, and demand was poor through the entire quarter. Demand in Poland was satisfactory, but the actual net sales failed to meet expectations.

Business remained at a satisfactory level, which enabled highly active and flexible practices to be implemented in Finland and Poland.

In the short term, demand is expected to remain at a satisfactory level in all areas. However, continued uncertainty and project postponement present risks for the equipment business. Field services, on the other hand, are entering a slower business season after the summer.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/20-7/20	5/19-7/19	11/19-7/20	11/18-7/19	11/18-10/19
Net sales, MEUR	1.0	1.0	3.1	2.6	4.2
EBIT, MEUR	0.1	0.0	0.3	-0.1	0.2
Interest-bearing net liabilities	0.2*	0.4	0.2*	0.4	0.2
Panostaja's holding	80.0%				

\*includes the impact of IFRS 16 and is therefore not comparable with prior figures

**CoreHW**

CoreHW provides high added value RF IC design and consulting services



CoreHW's net sales for the third quarter stood at MEUR 1.5, which was a MEUR 0.3 increase from the reference period (MEUR 1.2). The third quarter has always been slower for the company due to the summer season. EBIT for the third quarter totaled MEUR -0.2 (MEUR 0.1), which was weakened by the personnel costs that increased from the reference period, along with depreciations relating to product development activations.

Demand for the company's services remained good in the third quarter. The impacts of the coronavirus pandemic have primarily presented themselves as slower and more difficult new customer sales as well as remote work. As regards the company's own product, market entry preparations and demo kit deliveries were continued as planned.

After the review period, CoreHW's outlook has remained as described above, although the challenges facing the generation of new sales continues to cause uncertainties in terms of development during the subsequent quarters.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/20-7/20	5/19-7/19	11/19-7/20	11/18-7/19	11/18-10/19
Net sales, MEUR	1.5	1.2	6.2	3.8	5.7
EBIT, MEUR	-0.2	0.1	0.4	0.1	0.4
Interest-bearing net liabilities	4.0*	2.7	4.0*	2.7	3.6
Panostaja's holding	61.1%				

\*includes the impact of IFRS 16 and is therefore not comparable with prior figures



**Carrot**

Carrot provides staffing, recruitment and outsourcing services



Carrot's net sales for the third quarter decreased to MEUR 3.6 from MEUR 5.6 in the reference period. Thanks to substantial adaptation measures, however, EBIT remained almost at the level of the reference period, standing at MEUR 0.0 (MEUR 0.1).

Demand for the third quarter remained low, but signs of gradual recovery could be seen starting from June. The profitability improvement project initiated in spring was continued successfully, which resulted in EBIT remaining almost at the level of the reference period despite the significant drop in net sales. During the third quarter, the company also expanded to two new municipalities, Jyväskylä and Seinäjoki.

After the review period, demand has remained at the level of the end of the review period. Panostaja has also examined Carrot's prospects as well as assumptions related to its activities and operating environment. Based on these considerations and Carrot's impairment testing, the company's group goodwill will be written down by MEUR 3.3 in the last quarter of the financial period.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/20-7/20	5/19-7/19	11/19-7/20	11/18-7/19	11/18-10/19
Net sales, MEUR	3.6	5.6	11.4	15.5	20.8
EBIT, MEUR	0.0	0.1	-0.5	-0.5	-0.4
Interest-bearing net liabilities	4.3*	5.3	4.3*	5.3	5.0
Panostaja's holding	74.1%				

\*includes the impact of IFRS 16 and is therefore not comparable with prior figures

**Oscar Software**

Oscar Software provides ERP systems and financial management services



Oscar Software's net sales for the third quarter stood at MEUR 2.6, which was 4% higher than in the reference period (MEUR 2.5). EBIT climbed to MEUR 0.5 (MEUR 0.1).

The company's demand remained good in the third quarter. The restrictions caused by the coronavirus pandemic presented challenges to new customer sales, but delivery projects have been continued successfully despite the situation. At the same time, layoffs and active cutbacks have substantially supported EBIT during the third quarter. Layoffs were incrementally ceased during the review period, and the company is now transitioning into a period of active growth through recruitment, for example.

After the review period, demand has remained at a good level. Riikka Kivimäki stepped in as Oscar Software's new CEO after the review period on August 10, 2020.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/20-7/20	5/19-7/19	11/19-7/20	11/18-7/19	11/18-10/19
Net sales, MEUR	2.6	2.5	8.2	7.6	10.1
EBIT, MEUR	0.5	0.1	1.0	0.3	0.2
Interest-bearing net liabilities	2.9*	4.7	2.9*	4.7	4.2
Panostaja's holding	54.5%				

\*includes the impact of IFRS 16 and is therefore not comparable with prior figures

## IMPACTS OF COVID 19

The impacts of the coronavirus pandemic on the business operations of Panostaja and its segments started in mid-March with the pandemic itself and the lockdown and restriction measures implemented to prevent its propagation began to eat into demand and cause general uncertainty. Global and domestic forecasts regarding economic growth have declined significantly after the onset of the pandemic. Panostaja and its segments instituted a number of measures to safeguard their staff immediately after the outbreak. Remote work arrangements and restrictions on meetings were implemented where possible. The Panostaja companies also used these models to continue their efforts in the second half of the year. In addition to this, the companies have responded to the decreased demand through cutbacks and layoffs. The companies have also implemented a wide range of measures to secure funding in the event that the crisis persists. These measures include flexibility in terms of funding, such as postponing loan payments, utilizing the full extent of the payment terms of fiscal payments, and active efforts to repatriate any receivables.

Panostaja tests intangible and tangible assets for impairment whenever there are signs that their value may have decreased. Goodwill and other intangible assets with infinite useful life are tested for impairment at least once a year. For the purposes of the testing, goodwill and intangible assets with infinite useful life are allocated to cash-generating units. The amount recoverable by cash-generating units is based on calculations of service value. Formulating these calculations requires the use of estimates. Panostaja has recognized the impairment risk with regard to certain segments and prepared estimates on their future prospects. Panostaja segment Carrot has demonstrated weaker-than-expected development of net sales and EBIT, which is why Panostaja has, as part of goodwill impairment testing, reviewed Carrot's prospects as well as the assumptions related to its activities and operating environment. Based on the impairment testing, Carrot's consolidated goodwill will be written down by MEUR 3.3. Carrot's remaining amount of goodwill is MEUR 4.6. During the coronavirus pandemic, the estimates for Panostaja's other segments have entailed a significant degree of uncertainty and write-downs have been deemed unnecessary at this time. However, the situation will be monitored closely and reassessed during the financial period.

**KEY FIGURES**

MEUR	Q3	Q3 9 months		9 months	12 months
	5/20- 7/20	5/19- 7/19	11/19- 7/20	11/18- 7/19	11/18- 10/19
Net sales, MEUR	34.5	43.0	118.3	135.2	182.9
EBIT, MEUR	1.0	0.0	1.5	2.1	3.8
Profit before taxes, MEUR	0.3	-0.5	-0.3	0.7	1.9
Profit/loss for the financial period, MEUR	-0.2	1.7	-1.9	2.1	2.5
Distribution:					
Shareholders of the parent company	-0.2	1.9	-1.9	1.9	1.6
Minority shareholders	0.0	-0.2	0.0	0.2	0.9
Earnings per share, undiluted (EUR)	0.00	0.36	-0.04	0.04	0.03
Interest-bearing net liabilities	65.8	54.6	65.8	54.6	53.7
Gearing ratio, %	90.2	68.4	90.2	68.4	67.5
Equity ratio, %	34.0	42.6	34.0	42.6	41.3
Equity per share (EUR)	0.87	1.00	0.87	1.00	0.96

**Division of the net sales by segment**

MEUR	Q3	Q3	9 months	9 months	12 months
Net sales	5/20- 7/20	5/19- 7/19	11/19- 7/20	11/18- 7/19	11/18- 10/19
Grano	23.1	29.6	80.9	96.4	129.7
Helakeskus	1.8	2.0	5.6	5.9	8.0
Hygga	1.0	1.2	3.1	3.6	4.7
Heatmasters	1.0	1.0	3.1	2.6	4.2
CoreHW	1.5	1.2	6.2	3.8	5.7
Carrot	3.6	5.6	11.4	15.5	20.8
Oscar Software	2.6	2.5	8.2	7.6	10.1
Others	0.0	0.0	0.0	0.0	0.0

Eliminations	0.0	-0.1	-0.2	-0.2	-0.3
Group in total	34.5	43.0	118.3	135.2	182.9

**Division of EBIT by segment**

MEUR	Q3	Q3	9 months	9 months	12 months
EBIT	5/20- 7/20	5/19- 7/19	11/19- 7/20	11/18- 7/19	11/18- 10/19
Grano	0.7	0.0	1.5	2.3	4.1
Helakeskus	0.2	0.1	0.4	0.3	0.5
Hygga	0.1	0.0	0.0	-0.1	-0.2
Heatmasters	0.1	0.0	0.3	-0.1	0.2
CoreHW	-0.2	0.1	0.4	0.1	0.4
Carrot	0.0	0.1	-0.5	-0.5	-0.4
Oscar Software	0.5	0.1	1.0	0.3	0.2
Others	-0.4	-0.5	-1.5	-0.3	-1.1
Group in total	1.0	0.0	1.5	2.1	3.8

**Interest-bearing net liabilities by segment**

EUR 1,000	July 31, 2020	July 31, 2020	July 31, 2019	October 31, 2019
		Impact of IFRS 16		
Grano	64,303	19,003	54,227	50,939
Helakeskus	4,391	528	4,518	4,747
Hygga	7,279	1,229	6,159	6,358
Heatmasters	187	463	356	165
CoreHW	3,994	378	2,746	3,554
Carrot	4,319	32	5,265	5,043
Oscar Software	2,862	87	4,729	4,181
Parent company	-21,506	291	-24,081	-22,139
Others	0	0	688	811
<b>Group in total</b>	<b>65,829</b>	<b>22,011</b>	<b>54,608</b>	<b>53,660</b>

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 has increased the Group's net liabilities by MEUR 22 during the review period.

### Write-downs per segment

EUR 1,000	July 31, 2020		July 31,	October 31,
	July 31, 2020	July 31, 2020	2019	2019
		Impact of IFRS 16		
Grano	-10,428	-3,765	-7,465	-9,697
Helakeskus	-233	-220	-12	-16
Hygga	-393	-225	-234	-309
Heatmasters	-251	-126	-117	-157
CoreHW	-634	-100	-196	-266
Carrot	-261	-47	-217	-290
Oscar Software	-828	-282	-480	-658
Others	-46	-95	-54	-67
<b>Group in total</b>	<b>-13,074</b>	<b>-4,860</b>	<b>-8,774</b>	<b>-11,461</b>

The introduction of the IFRS 16 standard has increased the Group's depreciations by MEUR 4.9.

### EVENTS AFTER THE REVIEW PERIOD

B.Sc. (Comp.Sc.), MBA Tessa Koivunen (born 1983) has been appointed as the new CEO of Panostaja segment Carrot Group Oy. She has been the acting CEO of Carrot since March 16, 2020, having previously served at the company as development director and board member since 2017. Before her transfer to Carrot, Koivunen worked for IBM and Solita, among other employers. Koivunen will assume the new post as of September 1, 2020.

Grano Group, which belongs to Panostaja Group, will begin employer-employee negotiations targeted at all Grano Oy's marketing services, print production, logistics, installation and sales operations as well as some of the operations of the parent company Grano Group Oy. According to a preliminary estimate, the reorganizations may lead to the full-time or part-time lay-off or dismissal of up to 120 people as well as changes in operating models and work tasks. In addition to this, the company is considering laying off the entire staff covered by the negotiations for up to 90 days. In the event that any measures are taken, the aim is to implement them by October 31, 2021. The negotiations cover about 760 people.

Panostaja segment Carrot has demonstrated weaker-than-expected development of net sales and EBIT, which is why Panostaja has, as part of goodwill impairment testing, reviewed Carrot's prospects as well

as the assumptions related to its activities and operating environment. Based on these considerations and the impairment testing, Panostaja's Board of Directors has on September 3, 2020 decided to write down Carrot's consolidated goodwill by MEUR 3.3. Carrot's remaining amount of goodwill is MEUR 4.6. The goodwill impairment loss will not have any cash flow impacts, and it will be recorded in Carrot's fourth quarter results under depreciations.

## OUTLOOK FOR THE 2020 FINANCIAL PERIOD

The onset of the coronavirus pandemic and the measures implemented to curb it are affecting the markets in which Panostaja Oyj's segments operate. This has a substantial impact on Panostaja's net sales and profit/loss for the 2020 financial period. At the moment, it is impossible to determine the full extent of the financial effects as they are dependent on the duration and scope of the measures to limit the propagation of the virus and the rate at which the markets eventually recover. Due to this, Panostaja withdrew the forecasts for the 2020 financial period on March 27, 2020 and has not released new forecasts.

Panostaja Oyj

Board of Directors

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Panostaja Oyj

Tapio Tommila

CEO

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.

*Panostaja is an investment company developing Finnish start-ups in the role of 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 seven investment targets. Grano Oy is the most versatile expert of content services in Finland. Heatmasters Group offers heat treatment services for metals in Finland and internationally, as well as produces, develops and markets heat treatment technology. Hygga Oy is a company providing health care services and the ERP system for health care providers. Suomen Helakeskus Oy is a major wholesaler of furniture fittings in Finland. CoreHW provides high added value RF IC design services. Carrot provides staffing, recruitment and outsourcing services. Oscar Software provides ERP systems and financial management services.*