

hGears AG Group: First-quarter 2023 in line with guidance; full-year 2023 outlook confirmed

FIRST-QUARTER 2023 HIGHLIGHTS

- Group revenues at EUR 28.0 million, down 17.5% y-o-y
- Strong performance in Conventional, cushioning declines in other business areas
- Gross profit at EUR 15.2 million, down 18.9% y-o-y, with sequential recovery in gross margin to 54.4%
- Adjusted EBITDA at EUR 1.5 million, down 63.6% y-o-y with an adjusted EBITDA margin of 5.4%
- Full-Year 2023 guidance confirmed, reflecting current uncertainties and expected phasing of growth
- Strong growth in medium-term reiterated, mainly driven by e-Mobility

Schramberg, 10 May 2023 - hGears AG posted Group revenues of EUR 28.0 million and an adjusted EBITDA of EUR 1.5 million in the first quarter of 2023. The decline in revenue was driven mainly by the e-Mobility and e-Tools business areas. In a persistently challenging business environment, the Group delivered results in line with the expected phasing of performance throughout 2023.

As anticipated, the trends observed at the end of FY 2022 continued to impact performance across e-Mobility and e-Tools. Whilst the e-Mobility business area benefitted from solid performance in EHV projects, lower demand and order postponements continued to weigh on e-bike revenues due to inventory levels at customers' remaining high. Consequently, e-Mobility revenues decreased to EUR 7.5 million in Q1 2023. In e-Tools, the combination of overstocking and cancellations in orders due to lower end-consumer demand continued to impact performance, which is reflected in a decrease in revenues to EUR 8.0 million in the first quarter. Conventional continued to benefit from its focus on the premium, luxury, and sports vehicle segments, with production volumes similar to pre-pandemic levels, leading to a meaningful 9% revenue increase to EUR 12.3 million.

From a profitability standpoint, the gross margin in the first quarter reached 54.4%, demonstrating a sequential and steady improvement over the past three quarters and up 270bps versus Q4 2022, while the adjusted EBITDA margin still reflects unrealized operating leverage.

Sven Arend, CEO of hGears, comments:

"As anticipated, we experienced a slow start to 2023, particularly in January and February. This anticipated phasing of performance is already embedded in our full-year 2023 guidance assumptions and outlook for the year, which we maintain. Since joining in February, I have had some time to get to know the business and the people behind it, and this initial assessment supports my view of a high-quality business with embedded resilience through its business mix and a reputation for quality. These solid business attributes, combined with unrivalled expertise and positioning in structurally growing markets, provide us with solid foundations to capture future growth. Whilst uncertainty remains in the short term, we will actively use 2023 as a year to optimally position the Group for growth when market conditions improve, including a disciplined and agile approach to capital allocation."

OVERVIEW OF Q1 2023 FIGURES

Group figures (in EUR million)	Q1 2023	Q1 2022	Δ
Revenues	28.0	34.0	-17.5 %
Gross Profit	15.2	18.8	-18.9 %
Gross Profit margin	54.4 %	55.3 %	-90 bps
Adj. EBITDA	1.5	4.1	-63.6 %
Adj. EBITDA margin	5.4 %	12.2 %	-680 bps

Revenues by Business Areas (in EUR million)	Q1 2023	Q1 2022	Δ
e-Mobility	7.5	10.6	-29.1 %
e-Tools	8.0	11.7	-31.6 %
Conventional	12.3	11.3	9.0 %

NOTE: Numbers may be subject to rounding

OUTLOOK

Given persisting and imponderable market challenges, including high inflation, continuously rising interest rates, geopolitical risks and high inventory levels amidst ongoing shifts in demand trends, hGears Management Board remains cautious and reiterates its outlook. Our positioning as a supplier of mission-critical components allows us to effectuate pass-on clauses in many of our customer contracts. At the same time, we will continue to compensate for inflationary pressures that are not covered by such clauses by increasing prices. However, price increases and our pass-through clauses will only partially protect profitability in the current uncertain economic environment. Against this background, the Management Board will continue to prioritize its focus on operational excellence, execution and deployment whilst optimizing cost structures further.

For the full year 2023, the Group targets:

- Group revenues of EUR 129 – 137 million
- Adjusted EBITDA of EUR 12 – 15 million
- Negative free cash flow between EUR 6 – 9 million

In the medium term, i.e. in the next two to five years, hGears is targeting strong growth mainly in the e-Mobility business area, albeit from a lower base, and expects Group revenues to reach approximately EUR 180 – 200 million. In line with this growth target, the e-Mobility business area is expected to account for approximately 55% to 60% of the Group's total revenue, in line with the Group's business expansion ambition and strategic focus.

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About hGears

hGears is a global manufacturer of mission-critical high-precision gears and components with a focus on products for e-mobility applications. The Company's strategic focus is on the e-Mobility business area, where products include gears, shafts, and other mission-critical components to be used in electrical drive applications for e-bikes and electric and hybrid vehicles. In the e-bikes segment, hGears is the European market leader in the supply of high-precision gears and components, and its parts are contained in almost every second e-bike sold in Europe. This puts the Company in a good position to capitalize on the dynamically growing end-markets for e-bikes and electric and hybrid vehicles. hGears has three distinct business areas for which it develops and manufactures high-precision components: e-Mobility, e-Tools, and Conventional (i.e. premium and luxury cars, motorcycles and industrial applications).

hGears combines over 60 years of experience in advanced machined steel metal processing and state-of-the-art powder metal production. It is one of the few companies offering customers both processes worldwide. hGears works together with its customers in a "co-development" role to design components and find technologically optimal solutions to satisfy the customer's specifications. hGears' blue-chip customer base includes several major suppliers (Tier 1) as well as original equipment manufacturers (OEMs). The Company benefits from long, stable and sustainable relationships with its customers and has worked with many key customers for over 15 years.

hGears is headquartered in Schramberg, Germany, and operates globally with production facilities in Schramberg, Germany, Padua, Italy, and Suzhou, China. Find us on the web: www.hgears.com