CONNECT GROUP
INTEGRATED SUBCONTRACTORS

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Press release

Regulated information

25 February 2016 – Embargo till 6 pm

Connect Group reports 2nd half and annual results 2015

2ND HALF RESULTS:
Sales of EUR 56.5 million compared with EUR 56.2 million in 2014.
Improvement of operating result before goodwill impairment, with profit rising from EUR 104 K in 2014 to EUR 566 K.
Net profit of EUR 38 K compared to a net loss of EUR 4,659 K in 2014.

ANNUAL RESULTS:
Sales of EUR 113 million compared with EUR 121 million in 2014.
Improvement of operating result before goodwill impairment, with the loss dropping from EUR 3,636 K in 2014 to EUR 1,272 K.
Net loss of EUR 6,979 K compared with a loss of EUR 4,646 K in 2014.

The order book at the end of financial year 2015 amounted to EUR 86.6 million (EUR 82.8 million at the end of 2014).

Management discussion and analysis of the results

Discussion of the 2nd half results

The 2nd half of 2015 closed with sales of EUR 56.5 million compared with EUR 56.9 million in the 1st half of 2015 and EUR 56.2 million in the 2nd half of 2014, pointing to a stabilisation of sales.
The cost of sales improved significantly from 93.6 percent to 88 percent as a result of the decline in labour costs achieved through the restructuring measures carried out in the first half. All other costs remained on a comparable level to those of the 1st half.
Following the 1st half net loss (before goodwill impairment) of EUR 2,468 K, the result for the 2nd half was positive again (EUR 38 K).

Flor Peersman (CEO):
"We are pleased that our strict cost control programme has produced results. The 1st half of 2015 was very difficult for the company, with the necessary restructuring of our Poperinge plant not being easy and leading to a lot of inefficiencies, not only in Poperinge but also in the plants that took over certain activities. Fortunately, the sustained efforts of all staff yielded the necessary results and we were able to make a small profit in the 2nd half. I would like to explicitly thank all staff for their help in achieving this result.
Nevertheless we are still not where we want to be, and more cost adjustments will be necessary in 2016 to further improve our profitability.

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Discussion of the annual results

On the basis of the order pipeline at the end of 2014 and certain customer prospects, 2015 sales were expected to increase slightly. This expectation failed to materialise, and the decline in sales that started in the 2nd half of 2014 could not be reversed in 2015. Throughout 2015, sales remained at the lower level of the 2nd half of 2014, stabilising at EUR 56 million per half year.

Evolution of sales figures (in EUR)

H1 2014	H2 2014	H1 2015	H2 2015
64.7 million	56.2 million	56.9 million	56.5 million

Against the background of the drop in sales in the 1st and 2nd half of 2014, a major restructuring of the company's Poperinge plant was announced. Carried out in the 1st half of 2015, the restructuring negatively impacted efficiency in that period. Similarly, staff motivation suffered on account of the uncertainty about who was to be made redundant. It was only after the restructuring and the move to the new location in Ypres had been completed that the factory started getting back to a normal efficiency level in the 2nd half.

In the course of the 1st quarter of 2015, the reduced sales forecast for the whole year led to the decision to carry out restructuring measures and cost cuts in other plants as well. Further cost-saving measures were carried out in both the Netherlands and Germany. These restructuring measures had a positive impact on the 2nd half figures. While the 1st half ended with a net loss of EUR 2.5 million, the cost savings achieved led to a net profit in the 2nd half on sales at a level comparable to the 1st half.

In preparing the interim figures, the Board of Directors conducted an impairment analysis, the result of which led to the decision to write off goodwill amounting to EUR 4.5 million.

This impairment charge in turn caused a 1st half net loss of EUR 7 million. The Board of Directors was well aware that this negative result would raise questions with customers, suppliers and bankers about the company's future prospects. In response to this the Board of Directors decided in the summer of 2015 to propose a capital increase to the reference shareholders. Moreover, the company's bankers agreed to make available, if necessary, additional credit facilities for a limited period of time. Moreover, at the beginning of December, the reference shareholders agreed to subscribe to an EUR 3 million capital increase.

The Board notes that, throughout the whole of 2015, all payment obligations were met without recourse to the additional credit facilities negotiated with the banks. Controls on the use of working capital were strengthened, resulting in a decreased working capital requirement at the end of the year.

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In summary, we can say that 2015 did not deliver the expected results. Though the measures taken resulted in the company achieving a positive result in the 2nd half, the result was still greatly below targets. In 2016 as well, the focus will be on reducing costs with a view to further improving profitability.

Within this context, the Board took the decision to recruit a new external Chief Executive Officer. Following the departure of Luc Switten as CEO in April 2015, Flor Peersman, at that time the company's COO, took on the role of CEO. The Board was of the opinion that this was a solution for a limited period of time, as the position of COO is one requiring full attention, given the operational problems facing the company. The recruitment of a new CEO to strengthen the management team was thus a necessity.

Jeroen Tuik will be taking up the position of CEO as of 1 May 2016, allowing Flor Peersman to devote all his time and effort to his role as COO within the company.

Annual figures

Connect Group NV announces 2015 **sales** of EUR 113 million, against EUR 121 million in the previous year (-6.2%). Sales started dropping in the 2nd half of 2014 and remained at this lower level throughout 2015 (EUR 56 million in each half).

The **gross margin** on sales dropped from 11.6% to 9.2% due mainly to the inefficiency during the 1st half-year incurred as a result of the restructuring. There was a substantial drop in expenses for research and development, selling and administration, from EUR 14 million to EUR 11.3 million (-19%).

Other operating income/expenses in 2014 included revenue of EUR 712 K from a fully written off customer receivable which was eventually recovered through the courts. In 2015, this same item was negative as a result of EUR 465 K of customer receivables being written off.

The **operating result** in 2014 was negatively impacted by restructuring costs of EUR 4.5 million, including a year-end provision of EUR 3.8 million. In 2015, this provision was used for both the restructuring costs related to 2014 and for the additional restructuring costs incurred during 2015. This meant that the net impact of the restructuring costs on the company's results was limited to EUR 29 K. Without these restructuring costs, the operating result before goodwill impairment shows a loss of EUR 1,272 K in 2015, against a profit of EUR 840 K in 2014.

In preparing the interim figures, the Board of Directors carried out an impairment analysis. This led to the decision being taken to book a EUR 4.5 million goodwill impairment for 2015. At the end of 2015 the Board conducted a new impairment analysis, finding that no further impairments were necessary with regard to intangible and tangible assets.

The net financial result deteriorated by EUR 165 K mainly due to higher financing costs caused by a higher percentage rate of charge. The company makes only limited use of foreign currency hedging contracts.

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The group's **net result** thus shows a loss of EUR 6,979 K, against a loss of EUR 4,646 K in the previous year.

The order book at the end of the 2015 financial year stood at EUR 86.6 million (against EUR 82.8 million at the end of 2014).

Balance sheet

Trade receivables remained virtually unchanged at EUR 17.5 million, against EUR 17.2 million at the end of 2014. 4th quarter sales in both years were virtually identical.

Inventories dropped sharply from EUR 31.6 million at the end of 2014 to EUR 27 million at the end of 2015. This decrease is the result of the measures taken in 2015 to control working capital.

New investments (replacements and new technologies) amounting to EUR 2.2 million were made in 2015, the most important of which was the completion of the renovation of the premises in Ypres. With annual depreciation and amortization totalling EUR 2.7 million, the value of **tangible and intangible assets** dropped from EUR 10.9 million at the end of 2014 to EUR 10.4 million at the end of 2015.

Total financial debt remained at the same level, totalling EUR 21.1 million at the end of 2014 and EUR 21.0 million at the end of 2015. The group has short-term credit lines amounting to EUR 6 million available as working capital, of which hardly anything (EUR 5 K) has been used. It also has long-term credits of EUR 5.2 million, which have been completely taken up. It also has a long-term subordinated shareholder loan of EUR 0.8 million. In addition, the group applies factoring to its receivables for EUR 13.3 million. The group has bank investment loans and leasing debts amounting to EUR 1.7 million.

Trade payables increased from EUR 14.2 million at the end of 2014 to EUR 15.7 million at the end of 2015.

At year-end Connect Group did not meet all the required bank ratios. As a result, before year-end, the group received a waiver including a clause whereby the bank will re-assess the ratios after 12 months. This waiver confirms that existing credit lines will be maintained in 2016. The renewed letters of credit refer to a new covenant applicable as of 2016, whereby EBIDTA (excl. restructuring charges) needs to amount to at least EUR 1,237,500 at 31 March 2016, 30 June 2016, 30 September 2016 and 31 December 2016. Based on the 2016 budget, the Board expects to fulfil these covenants in the coming year or, in the case of one of them not being achieved, to obtain an exemption.

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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 moment that production starts up. If component availability slows down, sales too will be 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 partly in Romania and the Czech Republic: large fluctuations of these currencies against the Euro can impact costs.
  - ✓ Since foreign currency needs cannot be accurately timed, the group can only cover its foreign currency positions to a limited extent.
- The group has a credit agreement with its bankers that includes a minimum solvency ratio, equity and cash flow covenants and EBITDA. Customer insolvency can have a major impact on the results.
- Risk of order postponements, leading to a temporary under-coverage of costs incurred.

Outlook for 2016

The current economic climate makes it difficult to establish clear expectations for 2016. Connect Group is positive about its position with its current and new customers and expects a further positive impact in 2016 of the restructuring and other measures taken in 2015, but as a subcontractor, Connect Group remains largely dependent on the general evolution of its customers.

Significant events in 2015

The restructuring in Poperinge, which started in 2014, and the move to the Ypres plant (owned by Connect Group) was completed in the first half of 2015. About 60 employees left the company and fixed costs of the production in Ypres were cut by more than EUR 300 K a year.

At the beginning of April 2015, the Board of Directors announced the departure of CEO Luc Switten. Supported by the board of directors, the current management should ensure continuity, with COO Flor Peersman being appointed as CEO.

In December 2015, the Board of Directors decided to proceed with a capital increase with preferential subscription rights through the issue of new shares at a subscription price of EUR 0.30 per share (including share premium).

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Important events after the closing of the financial year

A customer of the Dutch subsidiary has informed the company that it will be ending its business relationship with Connect Group in the Netherlands in the course of 2016. This customer accounted for sales of EUR 12 million in 2015. On the basis of its last-time buy order, sales in 2016 should still be EUR 7 million. From 2017 onwards, sales for this customer will drop to EUR 0. The decision to end the business relationship is due to the fact that it wants to entrust its production and support to a subcontractor not just present in Europe but also in Asia and America, a demand that Connect Group cannot fulfil. In its budgets and forecasts, Connect Group has taken account of this.

As a result of this decision, Connect Group will make 36 staff members redundant in the Dutch plant. Negotiations with the unions were started in early February 2016.
Although Connect Group has achieved substantial cost reductions at all levels of the organisation in 2014 and 2015, further restructuring measures may be needed in 2016. Their extent will not however be as great as those of 2014 and 2015.

The Board of Directors has decided to proceed with a capital increase with preferential subscription rights for a minimum amount of EUR 3 million. Holders of preferential rights are entitled to subscribe to the new shares at the subscription price during the subscription period. The two major shareholders, QuaeroQ CVBA and Huub Baren BVBA (or an associated person) have undertaken, under certain conditions, to each subscribe to the capital increase in accordance with their proportional share, and take up any part of the capital increase not subscribed to, up to a maximum amount totalling EUR 1.5 million each (including their proportional share). The planned capital increase will take place before 30 April 2016. Connect Group will prepare a prospectus, which, after approval by the FSMA, will be published as part of the public offering of the new shares.

Following the departure of Luc Switten as the company's CEO in April 2015, Flor Peersman took over the position of CEO in addition to that of COO. The Board considered this to be a solution only for a limited period of time. Against the background of the company's operating problems, the position of COO is one that requires full attention. Jeroen Tuik will assume the position of CEO as of 1 May 2016, allowing Flor Peersman to return to his full-time job as the company's COO.

At the Board of Director’s meeting of 22 February 2015, Bernard Delvaux, the permanent representative of BC Conseil BVBA, announced his resignation from the Board for personal reasons. Bernard Delvaux has been a Connect Group director since April 2013.
The Board of Directors thanks Bernard Delvaux for his commitment and constructive work in shaping the company’s policy.

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Connect Group annual results 2015

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

However, in an explanatory paragraph the statutory auditor draws readers' attention to the fact that the annual financial statements have been prepared on the assumption that the company will continue its operations and that this assumption is only valid to the extent that the group can achieve its business plan and is able to count on sufficient financial support from its majority shareholders through the announced capital increase and/or its bankers. The statutory auditor further draws attention to the major sensitivity of the assumptions underlying the business plan used to check the recoverable amount of intangible and tangible non-current assets.

Condensed consolidated income statement for the 12 months to 31 December 2015 and 31 December 2014

(in 000 EUR)	H 2 2015	%	H 2 2014	%	Year 2015	%	Year 2014	%
Sales	**56,529**	**100.0**	**56,178**	**100.0**	**113,436**	**100.0**	**120,984**	**100.0**
Cost of sales	-49,727	-88.0	-49,957	-88.9	-102,978	-90.8	-106,969	-88.4
Gross profit	6,802	12.0	6,221	11.1	10,458	9.2	14,015	11.6
Research and development expenses	-750	-1.3	-581	-1.0	-1,451	-1.3	-1,232	-1.0
General and administrative expenses	-2,728	-4.9	-2,990	-5.3	-5,292	-4.7	-6,301	-5.2
Selling expenses	-2,292	-4.1	-3,072	-5.5	-4,588	-4.0	-6,507	-5.4
Other income	38	0	528	0.9	115	0.1	1,002	0.8
Other expenses	-474	-0.8	-2	0	-484	-0.4	-137	-0.1
Restructuring costs	-30	-	-4,257	-7.6	-30	0	-4,476	-3.7
Operating result before goodwill impairment	**566**	**1.0**	**104**	**0.2**	**-1,272**	**-1.1**	**-3,636**	**-3.0**
Goodwill impairment	-	-	-	-	-4,549	-4.0	-	-
Operating result	**566**	**1.0**	**-4,153**	**-7.4**	**-5,821**	**-5.1**	**-3,636**	**-3.0**
Financial income	292	0.5	169	0.3	451	0.4	226	0.2
Financial charges	-814	-1.4	-652	-1.2	-1,601	-1.4	-1,211	-1.0
Pre-tax result	**44**	**0**	**-4,636**	**-8.3**	**-6,971**	**-6.1**	**-4,621**	**-3.8**
Income taxes	-6	0	-23	0	-8	0	-25	0
Profit / (loss)	**38**	**0**	**-4,659**	**-8.3**	**-6,979**	**-6.1**	**-4,646**	**-3.8**
Attributable to								
Equity holders of the parent	38		-4,659		-6,979		-4,646	
Minorities	-		-				-	
Earnings per share								
Basic earnings / (loss) per share	0		-0.45		-0.68		-0.45	
Diluted earnings / (loss) per share	0		-0.45		-0.68		-0.45	

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Condensed consolidated statement of comprehensive income

(in 000 EUR)	2015	2014
Profit/(Loss)	**-6,979**	**-4,646**
Other comprehensive income		
Elements not subsequently reclassified to profit/loss	**-**	**-**
Elements that can be subsequently reclassified to profit/loss	**-**	**-**
Total comprehensive income	**-6,979**	**-4,646**
Total comprehensive income attributable to:		
Equity holders of the parent	-6,979	-4,646
Minority interest	-	-

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Condensed consolidated balance sheet at 31 December 2015 and 31 December 2014

(in 000 EUR)	31 December 2015	31 December 2014
Assets		
Current assets:		
Cash and cash equivalents	653	209
Trade receivables	17,505	17,191
Other receivables	1,391	1,147
Inventories	27,038	31,617
Other current assets	180	2
Other current assets	**46,767**	**50,166**
Non-current:		
Other receivables from sale of discontinued activity	264	394
Deferred tax assets	1,500	1,500
Property, plant and equipment	10,087	10,478
Intangible assets	339	443
Goodwill	0	4,549
Total non-current assets	**12,190**	**17,364**
TOTAL ASSETS	**58,957**	**67,530**
Liabilities and equity		
Current liabilities:		
Bank loans and overdrafts	13,331	17,668
Current portion of long-term debt	624	2,740
Trade payables	15,723	14,282
Accrued expenses, payroll and related taxes and deferred income	5,775	5,587
Provisions	852	4,117
Other current liabilities	918	747
Total current liabilities	**37,223**	**45,141**
Non-current liabilities:		
Long-term debt less current portion	7,065	741
Total non-current liabilities	**7,065**	**741**
Equity attributable to equity holders of the parent	**14,669**	**21,648**
TOTAL LIABILITIES AND EQUITY	**58,957**	**67,530**

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Condensed consolidated statement of changes in equity

(in 000 EUR)	Number of shares out-standing	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2013	**10,290,024**	**638**	**43**	**42,091**	**-16,545**	**67**	**26,294**
Net result					-4,646		-4,646
Other comprehensive income							
31/12/2014	**10,290,024**	**638**	**43**	**42,091**	**-21,191**	**67**	**21,648**

(in 000 EUR)	Number of outstanding shares	Capital	Legal reserve	Share premium	Profit/ (loss) carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent
31/12/2014	**10,290,024**	**638**	**43**	**42,091**	**-21,191**	**67**	**21,648**
Net result					-6,979		-6,979
Other comprehensive income							
31/12/2015	**10,290,024**	**638**	**43**	**42,091**	**-28,170**	**67**	**14,669**

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Condensed consolidated cash flow table for the year ended 31 December 2015 and 31 December 2014

(in 000 EUR)	**2015**	**2014**
Operating result after restructuring	**-5,821**	**-3,636**
Adjustments for:		
Goodwill impairment	4,549	-
Allowance for doubtful receivables and obsolete stock	877	-904
Depreciation and amortization	2,665	2,948
Provisions	-3,264	3,813
Operating profit before changes in working capital	**-994**	**2,221**
Inventories	4,124	1,476
Trade receivables	-736	2,160
Trade payables	1,442	-4,380
Accrued expenses, payroll and related taxes and deferred income	188	-253
Other current assets	-292	124
Other payables	171	225
Cash flow from operating activities	**3,903**	**1,573**
Taxes	-8	-25
Exchange differences	-148	-112
Financial charges	-217	-205
Interests	-817	-692
Other	18	1
Net cash from/(used in) operating activities	**2,731**	**540**
Cash flow from investing activities		
Investments in intangible assets	-102	-343
Investments in property, plant and equipment	-2,069	-3,502
Interest received	14	23
Cash flows from (used in) investing activities	**-2,157**	**-3,822**
Cash flows from financing activities		
Financial debt repaid	-993	-1,339
Financial debt incurred	864	4,566
Net cash provided by financing activities	**-129**	**3,227**
Increase/(decrease) in cash and cash equivalents	**444**	**-54**
Cash and cash equivalents at the beginning of the period	209	262
Cash and cash equivalents at the end of the period	653	208

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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 the professional industry. Connect Group develops products to User Requirement Specifications from the concept stage onwards with optimal production, price and quality results.

Connect Group's references include Alstom, Atlas Copco, Atos, Barco and Philips. The company currently employs around 1,500 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 2016	26 April 2016

Investor Relations

Flor Peersman	CEO
Hugo Ciroux	CFO

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