panostaja

Q3

Business Review

⟶ 1 September, 2022

November 2021 – July 2022

Panostaja Oyj's business review November 1, 2021– July 31, 2022

Growth in a partially challenging market environment

MAY 2022–JULY 2022 (3 months) in brief:

- Net sales increased in three of the four segments. Net sales for the Group as a whole increased by 5.2% to MEUR 32.4 (MEUR 30.7).
- EBIT improved in one of the four segments. The entire Group's EBIT declined from the reference period, standing at MEUR -1.2 (MEUR 0.6).
- Grano's net sales for the review period increased by 6.9% from the reference period. EBIT totaled MEUR 0.3 (MEUR 1.1). Net sales for the review period increased by 13.4% from the reference period net sales that were adjusted based on the SokoPro sale.
- Earnings per share (undiluted) were -2.3 cents (0.5 cents).
- During the review period, Panostaja distributed an extra dividend of EUR 0.05 per share, a total of approx. MEUR 2.6, to its shareholders.

NOVEMBER 2021–JULY 2022 (9 months) in brief:

- Net sales increased in three of the four segments. Net sales for the Group as a whole increased by 3.6% to MEUR 101.1 (MEUR 97.6).
- The entire Group's EBIT improved from the reference period, standing at MEUR 5.8 (MEUR -1.0).
- Panostaja's segment Grano sold its SokoPro business operations to the international iBinder company. The deal was carried out as a share transaction, and the purchase price of the shares was roughly MEUR 45.5.
- Grano's net sales for the review period increased by 3.1% from the reference period. EBIT was MEUR 9.2 (MEUR 1.8), including the SokoPro sales profit of MEUR 9.4. Net sales for the review period increased by 7.0% from the reference period net sales that were adjusted based on the SokoPro sale.
- Earnings per share (undiluted) were 3.7 cents (-6.9 cents).

CEO Tapio Tommila:

“For us, the third quarter of the year was characterized by strong growth, especially in terms of the recovery of the demand for Grano’s marketing and content services. Other Panostaja segments also saw growth, even though all successes are not yet evident in the reports for this quarter. CoreHW gained a significant design contract for the development of radar technology for the automotive industry, which was secured thanks in large part to the technology the company had developed through its own efforts. Oscar Software has begun to gain profits from more new deals through focused sales efforts. For Hygga’s software business, we gained a significant win in Sweden as the pilot project in Örebro County, which had yielded good results, led to a contract regarding the expansion of the Hygga Flow solution to cover four new clinics.

That said, we cannot be satisfied with the profitability in the third quarter. Protecting Grano’s sales margin amid soaring market prices has been a top priority, but the measures taken are yet to sufficiently compensate for the profit impact of the increased costs. Hygga has suffered considerably from challenges related to the availability of clinical staff, and the company’s recruitment efforts have failed in the difficult market situation, resulting in the poor profitability of the clinic’s outsourcing business. In terms of profit/loss, the Group’s performance for the past quarter is encumbered by CoreHW’s weak result, arising from characteristically low net sales for the vacation season and a large new customer project, which did not provide any yields during the third quarter despite the significant amount of work. Alongside themes related to growth, improving profitability will remain one of our strong focus areas.

In June, Panostaja’s Board of Directors decided to pay an extra dividend to the shareholders due to the successful realization of a value increase early in the year though Grano’s SokoPro deal. The dividend decision reflects our confidence in our solid positioning in terms of materializing our updated strategy – in addition to creating value through our current segments, we aim for multiple new investments in growth in the service and software sectors during the 2022–2024 strategy period. Our investment capacity is good, and our new advisor network and operating model built around a sector-specific focus has begun to generate additional activity and quality for our project stream.

The uncertainties related to the development of the macro economy will impact our operating environment in the foreseeable future. Inflation pressures related to increased energy costs will persist and impact consumers’ purchasing power and the willingness of companies to make new investments. This is why risks related to the deterioration of financial development are unusually high. However, we expect the corporate acquisition market to remain active and find that good investment targets are still available in our target sectors.”

Segments 3 months

Grano

Grano is Finland’s leading content and marketing services company

Grano's net sales for the review period were MEUR 26.8, which was 7% above the reference period level (MEUR 25.1). The Group’s operating profit for the review period was MEUR 0.3 (MEUR 1.1). The reported net sales and EBIT for the reference period include the divestment of the SokoPro business operations at the beginning of the second quarter of the financial period. In comparable figures, the increase in net sales was 13% and EBIT improved by MEUR 0.1 from the reference period.

The demand for print products remained strong through the entire review period, specifically thanks to the high activity of event marketing. The demand development during the financial period was particularly strong with regard to large-scale print, illuminated advertisement and digital printing operations. Moreover, the growing packaging business, digital asset management solutions and marketing outsourcing services continued to see positive development. On the other hand, the demand for printing services for construction remained on the downward trend of the previous quarters, as expected, since the uncertainty of economic development has slowed down activity related to new projects in the construction sector. The development of the offset printing business stalled more than anticipated.

The cost inflation of printing materials continued to challenge profitability development, as was the case during previous quarters. Increased costs were transferred to sales prices on a broad scale, but this did not fully compensate for the negative impacts of the increased material costs during the review period. The management of material costs and price updates will continue as a focus of the company. If no deterioration is seen in the financial situation, the positive development in demand will be expected to continue through the remainder of the year, excluding printing services for construction.

GRANO

MEUR	3 months	3 months	9 months	9 months	12 months
	5/22-7/22	5/21-7/21	11/21-7/22	11/20-7/21	11/20-10/21
Net sales, MEUR	26.8	25.1	81.7	79.3	107.9
EBIT, MEUR	0.3	1.1	9.2	1.8	5.6
Interest-bearing net liabilities	42.2	55.6	42.2	55.6	55.6
Panostaja’s holding	55.2%				

The following table presents the unaudited illustrative figures of the Grano segment, which include an adjustment removing the SokoPro sales profit of MEUR 9.4 from the 2022 profit/loss. The review period figures have also been adjusted to remove the figures of the SokoPro business operations for the period following the deal (starting from the beginning of February).

MEUR / illustrative figures	3 months	3 months	9 months	9 months
	5/22-7/22	5/21-7/21	11/21-7/22	11/20-7/21
Net sales, MEUR	26.8	23.6	81.7	76.4
EBIT, MEUR	0.3	0.2	-0.1	-0.1

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 1.7, which was a 14% decrease from the reference period (MEUR 2.0). Due to the poor development of net sales, EBIT was in the red.

There have been no significant changes in the general market situation of the clinic business during the reporting period. The market is still going through the backlog of demand resulting from the coronavirus restrictions. The clinic's private business operations continued their positive development over the course of the review period. There continued to be significant challenges with the availability of clinical staff for the outsourcing services provided to the City of Helsinki, which is why the net sales of the outsourcing business declined substantially from the reference period. This also had a significant negative impact on the company's profitability. The company will continue focusing on measures to secure resource availability and improve efficiency.

In terms of software business, there have been no significant changes in the market situation. In Finland, the measures being taken by the wellbeing services counties to prepare for the health and social services reform are progressing, but they continue to result in general uncertainty in the timing of projects related to operational development. In Sweden, the company has, in the wake of a successful pilot project, made a contract with Örebro County, which will expand the cooperation to four new clinics within the county during this year and the next. In Finland, Sipoo, a municipality in the East Uusimaa wellbeing services county, will deploy the Hygga Flow system at its oral health care unit at the end of the calendar year.

MEUR	**3 months**	**3 months**	**9 months**	**9 months**	**12 months**
	5/22-7/22	5/21-7/21	11/21-7/22	11/20-7/21	11/20-10/21
Net sales, MEUR	1.7	2.0	5.7	6.0	8.1
EBIT, MEUR	-0.2	0.0	-0.5	-0.4	-0.2
Interest-bearing net liabilities	9.0	8.9	9.0	8.9	9.0
Panostaja's holding	79.8%				

CoreHW

CoreHW provides high added value RF IC design and consulting services

CoreHW's net sales for the review period were MEUR 1.3, which was 5% above the reference period level (MEUR 1.2). In the review period, personnel and other costs were higher than in the reference period, which dragged EBIT to a loss of MEUR -0.8 (MEUR -0.3). The profit/loss for the reference period includes MEUR 0.3 in Business Finland R&D grants.

During the review period, CoreHW signed a significant design contract for the development of radar technology for the automotive industry, which was secured largely thanks to the technology the company had developed through its own efforts. Despite the significant project efforts, only a small amount of related net sales was recognized in the review period due to milestone timings. Customer project activity remained at a good level but, due to the vacation period and the aforementioned recognition cycle, the net sales remained moderate, which also had a negative impact on the reported profitability of the review period. The forward-looking demand for design services is estimated to have continued its positive development. As before, however, there are still uncertainties related to the initiation of customer projects and the timing of their progress. 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.

CoreHW continued the active development and commercialization of its own products, within the framework of its internal financing resources. Market interest toward the Rabbit indoor positioning products, which are currently in the commercialization phase, has continued to improve and 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.

MEUR	**3 months**	**3 months**	**9 months**	**9 months**	**12 months**
	5/22-7/22	5/21-7/21	11/21-7/22	11/20-7/21	11/20-10/21
Net sales, MEUR	1.3	1.2	5.4	4.3	6.1
EBIT, MEUR	-0.8	-0.3	-1.0	-1.2	-1.4
Interest-bearing net liabilities	6.0	5.5	6.0	5.5	5.7
Panostaja's holding	61.1%				

Oscar Software

Oscar Software provides ERP systems and financial management services

Oscar Software's net sales for the review period increased by 4% from the reference period and were MEUR 2.6 (MEUR 2.5). EBIT for the review period was equal to that of the reference period, standing at MEUR -0.1.

During the review period, market demand remained good, and customers appear to be making decisions faster after the coronavirus pandemic. Investments in the active acquisition of new customers have been continued. The focused sales efforts have led to successes in customer acquisition and with regard to expansions and further development projects serving existing customers. The growth of continuously invoiced ERP solutions continued, and the demand for online trade services was strong. The number of employees that has increased due to active recruiting has resulted in increased personnel costs compared to the reference year.

The development of the employer image and employee well-being are the company's persistent priorities, since the competition for proficient human resources between companies in the field is ongoing. The company is also continuing its significant investments in the development of a cloud-based business platform.

MEUR	**3 months**	**3 months**	**9 months**	**9 months**	**12 months**
	5/22-7/22	5/21-7/21	11/21-7/22	11/20-7/21	11/20-10/21
Net sales, MEUR	2.6	2.5	8.4	8.1	11.0
EBIT, MEUR	-0.1	-0.1	-0.4	0.3	0.3
Interest-bearing net liabilities	3.9	3.8	3.9	3.8	3.9
Panostaja's holding	58.5%				

FINANCIAL DEVELOPMENT November 1, 2021–July 31, 2022

KEY FIGURES

MEUR

	Q3	Q3	9 MONTHS	9 MONTHS	12 months
	5/22-7/22	5/21-7/21	11/21-7/22	11/20-7/21	11/20-10/21
Net sales, MEUR	32.4	30.7	101.1	97.6	133.0
EBIT, MEUR	-1.2	0.6	5.8	-1.0	2.0
Profit before taxes, MEUR	-1.6	0.1	4.4	-2.7	0.0
Profit/loss for the financial period, MEUR	-1.6	0.4	4.9	-4.5	-1.0
Distribution:					
Shareholders of the parent company	-1.2	0.3	1.9	-3.6	-1.7
Minority shareholders	-0.4	0.1	3.0	-0.9	0.7
Earnings per share, undiluted, EUR	-0.02	0.01	0.04	-0.07	-0.03
Interest-bearing net liabilities	37.5	60.3	37.5	60.3	56.3
Gearing ratio, %	63.7	93.7	63.7	93.7	83.1
Equity ratio, %	41.9	36.9	41.9	36.9	37.2
Equity per share, EUR	0.72	0.72	0.72	0.72	0.75

Division of the net sales by segment
MEUR

Net sales	Q3 5/22- 7/22	Q3 5/21- 7/21	9 MONTHS 11/21- 7/22	9 MONTHS 11/20- 7/21	12 months 11/20- 10/21
Grano	26.8	25.1	81.7	79.3	107.9
Hygga	1.7	2.0	5.7	6.0	8.1
CoreHW	1.3	1.2	5.4	4.3	6.1
Oscar Software	2.6	2.5	8.4	8.1	11.0
Others	0.0	0.0	0.0	0.0	0.0
Eliminations	0.0	0.0	-0.1	-0.1	-0.1
Group in total	32.4	30.7	101.1	97.6	133.0

Division of EBIT by segment

MEUR

EBIT	Q3 5/22- 7/22	Q3 5/21- 7/21	9 MONTHS 11/21- 7/22	9 MONTHS 11/20- 7/21	12 months 11/20- 10/21
Grano	0.3	1.1	9.2	1.8	5.6
Hygga	-0.2	0.0	-0.5	-0.4	-0.2
CoreHW	-0.8	-0.3	-1.0	-1.2	-1.4
Oscar Software	-0.1	-0.1	-0.4	0.3	0.3
Others	-0.5	-0.1	-1.6	-1.4	-2.2
Group in total	-1.2	0.6	5.8	-1.0	2.0

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 0.1), which is presented in a separate row in the consolidated income statement.

Gugguu's deviating financial period ended during the review period in March. In this review period, Gugguu's net sales increased by 2% to MEUR 4.8 (MEUR 4.6) and EBIT was MEUR 0.1 (MEUR 0.4).

OUTLOOK FOR THE 2022 FINANCIAL PERIOD

As regards the corporate acquisition market, plenty of opportunities are available and the market is active. The need to leverage ownership arrangements and growth opportunities will persist for SMEs, but the high market liquidity and increased price expectations of sellers are making the operating environment more 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:

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

The demand situation presented above involves uncertainties relating to any geopolitical and macroeconomic impacts that are difficult to anticipate. 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. Furthermore, the possible resurgence of the coronavirus pandemic may impact the future development of Grano and Hygga, in particular, and rapidly and dramatically change the estimate provided above.

Panostaja Oyj

Board of Directors

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Panostaja Oyj

Tapio Tommila

CEO

ACCOUNTING PRINCIPLES

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	July 31, 2022	July 31, 2021	October 31, 2021
Grano	42,221	55,629	55,567
Hygga	9,027	8,880	8,952
CoreHW	5,980	5,459	5,738
Oscar Software	3,945	3,821	3,949
Parent company	-24,041	-13,771	-18,249
Others	369	326	328
Group in total	**37,501**	**60,344**	**56,285**

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 30.5 (MEUR 23.5).

Write-downs per segment

EUR 1,000	July 31, 2022	July 31, 2021	October 31, 2021
Grano	-8,245	-8,870	-12,484
Hygga	-419	-362	-576
CoreHW	-342	-371	-429
Oscar Software	-946	-776	-1,086
Others	-105	44	6
Group in total	**-10,056**	**-10,335**	**-14,568**

The impact of the IFRS 16 standard on the Group's depreciations is MEUR 6.5 (MEUR 5.8).

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.