

panostaja

Business Review

4 September, 2024



November 2023
- July 2024

Panostaja Oyj's Business Review

November 1, 2023–July 31, 2024

Positive profitability development continued in the third quarter

MAY 2024–JULY 2024 (3 months) in brief:

- Net sales increased in two out of four segments. For the Group as a whole, net sales remained at the level of the reference period at MEUR 31.6 (MEUR 31.5).
- EBIT improved in all of the four segments. The entire Group's EBIT improved from the reference period, standing at MEUR 0.8 (MEUR -0.5).
- Grano's net sales for the review period dropped by 1% from the reference period. EBIT totaled MEUR 0.8 (MEUR 0.2).
- Earnings per share (undiluted) were -0.5 cents (-1.5 cents).

NOVEMBER 2023–JULY 2024 (9 months) in brief:

- Net sales increased in two out of four segments. Net sales for the Group as a whole weakened by 3% to MEUR 98.5 (MEUR 102.0).
- EBIT improved for three of the four segments. The entire Group's EBIT improved from the reference period, standing at MEUR 0.8 (MEUR -0.3).
- Grano's net sales for the review period dropped by 5% from the reference period. EBIT totaled MEUR 1.8 (MEUR 1.8).
- Earnings per share (undiluted) were -8.8 cents (-4.0 cents). The profit/loss includes a write-down of roughly MEUR 3.1 in loan receivables.

CEO Tapio Tommila:

“In the third quarter of the financial period, general economic caution persisted in the same way as early on in the period. Over the course of the review period, we have continued the earlier measures to bolster profitability. In fact, the profit/loss for all of our segments improved from the reference period. Overall, EBIT improved from the reference period by MEUR 1.3, standing at MEUR 0.8.

In terms of net sales development, the third quarter was like the reference period, with the net sales settling at MEUR 31.6. For Grano, net sales dropped by MEUR 0.2 from the reference period, ending up at MEUR 24.7. The implementation of Grano’s structural and organizational changes as well as other streamlining measures was continued in the third quarter. The resulting cost savings that target the current financial period are estimated to stand at roughly MEUR 1.5, and they will primarily focus on the last quarter. Through the structural and organizational changes, Grano is aiming for permanent annual cost savings of about MEUR 4.5.

The positive development of Hygga’s clinic operations continued in the review period. The 3+1 year agreement period of the outsourcing business will be ending on October 31, 2024, and the operations will not be continued after the on-going option year. Over the course of the fall and the early part of the 2025 financial period, the clinic business will be reverted back to the mainly private clinic operations, which are supplemented by oral health care services provided to service voucher customers. After the conclusion of the outsourcing services, the clinic’s net sales will settle at a clearly lower level than currently and the cost structure will shrink correspondingly.

In terms of CoreHW’s design services, there was a positive turn in the review period, as the company managed to win multiple new design service orders. The new design projects were mostly kicked off in the latter half of the review period. The new orders will significantly increase the work load of the remaining financial period and the start of the upcoming one. In terms of product business, we are expecting the first significant orders toward the end of the financial period. However, substantial deliveries will take place in the 2025 financial period. We expect the first significant orders to come from the health care sector of the United States from operators that already have existing infrastructure for indoor positioning.

At Oscar Software, the growth of the ARR software business continued as expected, and expert sales to existing customers saw positive development during the review period. Customer uncertainty in terms of larger investment projects persists as a result of the general economic situation. Overall, the company’s net sales for the review period improved from the reference period significantly to MEUR 0.6 (MEUR 0.1).

In the corporate acquisition market, activity has remained at the level of the second quarter and increased slightly after the slower first quarter. In terms of the number of realized corporate acquisitions, however, the market remains below the long-term average. Despite the fairly low activity level, however, the valuation environment has remained somewhat challenging. We have continued to actively explore new corporate acquisition opportunities in our target fields according to our goals.”

Segments 3 months



Grano

Grano is Finland's leading content and marketing services company

Grano's net sales for the review period were MEUR 24.7, which is a decline of 1% from the reference period (MEUR 24.9). The Group's EBIT for the review period improved substantially from the reference period, standing at MEUR 0.8 (MEUR 0.2).

The market demand remained generally fairly challenging in the review period. Demand for print communications remained fairly poor due to the persistently uncertain economic situation. During the review period, the demand for industry and service sector customers continued to be poor, but the growing demand in retail and wholesale compensated for the weaker demand in the industrial and service sectors. The development of net sales continued strong in relation to the reference period with regard to language services and the packaging business. The demand for construction-related printing services remained poor in the review period.

Measures to improve profitability were continued in the review period. On March 18, 2024, Panostaja announced the conclusion of Grano's change negotiations. The measures with regard to the terminations have been carried out by the end of the second quarter, and the layoffs have been and will be carried out fully by the end of 2024, at the latest. The financial impact of the staff reductions in 2024 will focus on the fourth quarter. Through the structural and organizational changes, Grano is aiming for permanent annual cost savings of about MEUR 4.5. The financial impact of the changes on the current financial period is estimated to be about MEUR 1.5.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/24-7/24	5/23-7/23	11/23-7/24	11/22-7/23	11/22-10/23
Net sales, MEUR	24.7	24.9	77.5	81.2	109.1
EBIT, MEUR	0.8	0.2	1.8	1.8	1.9
Interest-bearing net liabilities	33.2	41.0	33.2	41.0	39.4
Panostaja's holding	55.2%				



Oscar Software

Oscar Software provides ERP systems and financial management services

Oscar Software's net sales for the review period increased by 6% from the reference period and were MEUR 2.9 (MEUR 2.7). EBIT improved significantly from the reference period to MEUR 0.6 (MEUR 0.1).

The general market demand remained satisfactory in the review period. The competitive situation on the market has remained fierce in places, which is reflected by the pricing, for example. Expansions and further development projects for existing customers remained active in the review period. Moreover, the additional efforts related to the value-added tax change that will take effect at the beginning of September supported the development in net sales for existing customers in the third quarter.

The interest toward the company's products and services has continued at a good level, but customer uncertainty in terms of larger investment projects persists as a result of the general economic situation. The possible recovery of the general economic situation and the favorable development of the interest environment would support customers in realizing their investment decisions. The growth of the ARR software net sales continued according to expectations, and the expert sales to existing customers saw positive development in the review period. The development of selling expert services to new customers was modest in the review, as there were continued challenges in securing new projects. Active sales efforts to acquire new customers will be continued. The company will continue significant investments in the development of a cloud-based business platform, which has progressed as planned.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/24-7/24	5/23-7/23	11/23-7/24	11/22-7/23	11/22-10/23
Net sales, MEUR	2.9	2.7	8.8	8.7	11.5
EBIT, MEUR	0.6	0.1	0.9	0.2	0.4
Interest-bearing net liabilities	2.5	3.5	2.5	3.5	3.2
Panostaja's holding	58.4%				



CoreHW

CoreHW provides high added value RF IC design services as well as product and component solutions for indoor positioning.

CoreHW's net sales for the review period at MEUR 1.9 matched expectations but was slightly lower than the reference period (MEUR 2.0). EBIT for the review period improved from the reference period to MEUR -0.1 (MEUR -0.3). The profitability level of the review period continued to be encumbered by the low customer project activity for design projects in the early part of the review period.

In terms of design services, there was a positive turn in the review period, as the company managed to win multiple new design service orders. The new design projects were mostly kicked off in the latter half of the review period. The new orders will significantly increase the work load of the remaining financial period and the start of the upcoming one. The active sales efforts of design services were continued in the review period with a focus on the proprietary IP portfolio. The automotive industry segment is expected to remain a strong focus for CoreHW going forward. CoreHW has special expertise that yields added value along with proprietary technology particularly for sensor applications in the automotive industry.

In the review period, CoreHW continued the active development and commercialization of its own products. A product launch of indoor positioning solutions was carried out in Japan during the review period. 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. As regards indoor positioning technology, the company continues to focus on gaining its first reference accounts in the US health care markets where existing pilot orders have already been expanded in the review period. We are aiming for the first significant orders in the current financial period, but the deliveries are likely to mainly take place in the 2025 financial period.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/24-7/24	5/23-7/23	11/23-7/24	11/22-7/23	11/22-10/23
Net sales, MEUR	1.9	2.0	5.7	6.4	7.9
EBIT, MEUR	-0.1	-0.3	-0.7	-0.5	-1.2
Interest-bearing net liabilities	10.2	8.7	10.2	8.7	9.9
Panostaja's holding	55.8%				



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 2.2, which was an 11% increase from the reference period (MEUR 1.9). The growth of the net sales was accelerated by the improved volumes of the clinic business in terms of both the private business and outsourcing services sold to the City of Helsinki. EBIT remained at the level of the reference period and was MEUR 0.1 (MEUR 0.1).

The demand for the clinic business continued to be moderate in the review period. The volume of the City of Helsinki outsourcing business remained at a good level in the review period. The 3+1 year agreement period of the outsourcing business will be ending on October 31, 2024 and the operations will not be continued after the on-going option year. Over the course of the fall and the early part of the 2025 financial period, the clinic business will be reverted back to the mainly private clinic operations, which are supplemented by oral health care services provided to City of Helsinki service voucher customers. After the conclusion of the outsourcing services, the clinic's net sales will settle at a clearly lower level than currently and the cost structure will shrink correspondingly. In the review period, the company continued its measures to improve the productivity of the clinic business successfully.

As regards the software business, the market situation has remained tight as a result of the cost savings and streamlining measures of the domestic wellbeing services counties. Competition in Finland has remained extremely fierce, which continues to cause significant pricing pressure. In Finland, the active dialogue with the wellbeing services counties will be continued on the possibilities of utilizing the Hygga Flow system in oral health care and basic health care. During the review period, Hygga Flow's pilot use was initiated in Belgium for AZ Delta's radiology services.

MEUR	3 months	3 months	9 months	9 months	12 months
	5/24-7/24	5/23-7/23	11/23-7/24	11/22-7/23	11/22-10/23
Net sales, MEUR	2.2	1.9	6.5	5.8	7.8
EBIT, MEUR	0.1	0.1	0.3	-0.1	-0.1
Interest-bearing net liabilities	9.5	9.5	9.5	9.5	10.0
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.

Gugguu's general demand situation remained challenging in the review period. Summer discount campaigns have been arranged in the review period, and sales focused heavily on discounted products before the launch of the new fall model range. Anticipating demand has remained difficult with persistently low consumer purchasing power. The net sales for the review period were lower than in the reference period. Fixed costs have been adapted well to match the requirements of the lower net sales level.

Significant changes are not expected in the short-term market outlook. The investments in retail will be continued, and the number of retailers will be increased. In addition to this, investments to support online sales will be continued. Both smaller and larger operators in the field have declared bankruptcy, entered corporate restructuring or closed down entirely. This has choked the market for children's clothing – also on an international level. This provides the company with the opportunity to secure a larger market share through its own online shop and new retailers.

MEUR	3 months	3 months	9 months	9 months	12 months
FAS (illustrative figures)	5/24-7/24	5/23-7/23	11/23-7/24	11/22-7/23	11/22-10/23
Net sales, MEUR	0.7	1.0	2.3	2.6	3.4
EBIT, MEUR	-0.1	0.1	-0.2	-0.1	-0.1
Panostaja's holding	43%				

FINANCIAL DEVELOPMENT November 1, 2023–July 31, 2024

KEY FIGURES

MEUR	Q3	Q3	9	12	
	5/24- 7/24	5/23- 7/23	9 months 11/23- 7/24	months 11/22 7/23	months 11/22- 10/23
Net sales, MEUR	31.6	31.5	98.5	102.0	136.2
EBIT, MEUR	0.8	-0.5	0.8	-0.3	-1.1
Profit before taxes, MEUR	0.2	-1.1	-4.4	-2.0	-4.3
Profit/loss for the financial period, MEUR	0.0	-1.1	-4.6	-2.2	-3.6
Distribution:					
Shareholders of the parent company	-0.2	-0.8	-4.7	-2.1	-2.9
Minority shareholders	0.2	-0.3	-0.0	-0.1	-0.8
Earnings per share, undiluted, EUR	-0.00	-0.01	-0.09	-0.04	-0.05
Interest-bearing net liabilities	39.9	42.7	39.9	42.7	42.4
Gearing ratio, %	82.8	78.5	82.8	78.5	80.5
Equity ratio, %	38.1	39.6	38.1	39.6	37.5
Equity per share, EUR	0.53	0.64	0.53	0.64	0.62

Distribution of net sales by segment

MEUR	Q3	Q3	9 months	9 months	12 months
	5/24-	5/23-	11/23	11/22	11/22-
Net sales	7/24	7/23	7/24	7/23	10/23
Grano	24.7	24.9	77.5	81.2	109.1
Hygga	2.2	1.9	6.5	5.8	7.8
CoreHW	1.9	2.0	5.7	6.4	7.9
Oscar Software	2.9	2.7	8.8	8.7	11.5
Others	0.0	0.0	0.0	0.0	0.0
Eliminations	0.0	0.0	-0.1	-0.1	-0.1
Group in total	31.6	31.5	98.5	102.0	136.2

Distribution of EBIT by segment

MEUR	Q3	Q3	9 months	9 months	12 months
	5/24-	5/23-	11/23	11/22	11/22-
EBIT	7/24	7/23	7/24	7/23	10/23
Grano	0.8	0.2	1.8	1.8	1.9
Hygga	0.1	0.1	0.3	-0.1	-0.1
CoreHW	-0.1	-0.3	-0.7	-0.5	-1.2
Oscar Software	0.6	0.1	0.9	0.2	0.4
Others	-0.5	-0.5	-1.5	-1.6	-2.2
Group in total	0.8	-0.5	0.8	-0.3	-1.1

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 0.1), 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

No significant events after the review period.

OUTLOOK FOR THE 2024 FINANCIAL PERIOD

In the corporate acquisition market, activity has remained at the level of the second quarter and increased after the slower first quarter. 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 conflict in the Middle East and the war in Ukraine as well as 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. The general economic volatility 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

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Panostaja Oyj

Tapio Tommila

CEO

ACCOUNTING PRINCIPLES

This bulletin has been prepared in compliance with the IFRS accounting and valuation principle based on the IAS 34 standard.

The business review does not include all notes to the October 31, 2023 consolidated financial statements, due to which it must be read together with the annual financial statements. The six-month review adheres to the same preparation principles as the previous annual financial statements.

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, 2024	July 31, 2023	2023
Grano	33,209	40,983	39,365
Hygga	9,547	9,503	10,002
CoreHW	10,194	8,730	9,914
Oscar Software	2,522	3,513	3,223
Parent company	-15,587	-20,473	-20,124
Others	0	415	0
Group in total	39,885	42,671	42,381

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 27.2 (MEUR 31.9).

Write-downs per segment

EUR 1,000	July 31, October 31,		
	July 31, 2024	2023	2023
Grano	-7,466	-7,663	-10,210
Hygga	-490	-459	-620
CoreHW	-432	-442	-592
Oscar Software	-722	-980	-1,217
Others	-51	-56	-74
Group in total	-9,161	-9,600	-12,713

The impact of the IFRS 16 standard on the Group's depreciations is MEUR 6.6 (MEUR 6.9).

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 as well as product and component solutions for indoor positioning. Oscar Software provides ERP systems and financial management services.