hGears

hGears AG Group: Full Year 2023 performance impacted by industry-wide destocking; focus remains on driving operational flexibility across the business

FULL YEAR 2023 HIGHLIGHTS

- Group revenues at EUR 112.5 million, down 16.9 % y-o-y
- Gross profit at EUR 56.0 million, down 19.8 % y-o-y, gross margin at 49.8 % versus 51.6 % in FY 2022
- Adjusted EBITDA at EUR 5.6 million, down 63.3 % y-o-y, with an adjusted EBITDA margin of 5.0 %
- Internal efficiencies and resource management optimization supporting the Group's transition to a leaner organization
- Ongoing focus on cash preservation and balance sheet strength
- Full year 2024 guidance and mid-term targets reflect challenging market backdrop, including the persisting overstocking situation

Schramberg, 27 March 2024 - hGears AG reports full year 2023 results in a business environment characterized by weak end-market demand, slower-than-expected destocking, and adverse weather conditions. The Group delivered revenues of EUR 112.5 million, only 2.2 % below the guided range of EUR 115 – 123 million, and an adjusted EBITDA of EUR 5.6 million within the guided range of EUR 5 – 9 million. The decrease in revenue is attributed to the e-Mobility and e-Tools business areas, with the operating environment in both business areas, reflecting the prolonged industry-wide destocking environment and with the e-Tools business areas further compounded by demand dynamics related to the construction industry's sensitivity to high interest rates and weather-related factors in gardening. In 2023, the Group achieved a negative free cash flow of EUR 3.1 million, significantly better than the guided negative EUR 9 - 12 million bandwidth. The Company generated a positive free cash flow in the second half of 2023, resulting in cash and cash equivalents of EUR 26.6 million and a net debt position of EUR 3.4 million at year-end.

Sven Arend, CEO of hGears, comments:

"Market dynamics remained challenging in 2023, impacted by slower-than-expected destocking and production volume uncertainties from our customers. Our year-end results reflect these persisting challenges, as well as our proactive and ongoing efforts to streamline operating structures, refine resource management, and preserve cash.

While we maintain confidence in the long-term favorable trends within our end markets, we expect the ongoing limited visibility to continue to result in cautious ordering amongst our customers. As we look to 2024, we will navigate the market situation with a concerted focus on driving business, prioritizing operational flexibility, and preserving cash without compromising our inherent upside potential. We completed several projects in 2023, including redefining roles and responsibilities and overall processes for new product introduction. We will further continue to drive efficiencies, beginning with a refinement of our business areas to better align them with end-market dynamics and industry-specific requirements, and with the ultimate aim of ensuring that we remain agile, efficient, and optimally positioned to capitalize on end-market growth when it returns."

OVERVIEW OF FULL YEAR 2023 FIGURES

Group figures (in EUR million)	FY 2023	FY 2022	Δ
Revenues	112.5	135.3	-16.9 %
Gross Profit	56.0	69.8	-19.8 %
Gross Profit margin	49.8 %	51.6 %	-180 bps
Adj. EBITDA	5.6	15.3	-63.3 %
Adj. EBITDA margin	5.0 %	11.3 %	-630 bps

Revenues by Business Area (in EUR million)	FY 2023	FY 2022	Δ
e-Mobility	42.0	51.4	-18.3 %
e-Tools	26.5	41.4	-36.0 %
Conventional	43.2	41.1	5.0 %

NOTE: Numbers may be subject to rounding

FINANCIAL REVIEW

Group revenues in the full year 2023 were down 16.9 % to EUR 112.5 million (previous year: EUR 135.3 million), a marginal 2.2 % below the guided range of EUR 115 – 123 million. The decrease in revenue is attributed to the e-Mobility and e-Tools business areas.

In the e-Mobility business area, revenue declined 18.3 % in the full year 2023 to EUR 42.0 million, reflecting a temporary slowdown in the market due to industry-wide destocking in the e-bike industry and amongst key customers. Higher sales in EHV slightly compensated for this trend.

As expected, the operating environment in the e-Tools business area remained challenging in 2023, with the industry continuing to unwind elevated inventory levels, while high interest rates impacted building and construction activities and demand for gardening tools in Europe suffered due to adverse weather conditions. Overall revenue decreased 36.0 % year-on-year to EUR 26.5 million in 2023 versus EUR 41.4 million in the prior year period.

In 2023, hGears continued to benefit in the Conventional business area from its strategic focus on the more stable premium and luxury segments of the automotive industry, while the resolution of supply chain constraints led to a robust uptick in revenue in the first half of 2023, albeit with the pace of expansion slowing down in the second half. Overall, for the full year 2023, revenue increased to EUR 43.2 million, representing an increase of 5.0 % over the prior year period.

At EUR 56.0 million, gross profit decreased 19.8 % compared to EUR 69.8 million in the prior-year period, predominantly reflecting lower revenue volumes and stop-and-start inefficiencies. This resulted in a gross margin of 49.8 % vs. 51.6 % in the previous year.

The adjusted EBITDA for the full year 2023 stood at EUR 5.6 million, compared to EUR 15.3 million in the prior-year period and within the guided range of EUR 5 – 9 million, reflecting the overall challenging environment and constraints in capitalizing on the Group’s inherent operating leverage. As a result, the adjusted EBITDA margin for the full year 2023 was 5.0 % (previous year: 11.3 %). Management implemented countermeasures throughout the year to preserve profitability, including organizational streamlining, efficiency improvements, and cost savings. These measures could only partially offset the impact of the sizeable revenue reductions, with some implemented from Q2 2023 onwards. The Company will benefit from the full effect of implemented measures in the coming years.

hGears balance sheet remains very solid, which is again reassuring in the current uncertain economic and geopolitical situation. Despite the adverse trading conditions, the net working capital to revenues ratio of 8.2 % remained at about the previous year's level of 7.8 %. The low net debt of EUR 3.4 million translates into a net debt/adj. EBITDA ratio of 0.6x. Moreover, at year-end, the equity ratio stood at 53.9 % (2022 56.1 %), while cash and cash equivalents of EUR 26.6 million continue to offer full financial maneuverability (previous year: EUR 36.3 million).

OUTLOOK

In 2024 the macroeconomic environment is expected to remain challenging, with the ongoing effects from destocking expected to continue. Given these persisting market challenges, geopolitical risks, and high inventory levels amidst ongoing shifts in demand trends, the hGears Management Board remains cautious about its outlook.

Against this background, the Management Board will continue to prioritize its focus on operational flexibility and cash preservation to safeguard business foundations with a concerted focus on project execution, efficiency, and agility to position the business for market growth when it resumes.

For the full year 2024, the Group targets:

- Group revenues of EUR 100 – 110 million
- Adjusted EBITDA of EUR 1 – 3 million
- Free cash flow of between EUR 0 and minus EUR 3 million

Medium-term outlook:

In line with the persisting challenging market backdrop and ongoing market uncertainty, hGears now expects Group revenues to reach approximately EUR 150 – 180 million in the medium term from EUR 180 – 200 million previously.

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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 65 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