

A photograph showing various fiber optic components, including connectors and cables, arranged on a reflective glass surface. The components are primarily blue and grey. A dark blue semi-transparent box is overlaid on the bottom left of the image, containing the title and presentation details.

# ANNUAL REPORT 2014

Presentation by CEO Frank Gad  
26 March 2015

# AGENDA

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- SP Group – an overview
- Results 2014
- Outlook and financial goals
- Business units
- Strategy



## **Frank Gad**

Born 1960, M. Sc.

### **Career:**

#### **Nov. 2004-:**

CEO, SP Group A/S

#### **1999-2004:**

CEO, FLSmidth A/S

#### **1996-1999:**

CEO, Mærsk Container Industri A/S

#### **1985-1999:**

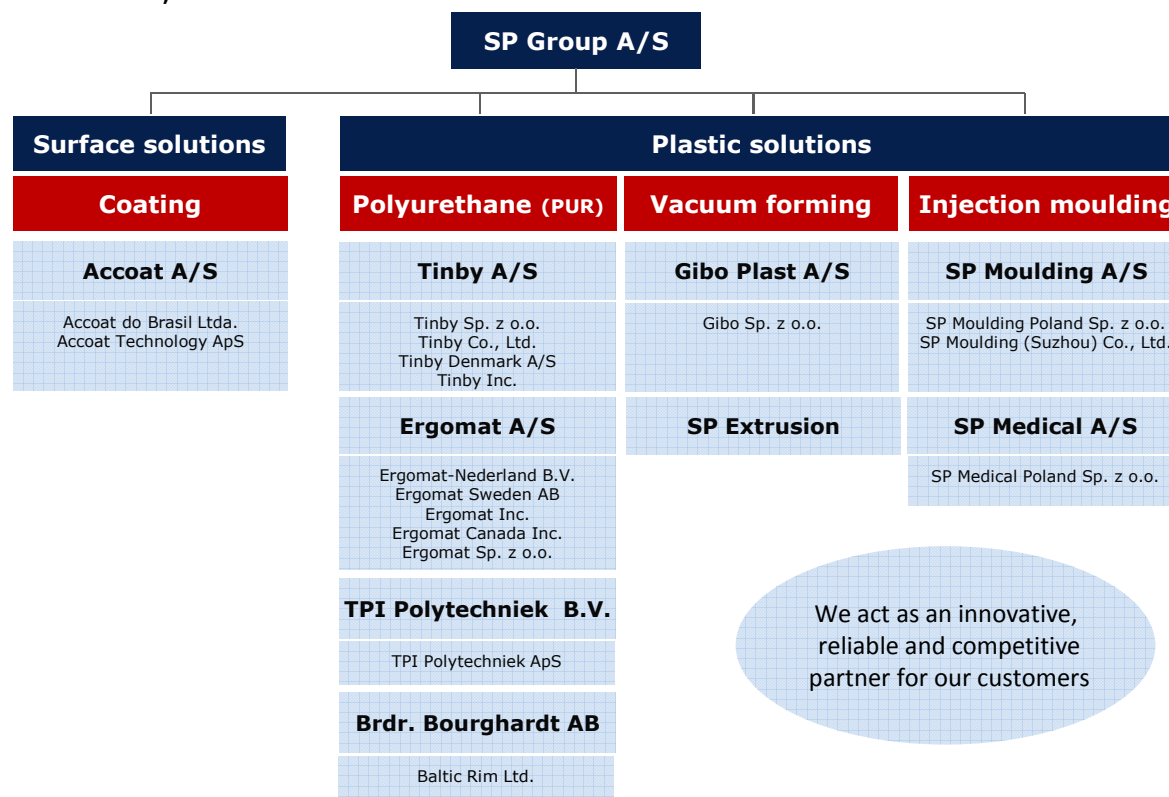
Odense Steel Shipyard Ltd.

– most recent title: EVP

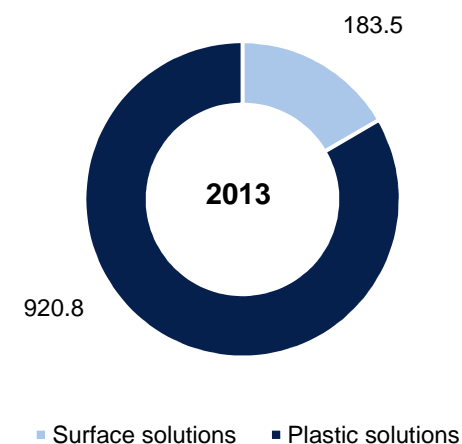
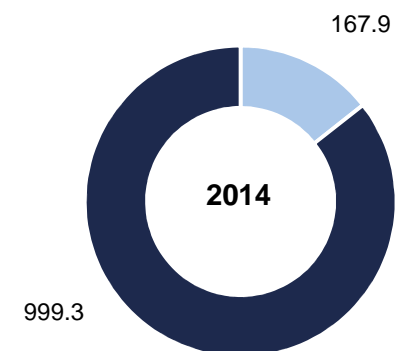


# SP GROUP – AN OVERVIEW

- Manufacturer of moulded plastic components and coatings
- Supplier of customer-specific solutions for a wide range of industries
- Strong international niche positions – also for our own brands
- Increased sales from own plants in Denmark, the USA, Latvia, China, Poland and Brazil



Revenue split by business area (DKKkm)





## RESULTS 2014

# GROUP HIGHLIGHTS (1)



## Q4 2014 highlights

- Revenue of DKK 293.8m (Q4 13: DKK 289.2m), up 1.6%
- EBITDA amounted to DKK 28.7m (Q4 2013: DKK 29.8m), down 3.9%
- EBIT amounted to DKK 15.2m in Q4, a decrease of DKK 3.4m compared to Q4 2013
- Profit before tax and non-controlling interests amounted to DKK 13.0m, a decrease of DKK 0.8m compared to Q4 2013
- EBITDA margin was 9.8% in Q4
- Profit/loss before tax and non-controlling interests amounted to 4.4% of revenue
- Cash flows from operating activities amounted to DKK 13.2m (Q4 2013: DKK 31.9m)
- Cash flows from investing and financing activities amounted to DKK 29.1m (Q4 2013: an outflow of DKK 32.8m)
- Change in cash and cash equivalents: DKK 42.3m (Q4 2013: minus DKK 0.9m)



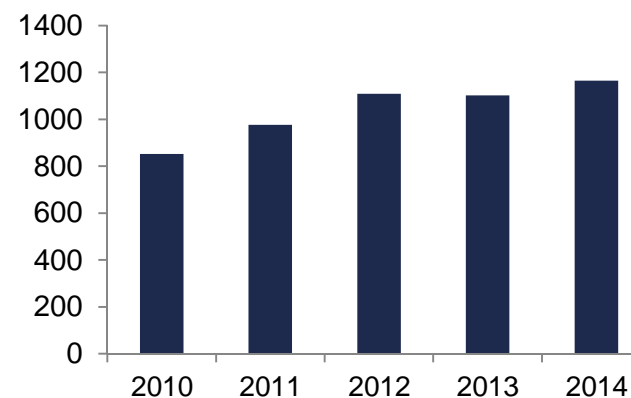
# GROUP HIGHLIGHTS (2)



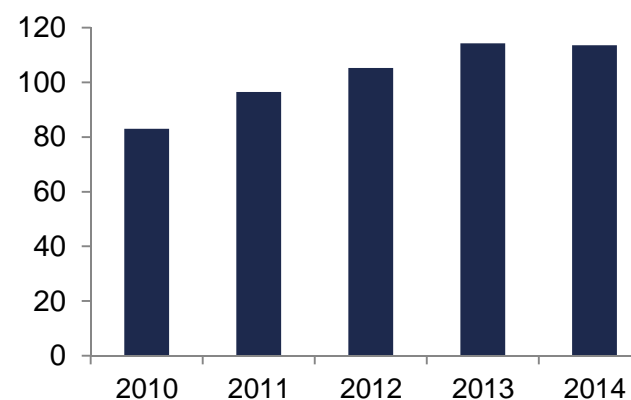
## 2014 highlights

- Sales of plastic solutions increased by 8.5%
- Sales of surface coatings decreased by 8.5%
- Consolidated revenue up by 5.7% to DKK 1,164.9m. Increase attributable to:
  - Organic growth (3.4%)
  - Acquisition of Brøderna Bourghardt (2.3%)
- Sale of own brands up by 0.1%
- Sales to the healthcare industry increased by 8.0% - now account for 39% of sales
- Sales outside Denmark increased by 5.8% - now account for 50.2% of sales
- EBITDA decreased by 0.6% to DKK 113.5m
- EBITDA margin amounted to 9.7%
- Depreciation, amortisation and impairment losses amounted to DKK 53.3m – an increase of DKK 4.5m compared to 2013

Revenue (DKKm)



Operating profit (EBITDA) (DKKm)



# GROUP HIGHLIGHTS (2)



## 2014 highlights (continued)

- EBIT amounted to DKK 60.2m – corresponding to 5.2% of revenue
- The Group's financial expenses decreased to DKK 8.7m (2013: DKK 15.2m)
- Profit before tax and non-controlling interests was DKK 51.5m – best results to date
- Diluted earnings per share amounted to DKK 19.25 – an increase of 2.7% compared to 2013
- Cash flows from operating activities decreased to DKK 64.1m (2013: DKK 66.9m)
- Net interest-bearing debt (NIBD) increased to DKK 467.2m and amounted to 4.1x EBITDA for the year
- The equity ratio was 29.3% - highest ever



# GROUP FINANCIAL HIGHLIGHTS Q4 2014



DKKm	Q4 2014	Q4 2013	2014	2013
Revenue	293.8	289.2	1,164.9	1,102.1
EBITDA	28.7	29.8	113.5	114.2
EBIT	15.2	18.6	60.2	65.3
Profit before tax and non-controlling interests	13.0	13.8	51.5	50.2
Equity incl. non-controlling interests			276.4	252.3
Cash flows from operations	13.2	31.9	64.1	66.9
Cash flow from investments	-17.8	-12.8	-64.3	-60.1
Cash flows from financing	46.9	-20.0	10.0	-54.9
Change in cash and cash equivalents	42.3	-0.9	9.8	-48.1
NIBD			467.2	430.0
Equity ratio, incl. non-controlling interests, %			29.3	28.5



# GROUP FINANCIAL HIGHLIGHTS 2014

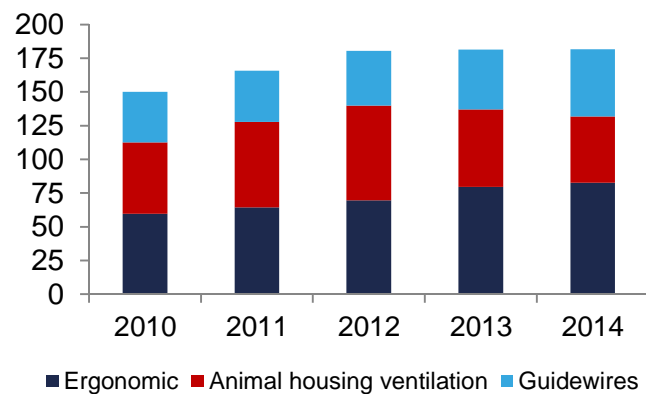


DKKm	2014	2013	2012	2011	2010
Revenue	1,164.9	1,102.1	1,108.5	976.8	851.9
EBITDA	113.5	114.2	105.2	96.5	83.0
EBIT	60.2	65.3	58.1	52.8	41.7
Profit before tax and non-controlling interests	51.5	50.2	41.6	34.3	28.8
Equity incl. non-controlling interests	276.4	252.3	240.1	205.6	190.7
Cash flow from operations	64.1	66.9	100.1	66.9	57.8
Cash flow from investments	-64.3	-60.1	-87.6	-51.9	-46.9
Cash flows from financing activities	10.0	-54.9	0.9	-13.7	47.3
Change in cash and cash equivalents	9.8	-48.1	13.4	1.3	58.2
NIBD	467.2	430.0	395.4	355.0	367.4
Equity ratio, incl. non-controlling interests, %	29.3	28.5	28.7	26.7	25.7

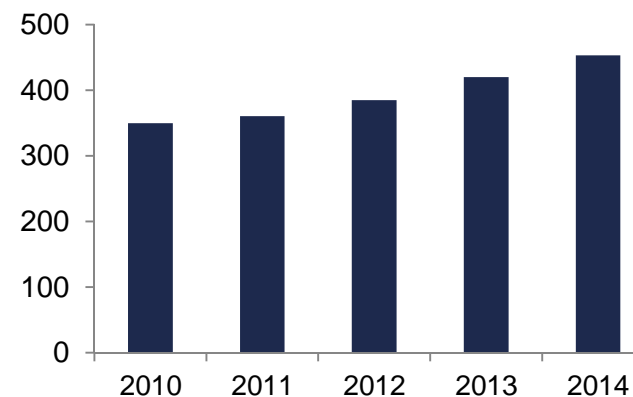


# REVENUE SPLIT BY PRODUCT AREA

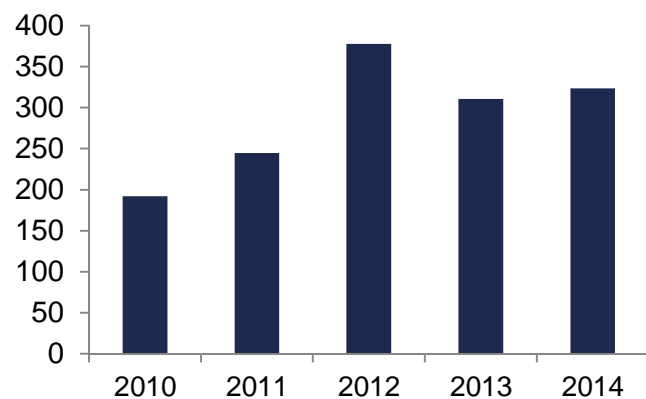
Revenue from own brands (DKKm)



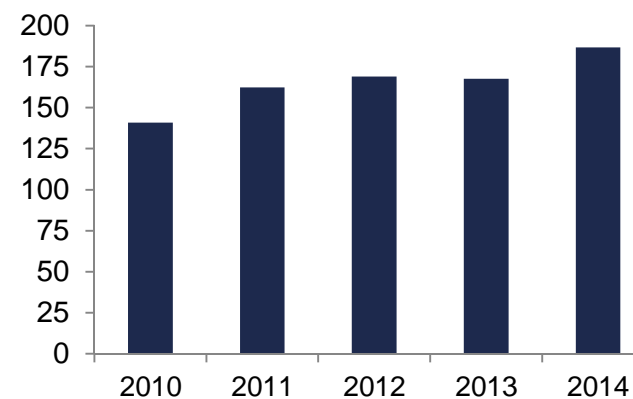
Revenue healthcare products (DKKm)



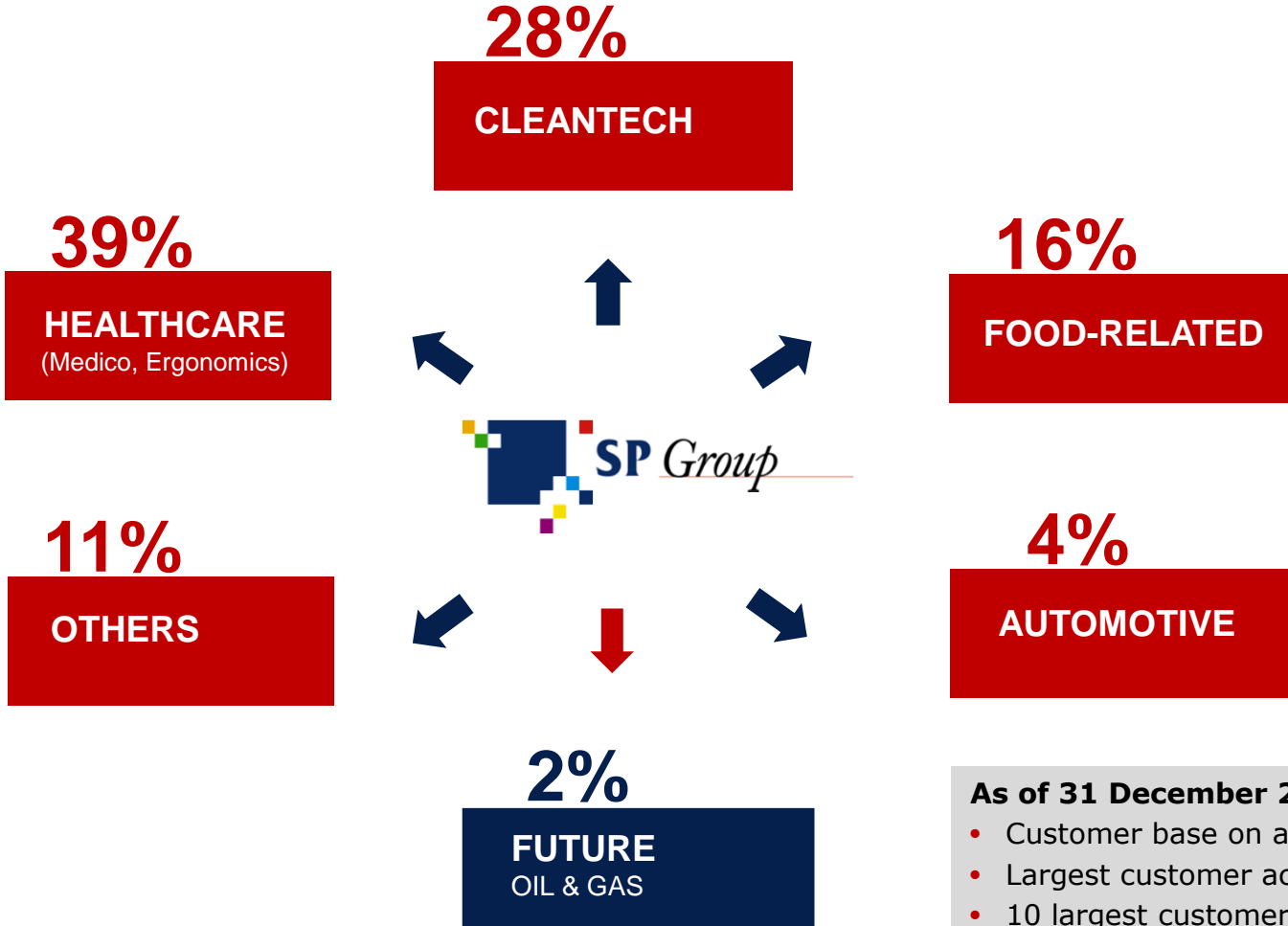
Revenue cleantech industries (DKKm)



Revenue food-related industries (DKKm)



# REVENUE BY CUSTOMER GROUPS 2014



**As of 31 December 2014:**

- Customer base on about 1000 companies
- Largest customer accounts for 13%
- 10 largest customers account for 52%
- 20 largest customers account for 65%

# SP GROUP'S GLOBAL PRESENCE



## Production and sales

- Denmark (6)
- Poland (6)
- China (2)
- Brazil (1)
- USA (1)
- Latvia (1)

## Distribution

- Holland (1)
- Sweden (1)
- Canada (1)



# INTERNATIONALISATION

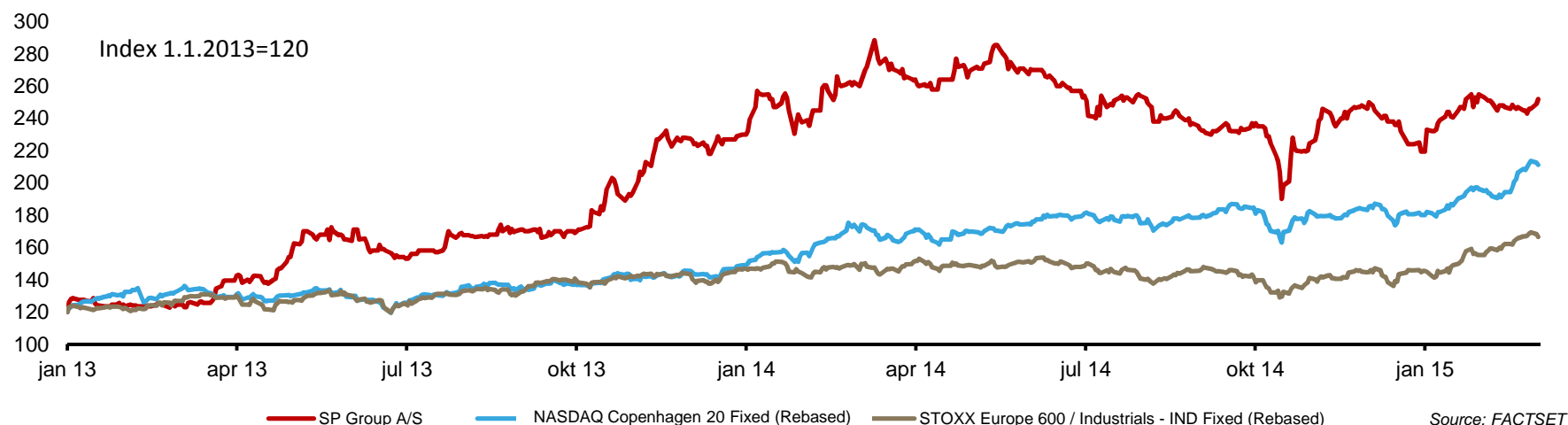


DKKm	2005	2012	2013	2014	2020E
Share of sales outside Denmark	37%	46%	50%	50%	~60%
Share of employees outside Denmark	23%	57%	61%	63%	~75%
Number of factories outside Denmark	2	9	9	11	~11
Total number of factories	18	15	15	17	17

# SHARE PRICE PERFORMANCE

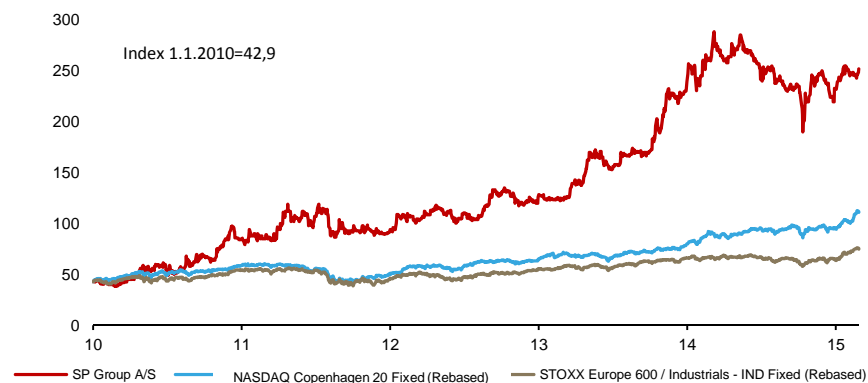


## Share price performance from 1 January 2013 to 28 February 2015



- Share capital DKK 20,24m
- All shares have equal rights
- SP Group's shares underperformed the NASDAQ Copenhagen general index
- Dividends to the shareholders of DKK 3.50 per share in 2015 (2014: DKK 3.00)
- New DKK 8m share buy-back programme approved in April 2013 increased by DKK 10m to DKK 18m and extended until 10 April 2014 - completed in April 2014
- New DKK 8m share buy-back programme approved 11 April 2014 increased by DKK 6m to DKK 14m and extended until 10 April 2015
- New DKK 10m share buy-back programme to be established 11 April 2015 - to be completed by 31 December 2015

## Share price development from 1 January 2010 to 28 February 2015



# FOLLOW-UP ON PROFIT GUIDANCE



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Most recent profit guidance on 4 November 2014 2014

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Total revenue slightly above level of 2013 (DKK 1,102.1m), but market prospects-still uncertain was DKK 1,164.9m ✓

Profit before tax and non-controlling interests slightly ahead of 2013 (DKK 50.2m) was DKK 51.5m ✓

**Other targets achieved:**

EBIT margin > 5.0% was 5.2% ✓

NIBD/EBITDA of between 3 and 4 was 4.1 ✓

Equity ratio incl. non-controlling interests at 20-35% was 29.3% ✓

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A photograph of an offshore wind farm with several white wind turbines in a blue sea under a clear sky. A large white tower is in the foreground on the left. A dark blue rectangular box is overlaid on the middle of the image, containing the text 'OUTLOOK AND FINANCIAL GOALS'.

## OUTLOOK AND FINANCIAL GOALS



# OUTLOOK FOR 2015



- The global economy is expected to continue to grow in 2015 – but it still remains fragile and subject to uncertainty
- Economic growth in our neighbouring European markets is expected to remain weak
- New products and solutions designed especially for customers within healthcare, cleantech and the food-related industries and the oil and gas industry is expected to contribute to SP Group growth and earnings
- Maintaining a high level of investment in 2015 – but lower than in 2014 – largest single investment expected to be made in the medical device activities
- Depreciation and amortisation expected at a somewhat higher level than in 2014
- Financial expenses expected to be at the same level as in 2014
- Tight cost control, capacity adjustments and a continued strong focus on risk, liquidity and capital management provides a strong base for the future
- Slightly higher-profit before tax and non-controlling interests in 2015 than in 2014
- Level of activity slightly higher than in 2014 - but the market prospects for the year remain uncertain



# LONG-TERM FINANCIAL OBJECTIVES

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- Initiatives in the current strategy plan aims to lift revenue to DKK 1.5bn over a short span of years
- Enhancing EBITDA margin to 12%
- Long-term target for profit before tax and non-controlling interests of around 6-7% of revenue expected to materialise gradually
- Goal is to achieve a ratio of NIBD to EBITDA of 3-4 by year end 2015 and maintain this level as long as interest rates remain historically low and subsequently to reduce it to 2.5-3.5 (2014: 4.1)
- The equity ratio (incl. non-controlling interests' share of equity) will be maintained at 25-40% (year end 2014: 29.3%)
- Fair return to shareholders mainly through share price appreciation
- The goal is that earnings per share will increase by at least 20% p.a. on average over a five-year period
- In continuation of our results for 2014, it is still our opinion that we will be able to meet the goals over a short span of years





## BUSINESS UNITS

# SURFACE SOLUTIONS

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- Accoat develops and produces environmentally-friendly technical solutions involving fluoroplast (Teflon®), PTFE and other pure materials for industrial and medical purposes
- Accoat applies plastic coatings on products and production plants in a number of industries. Articles being coated range from very small syringes to large tank facilities
- Accoat is among the five largest suppliers of industrial Teflon coating in the EU
- Locations: Kvistgård (DK), Stoholm (DK) and São Paulo (Brazil)



# COATING – HIGHLIGHTS AND OUTLOOK



## Q4 2014 highlights

- In Q4 2014 revenue was DKK 41.7m – a decrease of DKK 7.4m against Q4 2013
- EBITDA decreased to DKK 5.3m in Q4 2014 (Q4 2013: DKK 9.5m) due to lower sales and a change in the product mix
- EBIT fell to DKK 3.1m (Q4 2013: DKK 7.3m) due to lower activities

## 2014 highlights

- Revenue fell 8.5% to DKK 167.9m
- Revenue related to the medical device industry remained at the same level as in 2013
- Revenue to the oil and gas industry and the cleantech industry decreased due to fewer large projects in 2014
- Stepped-up marketing efforts towards selected customers and reduced general marketing efforts
- EBITDA decreased as expected in 2014 compared to 2013 due to changes in product mix and the drop in sales
- EBITDA fell to DKK 18.8m (2013: DKK 28.0m)

## Outlook for 2015

- Increase in revenue
- Increase in EBITDA
- Uncertainty about developments in the oil and gas industry

## Development in Coatings

DKKm	2014	2013	2012
Revenue	167.9	183.5	212.4
EBITDA	18.8	28.0	38.4
EBIT	9.7	19.3	29.7
Employees (avg.)	75	81	73



# PLASTIC SOLUTIONS



## Plastic businesses include:

- Injection moulding (SP Moulding and SP Medical)
- Vacuum forming (Gibo Plast)
- PUR (Ergomat, Tinby, TPI Polytechnik and Bröderna Bourghardt)
- Extrusion (SP Extrusion)

## Q4 2014 highlights

- Revenue was DKK 249.1m in Q4 2014 due to increased sales to all customer groups and from all technologies
- EBITDA increased to DKK 25.6m in Q4 2014 – a rise of 9.6%
- EBIT unchanged at DKK 15.1m

## 2014 highlights

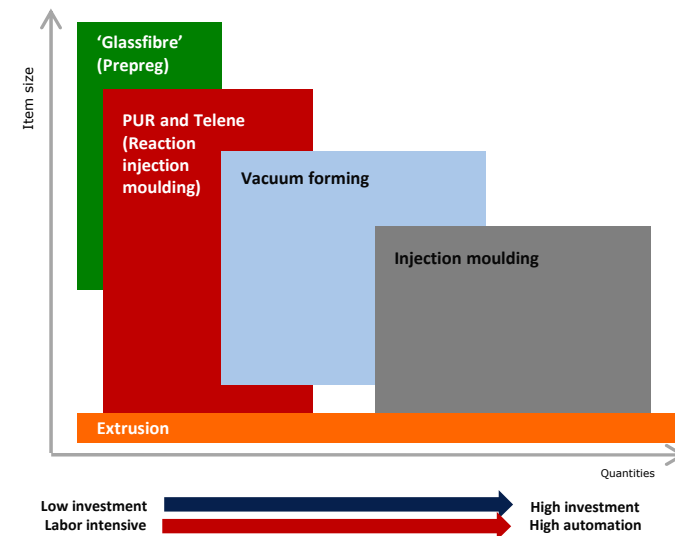
- Revenue increased by 8.5% to DKK 999.3m – more than expected at the beginning of the year
- EBITDA amounted to DKK 104.4m – a 8.5% increase and the best operating profit to date
- Very large investments were made in 2014 which adversely affected revenue – expected to contribute positively to results as from 2015
- The significant earnings improvement is mainly attributable to Ergomat, Bröderna Bourghardt and Gibo Plast

## Outlook 2015:

- Revenue and earnings expected to grow
- Activities expected to expand in Holland, Poland, China, the USA, Sweden, Latvia and Denmark

## Development in Plastics

DKKm	2014	2013	2012
Revenue	999.3	920.8	907.8
EBITDA	104.4	96.3	78.2
EBIT	63.4	59.4	43.2
Employees (avg.)	1,166	1,042	977



# INJECTION MOULDING (1)



- SP Moulding A/S manufactures advanced plastic precision components for a wide range of industries
- SP Moulding is a producer of technical plastic devices and performs assembly work. SP Moulding is a market leader in Denmark and among the largest injection moulders in the Nordic region
- SP Medical A/S manufactures products for customers in the medical devices industry, including finished products such as guidewires. Production takes place in clean rooms. SP Medical is among the 3-4 largest players in the Nordic region.
- SP Moulding and SP Medical have more than 300 injection moulding machines at their disposal with a clamping force ranging from 25 tonnes to 1300 tonnes
- SP Moulding and SP Medical also provide two- and three-component plastic solutions
- Locations: Juelsminde (DK), Stoholm (DK), Karise (DK), Sieradz (PL), Zdunska Wola (PL) and Suzhou (China)



Medico



Technical plastic devices



Medico



3K moulding



Medico



## 2014 highlights

- Improved economic trends combined with a number of new solutions and the sale of a number of new moulds generated an increase in sales
- EBITDA almost unchanged
- Considerable amounts were invested in new advanced production equipment in 2014 (robots, special-purpose machines, injection-moulding machines, energy savings and IT)
- Break-in of new projects

## SP Moulding

- Fair inflow of new industrial customers in Europe, America and Asia
- Business with existing customers grew in both Europe and Asia

## SP Medical

- Entered into a number of new agreements with both new and existing customers in the medical devices industry
- The factories in Poland and Denmark were fitted with more machines





# POLYURETHANE (1)



- Four business activities: Ergomat A/S, Tinby A/S, TPI Polytechnik BV and Brøderna Bourghardt AB
- Locations: Sønderød (DK), Zdunska Wola (PL), 's-Hertogenbosch (NL), Helsingborg (SE), Cleveland (US), Montreal (CAN), Suzhou (China) and Liepāja (LV)

**Ergomat** develops, manufactures and sells ergonomic solutions under own brands, especially Ergomat® mats and DuraStripe® striping tape for corporate customers worldwide. Market leader in the EU.



Mats



DuraStripe

**Tinby** manufactures moulded products in solid, foamed and flexible PUR for the cleantech and insulation industries, the medical devices, furniture, refrigerator and graphics industries. Global leader in market for hard rollers.



Cleantech



Solid, foamed PUR

**TPI Polytechnik** develops and sells concepts for ventilation of industrial buildings as well as poultry and pig houses, primarily products under its own brand, TPI. Market leader in the EU.



**Brøderna Bourghardt** specialised in composite processes: prepreg and manual lamination. Brdr. Bourghardt apply advanced varnishing methods. Scandinavia's leading manufacturer of Telene® products.



Plastic component, Telene



## 2014 highlights

### Ergomat

- Global sales of ergonomic mats and the striping product DuraStripe® up by 3.8%
- Highest growth rate seen in North America
- Good progress in Asia and neighbouring markets in Northern Europe
- Production of ergonomic mats in Poland and in the USA

### Tinby

- Fair growth in global activities
- Tinby has factories in Poland of approx. 16,000 sqm. and a factory in China of 2,400 sqm.
- In the USA, Tinby has established a factory of 1,000 sqm. – primarily to improve service provided to its North American customers

### TPI

- Experiencing lower revenue and earnings globally
- Project market has proven difficult and investments were held off
- New customers in Asia, the Middle East and Africa

### Bröderna Bourghardt

- Bröderna Bourghardt was acquired in February 2014
- Performing well and, as expected, bringing in new customers to SP Group's existing business activities



# VACUUM FORMING (1)

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- Gibo Plast develops, designs and manufactures thermoformed plastic products. The products are mainly used in refrigerators and freezers, buses and cars (automotive), medical devices and lighting equipment as well as in the cleantech industry
- Gibo Plast specialises in traditional vacuum forming, the new high-pressure and twin-sheet technologies and CNC milling
- Market leader in Scandinavia
- Locations: Skjern (DK) and Sieradz (PL)



Vacuum forming



Furniture



Automotive



Cleantech



## 2014 highlights

- Activities have increased
- Gibo Plast succeeded in ensuring a solid improvement in operating profit and the level of activity
- Strong effort to improve efficiency in Denmark and Poland
- Investing to strengthen the expertise in production of tools for prototype devices and production of vacuum-formed plastics
- Better and more effective servicing of existing and new customers by reducing time-to-market in connection with new plastic components
- In Poland, investing in new more effective production machinery
- Acquisition of Scanvakuum 1 January 2015





# STRATEGIC DEVELOPMENTS

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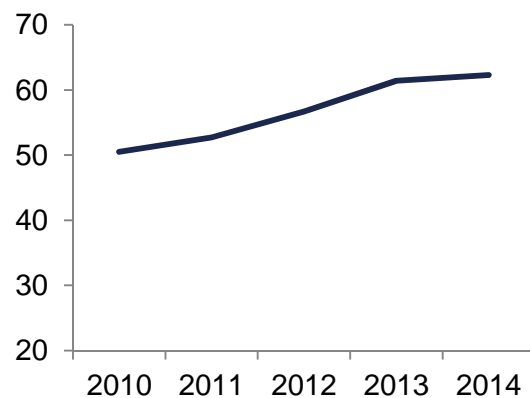
- Continuing to enhance skill sets and efficiency enhancing of production at factories in China, Poland, Brazil, Latvia, the USA and Denmark
- Focused sales efforts, especially in healthcare, cleantech and food-related products
- Focus on sale of own brands
- Increased efforts towards existing and new customers
- Wage-intensive production facilities to be relocated from Denmark to Poland
- Factory in Poland for production of injection-moulded medical device products expanded
- Vacuum forming factory in Poland expanded
- PUR production in China expanded (Tinby)
- PUR production to be established in the USA (Ergomat and Tinby)
- With the acquisition of Bröderna Bourghardt AB in February 2014, SP Group has increased the local presence in Sweden and Latvia – sale and production of Telene® products and composite solutions
- Acquisition of Scnavakuum 1 January 2015 will utilise existing capacity of Gibo Plast
- Acquisition of Sander Tech ApS in 2015 will utilise existing capacity of SP Moulding

# GROWING SALES AND INTERNATIONALISING THE BUSINESS

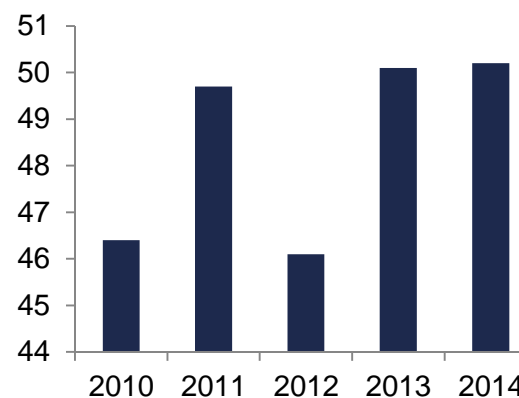


- Organic growth of 3.4% in 2014
- Strengthened sales and marketing efforts in all units
- Consultancy within plastics and coatings
- Differentiation on processes, design and knowledge
- Focused both on existing and new customers
- Increased exports from production sites in Denmark, China, Poland, Latvia, the USA and Brazil focusing on the Americas, Europe and Asia

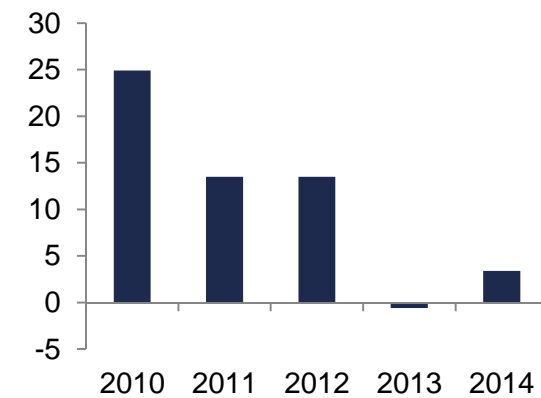
Employees abroad (avg.), %



International sales, %



Organic growth, %, Group revenue





# GROWTH INDUSTRIES AND OWN BRANDS

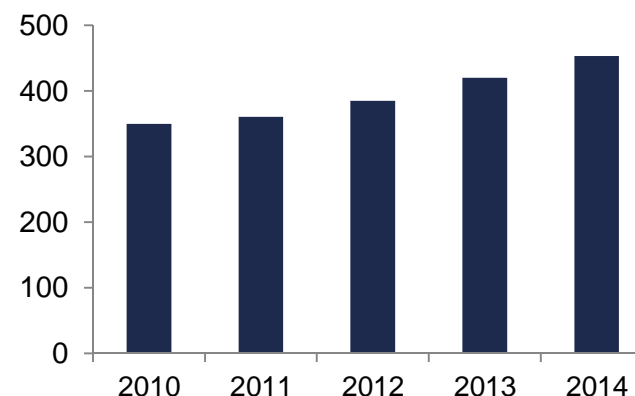
- Committed efforts to growth industries and new segments, e.g. healthcare and cleantech and food-related industries
- Sustain growth in sales to the medical devices industry
- Enhance sales and earnings growth from own brands, i.e. ventilation equipment (TPI), guidewires (SP Medical) and ergonomic solutions and DuraStripe® striping tape (Ergomat)
- Strengthen the international position (North America, Brazil, China, Latvia and Poland)
- Exploit the potential in other product niches

**ERGOMAT®**

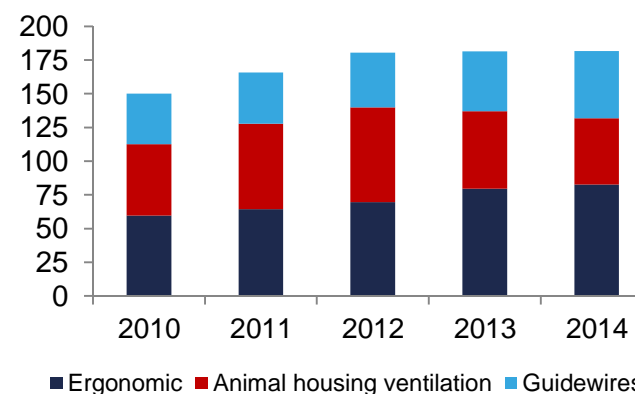
**DURASTRIPE**



Revenue healthcare products (DKKkM)



Revenue from own brands (DKKkM)



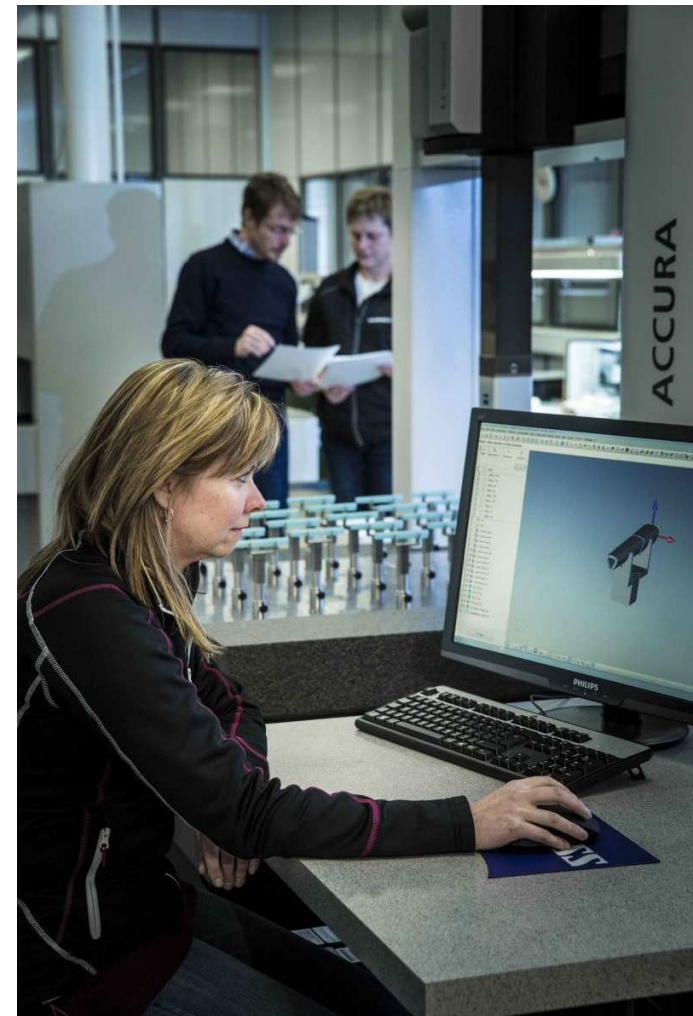


# EFFICIENCY ENHANCEMENT AND RATIONALISATION

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- The Group's production structure was further rationalised and production efficiency enhanced in 2014 and 2015
- Capacity adjustments
- Each production site will seek to produce and deliver better, cheaper and faster
- Reduction in the consumption of materials and resources (reducing carbon emissions)
- Reduction of running-in and set-up times in production
- Reliability of delivery (on-time delivery) from all factories was increased – 98-99% - and must be further improved
- Level of quality measured on an ongoing basis
- Roll-out of LEAN continues
- Continue to enhance efficiency of purchasing and supply chain and strengthen IT systems and management systems
- Broader geographical sourcing
- Continue to adjust and develop the organisation
- Continuously and critically review the Group's activities





# FORWARD-LOOKING STATEMENTS

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This presentation contains forward-looking statements reflecting management's expectations for future events and financial results.

Statements relating to 2015 and the following years are inherently subject to uncertainty and SP Group's actual results may thus differ from expectations and targets. Factors that may cause actual results to differ from expectations include, but are not limited to, changes in raw materials and energy prices, changes in foreign exchange rates, changes in macroeconomic and political settings, changes in the demand and production patterns of key customer groups and other external factors.

This presentation does not constitute an invitation to buy or sell shares in SP Group A/S.



Further information:

Frank Gad, CEO

SP Group A/S, Snavevej 6-10, DK-5471 Søndersø

Phone: +45 7023 2379 / +45 3042 1460

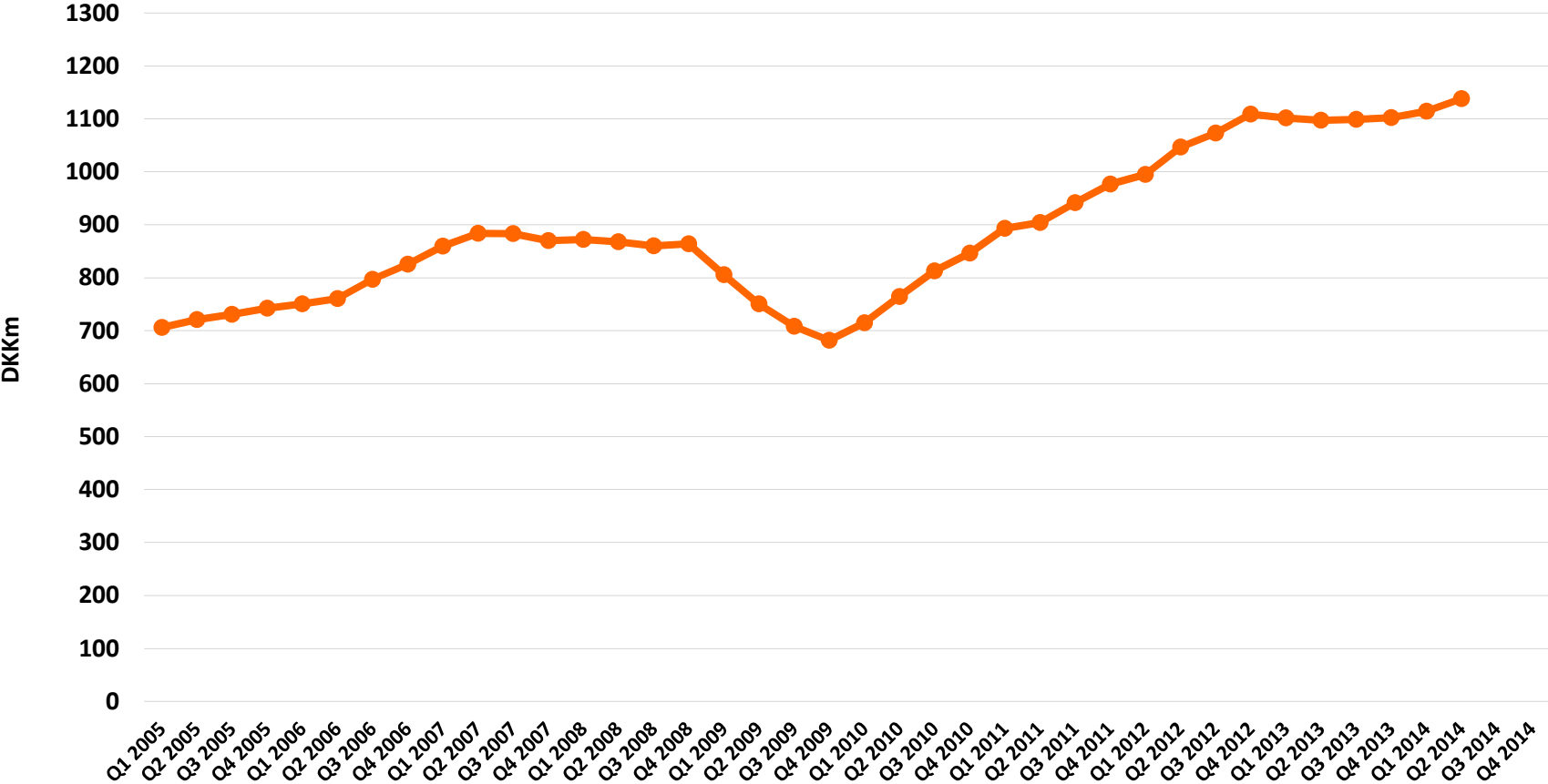
E-mail: [fg@sp-group.dk](mailto:fg@sp-group.dk)

[www.sp-group.dk](http://www.sp-group.dk)

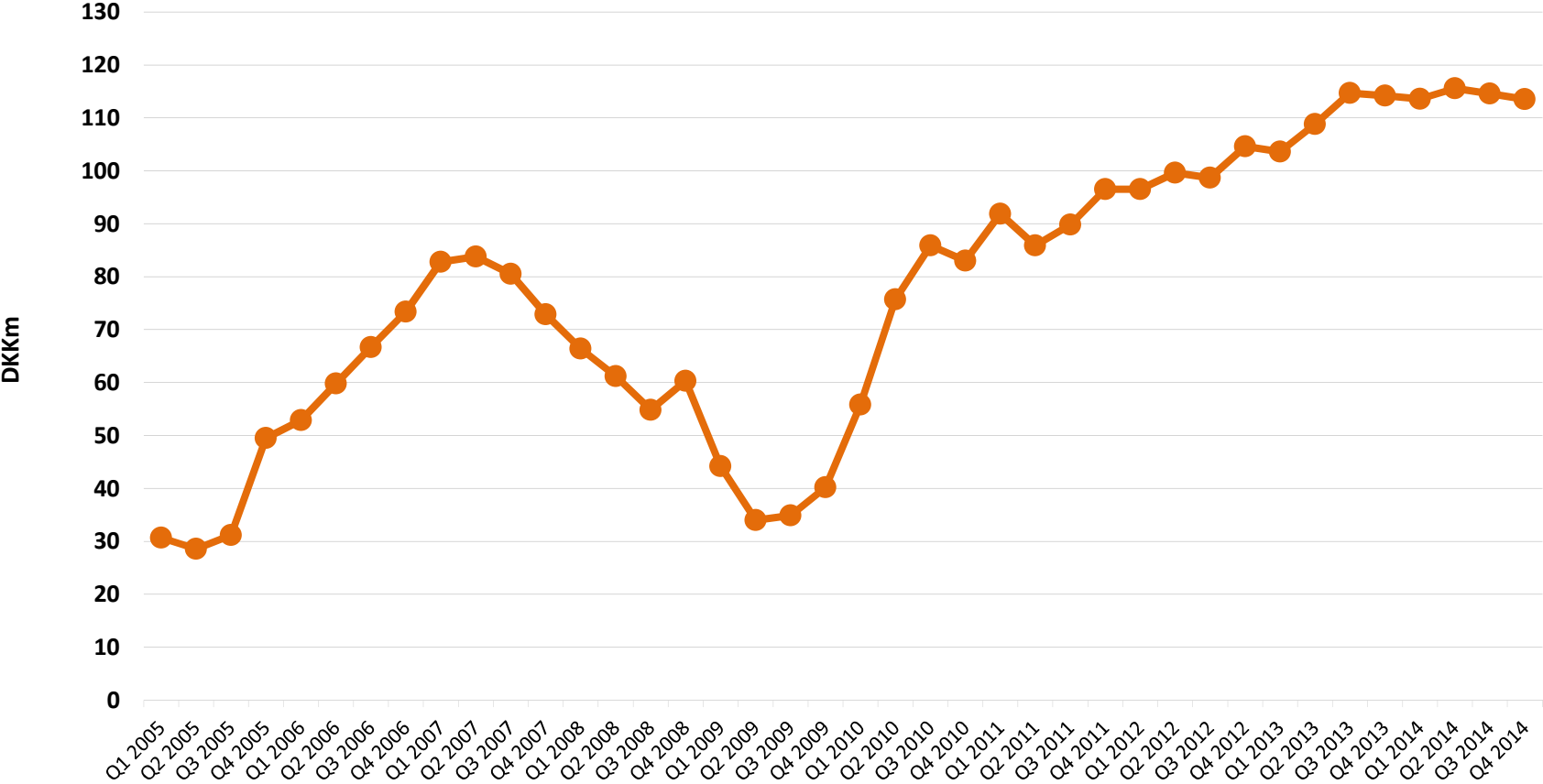


## APPENDIX

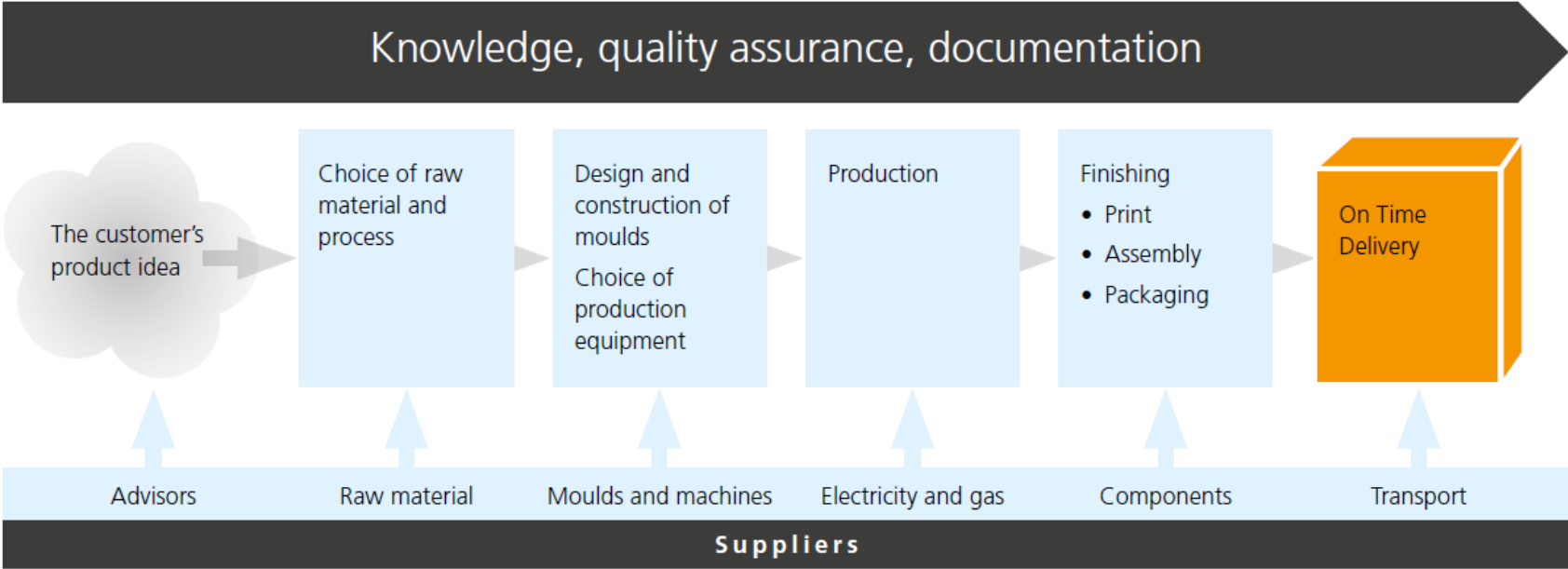
# DEVELOPMENT IN SALES LAST 12 MONTHS



# DEVELOPMENT IN EBITDA LAST 12 MONTHS



# SP GROUP'S VALUE CREATION



# INVESTMENT CASE (1)

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- Emerging stronger from the crisis: five straight years of record earnings 2010-2014
  - We believe that by staying focused on customers and industries experiencing structural growth (healthcare, cleantech, food-related and oil and gas) and through continued relocation, we can grow our revenue to DKK 1.5bn and profit before tax to DKK 100m (from DKK 29m in 2010, DKK 34m in 2011, DKK 42m in 2012, DKK 50m in 2013 and DKK 52m in 2014)
- Efficiency and internationalisation
  - By opening more factories in the USA, Brazil, Poland, China, Latvia and closing down sites in Denmark, we have continued to expand the international reach of SP Group. Through this process, we expect to be able to follow our customers as they become more international and to improve our margins. We now generate more than 50% of our sales directly in international markets and more than 62% of our staff work outside Denmark



# INVESTMENT CASE (2)

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- Creating shareholder value
  - During the crisis, Management invested in the company's shares. We have launched share buy-back programmes and have paid dividends of DKK 2.0 per share in 2012, of DKK 2.5 in 2013, of DKK 3.0 in 2014. We are proposing DKK 3.5 per share in 2015
- Ambitious long-term goals
  - Revenue: DKK 1.5bn within a short number of years (DKK 1.2bn in 2014)
  - EBITDA margin 12% (9.4% in 2012, 10.4% in 2013 and 9.7% in 2014)
  - Pre-tax profit margin of 6-7% (3.4% in 2010, 3.5% in 2011, 3.8% in 2012, 4.6% in 2013 and 4.4% in 2014)

# INVESTOR CONCERNS

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- The company is a sub-supplier
  - We provide customer-specific solutions that our customers integrate into their products. Our customers focus on their core business. We create value for our customers
- The company's customers relocate their production to low-wage countries
  - We are strongly positioned internationally, and more than 62% of our staff work outside Denmark
- Is SP Group a highly cyclical company?
  - No. We are 39% healthcare, 28% cleantech, 16% food-related and 2% oil and gas
- Is your debt of about DKK 467m (4.1x EBITDA) too high?
  - Our financial position is satisfactory and we are on target for a NIBD/EBITDA ratio of 3-4x
  - We expect a ratio of 3-4x EBITDA by end-2015
- Do hikes in raw material prices have a negative impact on your financial results?
  - Generally, we have back-to-back agreements with our customers
- You carry goodwill of DKK 100m in your balance sheet?
  - Yes, and it is tested for impairment (at least) once a year
- The shares are not liquid?
  - Turnover in SP Group shares was 803,000 shares in 2011, corresponding to 40% of the share capital. In 2012, the turnover was 491,208 shares, corresponding to 24% of the share capital. In 2013, 572,007 shares were traded, corresponding to 28% of the share capital. In 2014, 422,982 shares were traded on NASDAQ and 99,000 shares were sold via the exercise of warrants corresponding to a total of 25.8% of the share capital
- Things are not happening fast enough?
  - No!