

# Q1 2020

January–March

## Business review



Detection  
Technology

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## DETECTION TECHNOLOGY PLC BUSINESS REVIEW JANUARY-MARCH 2020

**Demand and profitability weakened by COVID-19, healthy prospects in medical****January-March 2020 highlights**

- Net sales decreased by -13.6% to EUR 19.9 million (23.1)
- Net sales of Security and Industrial Business Unit (SBU) decreased by -20.3% to EUR 11.5 million (14.5)
- Net sales of Medical Business Unit (MBU) decreased by -2.3% to EUR 8.4 million (8.6)
- Operating profit (EBIT) was EUR 1.2 million (3.9)
- Operating margin (EBIT-%) was 5.9% of net sales (16.7%)

(Figures in brackets refer to the corresponding period of the previous year.)

**Key figures**

(EUR 1,000)	1-3/2020	1-3/2019	1-12/2019
Net sales	19,917	23,053	102,480
Change in net sales, %	-13.6%	19.3%	9.1%
Operating profit	1,181	3,855	17,019
Operating margin, %	5.9%	16.7%	16.6%
R&D costs	2,618	2,499	10,706
R&D costs, % of net sales	13.1%	10.8%	10.4%
Cash flow from operating activities	3,387	5,047	11,599
Net interest-bearing debt at end of period	-23,076	-17,168	-20,385
Investments	695	707	4,041
Gearing, %	-38.8%	-34.0%	-34.9%
Earnings per share, EUR	0.06	0.25	0.87
Number of shares at end of period	14,375,430	14,375,430	14,375,430

**President and CEO, Hannu Martola:**

"Demand in security applications and our profitability suffered from the outbreak of COVID-19. Our Q1 sales decreased by nearly 14%, which had an impact on our profitability. On one hand, the COVID-19-related risks materialized in our SBU business, but on the other hand, demand in medical computed tomography (CT) solutions increased towards the end of Q1. We foresee healthy prospects in medical for Q2 and H2, and mid-term growth drivers are strong in both of our business units. So far, we have succeeded in minimizing adverse effects of the pandemic on our business.

As expected, demand in the medical CT segment at the beginning of 2020 was characterized by the softening of the market that started last year. Demand in CT solutions, however, took a positive turn after the Chinese New Year, first in China and later in other markets, as CT imaging is used to detect pulmonary changes caused by the COVID-19 virus, as well as in the diagnosis and treatment of patients. Although the demand in our CT products grew towards the end of Q1, this came too late to boost overall MBU sales year-on-year. In addition to the softness in the CT market outside China, the -2% decrease in MBU sales was attributed to the ramp-down in production of a product family started by one of our key customers last

year, and strong sales in the comparison period. The pandemic has weakened demand for dental applications. Despite this, sales of our X-Panel product family will begin in Q2.

The ramifications of the pandemic were somewhat opposite in SBU target markets. For example, passenger traffic at airports nearly halted due to regulations by the authorities. As the pandemic spread after the Chinese New Year, our customers temporarily closed their production facilities first in China and later in Europe and North America. CT demand in critical infrastructure security applications decreased first in Asia and, at the end of Q1, also in other markets. Demand in industrial applications for food safety and the safety of medicines, however, increased slightly. The difficult overall situation in the markets decreased our year-on-year SBU sales by 20%. When writing this report, markets in Asia are opening up.

Despite the short-term challenges in the aviation segment, equipment upgrade according to the ECAC C3 standard will continue at European airports, but the deadline for CT machine installations will be probably extended from six to twelve months. The CT upgrade in the US has continued, however a slight delay is expected for future purchases. China is also preparing similar standardization, and has informed earlier that they will publish details by the end of 2020.

Lower year-on-year sales, fixed costs and depreciations related to our new production and service site in Wuxi, and increasing R&D costs had an adverse impact on our profitability. Our operating margin decreased from our usual double-digit level to 6%. However, our cash flow remained strong.

During the challenging times, our first priority has been to ensure the good health of our personnel and deliveries to our customers. Defeating the COVID-19 pandemic is in all of our best interests, and we have been honored to play our part. Thanks to our deliveries to medical CT applications, we have been given an opportunity to keep our Beijing facility operational, and we have also been able to start deliveries from our new Wuxi site despite the state of emergency. The first deliveries to security applications from Wuxi took place in March, and we will continue to transfer products to our new site as planned.

We have also continued developing our business in Aurora, X-Panel and multi-energy (ME) product families. Aurora deliveries have started, and despite the challenging market situation, we believe demand in our Aurora products will increase in the line-scan segment. We received customer validation to X-Panel, which allows us to start deliveries. We will also launch a record number of new product solutions this year.

So far, we have succeeded in minimizing the impact of the pandemic on our supply chain, production and R&D projects. For this, I wish to express my warm thanks to our partners and personnel for their flexibility and commitment.

We expect lower demand in the security segment to continue and a slight increase in industrial demand, and total SBU sales to decrease in Q2. In contrast, strong growth in MBU sales is expected, driven by demand in medical CT applications. We expect the demand in medical CT applications to remain at a good level also in H2, and MBU sales to increase in 2020. We do not, at this point, expect the security market to return to growth path this year, and we expect SBU sales to decrease in 2020.

The global economy is experiencing unparalleled turmoil, and experts consider it likely for the pandemic to have several waves over a longer period of time. For this reason, the predictability of the market is extremely low, and our business will face extraordinary uncertainty. We will continue strengthening our

competitiveness and keep our medium-term growth and profitability targets unchanged.”

## Markets

Forecasts in the industry have set the average growth in the global medical X-ray imaging market to about 5% a year, the security X-ray imaging market to about 6% and the industrial X-ray imaging market to about 5%. COVID-19 has disrupted market dynamics, and experts have varying opinions on future market development. Detection Technology opines that, apart from medical CT imaging, annual growth will remain lower than the aforementioned estimates in 2020.

The company's net sales decreased by -13.6% (19.3%) to EUR 19.9 million (23.1) in Q1. Operating profit amounted to EUR 1.2 million (3.9), corresponding to 5.9% (16.7%) of net sales.

The net sales of Security and Industrial Business Unit (SBU) decreased by -20.3% (22.9%) year-on-year, totaling EUR 11.5 million (14.5). The decrease in net sales was attributed to the ramifications of the COVID-19 pandemic. Both air and land transport decreased from 30 to 90% in different segments. Regulations by the authorities regarding mass gatherings and the overall uncertainty in the global economy adversely affected demand in traffic hubs as well as in other critical infrastructure. In addition, apart from the food and medical industries, investments in industrial imaging applications were postponed. SBU generated a total of 57.9% (62.8%) of the company's net sales.

The net sales of Medical Business Unit (MBU) decreased by -2.3% (13.8%) to EUR 8.4 million (8.6). The decrease in MBU net sales was attributed to the expected softness in the CT market outside China at the beginning of the year, and the ramp-down in production of a product family started by one of our key customers last year, which is important to our sales. Good year-on-year figures also contributed to the development of sales. The COVID-19 pandemic increased demand in CT applications towards the end of Q1, but due to the aforementioned reasons, the overall development in net sales remained negative. MBU generated a total of 42.1% (37.2%) of the company's net sales.

There were no significant changes in the geographical distribution of sales. The Asia-Pacific countries (APAC) still accounted for the company's largest market area, with its 61.9% (62.1%) share. The second largest market area was Europe, the Middle East and Africa (EMEA) with its 21.6% (21.5%) share of net sales. The Americas' share of net sales was 16.5% (16.4%). The share of net sales accounted for by the top five customers decreased being 62.7% (68.2%) of the company's total net sales.

## Strategy

Detection Technology has continued to implement its DT-2025 strategy, published last year, and to develop its business in line with the new strategy. The company started deliveries to customers from its new production and service site in Wuxi, Greater Shanghai area, in March as planned. The company will carry out product transfers gradually, and increase production capacity in line with its strategy and market demand. The new site has been designed by retaining flexibility for future production and customer service needs. After the COVID-19 lockdown restrictions are revoked, the company will build new services related to enhancing customer experience, such as technology simulations, testing and training, at the new site.

The company's competitive position in the line-scan segment strengthened thanks to the Aurora product family in particular in China in Q1, and the readiness to launch sales of the X-Panel product family improved. The company invested in the ramp-up of the commercial production of the X-Panel product family, and received customer validation allowing the company to start deliveries to the said key customer. The company estimates that sales for dental applications will start in Q2 2020, as previously announced by the company.

The key projects of the multi-energy (ME) product line have progressed as planned, and the company aims to start commercial production by the end of 2020. The company expects a positive result from the new business in about two years. The company has decided to move its operations in Grenoble to new facilities, which better supports ME product development and small-series production. Due to the state of emergency, the move to the new facilities will be delayed from the previous announcement and will take place in September 2020, at the earliest.

### **Business outlook**

Detection Technology expects lower demand in the security segment to continue and SBU sales to decrease in Q2. Demand in medical CT applications, however, will remain at a good level, and MBU sales will grow.

Detection Technology expects the demand in medical CT applications to remain at a good level also in H2, and MBU sales to increase in 2020. The company estimates that drop in demand in the security segment will continue at least to the end of the year, and that the industrial segment will grow, but the growth is likely to be below the industry forecast of 5%. As a consequence, the company expects SBU sales to decrease in 2020. The COVID-19 pandemic creates extraordinary uncertainty in the global economy, and the predictability of the market is lower than usual.

Whilst Detection Technology has limited visibility to its business outlook owing to the COVID-19 crisis, it aims to increase sales by at least 10% per annum and to achieve an operating margin at or above 15% in the medium term.

### **Half-yearly report 2020**

Detection Technology will publish the half-yearly report on 4 August 2020.

Espoo 24 April 2020

Board of Directors  
Detection Technology Plc



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