CONNECT GROUP
INTEGRATED SUBCONTRACTORS

Connect Group NV
Industriestraat 4
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Press release

Regulated information

26 February 2018 - Embargo till 18.00h

Connect Group reports 2nd half and annual results 2017

2ND HALF RESULTS:

Sales in the 2nd half of 2017 up to EUR 65.5 million, against EUR 54.8 million in the 2nd half of 2016.
2nd half operating profit of EUR 2,073 K, against a profit of EUR 1,480 K in the 2nd half of 2016.
Net profit of EUR 1,778 K in the 2nd half compared to a net profit of EUR 996 K in the 2nd half of 2016.

ANNUAL RESULTS:

Sales of EUR 125.0 million compared with EUR 116.8 million in 2016.
Improvement of operating result, up from a profit of EUR 2,059 K in 2016 to EUR 2,598 K in 2017.
Net profit of EUR 2,025 K in 2017 compared with a profit of EUR 1,161 K in 2016.

Orders at the end of financial year 2017 amounted to EUR 116.5 million (EUR 89.4 million at the end of 2016).

Management discussion and analysis of the results

Discussion of the 2nd half results

The 2nd half of 2017 closed with sales of EUR 65.5 million compared with EUR 59.4 million in the 1st half of 2017 and EUR 54.8 million in the 2nd half of 2016. The upward trend in sales is thus continuing. Compared with the 1st half of 2017, sales have risen 10%, while they have risen almost 20% compared with the 2nd half of 2016.
The cost of sales has risen from 88.1% to 89.0%, while R&D, administrative and selling expenses are in line, accounting for ca. 8.5% of turnover.

Discussion of the annual results

Our greatest achievement in 2017 was to increase turnover from EUR 116.8 million to EUR 125 million. Taking account of the gap caused by the loss of the ASML business in mid-2016 (EUR 9.7 million), this can be equated with a 16.7% increase in turnover through increased sales of our product range to existing and new customers.
In the 1st half of 2017, the volume of new orders reached a record high. However, beginning in the 2nd half, we found ourselves confronted with increasing shortages in the components market and difficulties finding suitable personnel in Romania, just when increased flexibility was required.
These factors have significantly inhibited further growth. Accelerated capacity adjustments, the streamlining of various processes and working as a Connect GROUP nevertheless drove a considerable increase in output in the 2nd half of 2017.

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Jeroen Tuik (CEO):

"The figures for the 1st half of 2017 insufficiently reflected the result of the efforts made in the 2nd half of 2016. Consolidated turnover for the 2nd half of 2017 was almost 20% higher than that of the 2nd half

of 2016. The increase was mainly achieved in our plants in the Czech Republic and Romania, meaning that these plants were under great pressure over the last few months to boost their production capacity. That is by no means easy at the moment, as we are seeing very high demand for employees in the regions where we are recruiting. We are also seeing a considerable rise in wages in Romania. For the second year in a row, the Romanian government has decided to increase the minimum wage by 15%. The increasing shortages in the components market are also pushing up component prices, putting further pressure on our operating activities. As we are not always able to pass on these cost increases to our customers, our margins are coming under pressure. On the positive side, orders are up to almost EUR 117 million, the highest level ever known at Connect Group. Although the height of orders does not fully reflect expected short-term turnover (certain orders can have a long lead time), we are cautiously hoping for positive sales growth.
Nevertheless, we are still not where we want to be, and more cost adjustments will be necessary in 2018 to further improve our profitability. We also need to invest in skill development in our plants in Romania and the Czech Republic to meet all customer demands. In mid-2018, we expect to gain further production space in our Romanian subsidiary, allowing us to continue growing and putting us in a position to guarantee future flexibility to our customers."

Annual figures

Connect Group NV announces **annual sales** of EUR 125.0 million for 2017, against EUR 116.8 million in the previous year (+7%).

The **gross margin** on sales dropped from 11.9% to 11.0%, mainly caused by rising wage costs in Eastern Europe. R&D, administrative and selling expenses increased from EUR 10.5 million to EUR 11.1 million, though remaining stable at 9% of turnover.

Other operating income/expenses in 2017 amounted to EUR +146 K, mainly attributable to a reversal of a provision for a customer. Other operating income/expenses in 2016 totalled EUR -282 K, mainly due to reversals / write-offs of revenues from customers amounting to EUR 360 K and an EUR 285 K gain on the sale of a building, as well as lease costs totalling EUR 289 K and a provision for litigation of EUR 650 K.

The net financial result improved overall by EUR 323 K, mainly due to lower financing charges (decreasing interest costs and a positive cash flow from operations) and to lower exchange rate losses on foreign currencies. The company makes only limited use of foreign currency hedging contracts.

The net Group result thus improved from a profit of EUR 1,161 K in 2016 to a profit of EUR 2,025 K in 2017.

The order book at the end of the 2017 financial year stood at EUR 116.5 million (against EUR 89.7 million at the end of 2016).

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Balance sheet
Trade receivables increased from EUR 19.1 million to EUR 26.3 million at the end of 2017. Q4 2017 sales were nearly 22% higher than Q4 2016 sales. They contain no known increased collection risk.

Inventories increased from EUR 28.4 million at the end of 2016 to EUR 36.0 million at the end of 2017. This increase is mainly the result of the adding of various new customers (increased orders). In addition, component availability and delivery times are deteriorating in the supply chain, leading to a situation where most of the material needed to produce an order is kept in stock. The unavailability of just a few components can however mean that production cannot be started.

New investments (capacity adjustments, replacements and new technologies) amounting to EUR 1.6 million were made in 2017. With annual depreciation and amortization totalling EUR 2.4 million, the value of **tangible and intangible assets** dropped from EUR 8.2 million at the end of 2016 to EUR 7.4 million at the end of 2017.

Total financial liabilities increased significantly from EUR 14.4 million at the end of 2016 to EUR 19.9 million at the end of 2017. This increase is the result of a higher working capital requirement in the last quarter of 2017 (increased inventories and trade receivables).
To finance the working capital requirement, the group has short-term bank credit lines of EUR 5 million (of which EUR 785K were taken up at year-end), revolving credit facilities of EUR 1.7 million, and a long-term subordinated shareholder loan of EUR 0.8 million. In addition, the group makes use of factoring for its receivables (EUR 16.2 million at the end of 2017, against EUR 10.7 million at the end of 2016). The group has bank investment loans and leasing debts amounting to EUR 0.8 million.
At year-end 2017, Connect Group complied with all bank covenants.

As a result of the increased inventories, **trade payables** rose from EUR 14.9 million at the end of 2016 to EUR 19.6 million at the end of 2017.

Shareholders' equity increased from EUR 20.5 million to EUR 22.5 million as a result of the net profit for the period. The group's solvency ratio dropped however from 34.3% to 31.1% as a result of the increased total balance sheet (inventories and receivables).

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The analysis of the risk management can be found in the annual report and is available on the Internet (www.connectgroup.com）.

The most significant risks for the company are:

- Production is completely dependent on the availability of all components at the start of production. The unavailability of components will lead to sales being delayed.
- Currency risk:
  - ✓ The group buys a portion of its components in dollars/yen, of which the exchange rate risk is only partially covered in the selling price.
  - ✓ Production takes place mainly in Romania and the Czech Republic: major fluctuations of these currencies against the Euro can have an impact on the cost.
  - ✓ As currency needs cannot be exactly timed, the group can only hedge foreign currencies to a limited extent.
- The group has a credit agreement with its bankers coupled to a number of bank ratios including solvency, equity, cash flow and EBITDA. Customer insolvency can have a significant impact on results.
- Risk of orders being postponed, leading to a temporary underfunding of costs incurred.
- The group is dependent on a number of customers each accounting for more than 10% of sales. Should any one of them terminate its business relationship, this will impact results.
- The group has been subject to a VAT audit in its subsidiary in Romania since December 2015. To date, no final decisions have been received from the local Romanian VAT authorities. The main dispute is over a very strict interpretation by the local VAT authorities of the VAT-relevant documentation required to justify intra-EU deliveries of goods from Romania. The Board of Directors is however of the opinion that a number of claims are still refutable.

  Moreover, the local Romanian authorities have arrived at a number of further findings, for which the VAT that would be due should in principle always give rise to VAT recovery insofar as the limitation period for such has not expired. The decision has therefore been taken to only make a provision for any fines and interest that might be due.

Outlook for 2018

The current economic climate makes it difficult to come up with a clear outlook for 2018. Connect Group is positive about its position with its current and new customers and expects a further positive impact in 2018 of the restructuring and other measures taken in 2017. However, as a subcontractor, it remains largely dependent on developments at its customers.

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Key events in 2017

Chief Operations Officer Florimond Peersman retired at the end of August 2017. Closely involved in Connect Group’s expansion in Eastern Europe over the last decade, Mr Peersman was also the Group’s acting CEO between March 2015 and May 2016. The Board of Directors thanks Mr Peersman for his many years of dedication to the company. Mr Diëgo Verhaeghe and Mr Pierre Hick have now taken over joint responsibility for the operational management of Connect Group.

Thanks to the success of Connect Group’s strategy in the last two years, the company has had to expand its production space in Romania and take on more staff to fulfil customer demand and expectations. Through this expansion, Connect Group remains one of the main suppliers of EMS products in Europe. The group’s plant in Oradea is to be expanded, with more than 7,000 m² in new office and production space being made available. The new building is expected to be completed in mid-2018. This investment increases the group’s production footprint in Romania by 35%.

The shareholder structure at year-end 2017 and year-end 2016 was as follows:

Name of the shareholder	**Number of declared shares (*) 2017**	**% 2017**	**Number of declared shares (*) 2016**	**% 2016**
Huub Baren (**)	22,055,241	82.44 %	21,405,546	80.01 %
Others under the declaration threshold	4,698,821	17.56 %	5,348,516	19.99 %
Total	**26,754,062**	**100 %**	**26,754,062**	**100 %**

(*) Shareholders holding 3% or more of a company’s shares are required to declare their holdings
(**) + companies controlled by Huub Baren

Significant events after the closing of the financial year

Effective 26 January 2018, the Board of Directors took the decision, in consultation with Mr Hugo Ciroux, Chief Financial Officer, to terminate the relationship between the two parties. Connect Group has paid a termination fee to the CFO in line with his 2017 remuneration.

Mr Arnaud Devooght, Connect Group’s controller, has been appointed acting CFO.

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Connect Group Annual Results 2017

The statutory auditor has confirmed that the audit procedures, which have been substantially completed, have not revealed any material adjustments which would have to be made to the accounting data included in this press release. Barring changes in circumstances in the intervening period, the statutory auditor intends to certify the financial statements without qualification.

Condensed consolidated profit and loss statement for the periods ending 31 December 2017 and 31 December 2016

	2H 2017	%	2H 2016	%	Year 2017	%	Year 2016	%
Sales	**65,522**	**100**	**54,793**	**100.0**	**124,950**	**100.0**	**116,809**	**100.0**
Cost of sales	(57,878)	(88.1)	(48,206)	(87.9)	(111,246)	(89.0)	(102,848)	(88.1)
Gross margin	7,644	11.9	6,587	12.1	13,704	11.0	13,961	11.9
Research and development expenses	(651)	(1.0)	(572)	(1.0)	(1,318)	(1.1)	(1,280)	(1.1)
General and administrative expenses	(2,661)	(4.1)	(2,337)	(4.3)	(5,243)	(4.2)	(5,129)	(4.4)
Selling expenses	(2,259)	(3.4)	(1,880)	(3.4)	(4,589)	(3.7)	(4,064)	(3.5)
Other operating income	142	0.2	623	1.1	176	0.1	670	0.6
Other operating expenses	(39)	(0.1)	(948)	(1.8)	(29)	-	(952)	(0.8)
Operating result before restructuring costs	**2,177**	**3.3**	**1,473**	**2.7**	**2,702**	**2.2**	**3,206**	**2.7**
Restructuring costs	(104)	(0.2)	7	-	(104)	(0.1)	(1,148)	(0.9)
Operating result	**2,073**	**3.2**	**1,480**	**2.7**	**2,598**	**2.1**	**2,058**	**1.8**
Financial income	188	0.3	103	0.2	403	0.3	258	0.2
Financial charges	(479)	(0.7)	(582)	(1.1)	(970)	(0.8)	(1,148)	(0.9)
Pre-tax result	**1,778**	**2.7**	**1,001**	**1.8**	**2,030**	**1.6**	**1,168**	**1.0**
Income taxes	(3)	-	(5)	-	(5)	-	(7)	-
Net Result	**1,778**	**2.8**	**996**	**1.8**	**2,025**	**1.6**	**1,161**	**1.0**
Attributable to								
Group	1,778		996		2,025		1,161	
Minorities								
Basic profit / (loss) per share	0.07		0.04		0.08		0.04	
Diluted profit / (loss) per share	0.07		0.04		0.08		0.04	

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Condensed consolidated statement of comprehensive income

(in 000 Euro)	2017	2016
Profit/loss	**2,025**	**1,161**
Other comprehensive income		
Items not subsequently reclassified to profit/loss	**-**	**-**
Items that can be subsequently reclassified to profit/loss	**-**	**-**
Total comprehensive income	**2,025**	**1,161**
Total comprehensive income attributable to:		
Equity holders of the parent	2,025	1,161
Minority interests	-	-

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Condensed consolidated balance sheet at 31 December 2017 and 31 December 2016

(in 000 Euro)	**31 December 2017**	**31 December 2016**
Assets		
Current assets:		
Cash and cash equivalents	200	166
Trade receivables	26,334	19,055
Other receivables	1,058	2,274
Inventories	36,019	28,428
Other current assets	5	95
Total current assets	**63,616**	**50,018**
Non-current assets:		
Other long-term receivables	-	132
Deferred tax assets	1,500	1,500
Property, plant and equipment	7,263	8,018
Intangible assets	162	216
Goodwill	-	-
Total non-current assets	**8,925**	**9,866**
TOTAL ASSETS	**72,541**	**59,884**
Liabilities and equity		
Current liabilities		
Bank loans and overdrafts	17,032	11,679
Current portion of long-term debt	2,476	641
Trade payables	19,609	14,922
Accrued expenses, payroll and related taxes and deferred income	6,767	7,327
Provisions	1,095	1,492
Other current liabilities	1,950	1,241
Total current liabilities	**48,929**	**37,302**
Non-current liabilities		
Long-term debt less current portion	458	2,054
Provisions	601	-
Total non-current liabilities	**1,059**	**2,054**
Equity attributable to equity holders of the parent		
Shareholders' capital	1,659	1,659
Legal reserve	43	43
Share premium	45,767	45,767
Retained earnings	(24,983)	(27,009)
Cumulative translation adjustment	67	67
Equity attributable to equity holders of the parent	**22,553**	**20,528**
Total equity	**22,553**	**20,528**
Total liabilities and equity	**72,541**	**59,884**

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(in 000 Euro)	Number of outstanding shares	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2015	**10,290,024**	**638**	**43**	**42,091**	**(28,170)**	**67**	**14,669**
Net result	-	-	-	-	1,161	-	1,161
Capital increase	16,464,038	1,021	-	3,677	-	-	4,698
Other comprehensive income	-	-	-	-	-	-	-
31/12/2016	**26,754,062**	**1,659**	**43**	**45,768**	**(27,009)**	**67**	**20,528**

(in 000 Euro)	Total shares	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2016	**26,754,062**	**1,659**	**43**	**45,768**	**(27,009)**	**67**	**20,528**
Net result	-	-	-	-	2,025	-	2,025
Other comprehensive income	-	-	-	-	-	-	-
31/12/2017	**26,754,062**	**1,659**	**43**	**45,768**	**(24,984)**	**67**	**22,553**

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Condensed consolidated cash flow table for the year ended 31 December 2017 and 31 December 2016

(in 000 Euro)	2017	2016
Operating profit/(loss)	**2,598**	**2,058**
Adjustments for:		
Allowance for doubtful receivables and obsolete stock	(849)	(85)
Depreciation and amortization	2,360	2,566
Provisions	204	640
Capital gain/loss on the sale of fixed assets	(51)	(305)
Cash flow before changes in working capital	**4,261**	**4,874**
Inventories	(6,908)	(1,665)
Trade receivables	(7,112)	(1,190)
Trade payables	4,688	(801)
Accrued expenses, payroll and related taxes and deferred income	940	1,552
Other current assets	(64)	(666)
Other payables	709	322
Cash flow from operating activities	**(3,485)**	**2,425**
Taxes	(5)	(7)
Exchange differences	80	(55)
Financial charges	(171)	(173)
Interest charges	(501)	(706)
Other	25	30
Net cash from/(used in) operating activities	**(4,058)**	**1,515**
Cash flow from investing activities		
Investments in intangible assets	(73)	(19)
Investments in property, plant and equipment	(1,516)	(975)
Interest received	0	13
Revenue from the sale of fixed assets	89	926
Cash flows from (used in) investing activities	**(1,500)**	**(55)**
Cash flows from financing activities		
Financial debt repaid	(1,634)	(6,645)
Financial debt incurred	7,227	-
Revenues from the capital increase	-	4,939
Costs associated with the capital increase	-	(241)
Cash flows from (used in) financing activities	**5,592**	**(1,947)**
Increase/(decrease) in cash and cash equivalents	**34**	**(488)**
Cash and cash equivalents at the beginning of the period	166	653
Cash and cash equivalents at the end of the period	200	166

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Notes to the condensed financial statements

Information about the company

Connect Group

Connect Group is a leading certified supplier of technology, production systems, printed circuit boards and cable assembly services for industry. Connect Group develops products to user specifications from the concept stage onwards with optimal production, price and quality results.

Connect Group's references include Alstom, Atlas Copco, Esterline, Faiveley, Grammer, Nedap, Punch Powertrain, Sensata and Transics. The company currently employs around 1,800 people in various facilities in Europe. The company's shares are traded on NYSE Euronext Brussels: CONN (www.euronext.com).

Update financial calendar

Annual General Meeting 2018	24 April 2018

Investor Relations

Jeroen Tuik	CEO
Arnaud Devooght	(acting) CFO

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