

hGears AG Group: Nine-month 2023 performance in line with expectations amid ongoing industry-wide destocking; focus remains on driving efficiencies

NINE-MONTHS 2023 HIGHLIGHTS

- Group revenues at EUR 84.1 million, down 18.8% y-o-y
- Ongoing supply and demand imbalances persisted in the e-bike market
- Destocking and weaker end-market in e-Tools consistently impacted demand
- Conventional continued to grow, with revenues up 7.1% y-o-y
- Gross profit at EUR 42.6 million, down 20.3% y-o-y, gross margin at 50.7% versus 51.6% in 9M 2022
- Adjusted EBITDA at EUR 4.0 million, down 66.2% y-o-y, with an adjusted EBITDA margin of 4.8%
- Free cash flow (FCF) at minus EUR 10.0 million in the first nine months of 2023
- Positive FCF generation of EUR 0.9 million in Q3 2023; neutral FCF expected in Q4 2023
- Full-year 2023 guidance and medium-term targets confirmed

Schramberg, 8 November 2023 - hGears AG posted Group revenues of EUR 84.1 million and an adjusted EBITDA of EUR 4.0 million in the first nine months of 2023. The decline in revenue is attributed to the e-Tools and e-Mobility business areas, with Conventional continuing to demonstrate growth, albeit at a slightly decelerating pace compared to prior quarters.

As expected, the business environment in the third quarter of 2023 remained relatively unchanged compared to the trends observed in the first half of the year. Overall, Group revenues and profitability in the quarter continued to be impacted by the slower-than-expected destocking cycle and muted end-consumer demand in e-Tools and e-Mobility.

For the first nine months of 2023, revenue in the e-Mobility business area declined 26.5% to EUR 28.3 million, reflecting a temporary slowdown in the market due to industry-wide destocking. On a sequential basis, EHV and e-Bike revenues increased in Q3 2023 versus Q2 2023, following sequential gains in the prior quarter. In e-Tools, the operating environment remained challenging, with high interest rates adversely impacting building and construction and customers continuing to unwind elevated inventory levels. Subsequently, revenue in the e-Tools business area decreased 34.8% for the first nine months of 2023 to EUR 20.7 million. Conventional sustained its year-on-year growth, although the pace of expansion slowed down compared to preceding quarters. For the first nine months of 2023, revenue in this business area increased to EUR 34.5 million, representing an increase of 7.1% over the prior year period, underpinning the strong positioning of the Group in the premium, luxury, and sports vehicle segments.

In the first nine months of 2023, gross margin benefitted from a better mix effect, albeit declined slightly to 50.7% versus 51.6% in the prior year period, predominantly reflecting lower revenue volumes and stop-and-start inefficiencies. The adjusted EBITDA margin of 4.8% reflects constraints in capitalizing on the Group's inherent operating leverage. However, the first gains related to organizational streamlining, ongoing efficiency improvements, and saving efforts helped counteract this effect, for example with FTEs 106 lower versus the prior year period and personnel expenses down 9.5%.

Sven Arend, CEO of hGears, comments:

"2023 remains a transition year as we navigate a challenging external environment. In e-bikes, the slow destocking cycle remains, and we continue to expect this to result in a cautious ordering pattern amongst our customers. Amid this backdrop, our focus remains on optimizing operational aspects within our control to help realize immediate savings and drive efficiencies. We continue to streamline our operating structures and refine resource management, as reflected in the year-to-date reduction in personnel expenses and FTEs. Preserving our strong financial position also remains of utmost priority, with strict oversight of cost and capex release key to maintaining our low debt profile and balance sheet strength while ensuring our operating model remains flexible and scalable for future growth when the market recovers."

OVERVIEW OF 9M 2023 FIGURES

Group figures (in EUR million)	9M 2023	9M 2022	Δ
Revenues	84.1	103.6	-18.8%
Gross Profit	42.6	53.5	-20.3%
Gross Profit margin	50.7%	51.6%	-90 bps
Adj. EBITDA	4.0	11.9	-66.2%
Adj. EBITDA margin	4.8%	11.5%	-670 bps

Revenues by Business Area (in EUR million)	9M 2023	9M 2022	Δ
e-Mobility	28.3	38.5	-26.5%
e-Tools	20.7	31.8	-34.8%
Conventional	34.5	32.2	7.1%

NOTE: Numbers may be subject to rounding

OUTLOOK

Assuming no significant changes in current market dynamics and based on the revised FY 2023 guidance published on 1 June 2023, the full-year 2023 targets for the Group are as follows:

- Group revenues of EUR 115 – 123 million
- Adjusted EBITDA of EUR 5 – 9 million
- Negative free cash flow of between EUR 9 – 12 million

In the medium term, i.e., in the next two to five years, hGears targets strong growth mainly in the e-Mobility business area, albeit from a lower base, and expects Group revenues to reach approximately EUR 180 – 200 million. In attaining this growth target, the e-Mobility business area is expected to account for about 55% – 60% of the Group's total revenue, in line with the Group's business expansion ambition and strategic focus.

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About hGears

hGears is a global manufacturer of mission-critical high-precision gears and components with a focus on products for e-mobility applications. The Company's strategic focus is on the e-Mobility business area, where products include gears, shafts, and other mission-critical components to be used in electrical drive applications for e-bikes and electric and hybrid vehicles. In the e-bikes segment, hGears is the European market leader in the supply of high-precision gears and components, and its parts are contained in almost every second e-bike sold in Europe. This puts the Company in a good position to capitalize on the dynamically growing end-markets for e-bikes and electric and hybrid vehicles. hGears has three distinct business areas for which it develops and manufactures high-precision components: e-Mobility, e-Tools, and Conventional (i.e., premium and luxury cars, motorcycles and industrial applications).

hGears combines over 60 years of experience in advanced machined steel metal processing and state-of-the-art powder metal production. It is one of the few companies offering customers both processes worldwide. hGears works together with its customers in a "co-development" role to design components and find technologically optimal solutions to satisfy the customer's specifications. hGears' blue-chip customer base includes several major suppliers (Tier 1) as well as original equipment manufacturers (OEMs). The Company benefits from long, stable and sustainable relationships with its customers and has worked with many key customers for over 15 years.

hGears is headquartered in Schramberg, Germany, and operates globally with production facilities in Schramberg, Germany, Padua, Italy, and Suzhou, China. Find us on the web: www.hgears.com