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Q1

Business Review

15 March, 2023

**NOVEMBER 2022
- JANUARY 2023**

Panostaja Oyj's Business Review

November 1, 2022–January 31, 2023

Measures to improve profitability are progressing

November 2022–January 2023 (3 months) in brief:

- The Group's reported net sales dropped by -0.9% and were MEUR 35.5 (MEUR 35.8). The comparable net sales increased in three of the four segments.
- EBIT improved for three of the four segments. The entire Group's EBIT improved from the reference period, standing at MEUR 0.1 (MEUR -0.9).
- Grano's net sales for the review period dropped by -1.3% from the reference period. EBIT totaled MEUR 0.8 (MEUR 0.3). Net sales for the review period increased by 4.3% from the reference period net sales that were adjusted based on the SokoPro sale.
- Earnings per share (undiluted) were -1.5 cents (-1.3 cents).

CEO Tapio Tommila:

“We started the new financial period with clear goals: we want to emphasize measures to improve profitability across all of our segments and strive to prepare for any risks brought on by the uncertain economic situation. In accordance with our strategy, we also strive to add new value-adding segments to our portfolio. In the first quarter, our measures to increase profitability began to generate good results and we improved our performance substantially, particularly in Grano and Oscar Software.

Alongside focusing the strategy and its implementation, Grano has worked extremely hard to manage the challenges brought on by the abnormal cost inflation environment and support profitability development. I am very pleased that the persistent efforts are beginning to produce results. In the first quarter, Oscar Software succeeded with regard to sales efforts and the efficiency of customer deliveries. We are now heading in the right direction, with an emphasis on the profitable growth of continuously invoiced business operations. CoreHW’s customer project activity has expectedly remained high, and the demand for the company’s high added value design services is consistently strong. Hygga continued its determined efforts to solve the availability challenges related to health care staff and, even though the goals are yet to be reached, results were achieved near the end of the quarter.

At CoreHW, we have continued our long-term investments in the development of our technologies and our own product business. Customer feedback shows that the company’s range of component products focused on Bluetooth-based indoor positioning solutions is among the best in the world in terms of accuracy and reliability. The indoor positioning technology has become reliable enough for customers to begin investing in the product development and commercialization of their own solutions – with the help of CoreHW’s technology. The company finds that the global market for indoor positioning solutions is about to see rapid growth in a variety of application areas, such as industry, retail and health care. In the coming years, the commercial potential of CoreHW’s products will be significant. We find that the timing is currently just right to invest in the accelerating of the commercialization of CoreHW’s business, which is why we have agreed to allocate almost MEUR 4 in additional funding to bolstering product development and commercialization measures. The additional funding consists of Panostaja’s subordinated loan and a product development loan granted by Business Finland.

Our additional investment in accelerating the ramp-up of CoreHW’s product business is a good demonstration of Panostaja’s strategy of being an active owner partner for growing SMEs. Through the entire period of Panostaja ownership, CoreHW has persistently invested in developing its own technologies. Together with our owner partners, we have systematically worked on building the company’s value creation path. In fact, our strength as a balance sheet investor is highlighted when we can, in our chosen way, bolster the implementation of the company’s value creation strategy with an additional investment a good while after our initial investment, once the company has developed to a suitable stage and the market situation is right.”

Segments 3 months



Grano

Grano is Finland's leading content and marketing services company

Grano's net sales for the review period were MEUR 28.5, which was 1% below the reference period level (MEUR 28.9). The Group's operating profit for the review period was MEUR 0.8 (MEUR 0.3). 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 previous financial period. In comparable figures, the increase in net sales was 4%, and EBIT improved by MEUR 1.4 from the comparable EBIT of the reference period MEUR -0.6.

Overall, the market demand remained satisfactory during the review period. The demand development was particularly strong with regard to large-scale print and digital printing operations. The demand for digital and marketing logistics services was also stronger than in the reference period. The demand for construction printing services continued to weaken as expected, mirroring a clear decline in construction activity. The development of the offset printing business stalled more than in the reference period.

Grano's focus on revitalizing sales margins and protecting them against increased production costs yielded results in the review period. The substantially increased production costs have been incrementally transferred into sales prices, and the sales margin improved significantly from the weak reference period. The company will continue its focus on the management of material costs and production pricing.

The company's strategy has been specified and the supporting business operations were reorganized during the review period, which involved transitioning to a result-oriented line organization model. The offering of the largest print product lines has been compiled and, on the other hand, the management of products and services that require a different kind of expertise has been streamlined to ensure the best possible customer experience.



MEUR	3 months	3 months	12 months
	11/22-1/23	11/21-1/22	11/21-10/22
Net sales, MEUR	28.5	28.9	111.5
EBIT, MEUR	0.8	0.3	8.7
Interest-bearing net liabilities	42.9	57.3	46.4
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 and the figures of the divested SokoPro business operations for the period preceding the deal.

MEUR / illustrative figures	3 months	3 months	12 months
	11/22-1/23	11/21-1/22	11/21-10/22
Net sales, MEUR	28.5	27.3	109.9
EBIT, MEUR	0.8	-0.6	-1.6



Oscar Software

Oscar Software provides ERP systems and financial management services

Oscar Software's net sales for the review period were MEUR 3.1, which was 5% above the reference period level (MEUR 2.9). The review period's EBIT improved correspondingly from the reference period level, standing at MEUR 0.2 (MEUR -0.1).

In the review period, the market demand remained strong and there was a good level of interest in the company's products and services. That said, the competitive situation in the market is tight, and there is some sluggishness in the decision-making of customers. Investments in the active acquisition of new customers have been continued, and the sales efforts have led to successes in customer acquisition. The operations have also been active with regard to expansions and further development projects for existing customers. The good situation with project work drove the growth of expert net sales in the review period.

The company's key focus, alongside sales efforts, increasing continuously invoiced software net sales and product development, will be improving delivery efficiency. 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 continuing its significant investments in the development of a cloud-based business platform.

MEUR	3 months	3 months	12 months
	11/22-1/23	11/21-1/22	11/21-10/22
Net sales, MEUR	3.1	2.9	11.2
EBIT, MEUR	0.2	-0.1	-0.5
Interest-bearing net liabilities	3.3	3.8	3.6
Panostaja's holding	55.1%		

CoreHW CoreHW

CoreHW provides high added value RF IC design and consulting services and component product solutions

CoreHW's net sales for the review period were MEUR 2.2, which was 10% above the reference period level (MEUR 2.0). With the increased net sales, EBIT for the review period was higher than in the reference period at MEUR -0.1 (MEUR -0.2).

The customer project activity continued at a high level, and the future demand for the design services is estimated to remain positive. As before, however, there are still uncertainties related to the initiation of customer projects and the timing of their progress. Despite the review period's high utilization rate, profitability development was not quite as positive as before, due to the slower-than-planned progress of certain customer projects. 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. After the review period in March, an agreement was made on a significant additional investment which aims to significantly strengthen the commercialization of CoreHW's own product family focused on indoor positioning solutions; the combination of a new subordinate loan from Panostaja (MEUR 2.2) and a product development loan from Business Finland will provide almost MEUR 4 of additional funding for commercialization and the development of the product family. 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 investments in the commercial organization and product development that impact costs will weaken the profitability of the current financial period. In the 2024 financial period, we expect significant growth in product business net sales as a result of the growth investments.

MEUR	3 months	3 months	12 months
	11/22-1/23	11/21-1/22	11/21-10/22
Net sales, MEUR	2.2	2.0	8.0
EBIT, MEUR	-0.1	-0.2	-0.5
Interest-bearing net liabilities	6.8	6.5	5.8
Panostaja's holding	61.1%		



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 also slightly lower than in the reference period.

There have been no significant changes in the general market situation of the clinic business during the reporting period, but the weakened general economic situation resulted in a slight decline in the demand for the clinic's private business. The outsourcing services provided to the City of Helsinki continued to suffer from challenges related to the availability of clinical staff, even though the resource situation has been improved over previous quarters through determined efforts. Due to the resource shortage, the net sales of the outsourcing services dropped from the reference period, which also had a negative impact on the company's profitability. The company is continuously 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. As a result of the health and social services reform carried out in Finland at the start of the year, the management structures of the wellbeing services counties are taking shape and decision-making capabilities are improving. Yet, the initial phase of the change is still causing general uncertainty with regard to the timing of operational development projects. 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. In Sweden, the efforts to expand cooperation with Örebro County are progressing as agreed. At the end of the current financial year, Örebro will have five clinics that use the Hygga Flow software. As regards Finland and Sweden, the aim is to continue expanding the software business on the existing solid foundation.

The company's CEO Jussi Heiniö left his position at the end of 2022 and will continue in a new role as an advisor to Hygga's Board of Directors. The company's Board has appointed Chief Digital Officer Christoffer Nordström as the temporary CEO.

MEUR	3 months	3 months	12 months
	11/22-1/23	11/21-1/22	11/21-10/22
Net sales, MEUR	1.7	2.0	7.3
EBIT, MEUR	-0.2	-0.2	-0.4
Interest-bearing net liabilities	9.9	9.0	9.8
Panostaja's holding	79.8%		

Associated companies



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.

The demand situation for Gugguu in the review period was challenging since the purchasing power of consumers has weakened and buying behavior has become more cautious. As a result, net sales dropped by more than 20% from the reference period, which was evident in both domestic and international online trade. Even though production costs have increased substantially in proportion to the development of consumer prices, the sales margin percentage was maintained nearly at the level of the reference period. Efforts to adapt fixed costs partially compensated for the profitability impacts of the poor net sales development. In the review period, Gugguu launched the Gugguu Preloved concept, a trading platform for used Gugguu children's wear, through which the high-quality clothes will find new homes and new users.

As regards the short-term market outlook, demand is expected to recover gradually and the general market outlook is seen to be satisfactory. The company aims to launch new kinds of innovations that promote demand and brand value. The company is investing in international growth through an online trade platform.

MEUR	3 months	3 months	12 months
FAS (illustrative figures)	11/22-1/23	11/21-1/22	11/21-10/22
Net sales, MEUR	0.9	1.2	4.6
EBIT, MEUR	-0.1	-0.1	0.1
Panostaja's holding	43%		

FINANCIAL DEVELOPMENT November 1, 2022–January 31, 2023**KEY FIGURES
MEUR**

	Q1	Q1	12 months
	11/22- 1/23	11/21- 1/22	11/21- 10/22
Net sales, MEUR	35.5	35.8	137.9
EBIT, MEUR	0.1	-0.9	5.2
Profit before taxes, MEUR	-0.5	-1.4	3.2
Profit/loss for the financial period, MEUR	-0.7	-0.9	3.9
Distribution:			
Shareholders of the parent company	-0.8	-0.7	1.3
Minority shareholders	0.1	-0.2	2.6
Earnings per share, undiluted, EUR	-0.01	-0.01	0.03
Interest-bearing net liabilities	40.1	59.8	42.3
Gearing ratio, %	69.8	90.9	72.8
Equity ratio, %	39.8	38.2	39.1
Equity per share, EUR	0.69	0.74	0.71

NOVEMBER 2022–JANUARY 2023

Net sales for the review period decreased by 0.9% and were MEUR 35.5 (MEUR 35.8). Exports amounted to MEUR 0.6, or 1.8% (MEUR 1.4, or 3.9%), of net sales. Net sales increased in two out of four segments.

EBIT improved from the reference period, standing at MEUR 0.1 (MEUR -0.9). EBIT improved in one of the four segments. The development of net sales and EBIT for each of our segments has been commented on separately.

The result for the review period was MEUR -0.7 (MEUR -0.9).

**Distribution of net sales by segment
MEUR**

	Q1	Q1	12 months
	11/22- 1/23	11/21- 1/22	11/21- 10/22
Net sales			
Grano	28.5	28.9	111.5
Hygga	1.7	2.0	7.3
CoreHW	2.2	2.0	8.0
Oscar Software	3.1	2.9	11.2
Others	0.0	0.0	0.0
Eliminations	0.0	0.0	-0.1
Group in total	35.5	35.8	137.9

**Distribution of EBIT by segment
MEUR**

	Q1	Q1	12 months
	11/22- 1/23	11/21- 1/22	11/21- 10/22
EBIT			
Grano	0.8	0.3	8.7
Hygga	-0.2	-0.2	-0.4
CoreHW	-0.1	-0.2	-0.5
Oscar Software	0.2	-0.1	-0.5
Others	-0.6	-0.6	-2.2
Group in total	0.1	-0.9	5.2

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.

OUTLOOK FOR THE 2023 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 Oscar Software and CoreHW will remain good.
- The demand of Grano and Hygga 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

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, 2023	January 31, 2022
Grano	42,908	57,283
Hygga	9,894	9,032
CoreHW	6,760	6,534
Oscar Software	3,268	3,838
Parent company	-23,059	-17,181
Others	371	330
Group in total	40,142	59,837

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 33.5 (MEUR 25.8).

Write-downs per segment

EUR 1,000	January 31, 2023	January 31, 2022
Grano	-2,502	-2,888
Hygga	-147	-136
CoreHW	-128	-103
Oscar Software	-309	-294
Others	-18	-35
Group in total	-3,104	-3,456

The impact of the IFRS 16 standard on the Group's depreciations is MEUR 2.2 (MEUR 2.1).

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.