ISRA VISION AG: Third quarter 2019 / 2020 – COVID-19 pandemic continues to impact on quarterly figures

COVID-19 pandemic: Challenges for ISRA in the first 9 months; revenues and earnings below previous year’s figures

- Revenues at 89.8 million euros, minus 19% (Q3-YTD 18/19: 110.6 million euros)
- Focus on earnings margins:
  (Unless stated otherwise, the EBITDA, EBIT and EBT figures included in this document are adjusted for one-time transaction costs).
  - EBITDA margin at 31% to revenues and 26% to total output (Q3-YTD 18/19: 35% and 31%)
  - EBIT margin at 13% to revenues and 11% to total output (Q3-YTD 18/19: 22% and 20%)
  - EBT margin at 13% to revenues and 11% to total output (Q3-YTD 18/19: 22% and 20%)
- Gross margin at 63% to total output (Q3-YTD 18/19: 62%) and 56% to revenues (Q3-YTD 18/19: 57%)
- Operating cash flow compared to Q2 19/20 increases to 12.8 million euros (Q2 19/20: 2.8 million euros)
- Cost optimization activities prove to be efficient
- Order backlog of currently 82 million euros gross (PY: 93 million euros gross)
- ISRA and Atlas Copco: All approvals granted; merger squeeze-out announced
- Growth forecast remains difficult due to low order entry dynamics; trend reversal expected towards the middle of the financial year 2020/2021 at the earliest

ISRA VISION AG (ISIN: DE 0005488100) – one of the world’s top companies for industrial image processing (Machine Vision) as well as a global leader for surface inspection of web materials and 3D machine vision applications, is publishing its quarterly figures for the third quarter of financial year 2019/2020 on August 31, 2020. The COVID-19 pandemic continues to have a significant impact on the global economy, which is also reflected in ISRA’s business development in the third quarter of 2019/2020. In the period under review, the company recorded revenues of 89.8 million euros (Q3-YTD 18/19: 110.6 million euros), a decline of nearly 19 percent compared to the strong figures of the previous year. EBT of 11.7 million euros (Q3-YTD 18/19: 24.5 million euros) also reflects the current difficult economic situation in the entire industry.

The gross margin (total output minus material and labor costs for production) remained nearly constant compared to the previous year and amounted to 63 percent of total output (Q3-YTD 18/19: 62%) and 56 percent of revenues (Q3-YTD 18/19: 57%). EBITDA (earnings before interest, taxes, depreciation and amortization) declined by 29 percent to 27.5 million euros (Q3-YTD 18/19: 38.6 million euros). Accordingly, the EBITDA margin amounted to 31 percent of revenues (Q3-YTD 18/19: 35%) and 26 percent of total output (Q3-YTD 18/19: 31%). At 12.0 million euros, EBIT (earnings before interest and taxes) was significantly below the previous year’s figures (Q3-YTD 18/19: 24.6 million euros), the EBIT margin was correspondingly 13 percent of revenues (Q3-YTD 18/19: 22%) and 11 percent of total output (Q3-YTD 18/19: 20%). EBT (earnings before taxes) amounted to 11.7 million euros (Q3-YTD 18/19: 24.5 million euros),
which equates to an EBT margin of 13 percent of revenues (Q3-YTD 18/19: 22%) and 11 percent of total output (Q3-YTD 18/19: 20%).

ISRA's leading technological position in the market is one of its growth drivers. In order to maintain and further expand this position, the company is making significant investments in research and development, even in the current situation, by spending 17.5 million euros in the first nine months of financial year (Q3-YTD 18/19: 16.1 million euros). This equates to nearly 17 percent of total output (Q3-YTD 18/19: 13 percent). Expenditure on sales and marketing amounted to 18.8 million euros (Q3-YTD 18/19: 21.3 million euros), a decline of almost 12 percent. Administrative costs remained relatively constant at 4.1 million euros (Q3-YTD 18/19: 4.0 million euros) despite the additional workload incurred in connection with the strategic partnership with Atlas Copco.

The balance sheet reflects the continued decline in incoming orders and more difficult shipping conditions also in this quarter. Inventories rose to 52.5 million euros (September 30, 2019: 46.9 million euros). Trade receivables amounted to 100.7 million euros (September 30, 2019: 115.8 million euros). Receivables comprise 51.5 million euros in system deliveries already invoiced (September 30, 2019: 48.9 million euros) and contract assets of 49.2 million euros recognized in accordance with IFRS 15 (September 30, 2019: 66.9 million euros). The consolidated balance sheet total at the end of the third quarter of 2019/2020 was 342.5 million euros (September 30, 2019: 345.1 million euros). In total, current assets amounted to 192.7 million euros (September 30, 2019: 209.7 million euros) and non-current assets to 149.8 million euros (September 30, 2019: 135.4 million euros).

On the liabilities side of the balance sheet, trade payables decreased to 9.8 million euros as of June 30, 2020 (September 30, 2019: 23.4 million euros). Current financial liabilities to banks and financial institutions amounted to 38.9 million euros (September 30, 2019: 40.6 million euros), while other financial liabilities amounted to 15.1 million euros (September 30, 2019: 13.8 million euros). As was the case on September 30, 2019, there were no non-current liabilities to banks on June 30, 2020; tax liabilities amounted to 7.0 million euros (September 30, 2019: 4.0 million euros).

The cost optimization activities initiated at the end of the second quarter are showing initial effects and had a positive impact on cash flow in the third quarter of the financial year. Compared to the second quarter of the financial year, operating cash flow improved to 12.8 million euros in the reporting period (Q2 19/20: 2.8 million euros). An amount of 16.9 million euros were spent on capital expenditures in the first nine months of the financial year (Q3-YTD 18/19: 14.5 million euros). Cash flow from financing activities amounted to -6.1 million euros (Q3-YTD 18/19: -2.9 million euros). Earnings per share (EPS) after taxes amounted to 0.33 euros (Q3-YTD 18/19: 0.76 euros). A dividend of 0.18 euros per share was distributed to shareholders at the Annual General Meeting in May 2020 for financial year 2018/2019. With an equity increase to 217.4 million euros (September 30, 2019: 214.7 million euros) and an improved equity ratio of 63 percent (September 30, 2019: 62%) as well as free credit lines, the company still has a good capital base for future growth.

The company's strong global positioning, the continuous expansion of market shares in relevant fields and the strengthening of the international teams at its more than 25 locations in recent years are important strategic assets in the current challenging market environment. The individual regions and customer industries were affected by the COVID-19 effects in different ways during the reporting period. The general recovery that one had hoped for failed to materialize in the third quarter of the financial year due to the pandemic.
The decline in revenues in the period under review turned out significantly lower in the European markets compared to the other regions. Europe still benefited from the relatively good order situation in the first half of the year. While incoming orders picked up momentum in Asia towards the end of the reporting period, the American and European markets continued to record major postponements of orders. It is currently difficult to predict when the postponed projects can be realized, the company nevertheless expects the situation on the Asian markets to continue to ease and the first cautious recovery of individual customer industries in Europe to begin at the beginning of the next financial year.

The Industrial Automation segment, whose customer base includes primarily well-known premium manufacturers from the automotive industry as well as global players from a wide variety of industries, recorded revenues of 26.9 million euros in the first nine months of the financial year (Q3-YTD 18/19: 28.0 million euros), only slightly below the strong prior-year figures. One of the revenue drivers were the innovations in the area of embedded systems for ISRA that were initiated together with Photonfocus. EBIT amounted to 4.8 million euros (Q3-YTD 18/19: 6.1 million euros) with an EBIT margin to total output of 13 percent (Q3-YTD 18/19: 19%). With a beginning recovery of the Asian markets in the fourth quarter of 2019/2020, as well as the strengthening of the management team and portfolio expansions in the Smart Factory Automation segment, the Company continues to expect a positive development of demand for this segment in the coming months.

Revenues in the Surface Vision segment in the first nine months of 2019/2020 amounted to 62.9 million euros (Q3-YTD 18/19: 82.6 million euros) and, at minus 24 percent, are significantly below the last year’s revenues. EBIT amounted to 7.2 million euros (Q3-YTD 18/19: 18.5 million euros), with an EBIT margin of 10 percent of total output (Q3-YTD 18/19: 20%). The Glass and Metal Inspection business units recorded a significant drop in sales in the period under review, whereas the Advanced Materials unit fell only slightly short of the strong figures for the previous year – orders from customers in the printing industry even slightly exceeded expectations. In the area of Paper, following the design-to-cost measures that have been implemented, the company continues to focus on high growth sectors such as the packaging industry and is stepping up its marketing and sales activities. The company is recording a significant decline in orders in the Solar and Security business units. Sales in the still young Semiconductor business developed modestly in the reporting period; demand also declined towards the end of the quarter.

Even in the current tense global economic situation, the company is consistently expanding its Customer Service and Support division and plans to use a diversified service range to achieve a disproportionately high increase in the contribution of high-margin service revenues to total revenues in the medium term. In addition, the CSSC division was strengthened on the management side in mid-August as planned.

After the first nine months of financial year 2019/2020, which were significantly affected by the pandemic from the second quarter on, no turnaround is foreseeable for the fourth quarter either. The offers placed on the market and the number of major orders to be negotiated for future projects still would have had a potential for profitable sales and earnings growth in an unclouded economic environment. However, due to the massive worldwide effects of the COVID-19 pandemic, these will continue to shift, so that a realization of revenues in the current financial year (until September 30, 2020) is no longer likely. The overall turnaround in the dynamics of incoming orders hoped for as late as mid-year in the fourth quarter will thus continue to be postponed, although incoming orders from Asia, especially from China, are already showing initial impetus and increasing demand.
The measures introduced by the management to mitigate the effects of the COVID-19 pandemic and to strengthen the liquidity and cash flow of the company are showing initial effects and will be continued in a focused manner. In principle, ISRA’s strategy remains concentrated on sustainably expanding its worldwide market position through product innovations for industrial automation while simultaneously raising efficiency, as well as increasing revenues – with an optimization of costs and working capital – above the 200-million-euro mark in the medium term.

As previously reported, the acceptance period for the voluntary public takeover offer by the Atlas Copco Group for ISRA VISION AG expired on April 29, 2020. Atlas Copco now holds 92.19 percent of ISRA shares. The final offer condition, the approval by the Committee on Foreign Investment in the United States (CFIUS), was granted in mid-June. In addition, Atlas Copco Germany Holding AG submitted a formal request to the Executive Board of ISRA VISION AG on August 3, 2020, pursuant to Section 62 (1) and (5) sentence 1 German Transformation Act (UmwG) in conjunction with Sections 327a et seq. German Stock Corporation Act (AktG) to carry out the procedure for transferring the shares of the minority shareholders of ISRA VISION AG in return for an adequate cash compensation in connection with a merger of ISRA VISION AG into Atlas Copco Germany Holding AG by way of absorption (so-called merger squeeze-out under the German Transformation Act), and to let the General Meeting of ISRA VISION AG resolve on the transfer of the shares of the minority shareholders of ISRA VISION AG within three months of the conclusion of the merger agreement.

Company profile

ISRA VISION AG, together with its subsidiaries, is worldwide leading in surface inspection of web materials. Furthermore, it is one of the globally leading providers of machine vision programs, specialising in the area of 3D machine vision, in particular for “3D robot vision”.

The core competence of the Company is the ISRA-BrainWARE®, an innovative software for intelligent machine vision systems. Here, the scientific know-how from the fields of optics, lighting technology, surveying technology, physics, image processing and classification algorithms and a complex system design are combined. Machine vision is a key technology for visualising systems that imitate the human eye. Today’s ISRA applications focus primarily on the automation of production and quality assurance of goods and products supplied to large, future-oriented markets such as energy, healthcare, food, mobility and information. The customers mainly include renowned global players from the respective sectors. With more than 25 locations worldwide, ISRA offers customer proximity everywhere and ensures optimum service and support.

Further information is available at www.isravision.com.
Ad hoc announcement
August 31, 2020

Additional Information

ISRA VISION AG
Industriestraße 14
64297 Darmstadt
Germany
Tel.: +49 (0) 6151 948 - 0
Fax: +49 (0) 6151 948 - 140
Internet: www.isravision.com

Investor Relations
E-Mail: investor@isravision.com

Melanie Böttcher
Tel.: +49 (0) 6151 948 - 209

Susanne Becht
Tel.: +49 (0) 6151 948 - 212