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Q1

Business Review

→ 15 March, 2022

November 2021 - January 2022

Panostaja Oyj's Business Review

November 1, 2021–January 31, 2022

A quarter characterized by reinvention and a new success story – long-developed SokoPro business sold for more than MEUR 45

NOVEMBER 2021-JANUARY 2022 (3 months) in brief:

- Net sales increased in all four segments. Net sales for the Group as a whole increased by 6.5% to MEUR 35.8 (MEUR 33.6).
- EBIT improved for three of the four segments. The entire Group's EBIT improved from the reference period, standing at MEUR -0.9 (MEUR -1.1).
- Grano's net sales for the review period increased by 6% from the reference period in the previous year. EBIT totaled MEUR 0.3 (MEUR -0.1).
- Earnings per share (undiluted) were -1.3 cents (-3.4 cents).
- Panostaja segment Grano signed an agreement on selling its SokoPro business operations to the international iBinder company. The deal was carried out after the review period in February 2022 as a share transaction, and the purchase price of the shares was roughly MEUR 45.5.

CEO Tapio Tommila:

"In the first quarter, Panostaja once again took strides in its efforts to reform its operations. Our largest segment Grano completed a strategically important divestment of the SokoPro business, which had been developed successfully over a long period of time. In the first quarter, we also published our updated strategy for 2022–2024, which involves Panostaja focusing on investments in service and software companies and building the best concentration of capital investment expertise and a network of advisers for the chosen sectors.

The aim of the sector-specific focus of Panostaja's updated strategy is to boost competitiveness with regard to new investments and the development of our existing segments. In the strategy period, we will aim to widen our investment portfolio with several new investments in the service and software sectors, where development is supported by clear growth trends. These investments will balance our portfolio and ensure diversification against risks related to sector-specific and general trends. The efforts to build the updated network of advisors, which will be linked tightly to Panostaja's core team, is off to a good start, and I am very excited to put our new operating model to work during the second quarter.

Our updated strategy also draws heavily from Panostaja’s experience in building success stories in these specific sectors. The latest demonstration of our expertise is the divestment of Grano’s SokoPro business, which was published in the first quarter. We purchased SokoPro in 2009 in conjunction with the acquisition of Grano’s Sokonet Oy. During our ownership, the small project bank software that supported CAD printouts was developed into a modern cloud-based SaaS service, which is the clear market leader in Finland as a digital asset management solution for construction. The deal provides the best possible foundation for continuing the strong development of the divested SokoPro business under new ownership and strengthening Grano’s strategic focus on becoming a service provider supplying comprehensive solutions that generate added value in marketing communications.

In the first quarter, all of our segments expanded their business operations, even though the accelerated propagation of the Omicron variant during the quarter slowed down the normalization of the demand environment and presented a variety of challenges in the form of increased absences, for example. Panostaja Group’s net sales increase of more than 6% was a good accomplishment, and it was important to secure growth on a wide scale across all segments. However, our segments will continue their hard work on implementing the growth strategies. The first quarter did not yet meet our expectations in every regard. In the first quarter, profitability primarily developed in the right direction and EBIT increased in three of the four segments. That said, challenges were caused by many factors, such as the sharp increase in material prices in Grano’s business and the exceptionally high absence rates in Hygga’s clinic business as a result of the Omicron variant. Oscar Software growth investments that impacted growth weakened profitability. At CoreHW, customer project activity and, by extension, profitability saw clear positive development.

After the review period, the global situation has suddenly become more uncertain as a result of Russia’s invasion of Ukraine. The crisis does not directly impact the business of our segments, but the long-term effects of the war and related economic sanctions are difficult to anticipate and they can also have negative impacts on the operating environments of our segments.”

Segments 3 months



Grano

Grano is Finland's leading content and marketing services company

Grano's net sales for the review period were MEUR 28.9, which was 6% above the reference period level (MEUR 27.3). Grano's EBIT for the review period stood at MEUR 0.3, which is an increase of MEUR 0.4 from the reference period (MEUR -0.1).

In the review period, the demand for print products saw a clear increase over the reference period – particularly with regard to the sheet printing product line. Net sales also developed favorably for the large-scale prints and illuminated advertisements business. The production services and asset management solutions for marketing continued to grow, but the demand for print products and translation services fell short of the expectations.

As regards the general market situation in the sector, there were significant challenges with regard to the availability of print materials during the review period. Grano has successfully secured the availability of materials for its customer projects. The company finds that it is currently positioned well on the markets in this respect. However, general challenges with availability increased the prices of materials, which dragged down profitability in the review period as it was not yet possible to fully compensate for the price increase by hiking up customer prices. That said, the company believes that it will be possible to largely avoid the negative profitability impacts of the increased material prices during the current financial period.

The marketing activities of customers are estimated to see positive development during the review period. The lifting of event restrictions, in particular, is expected to improve demand for the growing large-scale print business. The economic uncertainty caused by the war in Ukraine has made it difficult to estimate long-term demand, even though Grano's customer base is unlikely to include many customers that would directly suffer from the crisis in any significant way. Furthermore, demand development remains dependent on the development of restrictions related to the coronavirus pandemic.

The ramp-up of the new Vantaa factory, which aims to substantially increase the efficiency of production activities, has proceeded as planned. The factory is expected to be in full production at the beginning of the second half of the year in May. In addition to cost efficiency, the new factory will also improve the quality and environmental friendliness of products and further bolster Grano's position as a pioneer in the field.

In December 2021, Grano announced that it had signed an agreement on selling its SokoPro business operations to the international iBinder company. The sale price was roughly MEUR 45.5, which was paid in conjunction with the closing of the deal on February 8, 2022 as a one-time cash payment. The SokoPro deal will enable Grano to focus even more strongly on developing and commercializing value-added services for marketing communications, and the significantly strengthened financial position will make it possible to accelerate the implementation of the strategy. After the deal, Grano will continue as the exclusive SokoPro sales representative for Finland.

Kimmo Kolari was appointed as the company's CEO on January 21, 2022. He has served as the temporary CEO and Senior Vice President of the company since November 4, 2021.



MEUR	3 months	3 months	12 months
	11/21-1/22	11/20-1/21	11/20-10/21
Net sales, MEUR	28.9	27.3	107.9
EBIT, MEUR	0.3	-0.1	5.6
Interest-bearing net liabilities	57.3	59.6	55.6
Panostaja's holding	55.2%		



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 2.0, which was a 7% increase from the reference period (MEUR 1.9). EBIT was negative but improved to MEUR -0.2 from MEUR -0.3 in the reference period.

As regards the clinic business, early on in the review period the market was clearly recovering from the disruptions caused by the coronavirus pandemic. The onset of the Omicron epidemic at the end of November caused a new market disruption, however, which mainly hampered the availability of health care professionals. As such, the review period for the clinic business was characterized by abnormally high employee absence rates and quarantines related to Omicron, which had a detrimental effect on net sales and expenditures. Despite the challenges caused by the Omicron variant in the review period, the demand for oral health care is considered to have improved and is expected to continue on a positive trend.

As regards the software business, there were no significant changes in the domestic and Swedish market situation. In Finland, the health and social services reform is expected to slow down decision-making on new projects in the public health care sector. Hygga won the bidding competition for supplying an oral health care and basic health care solution to the City of Porvoo. As per the agreement, the project will be expanded to cover the entire wellbeing services county of East Uusimaa, once the health and social services reform is under way. The agreement is an excellent demonstration of the capabilities of the Hygga concept for basic health care, which is the focus of the growth strategy in Finland. As the Omicron variant eases its grip, business prospects will steadily improve domestically and especially in Sweden. The gradual passing of the Omicron epidemic is also expected to improve software business outside the Nordic countries.

MEUR	3 months	3 months	12 months
	11/21-1/22	11/20-1/21	11/20-10/21
Net sales, MEUR	2.0	1.9	8.1
EBIT, MEUR	-0.2	-0.3	-0.2
Interest-bearing net liabilities	9.0	7.9	9.0
Panostaja's holding	79.8%		



CoreHW

CoreHW provides high added value RF IC design and consulting services

CoreHW's net sales for the review period were MEUR 2.0, which was 19% above the reference period level (MEUR 1.6). EBIT, too, improved significantly from the reference period, standing at MEUR -0.2 (MEUR -0.4).

In the review period, customer project activity increased substantially from previous quarters, even though the global semiconductor shortage continued to slow down customers' product development activities and travel restrictions due to the coronavirus pandemic hampered sales efforts. The demand outlook for design services is estimated to have improved further and the company has plenty of potential customer projects in the sales pipeline, even though there are risks related to the timing of project implementations. 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.

CoreHW continued the active development and commercialization of its own products, within the framework of its internal financing resources. Market interest toward the Rabbit indoor positioning products, which are currently in the commercialization phase, has continued to improve, even though ramping up product sales will continue to require long-term efforts.

MEUR	3 months	3 months	12 months
	11/21-1/22	11/20-1/21	11/20-10/21
Net sales, MEUR	2.0	1.6	6.1
EBIT, MEUR	-0.2	-0.4	-1.4
Interest-bearing net liabilities	6.5	4.7	5.7
Panostaja's holding	61.1%		



Oscar Software

Oscar Software provides ERP systems and financial management services

Oscar Software's net sales for the review period increased by 5% from the reference period and were MEUR 2.9 (MEUR 2.8). However, EBIT for the review period decreased to MEUR -0.1 from MEUR 0.2 in the reference period due to increased costs.

There were no significant changes in the demand or competitive situation during the review period. The healthy growth of continuously invoiced ERP solutions continued, but the demand partially reflects the substantially increased orderbooks of Oscar Software's customer target groups, which has resulted in some demanding ERP development projects being postponed. Resource turnover in the sales and supply organization has also presented challenges to the growth of net sales. During the review period, the company recruited several new experts, which is reflected by the increase in personnel costs over the reference year. The profit/loss for the review period is also encumbered by the marketing activities to boost future growth, which were accelerated from the reference period.

MEUR	3 months	3 months	12 months
	11/21-1/22	11/20-1/21	11/20-10/21
Net sales, MEUR	2.9	2.8	11.0
EBIT, MEUR	-0.1	0.2	0.3
Interest-bearing net liabilities	3.8	3.7	3.9
Panostaja's holding	58.3%		

KEY FIGURES

MEUR

	Q1	Q1	12 months
	11/21- 1/22	11/20- 1/21	11/20- 10/21
Net sales, MEUR	35.8	33.6	133.0
EBIT, MEUR	-0.9	-1.1	2.0
Profit before taxes, MEUR	-1.4	-1.8	0.0
Profit/loss for the financial period, MEUR	-0.9	-2.5	-1.0
Distribution:			
Shareholders of the parent company	-0.7	-1.8	-1.7
Minority shareholders	-0.2	-0.7	0.7
Earnings per share, undiluted (EUR)	-0.01	-0.03	-0.03
Interest-bearing net liabilities	59.8	66.2	56.3
Gearing ratio, %	90.9	97.0	83.1
Equity ratio, %	38.2	34.3	37.2
Equity per share (EUR)	0.74	0.78	0.75

Division of the net sales by segment
MEUR

	Q1	Q1	12 months
	11/21- 1/22	11/20- 1/21	11/20- 10/21
Net sales			
Grano	28.9	27.3	107.9
Hygga	2.0	1.9	8.1
CoreHW	2.0	1.6	6.1
Oscar Software	2.9	2.8	11.0
Others	0.0	0.0	0.0
Eliminations	0.0	0.0	-0.1
Group in total	35.8	33.6	133.0

Division of EBIT by segment	Q1	Q1	12 months
	11/21- 1/22	11/20- 1/21	11/20- 10/21
EBIT			
Grano	0.3	-0.1	5.6
Hygga	-0.2	-0.3	-0.2
CoreHW	-0.2	-0.4	-1.4
Oscar Software	-0.1	0.2	0.3
Others	-0.6	-0.6	-2.2
Group in total	-0.9	-1.1	2.0

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.

In the review period, Panostaja sold Carrot Palvelut Group Oy's shares to the owners of the company who are actual persons. As a result of the deal, Panostaja's holding in Carrot Palvelut Group Oy decreased to 19% and the Carrot segment was removed from Panostaja's group-level reporting.

OUTLOOK FOR THE 2022 FINANCIAL PERIOD

As regards the corporate acquisition market, plenty of opportunities are available and the market is active. The need to leverage ownership arrangements and growth opportunities will persist for SMEs, but the high market liquidity and increased price expectations of sellers are making the operating environment more 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:

- Oscar Software's demand will remain good.
- The demand for Grano, Hygga and CoreHW will remain satisfactory.

The demand information presented above involves uncertainties relating to the possible escalation of the COVID-19 pandemic and any economic impacts of the war in Ukraine, which are difficult to anticipate. The escalation of the pandemic may impact the future development of Grano and Hygga, in particular, and rapidly and dramatically change the estimate provided above. The effects of the war in Ukraine and the related economic sanctions 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.

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, 2022	January 31, 2021	October 31, 2021
Grano	57,283	59,583	55,567
Hygga	9,032	7,926	8,952
CoreHW	6,534	4,677	5,738
Oscar Software	3,838	3,740	3,949
Parent company	-17,181	-13,544	-19,060
Others	330	3,829	1,139
Group in total	59,837	66,211	56,285

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 25.7 (MEUR 27.9).

Depreciations

EUR 1,000	January 31, 2022	January 31, 2021	October 31, 2021
Grano	-2,888	-3,029	-12,484
Hygga	-136	-94	-576
CoreHW	-103	-123	-429
Oscar Software	-294	-218	-1,086
Others	-35	-41	6
Group in total	-3,456	-3,505	-14,568

The impact of the IFRS 16 standard on the Group's depreciations is MEUR 2.1 (MEUR 2.0).

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.