

hGears AG Group: First-half 2022 performance in line with communicated trends, sequential improvements in Q2; Full-year outlook and medium-term targets confirmed

FIRST-HALF 2022 HIGHLIGHTS

- Group revenues for H1 2022 of EUR 70.9 million
- Gross profit of EUR 36.8 million, reflecting a gross profit margin of 52.0% (54.6% on a like-for-like¹ basis), inflationary headwinds remain
- H1 2022 adjusted EBITDA of EUR 8.2 million, 11.6% adjusted EBITDA margin (14.2% on a like-for-like¹ basis)
- Expected recovery in Q2 2022 partially compensated for the Group's slow start at the beginning of the year
- Two new e-bike customer wins plus a multi-year contract extension with an existing major e-Mobility customer
- Current order book and business progression underpin the full-year 2022 guidance

Schramberg, 3 August 2022 – hGears AG posted Group revenues of EUR 70.9 million and an adjusted EBITDA of EUR 8.2 million in the first half of 2022 despite a slow start to the year. Notwithstanding persistently challenging business conditions, the Group saw a recovery in revenues in the second quarter of 2022. Performance for H1 2022 was in line with Management's expectations, and the Company remains on track to achieve its full-year 2022 and medium-term targets.

Following a portion of the Group's customers experiencing delayed deliveries due to COVID-19 and supply-chain-related disruptions at the beginning of the year, Q2 2022 saw a sequential quarterly improvement in revenue, predominately in e-Mobility, which increased 29.3% quarter-on-quarter and 12.2% year-over-year. Overall, Group revenues for Q2 2022 increased by 8.7% year-over-year and added 0.5% in the first half of 2022.

Since the start of the year, hGears has been able to mitigate inflationary pressures by executing pass-through clauses for raw materials and energy costs. However, persisting inflationary pressure from non-transferrable expenses (e.g. tools, supplies, trade goods, outsourced manufacturing) continued to weigh on the Company's profitability. Countermeasures such as cost savings and further price increases for customers are currently in progress.

Amidst the persistently challenging business environment in H1 2022, hGears is pleased to announce the successful conclusion of three new contracts, which confirm the Company's market-leading position. hGears will manufacture an innovative motor-transmission system for Revonte, which has the potential to revolutionize e-bike construction and become a perfect solution for micromobility applications in the future. At the same time, Fazua's light and compact e-motor continues to benefit from demand driven by the increasing segmentation of the overall e-bike product offering. Meanwhile, hGears successfully secured a multi-year contract extension with one of its major e-Mobility customers beyond 2024. This contract renewal is further evidence of the Company's market-leading position in producing high-precision parts at scale.

¹ For illustrative purposes: Adjusted for inflation and volume/mix impact

More importantly, it secures long-term stable and efficient use of the Group's capacities.

Pierluca Sartorello, CEO of hGears, comments: *“The Group's success is driven by the quality of our products and strong market positioning. The macro-environment continues to present a broad spectrum of challenges for the industry. However, amidst these ongoing challenges, we have stayed focused and close to our customers, and the results of these efforts are another three new e-Mobility contract wins over those won last year. Moreover, despite these adverse conditions, our industry sources maintain that demand and the order backlog in the e-bike consumer market continue to remain sizeable. Against this background and backed by our current order book and ongoing ramp-up of new customers, we reconfirm our 2022 and mid-term outlook”.*

OVERVIEW OF H1 2022 FIGURES

Group figures (EUR million)	2022	2021	Δ
Revenues	70.9	70.5	0.5%
Gross Profit	36.8	41.1	-10.4%
Gross Profit margin	52.0%	58.3%	-630 bps
Adj. EBITDA	8.2	13.1	-37.1%
Adj. EBITDA margin	11.6%	18.5%	-690 bps

Revenues by Business Areas (EUR million)	2022	2021	Δ
e-Mobility	24.4	24.8	-1.8%
e-Tools	23.3	22.5	+3.3%
Conventional	22.3	22.4	-0.2%

OUTLOOK

In 2022, hGears will continue to focus on expanding its order volume with newly won and existing customers. Moreover, the Group will continue to drive operational excellence and strive for efficiency in operations to achieve additional gains and optimize the Group's cost structure. The macroeconomic environment is expected to remain volatile in 2022, with increasing inflationary pressures from the war in Ukraine, uncertainty related to the COVID-19 pandemic and ongoing bottlenecks in global supply chains. However, the Group's positioning as a supplier of mission-critical components allows hGears to largely compensate for this by implementing pass-through clauses in many of its customers' contracts. While this will largely protect earnings in absolute terms, the Group cannot rule out a negative impact on the adjusted EBITDA margin in the short term. As a result, adjusted EBITDA in full-year 2022 is expected to be on a par with the prior year. The positive impact of the operating leverage is expected to be realized in the second half of 2022 and 2023.

For the full year 2022, the Group targets:

- High single-digit growth in Group revenues
- Increase in share of revenues of the e-Mobility and e-Tools business areas
- Revenue in the Conventional business area at the previous year's level
- Adjusted EBITDA at the previous year's level

- Negative free cash flow in the mid-single digits

The Group's mid-term targets versus full-year 2020 remain:

- Double Group revenue to EUR 250 million
- Triple e-Mobility revenue to EUR 150 million

The Company's outlook assumes no renewed tightening of measures to contain the COVID-19 pandemic or material effects from the war in Ukraine, such as the rationing of natural gas or energy in general by Governments that may affect hGears, its customers or its suppliers.

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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 approximately two and a half million of the total five million e-bikes sold in Europe in 2021. 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