

Company Nordic Fibreboard AS
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Attachments:

- SkanoGroup-10002965021-en.pdf (<http://oam.fi.ee/en/download?id=4189>)
- SkanoGroup-10002965023-et.pdf (<http://oam.fi.ee/en/download?id=4190>)

Currency

Title Skano Group Interim Report 3rd Quarter 2019

MANAGEMENT REPORTS

SKANO GROUP AS UNAUDITED THIRD QUARTER 2019 RESULTS

Consolidated net sales for the continuing operations of fibreboard, furniture retail and the recently commenced operations of renting out space in our property unit, for Q3 2019 were EUR 3.25 million, a 6% increase compared to the same period in 2018.

Fibreboard sales increased with 5% during Q3 2019 to EUR 3.06 million compared to the same period last year, this being mainly a result of securing new customers across the main application segments. The remaining group sales of continuous operations, consisting of furniture retail and rental operations less group transactions, were EUR 0.19 million (versus EUR 0.16 million in Q3 2018). Total sales of Skano Group, including the discontinued business of Skano Furniture Factory, were EUR 3.61 million, down 3% from Q3 2018.

Skano Group recorded EBITDA of positive EUR 81 thousand for Q3 2019, a 76% increase compared to EBITDA of EUR 46 thousand in Q3 2018. Fibreboard EBITDA of EUR 125 thousand was EUR 16 thousand less than recorded in Q3 2018. Rental income from renting out part of our head office building in Suur-Jõe 48 in Pärnu showed positive EBITDA of EUR 14 thousand while total furniture operations had negative EBITDA of EUR 59 thousand. Net loss for Q3 2019 was EUR 700 thousand, which included loss of EUR 540 thousand from the sale of Skano Furniture Factory OÜ (Q3 2018: net loss EUR 211 thousand).

Divisional review of third quarter 2019

Fibreboard sales in Q3 2019 were EUR 3.06 million, which is 5% up from the same period in 2018. Sales growth came from securing new customers in Europe and Asia



within industrial and display board segments. Gross margin in Fibreboard has continued to improve every quarter this year. We recorded gross margin of 18% in Q3, up from 15% and 13% respectively in Q2 and Q1 this year (gross margin was 20% in Q3 2018). Other operating expenses (including overhead costs) were EUR 415 thousand, down 3.5% from same period last year, which resulted in EBITDA being EUR 125 thousand (Q3 2018: EUR 141 thousand).

Furniture wholesale in Q3, up to when it was divested on 5 September, was EUR 353 thousand (Q3 2018: EUR 630 thousand), while furniture retail sales in Q3 2019 were EUR 265 thousand, down 20% from same period last year. EBITDA for furniture wholesale were showing loss of EUR 12 thousand, while furniture retail showed loss of EUR 95 thousand (2018 Q3: loss EUR 50 thousand).

Balance Sheet

As of 30.09.2019 the total assets of Skano Group AS were EUR 9.2 million (30.09.2018: EUR 11.0 million). The change in total assets is mainly related to exiting furniture business. The liabilities of the company as of 30.09.2019 were EUR 7.6 million (30.09.2018: EUR 7.7 million), of which Skano has borrowings of EUR 4.6 million as at 30.09.2019 (30.09.2018: EUR 4.9 million).

Receivables and prepayments amounted to EUR 1.8 million as at 30.09.2019 (30.09.2018: EUR 1.6 million). Inventories were EUR 1.1 million as of 30.09.2019 (30.09.2018: EUR 2.4 million). Property, plant and intangibles were EUR 6.3 million as of 30.09.2019 (EUR 7.0 million as of 30.09.2018).

Outlook

Fibreboard sales have grown due to our successful push into various applications which have more global reach than our traditional sales of windboards and insulation boards sold mainly in our traditional markets of Finland, Russia and Estonia. The industrial segment offers more potential as customers are becoming more conscious of using environmentally friendly materials, such as our fibreboards. We see further upside potential in sales growth of display boards, especially in the dynamic Asian market.

Divisional review

Revenue by business segments

	EUR thousand		EUR thousand	
	Q3 2019	Q3 2018	9M 2019	9M 2018
Continued operations				
Fibreboards production and sales	3,064	2,924	8,970	8,603



Furniture retail	265	333	1,126	1,095
Rental and operating of own or leased real estate	32	0	48	0
Group transactions	(109)	(177)	(525)	(537)
TOTAL from continued operations	3,253	3,080	9,620	9,162
Discontinued operations				
Furniture production and sales	353	630	1,703	2,207
TOTAL	3,606	3,709	11,323	11,369

Profit by business segments

	Q3 2019	Q3 2018	9M 2019	9M 2018
EBITDA by business units:				
Fibreboards production and sales	125	141	117	349
Furniture production and wholesale*	(12)	(31)	(176)	15
Furniture retail	(95)	(50)	(134)	(80)
Rental and operating of own or leased real estate	14	0	30	0
Group transactions	49	(14)	100	(22)
TOTAL EBITDA	81	46	(63)	261
Depreciation	163	181	501	554
TOTAL OPERATING PROFIT/ LOSS	(82)	(135)	(564)	(294)



Net financial costs	618	77	759	212
NET PROFIT/ LOSS	(700)	(211)	(1,322)	(505)

* Discontinued operations, the subsidiary has been sold on 05.09.2019

**We incurred a loss of EUR 540 thousand on sale of Skano Furniture Factory

FIBREBOARD sales

The total sales of fibreboards for Q3 2019 were EUR 3.06 million, which are 5% up from Q3 2018 sales level (EUR 2.92 million). We recorded sales increase in EU, Asia and Africa while sales were dropping in Russia and Middle East, reflecting the subdued economic environment in both regions.

FIBREBOARD SALES BY GEOGRAPHICAL SEGMENTS

	EUR thousand		EUR thousand	
	Q3 2019	Q3 2018	9M 2019	9M 2018
European Union (including Suomen Tuulileijona sales)	2,291	2,093	6,620	6,455
Russia	417	448	1,169	1,169
Asia	157	128	400	318
Middle East	34	74	160	248
Africa	122	62	421	137
Other	43	118	200	276
TOTAL	3,064	2,923	8,970	8,603

FURNITURE wholesale sales*

Prior to the sale on 5 September 2019 of our furniture wholesale company Skano Furniture Factory, sales in this unit were EUR 353 thousand, compared to the full Q3 2018 sales of EUR 630 thousand.

FURNITURE WHOLESALE SALES BY COUNTRIES *

	EUR thousand		EUR thousand	
	Q3 2019	Q3 2018	9M 2019	9M 2018
Russia	170	254	627	892



Finland	38	148	335	596
Skano Retail	91	177	476	530
Other countries	54	51	265	189
TOTAL	353	630	1,703	2,207

* Discontinued operations, the subsidiary was sold on 05.09.2019

FURNITURE RETAIL SALES

Furniture retail operations recorded sales of EUR 265 thousand in Q3 2019, a decline of 20% from Q3 2018. We initiated closing down sales of our shops in Vilnius and Riga in early September, and these shops ended their operations last day in September.

RETAIL SALES BY COUNTRIES

	EUR thousand		EUR thousand		Number of stores	
	Q3 2019	Q3 2018	9M 2019	9M 2018	30.09.2019	30.09.2018
Estonia	162	234	783	603	3	4
Latvia*	40	56	125	250	0	1
Lithuania*	63	43	218	242	0	1
TOTAL	265	333	1,126	1,095	3	6

* Latvian and Lithuanian stores were closed on 30.09.2019

STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

As of 30.09.2019 the total assets of Skano Group AS were EUR 9.2 million (30.09.2018: EUR 11.0 million). The liabilities of the company as of 30.09.2019 were EUR 7.6 million (30.09.2018: EUR 7.7 million), of which Skano has borrowings of EUR 4.6 million as at 30.09.2019 (30.09.2018: EUR 4.9 million).

Receivables and prepayments amounted to EUR 1.8 million as at 30.09.2019 (30.09.2018: EUR 1.6 million). Inventories were EUR 1.1 million as of 30.09.2019 (30.09.2018: EUR 2.4 million). Financial investments (i.e. Trigon Property Development shares) were EUR 378 thousand as at 30.09.2019, down from EUR 399 thousand as at 30.06.2019. Total non-current assets were EUR 6.3 million as of 30.09.2019 (EUR 7.0 million as of 30.09.2018).

During 2019 9M, the Group's cash flows from operating activities totalled cash



inflow of EUR 279 thousand (2018 9M: cash inflow EUR 295 thousand). Investment activities resulted in cash outflows in amount of EUR 117 thousand during 2019 9M, compared to outflows in amount EUR 197 thousand during 9M 2018. Financing activities also resulted in cash outflows of EUR 172 thousand during 9M 2019 (2018 9M: cash outflow EUR 129 thousand). Net cash effect during 2019 9M showed cash outflows of EUR 10 thousand, (2018 9M: cash outflows EUR 31 thousand).

Outlook

SKANO FIBREBOARD

We expect the trend to continue with growing sales of our various applications outside of our historic focus on the construction sector in our nearby markets. The construction sector in Finland and Russia is subdued, thus no sales growth in these two historically important markets are expected. Increased electricity prices should be more than offset with the decline of the woodchip and gas prices. In addition we have reduced our product mix by ending the production of some of the slow moving products, which should also help profitability.

SKANO FURNITURE RETAIL SALES

We will continue our process of exiting from the furniture retail segment. Our Tartu shop will cease operations at end of November, and we have also commenced closing down sales in our Tallinn shop. We expect to close the Tallinn shop and Pärnu factory outlet shop in early 2020, which will mark the total exit of Skano Group's furniture operations.

PEOPLE

On the 30th of September 2019, the Group employed 128 people (compared to 213 people as of 30.09.2018). The average number of personnel in Q3 2019 was 123 (Q3 2018: 213). The drop in the number of employees is related to the sale of subsidiaries.

During first nine months of 2019, wages and salaries with taxes amounted to EUR 2,7 million (first nine months 2018: EUR 2.7 million). Payments made to management board members of all group companies including all subsidiaries with relevant taxes were EUR 103 thousand in nine months 2019 and EUR 136 thousand in nine months 2018.

FINANCIAL HIGHLIGHTS

* Including discontinued operations

EUR thousand				
Income statement	Q3 2019*	Q3 2018*	9M 2019*	9M 2018*
Revenue	3,606	3,709	11,323	11,369



EBITDA		81		46		(63)		261
EBITDA margin		2%		1%		(1%)		2%
Operating profit		(82)		(135)		(564)		(294)
Operating margin		(2%)		(4%)		(5%)		(3%)
Net profit		(700)		(211)		(1,322)		(505)
Net margin		(19%)		(6%)		(12%)		(4%)
* Including discontinued operations								

Statement of financial position		30.09.2019		31.12.2018		30.09.2018		31.12.2017
Total assets		9,213		10,307		11,012		10,937
Return on assets		(14%)		(9%)		(5%)		(1%)
Equity		1,608		2,901		3,277		3,753
Return on equity		(82%)		(31%)		(15%)		(3%)
Debt-to-equity ratio		83%		72%		70%		66%
Share		30.09.2019		31.12.2018		30.09.2018		31.12.2017
Last Price*		0.41		0.36		0.49		0.62
Earnings per share		(0.29)		(0.20)		(0.11)		(0.03)
Price-earnings ratio		(1.38)		(1.82)		(4.36)		(21.83)
Book value of a share		0.36		0.64		0.73		0.83
Market to book ratio		1.14		0.56		0.67		0.74
Market capitalization, EUR thousand		1,827		1,620		2,205		2,771
Number of shares, piece		4,499,061		4,499,061		4,499,061		4,499,061



EBITDA = Earnings before interest, taxes, depreciation and amortization
EBITDA margin = EBITDA / Revenue
Operating margin = Operating profit / Revenue
Net margin = Net profit / Revenue
Return on assets = Net profit / Total assets
Return on equity = Net profit / Equity
Debt-to-equity ratio = Liabilities / Total assets
Earnings per share = Net profit / Total shares
Price-earnings ratio = Last price / Earnings per share
Book value of a share = Equity / Total shares
Market to book ratio = Last price / Book value of a share
Market capitalization = Last price * Total shares
*<http://www.nasdaqbaltic.com/>

FINANCIAL RISKS

INTEREST RATE RISK

Skano Group AS's interest rate risk relates to changes in EURIBOR (Euro Interbank Offered Rate) since our loans are linked to EURIBOR. At 30.09.2019 six months' EURIBOR rate was (0,394)% and at 30.09.2018 six months' EURIBOR rate was (0.268)%. As EURIBOR is negative and in the loan agreements it is set to 0%, the continued negative rate of EURIBOR does not have interest expense reducing effect. As the borrowing have a maturity of up to 2 years or less, management is in opinion that the floating interest rate will not bear significant impact to Group's cash flows.

The dates for fixing interest rates on the basis of changes in EURIBOR are the 30th day of every six months for its bank loans.

The interest rate risk also depends on the overall economic situation in Estonia and in the eurozone. Skano Group AS has a cash flow risk arising from the interest rate risk because its loans have a floating interest rate. Management believes that the cash flow risk is not significant, therefore no hedging instruments are used.

CURRENCY RISK

The foreign exchange risk is the risk that the company may have significant loss because of fluctuating foreign exchange rates. However, Skano Group has no operations outside of the euro zone and most of our export-import contracts to customers outside of the euro zone are nominated in euros. Raw materials for production and goods purchased for resale in our retail operations are mainly in euros.

RISK OF THE ECONOMIC ENVIRONMENT



The risk of the economic environment for the fibreboard division depends on general developments in the construction and industrial segments; the risk for the furniture division depends on the expectations of the customers towards economic welfare in future.

FAIR VALUE

The management estimates that the fair values of cash, accounts payable, short-term loans and borrowings do not materially differ from their carrying amounts. The fair values of long-term loans do not materially differ from their carrying amounts because their interest rates correspond to the interest rate risks prevailing on the market.

DECLARATION OF THE MANAGEMENT BOARD

The management board has prepared the management report and the consolidated financial interim statements of Skano Group AS for the third quarter 2019.

The management board confirms that the management report on pages 4-9 provides a true and fair view of the business operations, financial results and financial condition of the parent company and the entities included in consolidation.

The management board confirms that according to their best knowledge the consolidated financial interim report on pages 11-32 presents a fair view of the assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Union and contains a description of the main risks.

Torfinn Losvik

Chairman of the Management Board

Pärnu, November 29, 2019

