

panostaja

panostaja

Q3

## Business Review

1 September, 2023

NOVEMBER 2022  
– JULY 2023

# Panostaja Oyj's Business Review

## November 1, 2022–July 31, 2023

The weakening market environment increases the importance of profitability measures

### May 2023-July 2023 (3 months) in brief:

- Net sales increased in three of the four segments. Net sales for the Group as a whole declined by -3% to MEUR 31.5 (MEUR 32.4).
- EBIT improved for three of the four segments. The entire Group's EBIT improved from the reference period, standing at MEUR -0.5 (MEUR -1.2).
- Grano's net sales for the review period dropped by -7% from the reference period. EBIT totaled MEUR 0.2 (MEUR 0.3).
- Earnings per share (undiluted) were -1.5 cents (-2.3 cents).

### November 2022-July 2023 (9 months) in brief:

- Net sales increased in three of the four segments. Net sales for the Group as a whole increased by 1% to MEUR 102.0 (MEUR 101.1).
- EBIT improved for three of the four segments. The entire Group's EBIT declined from the reference period, standing at MEUR -0.3 (MEUR 5.8). The EBIT for the reference period includes MEUR 9.4 in sales profit from the SokoPro deal.
- Comparable net sales and EBIT improved across all segments (Grano adjusted based on the impacts of the SokoPro divestment).
- Grano's net sales for the review period dropped by 0.7% from the reference period. EBIT totaled MEUR 1.8 (MEUR 9.2). Adjusted with the SokoPro divestment, the net sales for the review period climbed by 1.3% and net sales improved by MEUR 2.8 from the reference period.
- Earnings per share (undiluted) were -4.0 cents (3.7 cents).

**CEO Tapio Tommila:**

“During the third quarter, we noticed signs of slowing financial activity in the development of our operating environment as well as indications of increased caution with regard to procurement decisions among customers. For the duration of the entire financial period, we have sought to drive forward measures that promote profitability across our segments in order to prepare for changes in demand and ensure the necessary flexibility to implement our value-creation plans in the long term.

For our largest segment Grano, the market situation deteriorated in the summer following a favorable first half of the year. Thanks to the measures to restore our sales margins, we were able to safeguard the profitability of our business, but we initiated change negotiations within the company after the review period to secure our competitiveness in the uncertain market situation.

The market environment has been somewhat more challenging than before for our other segments as well, since companies are now more careful about investment decisions and the purchasing power of consumers has weakened. As regards Oscar Software, we have been able to consistently expand the continuously invoiced software business but, due to the slower-than-hoped-for development, we have been forced to adapt the expenditures to secure the preconditions for implementing our strategy. Despite the private business suffering slightly from the decreased purchasing power of consumers, Hygga’s demand has remained stable, with the persistent software business and outsourcing services representing a large share of the company’s overall operations. Our productivity measures for Hygga have been successful, and the shift in profit/loss is good. Design service activity at CoreHW has remained high, but the customers’ aversion to making investment decisions is beginning to show on the market.

Through our efforts to secure profitability, we have strived to build the preconditions to execute our segment strategy in the best way possible and continued to make determined investments in the segments: Among others, Oscar Software’s cloud transition, CoreHW’s product business and Hygga’s software business have progressed well in the financial period.

The number of deals closed in the corporate acquisition market has dropped substantially from the high levels of recent years. For our part, we will continue to actively explore corporate acquisition opportunities in our own target sectors.”

## Segments 3 months



### Grano

Grano is Finland's leading content and marketing services company

Grano's net sales for the review period were MEUR 24.9, which is a decline of 7% from the reference period (MEUR 26.8). The Group's EBIT for the review period was MEUR 0.2 (MEUR 0.3). The reported cumulative EBIT for the reference period includes the early year profit/loss and sales profit of the SokoPro business operations that were divested at the beginning of the previous financial period's second quarter.

Overall market demand for print products remained satisfactory during the review period, even though the demand declined more than expected as the period progressed. Among the key customer fields, demand in the commercial sector weakened significantly, whereas demand in the industrial and public administration sectors remained satisfactory and good, respectively. The demand for construction printing services continued to decline as expected, and construction activity is slowing down noticeably. The development of net sales compared to the reference period was strong for marketing logistics and digital services, and demand for the strategic focus area of label products continued to grow. Conversely, demand for sheet prints and large prints declined as the review period progressed.

The project to revitalize sales margin levels and safeguard them against the increasing costs of production factors continued to yield results in the third quarter: the sales margin improved significantly from the reference period, which curbed the profitability impacts of the net sales which fell short of the reference period figures.

On August 16, 2023, Panostaja announced that Grano will be initiating change negotiations to improve the company's profitability and competitiveness, and to secure future operational capacity in the weakened market environment. The negotiations apply to about 850 employees and, according to a preliminary estimate, may lead to the employment relationship of up to 46 people being terminated, changed with regard to terms and conditions, or made into a part-time arrangement. Furthermore, fixed-term or indefinite lay-offs may also be considered by October 2024 across the entire staff.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/23-7/23	5/22-7/22	11/22-7/23	11/21-7/22	11/21-10/22
Net sales, MEUR	24.9	26.8	81.2	81.7	111.5
EBIT, MEUR	0.2	0.3	1.8	9.2	8.7
Interest-bearing net liabilities	41.0	42.2	41.0	42.2	46.4
Panostaja's holding	55.2%				

The following table presents the unaudited illustrative figures of the Grano segment, which include an adjustment removing the SokoPro sales profit of MEUR 9.4 from the 2022 profit/loss. The review period figures have also been adjusted to remove the figures of the SokoPro business operations from the segment's figures.

<b>MEUR / illustrative figures</b>	<b>3 months</b>	<b>3 months</b>	<b>9 months</b>	<b>9 months</b>	<b>12 months</b>
	5/23-7/23	5/22-7/22	11/22-7/23	11/21-7/22	11/21-10/22
Net sales, MEUR	24.9	26.8	81.2	80.2	109.9
EBIT, MEUR	0.2	0.3	1.8	-1.1	-1.6



## 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 2.7 (MEUR 2.6). Correspondingly, the review period's EBIT improved slightly from the reference period level, standing at MEUR 0.1 (MEUR -0.1).

In the review period, the general demand on the market deteriorated slightly due to the uncertain economic situation, and customers appear to take longer to make investment decisions. The competitive situation on the market is fierce in place, which is reflected by the pricing, for example. The operations have been active with regard to expansions and further development projects for existing customers. With regard to the acquisition of new customers, however, the realization of sales profits has been challenging despite the positive development of the sales pipeline, which is why the company has also focused on securing profitability in the midst of the lower-than-expected project activity.

The continuously invoiced software business, which is a strategic focus for the company, continued to increase its net sales, but the growth in the sale of expert services was modest in the review period due to the low number of new projects being initiated. The company will continue significant investments in the development of a cloud-based business platform, and there are active sales efforts to acquire new customers.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/23-7/23	5/22-7/22	11/22-7/23	11/21-7/22	11/21-10/22
Net sales, MEUR	2.7	2.6	8.7	8.4	11.2
EBIT, MEUR	0.1	-0.1	0.2	-0.4	-0.5
Interest-bearing net liabilities	3.5	3.9	3.5	3.9	3.6
Panostaja's holding	55.7%				



## 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 50% above the reference period level (MEUR 1.3). EBIT for the review period was negative, but the increased net sales improved it substantially from the reference period to MEUR -0.3 (MEUR -0.8). The vacation season in the third quarter weakens the profitability of the company's design services somewhat.

Customer project activity for design services remained high but, looking forward, there are more uncertainties than before related to the timing of initiating and advancing customer projects. The investment decisions of customers have begun to show signs of stalling demand despite the number of tenders remaining at a good level. 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. The new focus area of design services is the automotive industry, in which CoreHW has special expertise that yields added value and its own technology for sensor technology applications, in particular. There are plenty of favorable drivers for growing semiconductor demand in the automotive industry going forward.

CoreHW continued the active development and commercialization of its own products with almost MEUR 4 in additional funding, which was announced early in the spring. Based on customer feedback, CoreHW's technology offers excellent performance, and the company sees that product development investments in indoor positioning applications are currently increasing substantially thanks to the availability of sufficiently reliable technology for demanding applications. There are many potential customers, even though ramping up product sales will continue to require long-term efforts and depend upon the product development cycles and commercialization of customers' end products. The first customer relationships have progressed in product development, and the gradual growth in order sizes promises a transition to production in the early half of the next financial period. The investments in the commercial organization and product development that impact costs encumber the profitability of the current financial period. In the 2024 financial period, we expect significant growth in product business net sales as a result of the growth investments.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/23-7/23	5/22-7/22	11/22-7/23	11/21-7/22	11/21-10/22
Net sales, MEUR	2.0	1.3	6.4	5.4	8.0
EBIT, MEUR	-0.3	-0.8	-0.5	-1.0	-0.5
Interest-bearing net liabilities	8.7	6.0	8.7	6.0	5.8
Panostaja's holding	61.7%				



## 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 1.9, which was a 15% increase from the reference period (MEUR 1.7). EBIT climbed to a positive level thanks to improvements in net sales and operational productivity, standing at MEUR 0.1 (MEUR -0.2).

There were no essential changes in the market situation of the clinic business during the reporting period. The demand for private business has remained largely stable but declined slightly due to the challenges related to consumption demand. The volume of the City of Helsinki outsourcing services was moderate in the review period as employee availability deteriorated slightly. The company continued its measures to improve the productivity of the clinic business successfully.

In terms of software business, there have been no significant changes in the market situation. In Finland, there is an ongoing, active dialogue with the wellbeing services counties on the possibilities of utilizing the Hygga Flow system in oral health care and basic health care. In Sweden, active discussions are also under way with multiple potential customers based on the success of the Örebro reference. As such, an agreement was made with the Västernorrland region during the review period with regard to deploying Hygga Flow by the end of the year.

After the end of the review period on August 14, 2023, the company appointed the interim CEO Christoffer Nordström as the company's CEO.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/23-7/23	5/22-7/22	11/22-7/23	11/21-7/22	11/21-10/22
Net sales, MEUR	1.9	1.7	5.8	5.7	7.3
EBIT, MEUR	0.1	-0.2	-0.1	-0.5	-0.4
Interest-bearing net liabilities	9.5	9.0	9.5	9.0	9.8
Panostaja's holding	79.8%				





## Gugguu

Gugguu designs and manufactures first-rate children's clothing

*Gugguu is Panostaja's associated company, which is why its figures are not incorporated into Panostaja Group in the same way as those of other segments. Instead, its result impact is presented on a separate row in the Group's income statement. The company does not report its figures according to IFRS standards, and the figures presented here are largely indicative. In contrast to Panostaja, Gugguu's financial period will conclude at the end of March, but the figures presented adhere to Panostaja's financial period.*

The demand situation for Gugguu remained extremely challenging in the review period since the purchasing power of consumers has weakened and buying behavior has become more cautious. As a result, net sales dropped almost 30% from the reference period, as in the early part of the year, which was evident in both domestic and international online trade. Even though production costs have increased substantially in proportion to the development of consumer prices, the sales margin was maintained at a good level. Efforts to adapt fixed costs partially compensated for the profitability impacts of the poor net sales development.

Occasional improvements have been seen in the short-term market outlook, but predictability remains challenging. The general market situation has weakened the operational preconditions of companies in the textile field, and many competitors have reported financial issues. In some respects, this development can also be seen to support the future market standing of companies such as Gugguu that have a strong brand and position.

MEUR	3 months	3 months	9 months	9 months	12 months
FAS (illustrative figures)	5/23-7/23	5/22-7/22	11/22-7/23	11/21-7/22	11/21-10/22
Net sales, MEUR	1.0	1.3	2.6	3.6	4.6
EBIT, MEUR	0.1	0.2	-0.1	0.1	0.1
Panostaja's holding	43%				

## FINANCIAL DEVELOPMENT November 1, 2022–July 31, 2023

## KEY FIGURES

MEUR	Q3	Q3	9	9	12
	5/23- 7/23	5/22- 7/22	MONTHS 11/22- 7/23	MONTHS 11/21- 7/22	months 11/21- 10/22
Net sales, MEUR	31.5	32.4	102.0	101.1	137.9
EBIT, MEUR	-0.5	-1.2	-0.3	5.8	5.2
Profit before taxes, MEUR	-1.1	-1.6	-2.0	4.4	3.2
Profit/loss for the financial period, MEUR	-1.1	-1.6	-2.2	4.9	3.9
Distribution:					
Shareholders of the parent company	-0.8	-1.2	-2.1	1.9	1.3
Minority shareholders	-0.3	-0.4	-0.1	3.0	2.6
Earnings per share, undiluted, EUR	-0.01	-0.02	-0.04	0.04	0.03
Interest-bearing net liabilities	42.7	37.5	42.7	37.5	42.3
Gearing ratio, %	78.5	63.7	78.5	63.7	72.8
Equity ratio, %	39.6	41.9	39.6	41.9	39.1
Equity per share, EUR	0.64	0.72	0.64	0.72	0.71

## Distribution of net sales by segment

MEUR	Q3	Q3	9 MONTHS	9 MONTHS	12 months
Net sales	5/23- 7/23	5/22- 7/22	11/22- 7/23	11/21- 7/22	11/21- 10/22
Grano	24.9	26.8	81.2	81.7	111.5
Hygga	1.9	1.7	5.8	5.7	7.3
CoreHW	2.0	1.3	6.4	5.4	8.0
Oscar Software	2.7	2.6	8.7	8.4	11.2
Others	0.0	0.0	0.0	0.0	0.0
Eliminations	0.0	0.0	-0.1	-0.1	-0.1
<b>Group in total</b>	<b>31.5</b>	<b>32.4</b>	<b>102.0</b>	<b>101.1</b>	<b>137.9</b>

**Distribution of EBIT by segment**

MEUR	Q3	Q3 9 MONTHS	9 MONTHS	12 months	
	5/23- 7/23	5/22- 7/22	11/22- 7/23	11/21- 7/22	11/21- 10/22
Grano	0.2	0.3	1.8	9.2	8.7
Hygga	0.1	-0.2	-0.1	-0.5	-0.4
CoreHW	-0.3	-0.8	-0.5	-1.0	-0.5
Oscar Software	0.1	-0.1	0.2	-0.4	-0.5
Others	-0.5	-0.5	-1.6	-1.6	-2.2
<b>Group in total</b>	<b>-0.5</b>	<b>-1.2</b>	<b>-0.3</b>	<b>5.8</b>	<b>5.2</b>

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 -0.1 (MEUR 0.0), which is presented in a separate row in the consolidated income statement. The development of Gugguu's net sales and EBIT has been commented on more specifically in the Segments section.

**EVENTS AFTER THE REVIEW PERIOD**

On August 16, 2023, Panostaja announced that its segment Grano will be initiating change negotiations. The change negotiations apply to the entire staff of Grano Group, excluding the subsidiary Grano Diesel. The change negotiations aim to improve the company's profitability and competitiveness, and to secure future operational capacity in the weakened market environment.

The Board of Directors of Panostaja segment Hygga appointed interim CEO Christoffer Nordström as the company's CEO on August 14, 2023. Nordström has handled managerial duties for the company since 2010.

On August 31, 2023, Panostaja announced that M.Sc. (Econ.) Heikki Korelin (born 1986) has been appointed as Panostaja's new CFO and Member of the Board. He will assume the duties of CFO in next February, at the latest. Korelin's current position is Vice President, Group Business Control, at Patria Oyj. An announcement on the current CFO Antti Kauppila moving to other tasks outside the Group was released on June 5, 2023.

## OUTLOOK FOR THE 2023 FINANCIAL PERIOD

As regards the corporate acquisition market, new opportunities are available and the market is active. SMEs will still need to utilize ownership arrangements and growth opportunities, but the consistently high market liquidity and the high price expectations of sellers, which tend to follow changes in economic trends with some delay, make the operating environment 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:

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

The demand situation presented above involves uncertainties relating to any geopolitical and macroeconomic impacts that are difficult to anticipate. The effects of the war in Ukraine and the related economic sanctions and geopolitical tensions 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. If strengthened and prolonged, the inflation may have a negative impact on the purchasing power of consumers and the willingness of companies to make investments, which may weaken the demand situation of our segments from the estimate provided above.

Panostaja Oyj

Board of Directors

For further information, contact CEO Tapio Tommila, +358 (0)40 527 6311

Panostaja Oyj

Tapio Tommila

CEO

## ACCOUNTING PRINCIPLES

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	October 31,		
	July 31, 2023	July 31, 2022	2022
Grano	40983	42221	46389
Hygga	9503	9027	9846
CoreHW	8730	5980	5803
Oscar Software	3513	3945	3620
Parent company	-20473	-24041	-23684
Others	415	369	371
<b>Group in total</b>	<b>42671</b>	<b>37501</b>	<b>42345</b>

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 31.9 (MEUR 30.5).

## Write-downs per segment

EUR 1,000	October		
	July 31, 2023	July 31, 2022	31, 2022
Grano	-7663	-8245	-12178
Hygga	-459	-419	-570
CoreHW	-442	-342	-482
Oscar Software	-980	-946	-1265
Others	-56	-105	-147
<b>Group in total</b>	<b>-9600</b>	<b>-10056</b>	<b>-14642</b>

The impact of the IFRS 16 standard on the Group's depreciations is MEUR 6.9 (MEUR 6.5).

*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.*