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COMPANY ANNOUNCEMENT NO. 06-2021

SBS Group enters into agreement to sell SBS Automotive to Borg Automotive

Scandinavian Brake Systems A/S ("SBS Group") has today entered into an agreement to divest the subsidiary SBS Automotive A/S and its subsidiaries to Borg Automotive A/S, a company in the Danish industrial conglomerate Schouw & Co. A/S.

The sales price is determined by an earn-out model based on SBS Automotive's operating profit before depreciation and amortization (EBITDA) in 2022 on a debt-free basis and at a normalized working capital level.

The sales price will be calculated no later than Q2 2023 and settled subsequently. SBS Group and its two main banks have entered into an agreement to consider SBS Group's shareholders when the proceeds from the sale are allocated.

The divestment of SBS Automotive is subject to approval at an extraordinary general meeting of SBS Group, approval from relevant competition authorities and usual closing conditions. The sale is expected to be completed on 1 July 2021.

SBS Group's outlook for 2021 is adjusted due to the sale. Management and organisation are adjusted as well.

"After the failed Notox investment, SBS Group has reported negative equity and a very high debt level for a number of years. With the sale of SBS Friction earlier this year and today's sales agreement regarding SBS Automotive, we are on our way to grapple with the debt burden and hopefully secure proceeds for our shareholders in line with what the board of directors and the executive management have been fighting for. The solution is also good for SBS Automotive's loyal and skilled employees and the company as such. In that light, we are satisfied and recommend this agreement to our shareholders," says Chairman of the Board of Directors, Peter Eriksen Jensen, SBS Group.

Sales price and use of expected proceeds

The sales price for SBS Automotive is fixed on the basis of an earn-out model, which is based on 5 times the company's reported operating profit before depreciation and amortization (EBITDA) in 2022 adjusted for interest-bearing debt and with usual adjustment of net working capital.

The model provides SBS Group with access to a potential upside in 2022 where SBS Automotive is expected to improve operating profit and free cash flow as markets are assumed to fully re-open after Covid-19, and the effect of planned strategic initiatives is expected to materialize.

According to estimates, based on SBS Automotive's business plan, the sales price on a debt-free basis (enterprise value) is expected to be around DKK 200-250 million. The sales price is to cover SBS Group's repayment of bank and leasing debt, transaction costs and expenses related to operations and closure.

SBS Group and the company's two main banks have entered into an agreement concerning the allocation of the net proceeds from the divestment. The aim of the agreement is to ensure that SBS Group's shareholders – despite the company's high net interest-bearing debt – might potentially get a share of net proceeds, subject to SBS Automotive's financial results and execution on its business plan.

Due to the bank agreement, a sales price of around DKK 200-250 million on a debt-free basis is assumed to provide SBS Group's shareholders with proceeds of up to DKK 50 million, enabling a distribution of up to DKK 15.6 per share (excl. treasury shares) following the closure of SBS Group. Due to market uncertainty, the estimates are subject to great uncertainty. In comparison, the net asset value per share was DKK minus 48.5 on 31 December 2020.

Background for the sale of SBS Automotive

SBS Automotive will continue as an independent trading division of Borg Automotive and supplement Borg Automotive's market-leading activities within production, sales, and distribution of re-manufactured automotive parts. SBS Group's CEO Mads Bonde will continue as CEO of SBS Automotive.

SBS Automotive and Borg Automotive constitute a strong strategic match based on SBS Automotive's strong competencies within sourcing and Borg's strong manufacturing foundation. Together, the companies will have a significant position in the free European aftermarket for automotive spare parts.

The sale to Borg Automotive concludes the strategic process that SBS Group – as previously announced – has conducted to position SBS Automotive to meet the comprehensive structural changes in the market (see company announcements no. 07-2020 and no. 03-2021). These changes have accelerated during the Covid-19 pandemic.

"The traditional business models and the traditional distribution of roles in the market are under enormous pressure. With fewer and larger customers, there is a need for consolidation among suppliers to counter what we are seeing on the customer side. Through the sale to Borg Automotive, SBS Automotive will be part of a large group, which is strongly positioned in all of Europe and has access to the largest purchasing organisations and co-operations. The sale is therefore the right solution for SBS Group and its shareholders," says Chairman of the Board of Directors, Peter Eriksen Jensen.

Updated 2021 outlook

SBS Group's original outlook for 2021 was based on the assumption that SBS Automotive would contribute with revenue of DKK 470-490 million and an operating profit (EBITDA recurring) of DKK 30-35 million, which would entail a total operating profit (EBITDA recurring) of DKK 20-25 million for SBS Group. But after the sale, SBS Automotive will be presented as "discontinuing activity" in SBS Group's consolidated financial statements, and the outlook for the year is therefore adjusted:

SBS Group's revenue is now expected to be DKK 8-10 million comprised of payments from the new owners of SBS Automotive and SBS Friction for services rendered in a transition period. SBS Group's operating profit (EBITDA recurring) is expected to be a loss of DKK 15-17 million after costs related to operations of the parent company. Under "discontinuing activities", SBS Automotive is expected to contribute with an EBITDA result of DKK 20-22 million further to the accounting profit of DKK 152 million before tax from the divestment of SBS Friction.

Changes to SBS Group's management and organization

After the sale of SBS Automotive, SBS Group's assignments will relate to the management of shareholders' interest, controlling debt and ensuring that the agreement with Borg is brought into effect. In that connection, SBS Group's chairmanship, Peter Eriksen Jensen and John Dueholm, will become members of SBS Automotive's Board of Directors along with 3 representatives from Borg Automotive.

SBS Group's organization and cost level will be adjusted due to the sale of SBS Automotive and the already completed sale of SBS Friction in January 2021 (company announcement no. 01-2021).

At the planned extraordinary general meeting, the members elected by the general meeting, Lars Radoor Sørensen and Pernille Wendel Mehl, will resign from the Board of Directors, and a motion will be presented to elect CEO Mads Bonde. Peter Eriksen Jensen and John Dueholm will continue to serve at the Board.

CEO Mads Bonde will continue as CEO of SBS Automotive under Borg's ownership, and he will continue to act as CEO of SBS Group until 30 September 2022.

Extraordinary general meeting

The sale to Borg Automotive is subject to approval at an extraordinary general meeting in SBS Group's parent company, Scandinavian Brake Systems A/S. The general meeting will be convened as soon as possible. The sale has to be approved by a majority of at least 2/3 of the cast votes as well as the registered share capital represented at the general meeting.

The company's majority shareholder, Stiholt Holding A/S with approximately 56.5% of the shares, has indicated its support for the sale in advance.

Additional information

During the strategic review concerning SBS Automotive's future and the negotiations with Borg Automotive, SBS Group was advised by Carnegie Investment Bank, Kromann Reumert and EY.

Additional information:

Chairman of the Board of Directors Peter Eriksen Jensen and CEO Mads Bonde, SBS Group

Contact via executive secretary Jytte Knudsen on tel. +45 5180 6262

FORWARD-LOOKING STATEMENTS

This announcement contains statements about the future, including financial expectations for 2021 and assumptions about the proceeds from the sale of SBS Automotive in 2023. Due to their nature, these statements are subject to risk and uncertainty, which entails that the actual development may deviate significantly from the expectations. Because of Covid-19, the outlook for 2021 is subject to greater-than-usual uncertainty. Reference is made to the risk section in SBS Group's annual report for 2020.