

27 August 2020

# SBS GROUP

COMPANY ANNOUNCEMENT

NO. 06-2020

INTERIM REPORT

1 JANUARY TO 30 JUNE 2020

MAKING ROADS SAFE SINCE 1964



SBS GROUP  
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CVR no. 32774210



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# SBS GROUP – FINANCIAL OVERVIEW



**303** MILLION  
DKK

REVENUE

from DKK 364.4 million  
to DKK 302.6 million



**10%**

EBITDA  
(RECURRING) MARGIN

from 11.5% to 9.8%



**30** MILLION  
DKK

EBITDA  
(RECURRING)

from DKK 42.0 million  
to DKK 29.8 million



**5** MILLION  
DKK

CASH FLOWS FROM  
OPERATING ACTIVITIES

improved from DKK -40.2 million  
to DKK 4.6 million

# HIGHLIGHTS FOR THE PERIOD 1 JANUARY TO 30 JUNE 2020

## Strategic focus maintained in challenging markets

As expected, the SBS Group's H1 results were impacted by the COVID-19 outbreak. The pandemic substantially reduced demand in the Group's main markets from March to May. Both companies made progress in their strategic focus areas in the face of trying conditions.

**SBS Automotive's** partnership concept proved its worth in very challenging markets. In response to the growing consolidation of the free aftermarkets in Europe, SBS Automotive enters into partnerships with the largest and most robust distributors, wholesalers and e-commerce platforms in each market. The partnership strategy was verified in H1, when sales to partnership customers were more robust than sales to other customers, particularly small wholesalers.

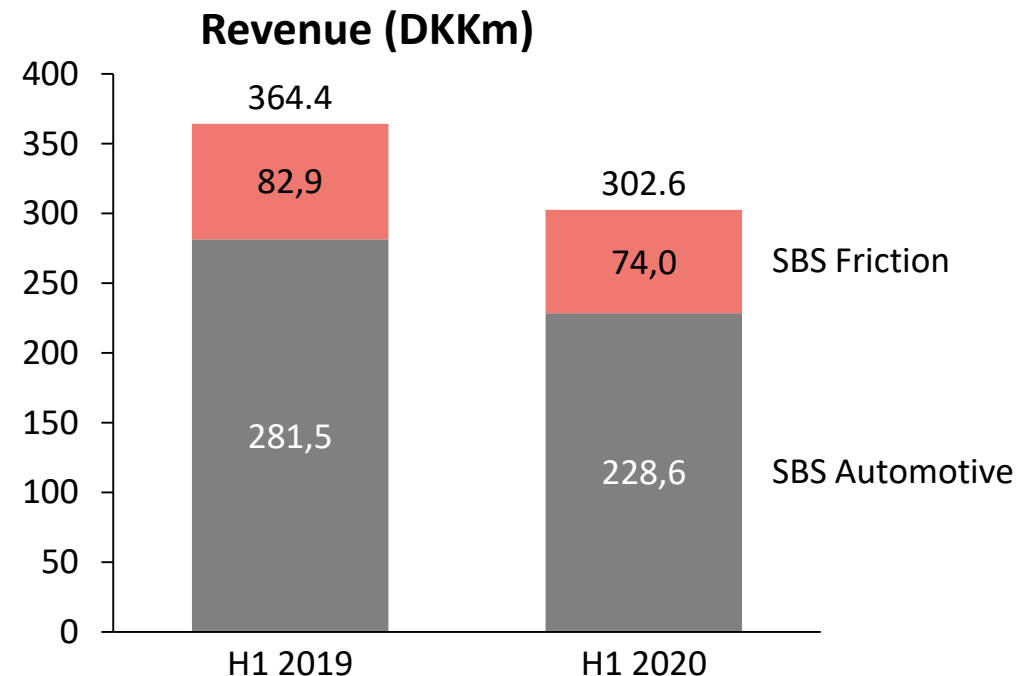
Thanks to its broad product mix and reliability of supply, SBS Automotive won market shares in France, Poland, Norway and Russia, among other countries. On the other hand, sales dropped in structurally challenged markets such as Germany, Denmark and the UK.

**SBS Friction** consolidated its market leading position in the free aftermarkets in Europe. Globalisation continued to progress, with new customer agreements in markets in Asia, the Middle East, North America and Europe.

In the OEM market, SBS Friction boasts its strongest pipeline to date, with increasing probability that projects will generate orders from global manufacturers of brake systems and two-wheeled vehicles.

So far, the project at the most advanced stage has generated orders for a small, five-digit number of brake pads, with a potential for much more. Other projects are also progressing and may result in actual large-scale production to OEM customers in 2021-22.

SBS Friction has expanded its portfolio for the OEM market. The development of GreenPad, the world's most eco-friendly brake pad, continues towards a broad-based launch in 2021.



# HIGHLIGHTS FOR THE PERIOD 1 JANUARY TO 30 JUNE 2020

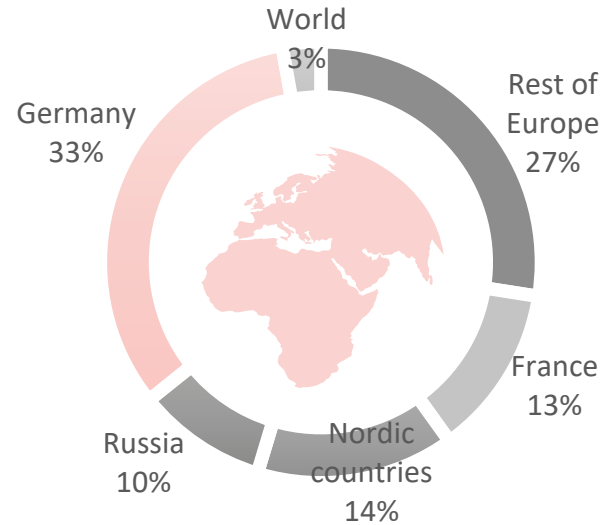
## Revenue H1 2020

The COVID-19 pandemic caused the Group's revenue to fall by 17%, to DKK 302.6 million, in H1.

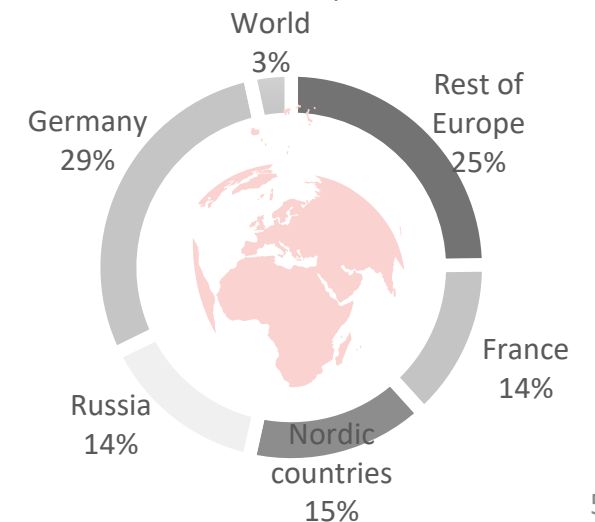
After an expected good start to the year in January and February, both companies' sales were impacted by COVID-19 in March. Distributors, wholesalers, retailers and workshops shut down, and following the imposition of restrictions on citizens' movement in all main markets, both car and two-wheeled vehicle driving fell.

COVID-19 also impacted sales in April and May, but during May the order intake of both companies increased as markets began to reopen.

Revenue distribution, H1 2019



Revenue distribution, H1 2020



# HIGHLIGHTS FOR THE PERIOD 1 JANUARY TO 30 JUNE 2020

In June, SBS Friction’s revenue beat that of the 2019 record year, and the positive trend has continued in Q3. In SBS Automotive, most markets had bounced back to their pre-COVID-19 levels in June, and in July demand recovered further, although a few major markets are still below their pre-COVID-19 levels.

In H1, SBS Automotive’s revenue declined by 18.8%, while SBS Friction’s revenue decreased by 10.8%.

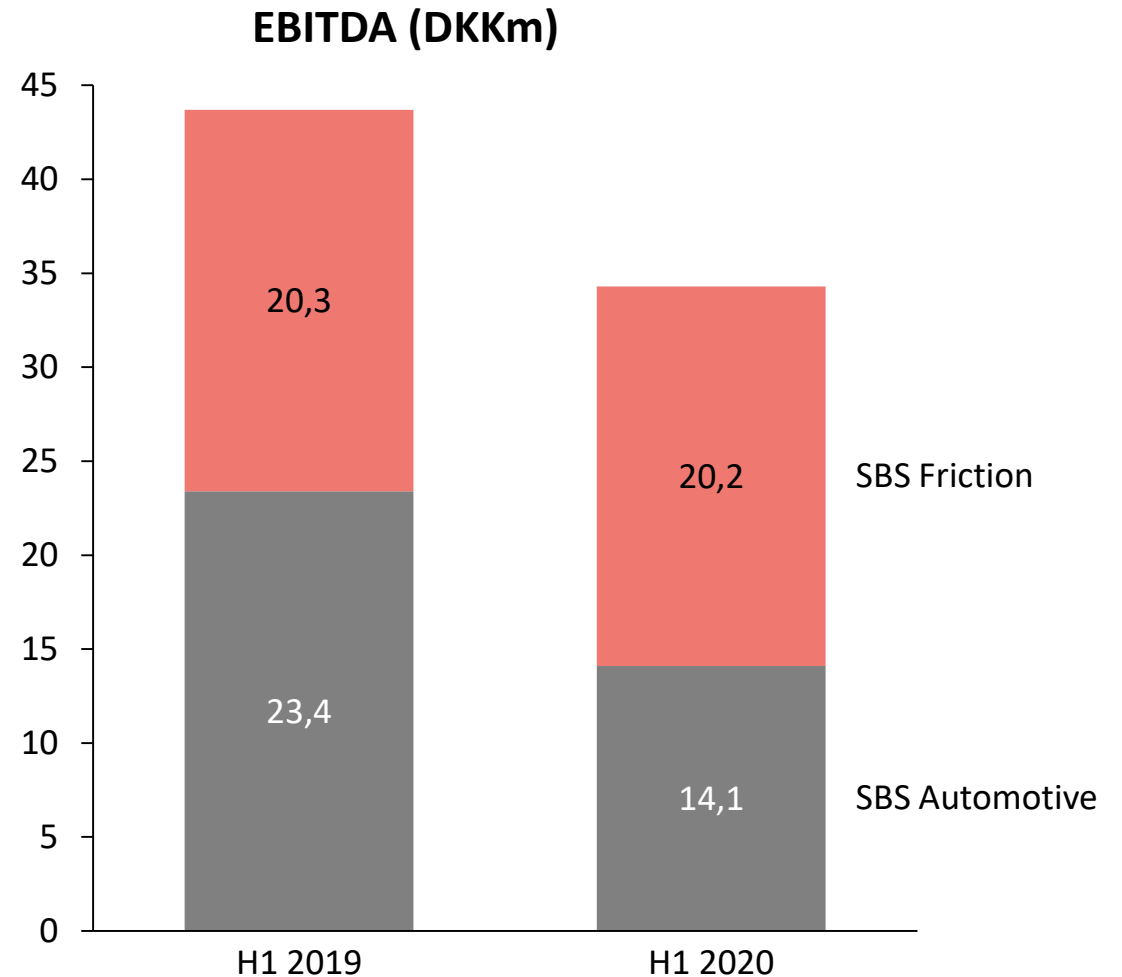
## Earnings in H1 2020

The SBS Group’s earnings were affected by the impacts of the COVID-19 crisis.

Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring) stood at DKK 29.8 million, down from DKK 42.0 million in the year-earlier period. The Group’s profit margin decreased to 9.8% from 13.9% in H1 2019.

SBS Automotive’s EBITDA results amounted to DKK 14.1 million against DKK 23.4 million in H1 2019. The decline was driven by lower volumes and price pressures in major markets before and after the COVID-19 outbreak. This impact was, to a small extent, offset by cost savings and operations and supply chain optimisation.

SBS Friction largely maintained its operating profit and recorded EBITDA results of DKK 20.3 million. SBS Friction improved its profit margin following further streamlining of production and tight cost management, with cost savings and deferral of a number of projects to H2.



# HIGHLIGHTS FOR THE PERIOD 1 JANUARY TO 30 JUNE 2020

The change in EBITDA for group functions is due to strategic project costs, among other factors.

Some of the strategic project costs are classified under IFRS as special items, amounting to DKK -2.0 million. Recorded EBITDA results were subsequently DKK 27.8 million against DKK 38.3 million in the year-earlier period.

Operating profit (EBIT) was DKK 14.5 million against DKK 26.9 million in H1 2019.

Profit before tax amounts to DKK 1.8 million against DKK 14.1 million for the year-earlier period. Profit after tax amounts to DKK 0.6 million against DKK 12.2 million for the year-earlier period.

Results are reasonable in light of the challenging market conditions, but obviously not satisfactory.

## Cash flows in H1 2020

Cash flows from operating activities were positive at DKK 4.6 million against DKK -40.2 million in H1 2019. This marked improvement is driven, in particular, by ongoing efforts to reduce inventories of goods for resale.

## EBITDA recurring

DKKm	H1 2020	H1 2019
SBS Automotive	14.1	23.4
SBS Friction	20.2	20.3
Group functions	-4.5	-1.7
<b>EBITDA recurring</b>	<b>29.8</b>	<b>42.0</b>

# FINANCIAL HIGHLIGHTS



SBS Group DKKm	2020* H1	2019* H1	2019 FY
Revenue	302.6	364.4	664.1
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)	29.8	42.0	62.8
Special items	-2.0	-3.7	-4.4
Operating profit before depreciation, amortisation and impairment losses (EBITDA)	27.8	38.3	58.4
Operating profit/loss (EBIT)	14.5	26.9	34.8
Finance income and finance costs, net	-12.7	-12.8	-26.6
Profit/loss before tax	1.8	14.1	8.2
Profit/loss after tax	0.6	12.2	4.7
Equity	-143.9	-137.9	-145.2
Total assets	530.4	568.1	530.2
Cash flows from operating activities	4.6	-40.2	-45.7
Net cash flows for investing activities	-5.3	-10.1	-24.1
Cash flows from financing activities	0.7	50.3	69.8
Total cash flows for the period	-	-	-
Net interest-bearing debt	518.5	494.4	511.8
Net working capital (NWC)	226.9	204.1	208.2

SBS Group	2020* H1	2019* H1	2019 FY
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring margin, %)	9.8	11.5	9.5
EBITDA margin, %	9.2	10.5	8.8
EBIT margin, %	4.8	7.4	5.2
Return on invested capital, % (ROIC excl. GW)	4.6	9.0	11.1
Return on equity, % (ROE)	N/A	N/A	N/A
Equity ratio, %	-27.1	-24.3	-27.4
Earnings per share/diluted earnings per share, DKK (EPS basic)	0.2	3.8	1.5
Book value per share, DKK (BVPS)	-44.9	-43.0	-45.3
Price/book value	-0.3	-0.5	-0.4
Share price, end of period, DKK	11.9	20.4	17.9

- The interim results have not been audited or reviewed.
- The earnings per share/diluted earnings per share ratio has been calculated in accordance with IAS 33. Other financial ratios have been calculated in accordance with CFA Society Denmark's recommendations. Reference is made to definitions and concepts under accounting policies in SBS's annual report for 2019. SBS presents alternative performance indicators in the interim report which are not defined in accordance with IFRS. In the opinion of the Group, these financial highlights help to increase comparability and value in the evaluation of this year's and previous years' results.



# SBS GROUP – FINANCIAL POSITION AND FINANCING



DKKm	2020 30/6	2019 31/12	2019 30/6
Non-current assets	199.1	206.0	200.6
Current assets	331.3	324.2	367.5
<b>Total assets</b>	<b>530.4</b>	<b>530.2</b>	<b>568.1</b>
Non-current liabilities	466.4	456.2	451.1
Current liabilities	207.9	219.2	255.0
<b>Equity</b>	<b>-143.9</b>	<b>-145.2</b>	<b>-137.9</b>

Total assets amounted to DKK 530.4 million at 30 June 2020 against DKK 568.1 million at 30 June 2019 (DKK 530.2 million at 31 December 2019). The decline relative to the year-earlier period is due to a planned reduction in inventories of goods for resale.

Non-current assets amounted to DKK 199.1 million at 30 June 2020 against DKK 200.6 million at 30 June 2019 (DKK 206.0 million at 31 December 2019).

Current assets amounted to DKK 331.3 million at 30 June 2020 against DKK 367.5 million at 30 June 2019 (DKK 324.2 million at 31 December 2019).

On the equity and liabilities side, non-current liabilities amounted to DKK 466.4 million at 30 June 2020 against DKK 451.1 million at 30 June 2019 (DKK 456.2 million at 31 December 2019).

Interest-bearing debt amounted to DKK 518.5 million at 30 June 2020 against DKK 494.4 million at 30 June 2019 (DKK 511.8 million at 31 December 2019).

## Capital base

The capital base is still impacted by large impairment losses on the Notox assets sold in 2009 and 2015. At 30 June 2020, equity was negative by DKK -143.9 million. In H1, the equity improvements seen in recent years were temporarily halted by the COVID-19 impact on the SBS Group's earnings.

Management expects the Group's operations and earnings to help gradually strengthen the capital base in line with the strategy plan until and including 2022.

In June 2019, the credit agreement from March 2017 was extended by an additional two years and covers the expected financing requirements until April 2022. During the COVID-19 crisis, banks have temporarily provided additional credits. The Group and the banks have agreed that these credits will be paid off in H2 when the SBS Group expects to strengthen liquidity.

DKKm	2020 30/6	2019 31/12	2019 30/6
Cash	0.1	0.1	0.1
Undrawn credit facilities	16.5	6.8	14.4
<b>Cash resources</b>	<b>16.6</b>	<b>6.9</b>	<b>14.5</b>

# OUTLOOK FOR 2020

On 31 March 2020, the SBS Group suspended its outlook for 2020 due to significant uncertainties related to the Group's operations, revenue and earnings given the global COVID-19 outbreak.

Based on results for the first seven months and somewhat greater clarity as regards the expected impacts of COVID-19 on markets and customers for the remainder of the year, the SBS Group now updates its outlook for 2020:

- Revenue is expected to be in the range of DKK 570-600 million.
- Operating profit (EBITDA recurring) is expected to be in the range of DKK 40-50 million.

**SBS Automotive's** demand and results recovered further in July, although activities in major markets such as Germany and the UK/Ireland remain below pre-pandemic levels. Demand is expected to stabilise in most markets in H2, but with intense price competition. SBS Automotive will seek to mitigate the impact of this competition by optimising operations. SBS Automotive's revenue in H2 is expected to be in line with that of H2 2019.

**SBS Friction** has seen higher activity levels since June, and results have improved from H1 2020. The positive momentum is expected to continue. Assuming that market conditions remain unchanged, H2 revenue is expected to be in line with the record year of 2019 – despite an increase in deferred activity expenses.

Due to COVID-19, the outlook is subject to greater-than-normal uncertainty. The most significant risks are the impacts of COVID-19 on economic activity in the Group's main markets and new regulatory measures to contain the spread of infection that may affect demand for the companies' products and/or disrupt their value chains. SBS Automotive also faces uncertainty over demand, especially in Germany and the UK/Ireland.



# SBS AUTOMOTIVE



LONG-TERM  
FOCUS IN  
DIFFICULT  
MARKETS



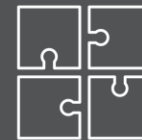
HIGHER MARKET  
SHARES IN  
SEVERAL  
COUNTRIES



STRATEGY WITH  
PARTNERSHIPS  
PROVES ITS  
WORTH



ROLL-OUT OF  
NEW CONCEPT  
FOR BRAKE  
CALIPERS



STREAMLINING  
OF SOURCING  
AND LOGISTICS





# SBS AUTOMOTIVE



## PROFILE

SBS Automotive is the SBS Group's largest business line. SBS Automotive sources, completes, stocks, markets and distributes spare parts for cars and vans up to 3,500 kg.

The product range includes wear parts, especially mechanical and hydraulic brake parts, steering controls, suspension, transmission, clutches and engine mounts.

The products are primarily sold in the free European aftermarket for spare parts for cars and vans. Germany is the largest market, and Russia, Scandinavia, France, Poland and the UK are other important markets. Moreover, SBS Automotive's sales in Turkey and the Middle East are increasing.

SBS Automotive supplies and services most of its markets from the distribution centre in Eisenach (Germany), which also handles the packaging of brake shoes. The satellite centres in Støvring (Denmark) and Chaumont (France) primarily focus on local markets. SBS Automotive also has a sales office in Moscow, focusing on Russia.

Finally, SBS Automotive has logistics and packaging facilities for brake discs and drums in Stettin (Poland) in partnership with an external partner.

Most volumes are sold under SBS Automotive's own brands, NK and Eurobrake. The NK brand is typically positioned to represent a good alternative to actual premium brands in terms of quality, product range and logistics. This means that NK is suitable both for distributors that carry only one brand in each product group and large chains that need a quality brand to supplement their premium brand.

The remaining volumes are primarily sold under private labels within brake discs, brake drums and brake shoes.

Customers comprise a broad range of international, national and local distributors, including capital chains, purchasing groups and independent distributors and e-commerce platforms.

## Operations in H1 2020

SBS Automotive got off to a reasonable start to the year.

Revenue in January and February was better than expected, almost on a par with that of last year, despite continued weak demand and price pressures in Germany, Europe's largest free aftermarket. But this was largely offset by higher sales in markets such as France, Russia, Poland and most of Scandinavia.

In March, COVID-19 began to impact the primary supplies of the free aftermarket from China, where several suppliers had to suspend production for a short period of time or operate at reduced capacity. This resulted in delays of between two and six weeks in SBS Automotive's deliveries from China, and the company had to find alternative suppliers of critical products.

In the course of March, COVID-19 impacted demand for SBS Automotive's products – a trend that was reinforced in April, when several markets virtually shut down, including Russia, France, the UK/Ireland, Poland, the Czech Republic and Germany, where retail trade of automotive spare parts was effectively banned.

At the same time, restrictions on citizens' movement were reflected in a significant drop in driving – and thus the need for replacement of car wear parts.



# SBS AUTOMOTIVE



In May, SBS Automotive’s sales were also impacted by COVID-19, although customers in some markets – especially France – began to replenish their inventories as countries started reopening their economies. At the same time, price competition was intense, driven by premium brands which temporarily cut their prices to generate volume and cash flow.

In June, demand recovered further, and several markets returned to their pre-COVID-19 levels or better. In June, France, Russia, Poland and most of Scandinavia experienced solid growth, while demand in large markets such as Germany and the UK/Ireland was still languishing.

In July, SBS Automotive also saw momentum in total demand, and the positive momentum is expected to continue in Q3, subject to COVID-19.

In H1, SBS Automotive’s largest decline was seen in structurally challenged free aftermarkets for spare parts in Denmark and Germany, but also the UK/Ireland, Italy and Sweden recorded falling sales, mainly driven by the COVID-19 crisis.

But in other markets, SBS Automotive managed to win market shares in the face of weak economic conditions. This was particularly true of France, which performed at a high level following SBS Automotive’s tuning of its marketing strategy towards the largest distributors in the country.

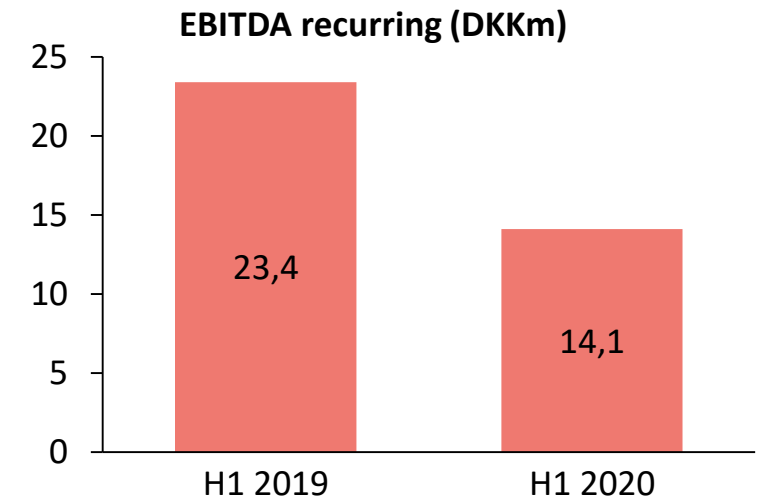
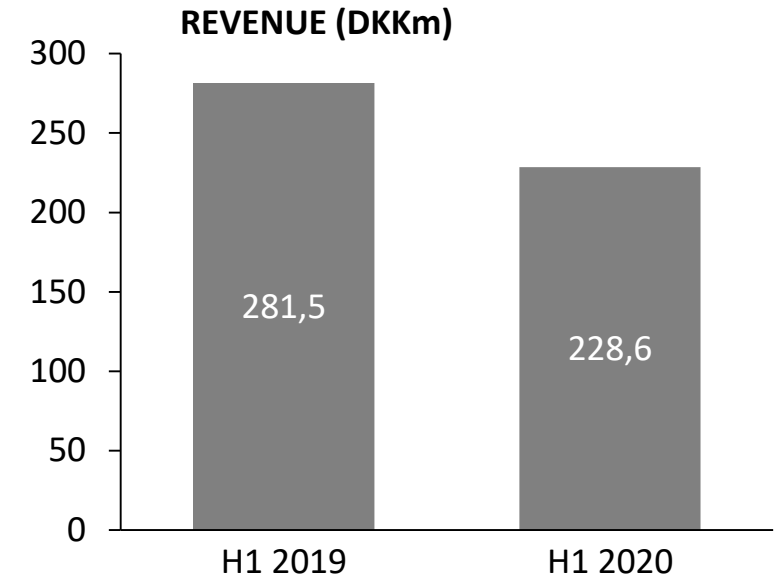
SBS Automotive’s H1 sales also increased in Poland and Norway (online sales), driven by agreements with large, nationwide partners, with a primary focus on the NK programme. Small, new markets such as Finland and Iceland also showed growth. Sales in Russia and Ukraine were in line with H1 2019 despite delays in export orders to these countries.

In H1, SBS Automotive continuously adjusted activities and capacity in Germany, Denmark and France. For instance, employees were temporarily laid off with wage subsidies or worked reduced hours. In the course of May, staffing was gradually increased, and in June employment was restored. The logistics and packaging facility in Poland, run by an external partner, also adjusted its capacity on an ongoing basis.

## Performance in H1 2020

SBS Automotive’s revenue for H1 was DKK 228.6 million – down 18.8% on the year-earlier period. The decline was driven by negative impacts of COVID-19 from March until June, reinforced by price pressures in some markets before and after the COVID-19 outbreak.

Operating profit (EBITDA recurring) in H1 totalled DKK 14.1 million against DKK 23.4 million in the year-earlier period. This is equivalent to a profit margin of 6.2% compared with 8.3% in H1 2019. The decline was driven primarily by lower volumes. This impact was partially offset by cost savings and operations and supply chain optimisation.





## Strategy update

SBS Automotive's goal remains unchanged: to expand its market position and ensure reasonable margins despite the temporary challenges posed by the COVID-19 pandemic. So, SBS Automotive retains its long-term focus on market development, earnings, product range expansion and continued operational optimisation.

The free, automotive aftermarket in Europe is still undergoing changes, with growing consolidation, where global operators, including private equity funds, make acquisitions in the distribution sector, putting small wholesalers under pressure.

In the large French market, consolidation has advanced to the point where France is now dominated by a few major distributors rather than by several hundred small suppliers. In Germany, on the other hand, which is SBS Automotive's largest market, and the largest free aftermarket in Europe, consolidation is still ongoing.

COVID-19 is likely to accelerate the pace of consolidation as the finances of several players – particularly small wholesalers – have come under further pressure during the crisis.

At the same time, large chains are sourcing more products directly from, for instance, China, and car manufacturers are increasingly entering the free aftermarket, offering servicing, spare parts, etc. End-user behaviour is also changing; for instance e-commerce spare parts sales are gaining popularity.

SBS Automotive's response to this development is to enter into partnerships with the largest and most solid distributors, wholesalers and e-commerce platforms in key markets, because these customers are more robust and forward-looking, and their sales channels are stronger. The partnership strategy was verified in H1, when SBS Automotive's sales to partners – including workshops and technical partners – were more robust than sales to other customers, particularly small wholesalers.

SBS Automotive creates value for its customers through high reliability of supply and a broad product mix covering several price points and trademarks. As the largest customers have more complex needs, SBS Automotive is continuously expanding its product range with new, differentiated solutions.

In H1, SBS Automotive had particular focus on the roll-out of the no-deposit concept for brake callipers – probably the broadest programme in Europe – which was launched at the turn of the year under the NK brand and as a private label product. The roll-out of new solutions such as ABS sensors, shock absorbers and springs also continued in H1, while planned product launches were deferred to H2 due to the COVID-19 crisis.

In parallel with the partnership strategy in Europe, SBS Automotive is cultivating new markets outside Europe. A particular focus is currently on Turkey and the Middle East, where a number of initiatives were temporarily halted in H1 as a result of the COVID-19 crisis.

SBS Automotive is primarily a distribution company, sourcing products from manufacturers in, for instance, China. These products are shipped to Europe, packaged, stocked and sold to a broad range of distributors and purchasing groups.

The company is continuously seeking to streamline its entire value chain, from sourcing to end-product delivery, to reduce complexity, costs and working capital tie-up. The overall process flow and supplier agreements are also optimised.

In 2020, the focus is on increasing the turnover rate of finished goods and ensuring better sourcing of products such as callipers and shock absorbers.

Given the changes in customer structure and market approach, demands on the company's supply chain are also changing.

The number of day-to-day deliveries, typically requested by small distributors, continues to decrease. Conversely, the number of large orders with a delivery time of two to five days is rising, meeting large distributors' needs for stocking NK products. Therefore, adjustments are made to the order handling process.



*New product group:  
Engine mounts*

# SBS FRICTION



STRONG  
EARNINGS IN  
DIFFICULT  
MARKETS



STRONGEST  
PIPELINE TO  
DATE IN THE  
OEM MARKET



WIDER  
PRODUCT  
RANGE  
FOR OEM



NEW CUSTOMER  
AGREEMENTS  
IN OVERSEAS  
MARKETS



THE WORLD'S MOST  
ECO-FRIENDLY  
BRAKE PAD WILL  
BE LAUNCHED  
IN 2021



# SBS FRICTION

## PROFILE

SBS Friction develops, manufactures and sells brake parts and friction technology for motorcycles, scooters and ATV/UTVs as well as for a number of specialised areas.

The product portfolio includes self-developed and self-produced brake lining (brake pads) as well as goods for resale in the form of brake discs, brake shoes, brake parts and clutch parts.

SBS Friction operates globally on the free spare parts aftermarket and within the OEM market. The company has customers in approx. 60 countries.

In the free aftermarket, SBS Friction is a market leader in brake pads in Europe, the largest markets being Italy, Germany, France and Spain. The company's sales in Asia and in North and South America are also increasing. Most of the volume in the aftermarket is sold under the SBS brand, and the rest is sold as private label products.

In the OEM market, SBS Friction primarily services manufacturers of vehicles and brake systems for motorcycles, scooters, ATVs and other vehicles. The OEM market also includes manufacturers of wind turbines and other industrial niches using friction technology.

SBS Friction controls most of the value chain with own development and production, own distribution as well as sales and marketing. All functions are located in Svendborg (Denmark).



## Operations in H1 2020

As expected, SBS Friction got off to a good start to the year, based on a solid order book. In January and February, revenue and earnings were higher than in the record year of 2019, and in February SBS Friction recorded its highest revenue to date.

But in March, the impacts of COVID-19 fed through, with deferred orders and declining demand in key markets such as Italy, France, Spain and Germany.

In these and other markets, activities of wholesalers, retailers and workshops were affected by COVID-19 shutdowns, and restrictions on citizens' movement deferred the driving season for two-wheeled vehicles.

The impacts of COVID-19 were also very negative in April and May, but the order intake increased in May as several markets reopened and distributors began to replenish their inventories.

In June, SBS Friction's sales and earnings were higher than in June 2019, and the positive momentum is expected to continue in Q3 with an activity level in line with or higher than in the year-earlier period, subject to COVID-19.

SBS Friction's sales to the free European aftermarket dropped in H1 as a result of COVID-19, and the ban on racing also affected sales in the attractive racing segment. On the other hand, sales increased in Asia.

# SBS FRICTION



OEM sales were also impacted by COVID-19, but were more robust, especially because demand for wind turbine components exceeded expectations. Despite COVID-19, the OEM pipeline strengthened considerably in H1.

SBS Friction continuously adjusted activities and capacity to COVID-19, for instance by temporarily laying off parts of its staff with wage subsidies. Staffing levels were normalised in early June. A number of initiatives were put in place to ensure that supplies of critical raw materials were not significantly impacted during the COVID-19 crisis.

## Performance in H1 2020

SBS Friction's revenue for H1 was DKK 74.0 million – down 10.8% on the year-earlier period. The decline was driven exclusively by negative impacts of COVID-19 in March, April and May. SBS Friction's market shares and underlying demand have not changed, and as a market leader SBS Friction has not been significantly impacted by price pressures.

Operating profit (EBITDA recurring) in H1 totalled DKK 20.2 million against DKK 20.3 million in 2019, equivalent to a profit margin of 27.3% compared with 24.5% in H1 2019.

The improvement of the profit margin is driven, among other factors, by further streamlining of production and tight cost management, with cost savings and deferral of a number of projects to H2.

## Strategy update

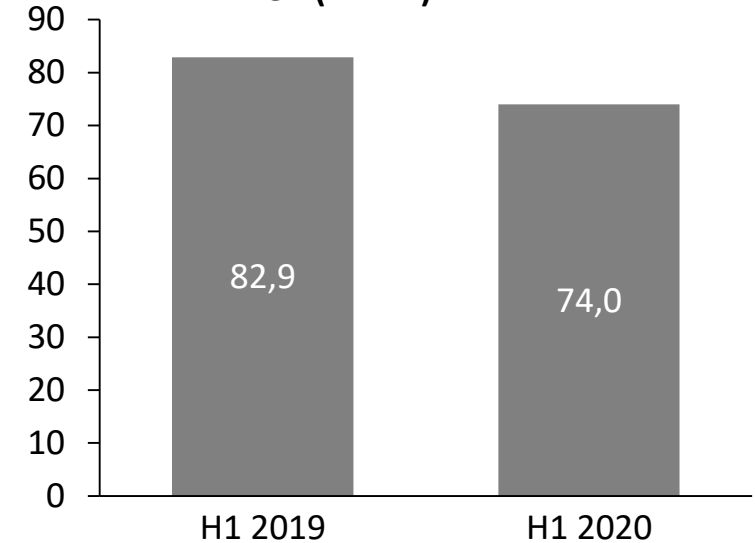
SBS Friction's goal remains unchanged: to continue the profitable growth path of recent years in the free aftermarket and the OEM market, despite the temporary challenges posed by COVID-19.

In the free aftermarket, globalisation continued to progress with new customer agreements in, for instance, Thailand, Algeria, Iceland and the USA. In Asia, SBS Friction will strengthen its marketing efforts in order to support new distributors in South-East Asia, in particular, and the specific initiatives are aligned with the FIM Asia Road Racing Championship calendar. In Europe, and later in other markets, the plan is still to expand the product range with related products to be sold under the SBS brand.

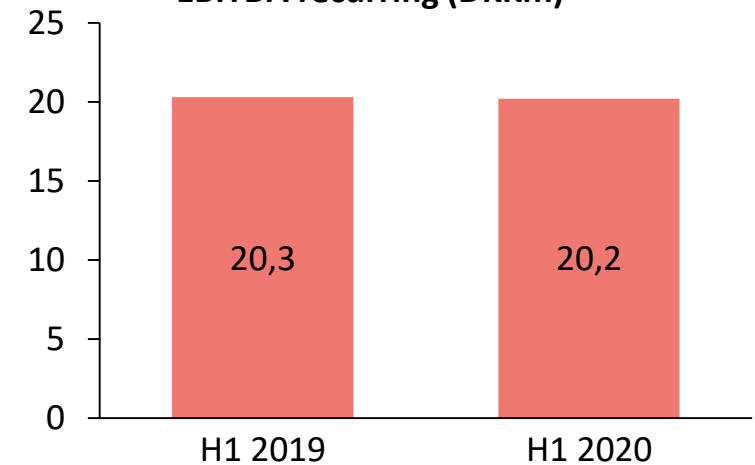
In the OEM market, SBS Friction boasts its strongest pipeline to date, with increasing probability that projects will generate orders. This is the positive outcome of the investment in obtaining quality approval and being pre-qualified by several globally leading manufacturers of brake systems and vehicles. The partnership with a new customer in China is especially positive.

A project with motorcycles from a European manufacturer is at the most advanced stage; so far, SBS Friction has landed orders for a small, five-digit number of brake pads, with a potential for much more. Other projects are also progressing, with batch orders and trial orders that may lead to large-scale production in 2021-2022. In H1, SBS Friction submitted its biggest bid to date with an annual volume of 660,000 brake pads.

## REVENUE (DKKm)



## EBITDA recurring (DKKm)





# SBS FRICTION

To support the build-up in the OEM market, the OEM product platform has been expanded to include seven brake linings, five of which are in production, while two are currently being run in.

The development of GreenPad, the world's most eco-friendly brake pad, continues despite delays in the tests in the spring due to COVID-19.

Following successful test production and further process optimisation, the goal is to release GreenPad for production at the end of 2020, with a broad-based launch in 2021.

GreenPad more or less eliminates the use of the heavy metals nickel and copper, released in the dust from conventional brake pads, and this system is expected to give SBS Friction an environmental edge both in the OEM market and the free aftermarket.

Optimisation of the company's processes continues, for instance with supply chain simplification, reduction of inventory costs and replacement of compounds used in the current brake linings with cheaper raw materials with the same performance.

At the end of 2019/the start of 2020, SBS Friction introduced a new ERP system. After a start-up phase, this system is now working as planned.





# STATEMENT BY MANAGEMENT



The Board of Directors and the Executive Board have today considered and approved the interim report of Scandinavian Brake Systems A/S for the period 1 January to 30 June 2020.

The interim report, which has not been audited or reviewed by the company's auditor, has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and additional requirements in the Danish Financial Statements Act (*Årsregnskabsloven*).

In our opinion, the interim report gives a true and fair view of the financial position of the Group at 30 June 2020 and of the results of the Group's operations and cash flows for the period 1 January to 30 June 2020.

Furthermore, in our opinion, the management's review gives a fair review of developments in the Group's operations and financial circumstances, of the results for the period and of the overall financial position of the Group and a description of the most significant risks and elements of uncertainty facing the Group.

## **Svendborg, 27 August 2020**

### **Executive Board**

Mads Bonde, CEO  
Carsten Schmidt, CFO

### **Board of Directors**

Peter Eriksen Jensen, Chairman  
John Staunbjerg Dueholm, Vice Chairman  
Lars Radoor Sørensen  
Pernille Wendel Mehl  
Jytte Petersen \*  
Jan B. Pedersen \*  
Christian Jørgensen \*

*\* Employee representatives*

# ACCOUNTING FIGURES

# INCOME STATEMENT

SBS Group DKKm	2020 <sup>1</sup> H1	2019 <sup>1</sup> H1	2019 FY
Revenue	302.6	364.4	664.1
Raw materials and consumables	-153.2	-248.4	-432.1
Changes in inventories of finished goods and work in progress	-26.6	30.6	28.8
Other external expenses	-37.0	-43.9	-89.9
Staff costs	-55.0	-60.7	-108.1
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)	29.8	42.0	62.8
Special items <sup>2</sup>	-2.0	-3.7	-4.4
Operating profit before depreciation, amortisation and impairment losses (EBITDA)	27.8	38.3	58.4
Depreciation, amortisation and impairment losses	-13.3	-11.4	-23.6
Operating profit/loss (EBIT)	14.5	26.9	34.8
Financial income	-	-	0.6
Financial expenses	-12.7	-12.8	-27.2
Profit/loss before tax	1.8	14.1	8.2
Tax for the period	-1.2	-1.9	-3.5
Profit for the period (to be distributed to the shareholders of Scandinavian Brake Systems A/S)	0.6	12.2	4.7
<b>DKK per share:</b>			
Earnings per share (EPS)	0.2	3.8	1.5
Diluted earnings per share (EPS-D)	0.2	3.8	1.5

1) The interim results have not been audited or reviewed.

2) Special items primarily relate to costs incurred for Supply Chain Optimisation project

# STATEMENT OF COMPREHENSIVE INCOME

SBS Group DKKm	2020 <sup>1</sup> H1	2019 <sup>1</sup> H1	2019 FY
<b>Profit for the period</b>	<b>0.6</b>	<b>12.2</b>	<b>4.7</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to the income statement:</i>			
Foreign exchange translation adjustments of foreign subsidiaries	-0.1	-0.1	-0.1
<i>Value adjustments of hedging instruments</i>			
Value adjustments for the period	1.0	0.0	1.1
Value adjustment transferred to financial expenses	0.0	0.1	-0.6
Tax on other comprehensive income	-0.2	0.0	-0.1
<b>Other comprehensive income after tax</b>	<b>0.7</b>	<b>0.1</b>	<b>0.3</b>
<b>Total comprehensive income</b>	<b>1.3</b>	<b>12.3</b>	<b>5.0</b>

The company has no items that may not be reclassified to the income statement.

1) The interim results have not been audited or reviewed.

# STATEMENT OF FINANCIAL POSITION

SBS Group DKKm ASSETS	2020 <sup>1</sup> H1	2019 <sup>1</sup> H1	2019 FY
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Goodwill	12.5	12.5	12.5
Patents, rights and trademarks	1.5	1.5	1.5
Development projects	14.0	13.6	12.3
Software	11.7	8.0	15.2
	39.6	35.6	41.5
<b>Property, plant and equipment</b>			
Land and buildings	57.9	58.3	59.0
Plant and machinery	23.0	26.3	25.3
Fixtures and fittings, tools and equipment	5.4	6.8	6.4
Leased assets	27.1	28.6	28.7
	113.3	120.0	119.4
<b>Other non-current assets</b>			
Securities	0.1	0.1	0.1
Deferred tax	46.1	45.0	45.0
	46.2	45.1	45.1
<b>Total non-current assets</b>	<b>199.1</b>	<b>200.6</b>	<b>206.0</b>
<b>CURRENT ASSETS</b>			
Inventories	185.9	214.6	211.3
Receivables	145.4	152.9	112.8
Cash	0.0	0.1	0.1
<b>Total current assets</b>	<b>331.3</b>	<b>367.5</b>	<b>324.2</b>
<b>TOTAL ASSETS</b>	<b>530.4</b>	<b>568.1</b>	<b>530.2</b>

SBS Group DKKm EQUITY AND LIABILITIES	2020 <sup>1</sup> H1	2019 <sup>1</sup> H1	2019 FY
<b>EQUITY</b>			
Share capital	32.1	32.1	32.1
Hedging reserve	-1.5	-2.6	-2.3
Translation reserve	1.6	1.7	1.7
Revaluation reserve	10.6	10.6	10.6
Retained earnings	-186.7	-179.8	-187.3
<b>Total equity</b>	<b>-143.9</b>	<b>-137.9</b>	<b>-145.2</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions	-	-	6.0
Lease commitments	30.7	32.3	32.7
Credit institutions, etc.	435.7	418.8	417.5
<b>Total non-current liabilities</b>	<b>466.4</b>	<b>451.1</b>	<b>456.2</b>
<b>Current liabilities</b>			
Credit institutions, etc.	46.3	37.8	56.0
Lease commitments	5.8	5.7	5.7
Trade and other payables	155.7	211.5	157.5
Provisions	-	-	-
<b>Total current liabilities</b>	<b>207.9</b>	<b>255.0</b>	<b>219.2</b>
<b>Total liabilities</b>	<b>674.3</b>	<b>706.1</b>	<b>675.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>530.4</b>	<b>568.1</b>	<b>530.2</b>

1) The interim results have not been audited or reviewed.



# STATEMENT OF CHANGES IN EQUITY



GROUP

DKKm	Share capital	Hedging reserve	Translation reserve	Revaluation reserve	Retained earnings	Total	DKKm	Share capital	Hedging reserve	Translation reserve	Revaluation reserve	Retained earnings	Total
Equity 1 January 2019	32.1	-2.7	1.8	10.6	-192.0	-150.2	Equity 1 January 2020	32.1	-2.3	1.7	10.6	-187.3	-145.2
Comprehensive income for the period							Comprehensive income for the period						
Profit for the period	-	-	-	-	12.2	12.2	Profit for the period	-	-	-	-	0.6	0.6
Other comprehensive income:							Other comprehensive income:						
Foreign exchange translation adjustments of foreign subsidiaries	-	-	-0.1	-	-	-0.1	Foreign exchange translation adjustments of foreign subsidiaries	-	-	-0.1	-	-	-0.1
Value adjustments of hedging instruments							Value adjustments of hedging instruments						
Value adjustments for the period	-	-	-	-	-	-	Value adjustments for the period	-	1.0	-	-	-	1.0
Value adjustments transferred to cost of sales	-	-	-	-	-	-	Value adjustments transferred to cost of sales	-	-	-	-	-	-
Value adjustments transferred to financial expenses	-	0.1	-	-	-	0.1	Value adjustments transferred to financial expenses	-	-	-	-	-	-
Tax on other comprehensive income	-	-	-	-	-	-	Tax on other comprehensive income	-	-0.2	-	-	-	-0.2
Total other comprehensive income	-	0.1	-0.1	-	-	-	Total other comprehensive income	-	0.8	-0.1	-	-	0.7
Total comprehensive income for the period	-	0.1	-0.1	-	12.2	12.3	Total comprehensive income for the period	-	0.8	-0.1	-	0.6	1.3
Equity 30 June 2019	32.1	-2.6	1.7	10.6	-179.8	-137.9	Equity 30 June 2020	32.1	-1.5	1.6	10.6	-186.7	-143.9

The interim results have not been audited or reviewed.

# CASH FLOW STATEMENT

SBS Group, DKKm	2020 <sup>1</sup> H1	2019 <sup>1</sup> H1	2019 FY
Profit/loss from continuing activities before tax	1.8	14.1	8.2
Depreciation, amortisation and impairment losses	13.3	11.4	23.6
Adjustments (note 1)	12.7	12.8	26.6
Changes in working capital (note 2)	-7.9	-64.0	-73.0
Operating cash flow	19.9	-25.7	-14.6
Financial income received	-	-	-
Financial expenses incurred	-12.7	-12.8	-26.7
Corporation tax paid during the period (net)	-2.6	-1.8	-4.4
<b>Cash flows from operating activities</b>	<b>4.6</b>	<b>-40.2</b>	<b>-45.7</b>
Acquisition of intangible assets	-2.8	-5.1	-13.9
Acquisition of property, plant and equipment	-2.6	-5.0	-10.2
Disposal of property, plant and equipment	-	-	-
<b>Cash flows from investing activities</b>	<b>-5.3</b>	<b>-10.1</b>	<b>-24.1</b>
Raising and repayment of debt	2.6	53.2	76.0
Repayment of lease commitments	-1.9	-2.9	-6.2
<b>Cash flows from financing activities</b>	<b>0.7</b>	<b>50.3</b>	<b>69.8</b>
Cash and cash equivalents, beginning of period	0.1	0.1	0.1
<b>Cash and cash equivalents, end of period</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Adjustments (note 1)</b>			
Financial income	-	-	-
Financial expenses	12.7	12.8	26.6
	<b>12.7</b>	<b>12.8</b>	<b>26.6</b>
<b>Changes in working capital (note 2)</b>			
Changes in receivables	-32.6	-40.8	-44.5
Changes in inventories	25.4	-32.1	-28.8
Changes in trade payables, etc.	-0.8	8.9	0.3
	<b>-7.9</b>	<b>-64.0</b>	<b>-73.0</b>

Cash flows cannot be derived directly from the accounting records published.

1) The interim results have not been audited or reviewed.

# NOTES

## **Note 1 – ACCOUNTING POLICIES**

The interim report for the period 1 January to 30 June 2020 has been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the EU and additional requirements in the Danish Financial Statements Act. Except for the changes stated below, the accounting policies are unchanged from those applied in the financial statements for 2019, to which reference is made. The financial statements for 2019 include a full description of the accounting policies. The company has implemented the standards and interpretations effective in the EU for 2020. None of these standards and interpretations have impacted recognition and measurement in 2020, nor are they expected to impact the company.

### *Government grants/compensation*

Government grants/compensation primarily include COVID-19 government compensation schemes, including wage compensation and compensation for cancelled events. Grants are recognised when there is reasonable assurance that they will be received. Compensation received is recognised directly in the income statement as compensation-related costs are incurred. Compensation is visibly offset in the notes under the item to which the compensation relates.

## **Note 2 – ESTIMATES AND JUDGEMENTS**

The preparation of interim financial statements requires management to make accounting judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and costs. Actual results may differ from these estimates.

Material estimates and sources of estimation uncertainty include, for instance, cash resources and financing, an assessment of the recoverability of deferred tax assets, impairment write-down of inventories and receivables, etc.

In preparing these interim financial statements, the significant judgements made and the key sources of estimation uncertainty were the same as those that applied in the preparation of the consolidated financial statements for 2019; therefore, reference is made to note 2 of the consolidated financial statements for 2019. However, due to COVID-19, the outlook is subject to a higher degree of uncertainty than normal. The most significant risks are the impacts of COVID-19 on economic activity in the Group’s main markets and new regulatory measures to contain the spread of infection that may affect demand for the companies’ products and/or disrupt their value chains. Management assesses that there have otherwise not been material changes in assumptions, estimates, etc.

## Note 3 – SEGMENT INFORMATION

	SBS Automotive		SBS Friction		Other segments incl. eliminations *		Reportable segments Total	
	2020	2019	2020	2019	2020	2019	2020	2019
DKKm	H1	H1	H1	H1	H1	H1	H1	H1
Segment revenue, external customers	228.6	281.5	73.9	82.9	-	-	302.6	364.4
EBITDA recurring	14.1	23.4	20.2	20.3	-4.5	-1.7	29.8	42.0
Segment profit/loss after tax	3.1	8.8	9.1	10.8	-11.7	-7.3	0.6	12.2

\* This item comprises the Group's shared service functions consisting of group management, finance and other group-related specialist functions as well as profit/loss from discontinuing operations.

There have been no material changes in amounts of segment assets and liabilities since 31 December 2020.

Transactions between segments are conducted on an arm's length basis (at market terms).

## Note 4 – SEASON

Similarly to previous years, the Group's activities have not been affected by seasonal or cyclical fluctuations other than those stated in the management's review during the interim period.



## **Note 5 – STAFF COSTS**

During COVID-19, the company temporarily laid off employees, and it is covered by the wage compensation scheme. The company has made a preliminary statement of wage compensation at 30 June 2020, which is recognised in the interim financial statements at 30 June 2020. The amount recognised as income is DKK 3.9 million and has been set off against staff costs.

## **Note 6 – FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

Below, the disclosure requirements of the Scandinavian Brake Systems A/S Group relevant to the Group's interest rate swap etc. are listed.

The interest rate swap and forward exchange contract are classified at level 2 of the fair value hierarchy with recurring fair value measurements. The fair value and the carrying amount of the interest rate swap and the forward exchange contract are the same, amounting to DKK -8.1 million at 30 June 2020.

An analysis has been performed for the interest rate swap, and it is assessed that the hedge is still effective at 30 June 2020 similarly to 31 December 2019. For more information, reference is made to SBS's annual report for 2019, note 29.

Methods and assumptions for the determination of fair values are set out in the Group's financial policy, which has been approved by the Board of Directors. Fair values must, as far as possible, be determined based on external information that most accurately reflects the values of assets or liabilities in order to minimise modifications of parameters, calculation models or use of subjective estimates.

The Group uses interest rate swaps and forward exchange contracts to hedge the Group's risks related to variability in cash flows due to fluctuations in interest rates and exchange rates.

Forward exchange contracts and interest rate swaps are measured using generally accepted valuation techniques based on observable swap curves and exchange rates. Externally calculated fair values, based on discounting of future cash flows, are applied.

The fair value of derivative financial instruments is calculated using valuation models such as discounted cash flow models. Expected cash flows for each contract are based on observable market data such as yield curves and exchange rates. Fair value is also based on unobservable data inputs, for instance foreign exchange volatilities, yield curve correlations, exchange rates and credit risks. Unobservable market data inputs form an insignificant part of the fair value of derivative financial instruments at 30 June 2020.