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# Arendals Fossekompani Q2 and Half-year Interim Report

Q2 2024

23 August 2024

# Disclaimer

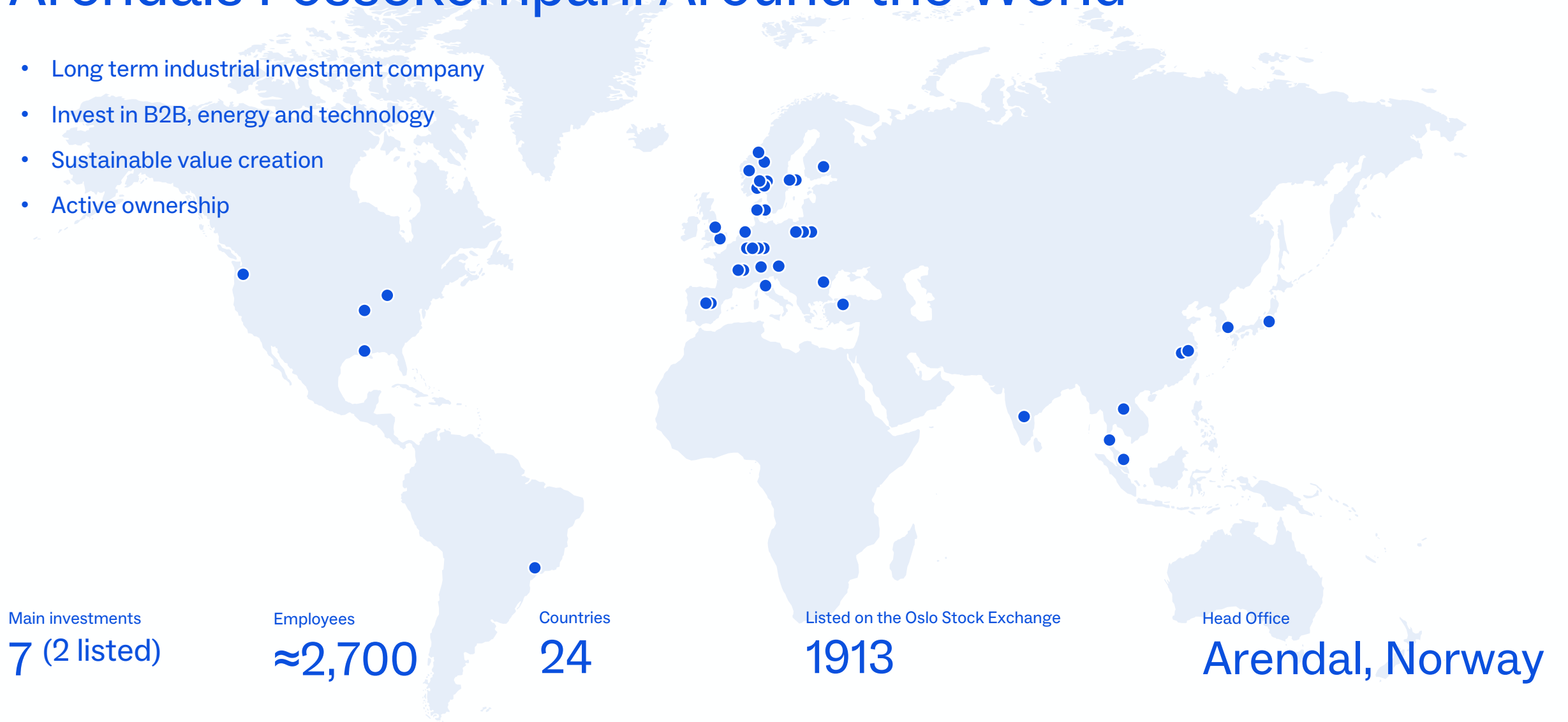
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# Arendals Fossekompani Around the World

- Long term industrial investment company
- Invest in B2B, energy and technology
- Sustainable value creation
- Active ownership



Main investments  
**7 (2 listed)**

Employees  
**≈2,700**

Countries  
**24**

Listed on the Oslo Stock Exchange  
**1913**

Head Office  
**Arendal, Norway**



Dots on map reflect approximate locations

23 August 2024

# Portfolio aligned with global megatrends

## Digitalisation & Big Data Analytics

### volue

AFK ownership  
60%

Market cap (30.06)  
NOK 4,309 million

Head office  
Oslo, Norway

Listed at  
Oslo Børs

### NSSLGlobal

AFK ownership  
80%

Head office  
London, UK

### alytic

AFK ownership  
95%

Head office  
Arendal, Norway

## Electrification & Materials

### TEKNA

AFK ownership  
71%

Market cap (30.06)  
NOK 765 million

Head office  
Sherbrooke, Canada

Listed at  
Oslo Børs

### ENRX

AFK ownership  
95%

Head office  
Skien, Norway

## Energy Transition

### VANNKRAFT

AFK ownership  
100%

Head office  
Arendal, Norway

### ampwell

AFK ownership  
100%

Head office  
Arendal, Norway

### Vergia

AFK ownership  
100%

Head office  
Arendal, Norway



Optimizing portfolio & reducing exposure to capital intensive businesses

# Highlights Q2 2024

## Financial

- Group revenue: NOK 1,682 million (1,404 million). Up 20% YoY, driven by NSSLGlobal and AFK Property.
- Operating profit: NOK -660 million (148 million), driven by impairment of Commeo, low power prices, and softer topline development in ENRX, Volue and Tekna in the quarter.
- Quarterly dividend: NOK 1.00 per share.

## Key developments

- June 10: Arendals Fossekompani discontinues Commeo investment. Impairment taken on shares and shareholder loan.
- Tekna ships first revenue-generating nano material order for MLCC trials.
- AFK Property to build new facility for Kitron at Longum Næringspark.
- July 8: Arendals Fossekompani, Advent and Generation offers to buy all shares and delist Volue, to enhance Volue's growth trajectory.
- July 12: Vergia sold to Swiss Life Asset Managers.



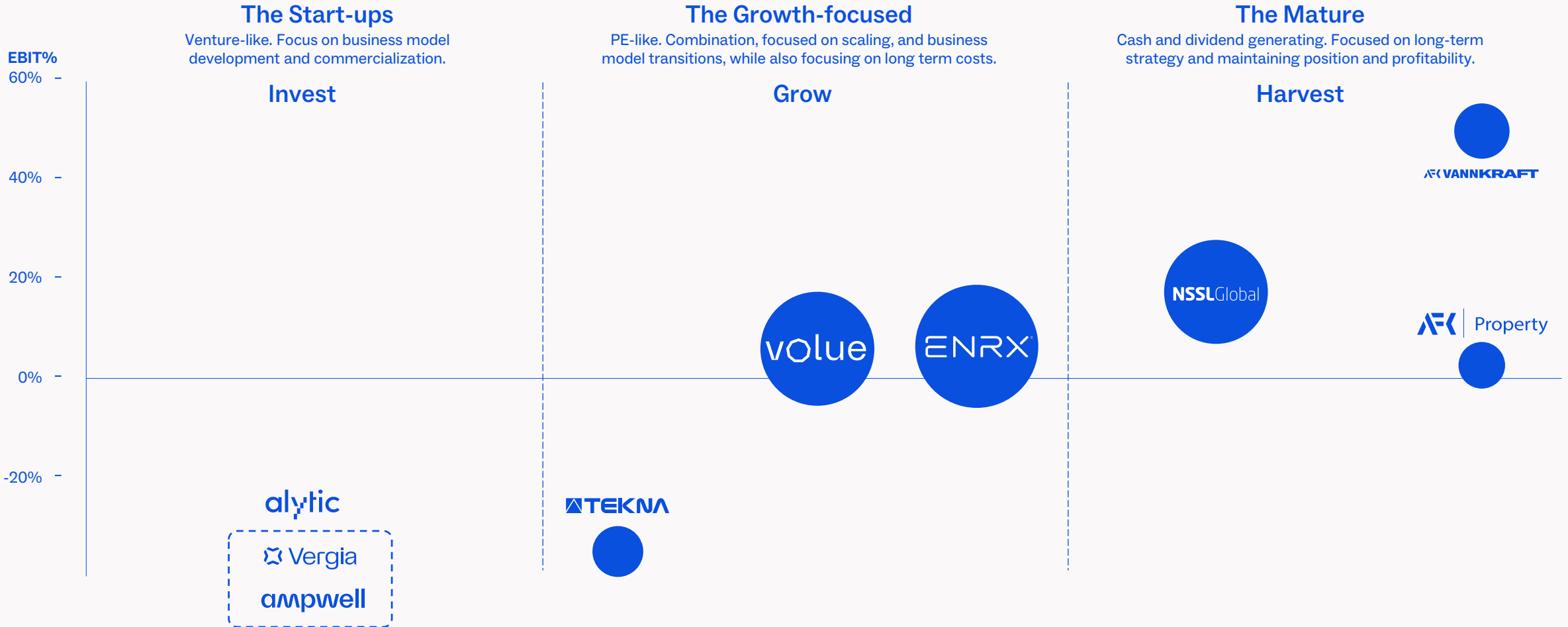
Figures in parentheses refer to the same period the previous year





Diversified portfolio containing both stable cash flow generating companies and attractive growth prospects

# Restructuring, de-risking and focusing the portfolio



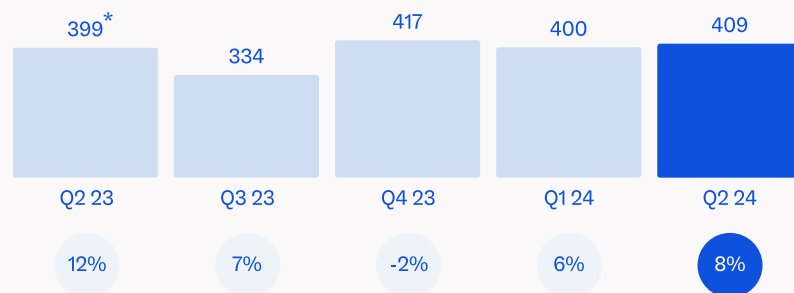
Bubble size indicate revenue. All numbers reflect last twelve months per Q2 2024.

23 August 2024

## Recurring revenue & SaaS growth

### Development last 5 quarters

Revenue and other income (MNOK) and operating margin



- Revenues: NOK 409 million (399 million).
- Adjusted EBITDA: NOK 88 million (63 million).
- **Adjusted EBITDA-margin: 22%** (17%).
- **Recurring revenue:** NOK 291 million, an increase of 23% compared to Q2 2023.
- **SaaS revenues:** NOK 135 million, an increase of 38% compared to Q2 2023, representing 33% of total revenues in the quarter.
- Large ongoing changes in end markets, like increased price and production volatility, as well as overall market complexity, are driving growth and further business opportunities for the company. The energy system continues shifting towards shorter, more volatile markets, a trend that Volue is well-positioned for.



# volue

## Contemplated voluntary cash offer

Arendals Fossekompani, Advent International, and Generation Investment Management has offered to buy all shares of Volue. If successful, the consortium will take the company private.

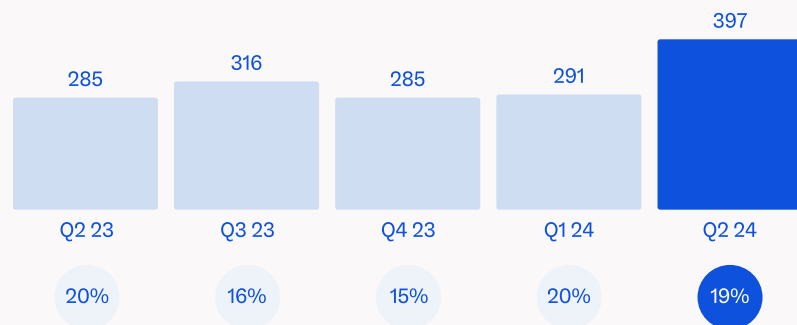
- **Offer period:** August 20<sup>th</sup> to September 3<sup>rd</sup>. Independent board to issue recommendation within required time frame.
- **Offer price:** NOK 42 per share, 51% premium to the last traded price (8 July), 39 % and 50 % to the 3-month and 6-month VWAP.
- **Value:** Prices Volue at approx. NOK 6 billion. **AFKs 60% shareholding valued at NOK 3,6 billion. Sell-down to 40% to yield cash proceeds of NOK 1055 million.**
- **Rationale:** The partnership is expected to significantly **accelerate** Volue's further growth and value creation. The transaction offers existing shareholders a **solid cash monetization** opportunity at an attractive premium, and provides Volue with access to necessary tools, competences, networks and resources to maximise long-term organic and inorganic growth.
- Arendals Fossekompani, Advent and Generation bring highly complementary expertise to a **long-term partnership**, ensuring continuity and preservation of established company values, while simultaneously integrating fresh and innovative perspectives.

Q2 update

## Revenue growth and continued strong performance

### Development last 5 quarters

Revenue and other income (MNOK) and operating margin



- Revenues: GBP 29.3 million (GBP 22.9 million).
- EBIT: GBP 5.6 million (GBP 4.6 million).
- **Higher operating** profit in Q2 compared to Q2 2023 due to due to higher revenues in Q2 2024 and slightly lower operating costs.
- **Continued strong underlying performance**, supported by a strong pipeline, solid customer base, competitive technology and service driven organization.
- During the second quarter, NSSLGlobal won **GBP 6.1 million of new business**. Of which GBP 5.5 million was new business opportunities, and 67% where government orders.



AFK ownership  
70%

Head office  
Sherbrooke, Canada

Market cap (30.06)  
NOK 765 million

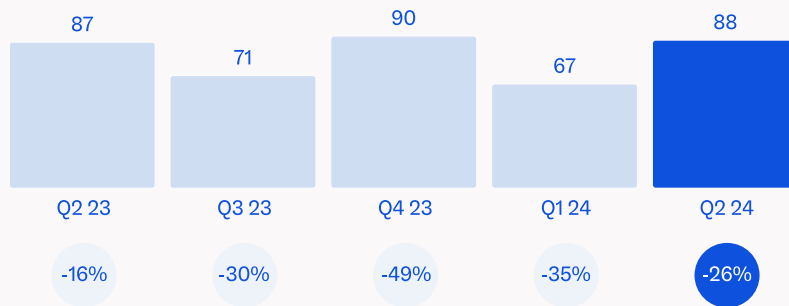
Listed at  
Oslo Børs

Q2 update

# Fluctuating revenues, strong order intake in Advanced materials

## Development last 5 quarters

Revenue and other income (MNOK) and operating margin



- Revenues: CAD 11.2 million (CAD 11 million), a 2% increase year-over-year, but 30% increase from last quarter.
- Adjusted EBITDA: CAD -1.5 million, down from CAD -0.6 million in Q2 2023.
- Overall order backlog: CAD 18.2 million (CAD 22.0 million). Lower order intake in Systems, but **Advanced materials** order intake and backlog grew by 18% and 28% respectively.
- First revenue-generating order for nano material for next-generation multi-layer ceramic capacitors (**MLCC**) shipped to a customer for factory trials.
- Major win in an **intellectual property case** concerning competing patent rights to produce titanium powder in Canada. Tekna is working to recoup a potentially significant part of its related legal costs.



Currency rates (NOK/CAD)  
Average Q2 2024: 7.74. Average Q2 2023: 7.77. End Q2 2024: 7.77 End Q2 2023: 8.12.





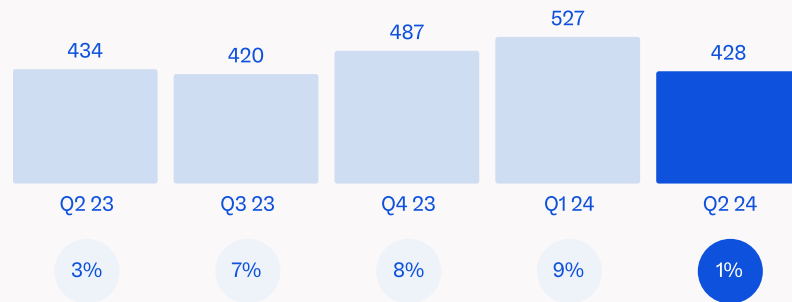
AFK ownership 95%  
Head office Skien, Norway

Q2 update

# Softer topline, but continued strong order intake

## Development last 5 quarters

Revenue and other income (MNOK) and operating margin



- Revenues: EUR 36,9 million, in line with Q2 2023
- Slightly reduced activity within the Heat division was offset by a positive contribution from the Charge division.
- Solid growth in North America and Europe compared to Q2 2023, while sliding deliveries held back performance in Asia.
- Operating cost increased by 4% compared to Q2 2023, driven by higher inflation and non-recurring costs related to internal projects.
- **Order intake remains strong.** Total order intake EUR 40.3 million (EUR 37.8 million)
- Total order backlog was EUR 75.6 million (EUR 94,2 million) up from EUR 74,3 million in Q1 2024. Reduction YoY reflects high deliveries in Q4 2023 and Q1 2024, coupled with reduced order intake in the same period.



Currency rates (NOK/EUR)  
Average Q2 2024: 11.42. Average Q2 2023: 11.32. End Q2 2024: 11.39. End Q2 2023: 11.70.

# ampwell

AFK ownership  
100%

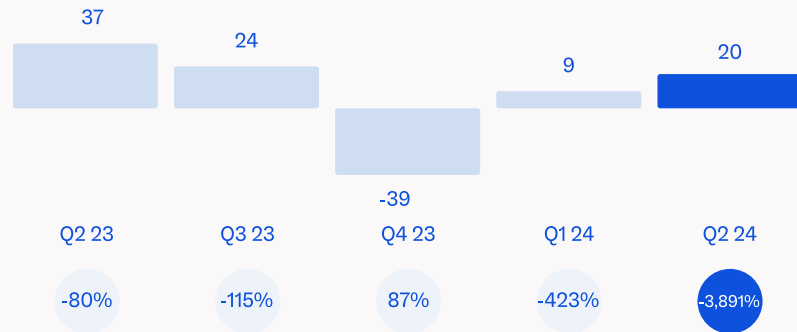
Head office  
Arendal, Norway

Q2 update

# Commeo investment discontinued

## Development last 5 quarters

Revenue and other income (MNOK) and operating margin



Currency rates (NOK/EUR)

Average Q2 2024: 11.42. Average Q2 2023: 11.32. End Q2 2024: 11.39. End Q2 2023: 11.70.

- Acquired in 2022, Commeo's product concept was high quality battery modules for the commercial and industrial segment, assembled in Germany using cells produced outside China.
- Over the past 12-18 months we have seen **deteriorating market conditions** for battery hardware companies, and a general weakening of the German economy.
- Commeo concept was **not sufficiently cost competitive**. High interest rates and inflation weakened willingness/ability to pay for premium quality. Sales suffered.
- After period of financial distress with **no line of sight to improvement, and a need for significant additional capital to potentially reach positive cashflow**, Arendals Fossekompani decided to stop funding Commeo. AFK released a stock exchange notice June 10<sup>th</sup>. Commeo filed for insolvency in July.
- Arendals Fossekompanis **exposure to the high-risk, capital-intensive battery industry is now removed**.
- Arendals Fossekompani will continue to support Collect Energy, a pre-revenue software company unaffected by Commeo's issues.





AFK ownership  
95%

Head office  
Arendal, Norway

Portfolio  
KONTALI

veyt

Utel

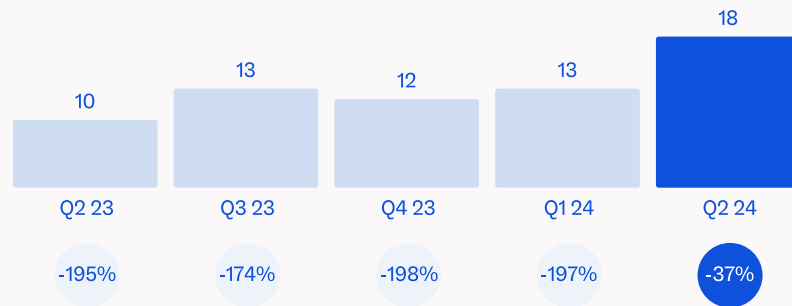
Factlines.

Q2 update

# Growing revenues and ARR, while launching new products

## Development last 5 quarters

Revenue and other income (MNOK) and operating margin



The annual recurring revenues (ARR) for the portfolio grew to NOK 48 million, representing an 45% increase compared to Q2 2023.

ARR growth was driven by underlying strong demand and customer growth, introduction on new products and upselling to existing customers

- **Kontali** grew ARR by 26% compared to Q2 2023.
- **Veyt** grew ARR by 58% compared to Q2 2023.
- **Factlines:** ARR growth of 94% compared to Q2 2023.
- **Utel** is advancing a general anomaly detection solution with a focus on fraud detection, making notable progress in Q2 through testing with key customers.

All portfolio companies are on a growth trajectory as a result of investments made in competence and technology. Alytic expects continuous product launches and upgrades throughout 2024. Increased focus on sales and marketing in coming quarters.

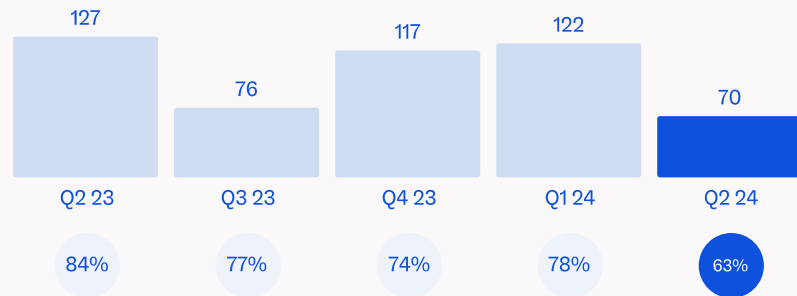


Q2 update

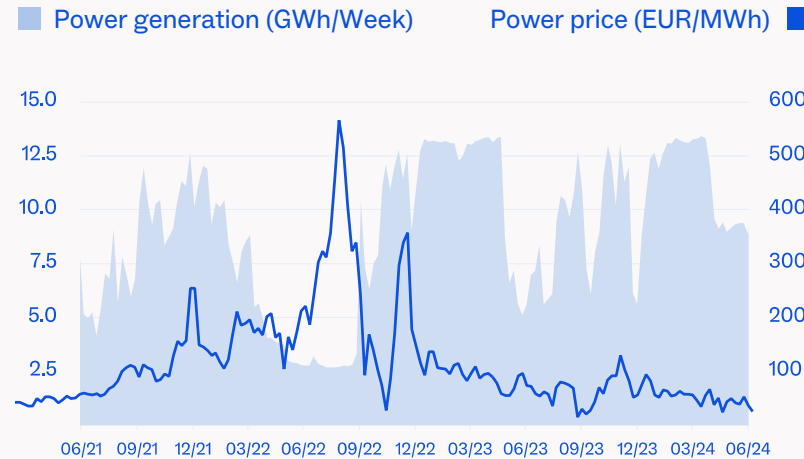
## Lower electricity prices

### Development last 5 quarters

Revenue and other income (MNOK) and operating margin



### Price and power generation\*



- Average electricity price in the NO2 price area during Q2 was 45 EUR/MWh (82 EUR/MWh). As a result, AFK Vannkraft revenue was down 45% in the second quarter. Hydropower production amounted to **135 GWh** (134Wh) in Q2.
- The primary cause of the lower price level compared to last year was higher precipitation than normal, lifting the hydro reservoir levels Norway. Also, last year's unusually strong electricity prices were partly driven by high prices for gas due to uncertain gas supply in Europe.
- The construction of Kilandsfoss (38 GWh) proceeding according to plan.

\* Power price in the NO2 price area and power generation for Arendals Fossekompani per week for the period 30/06/2023 – 30/06/2024.





# Financials



# Profitability severely impacted by impairment in Ampwell, along with lower electricity prices

- Results severely impacted by depreciation of assets in Ampwell (NOK -731m effect on group operating profit).
- Reduced profit from hydropower due to considerably lower electricity prices.
- Softer topline development impacted the profitability of ENRX, Volue, and Tekna in the quarter
- Profitability improvement in portfolio companies NSSL, Alytic and AFK Property.
- AFK Property profitability uptick due to handover of the third stage of Bryggebyen Project.

Operating Profit (MNOK)	Q2 2024	Q2 2023	Difference
Volue	36	48	-12
NSSL Global	74	63	11
TEKNA	-23	-14	-9
ENRX	2	11	-9
VANNKRAFT	44	107	-63
ampwell	-781	-30	-751
alytic	-7	-19	12
Vergia	-1	-2	1
AFK Property	15	-4	19
<b>Arendals Fossekompani Consolidated</b>	<b>-660</b>	<b>148</b>	<b>-808</b>



# Implications of Commeo on the financial results

In addition to Ampwell, AFK parent company as well as the Group financial figures are affected



- As a result of poor financial performance of Commeo, a German group company, the entire book value of AFK's shareholding and shareholder debt to Commeo has been impaired.
- **Sum impairment shareholder debt is EUR 83.6m** (NOK 961m) and is recognized as finance cost, not affecting EBITDA or EBIT (operating profit). Impairment consisted of two components:
  - The book value of AFK parent company's shareholder debt in Commeo of EUR 81.3m, equivalent to NOK 935m at exchange rate at the date of the related stock exchange notice of June 10<sup>th</sup>, 2024.
  - The book value of AFK parent company's shareholder debt in Ampwell of EUR 2.3m (NOK 26m).



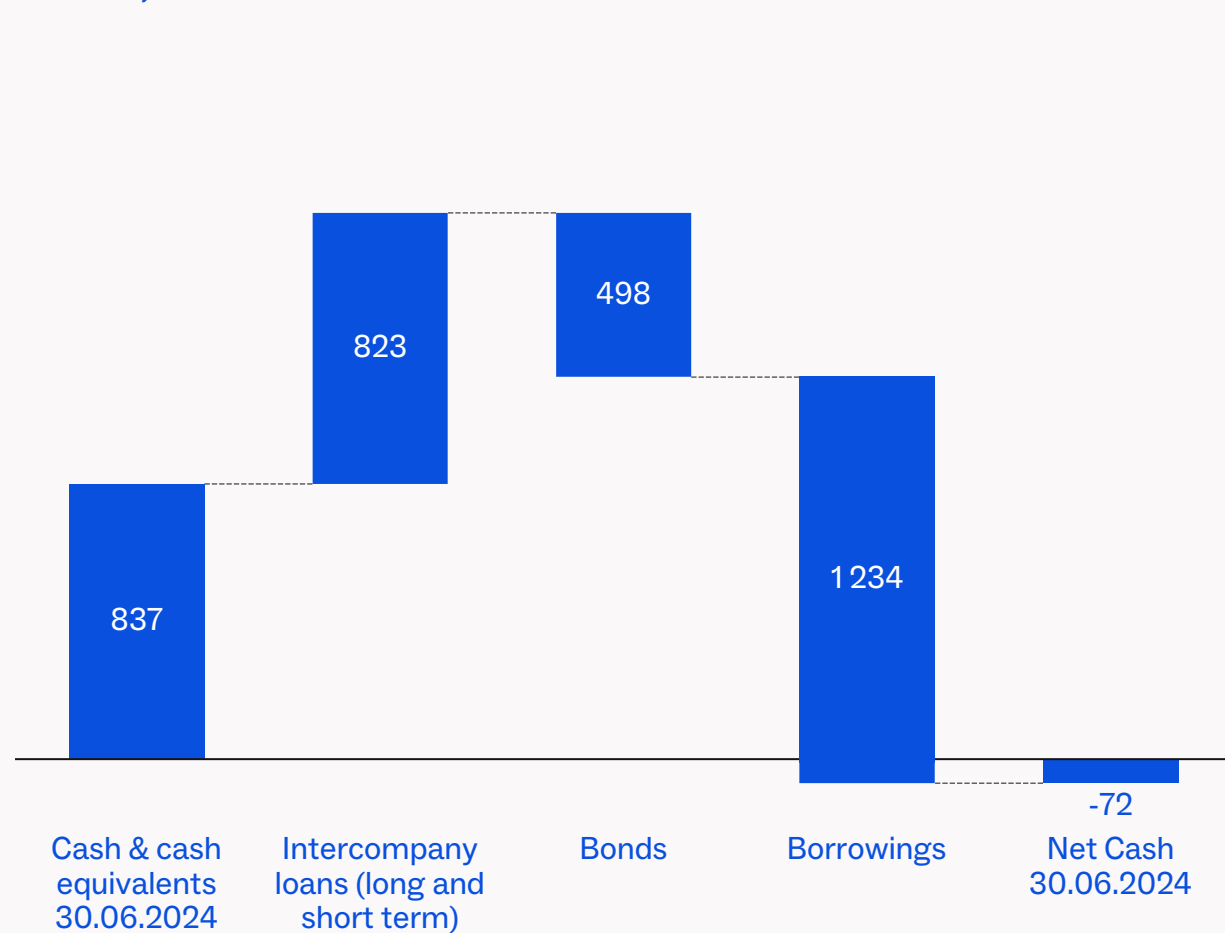
**Negative impact on EBIT (operating profit) is EUR 63,9m** (NOK 731m).

Consisting of:

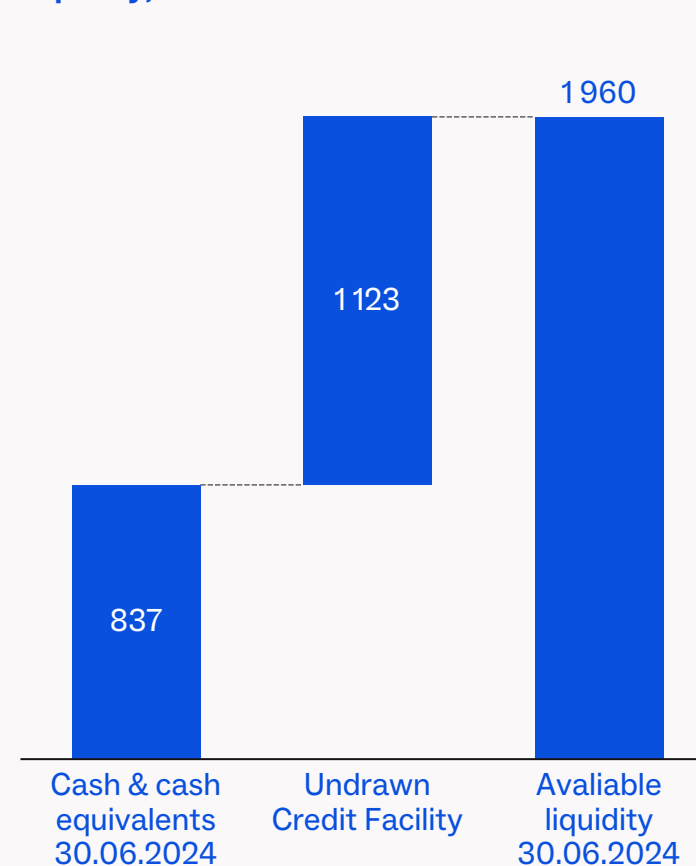
- The entire **goodwill** of EUR 24.2m (NOK 277m) related to the investment of Commeo impaired in the consolidated group accounts.
- **Capitalized R&D** in Commeo impaired with EUR 8.3m (NOK 95m).
- **Property, plant and equipment** in Commeo impaired with EUR 20.4m (NOK 234m).
- **Inventory** in Commeo was written down with approx. EUR 11m (NOK 125m) and recognized as Materials and consumables used. This write down also impacts EBITDA.

# NOK 837m in cash, 2.0bn in available liquidity

Net cash, NOK million



Liquidity, NOK million



# Guiding

2024 revenue is expected to be higher than 2023, while operating profit is expected to be lower for AFK Group as a whole. This is largely driven by the impairment of assets in Ampwell and Commeo, and lower profits from hydropower production.

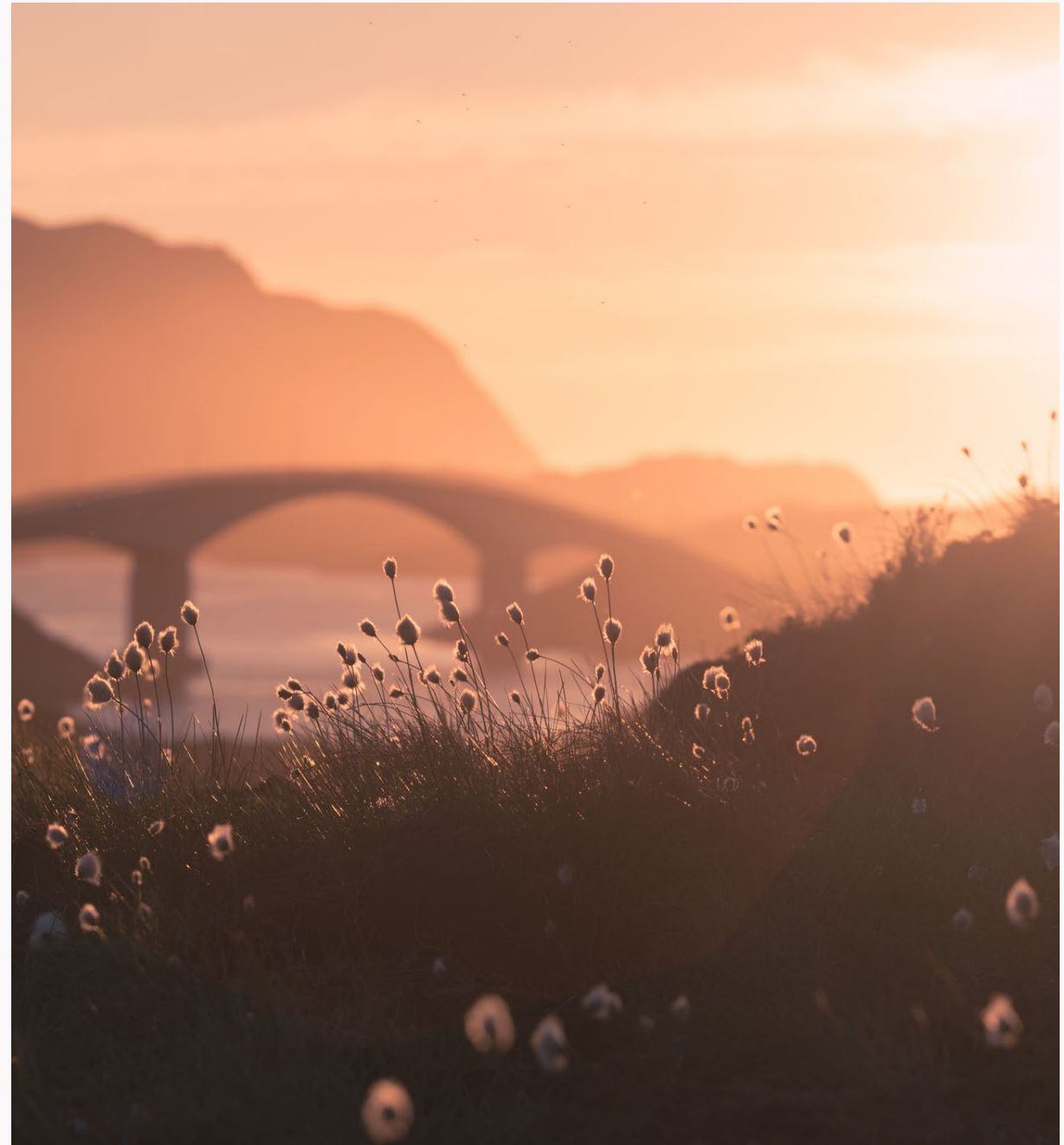
**Value** expects both revenues and operating profit to be higher in 2024 than in 2023. Long term guidance:

- Annual long-term organic growth of 15%.
- Active M&A agenda with 1-2 deals per year.
- Year by year improvements in adjusted EBITDA margin, cash conversion, share of ARR and SaaS revenues.

**Tekna** expects revenues to be in line with 2023, and operating profit to improve in 2024 compared to 2023.

**ENRX** expects revenues to be in line with 2023, while operating profit is expected to be higher in 2024 compared to 2023.

**NSSLGlobal** expects 2024 revenues to be higher than 2023. Operating profit is expected to be in line with 2023.





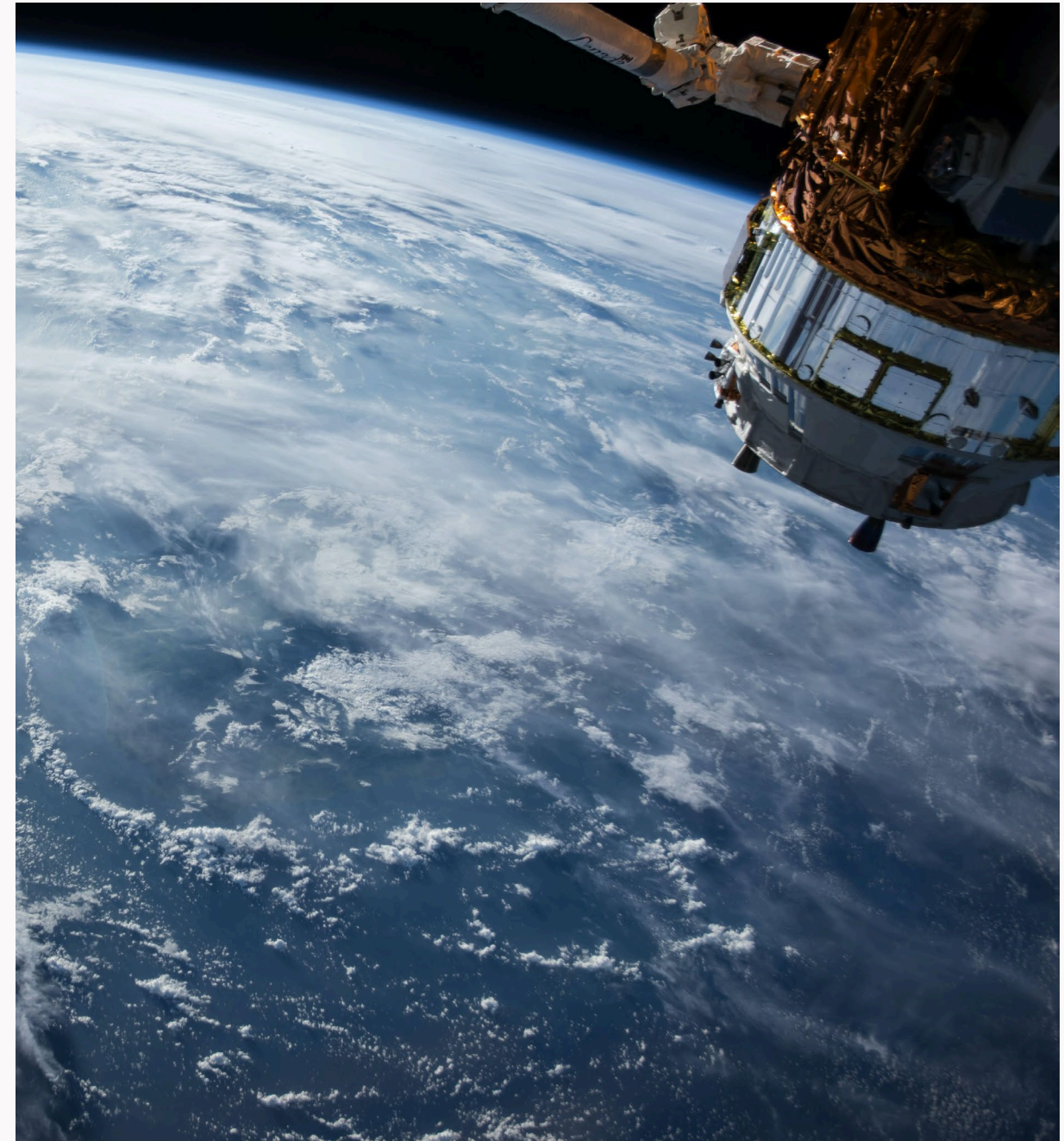


# Outlook and Closing Summary



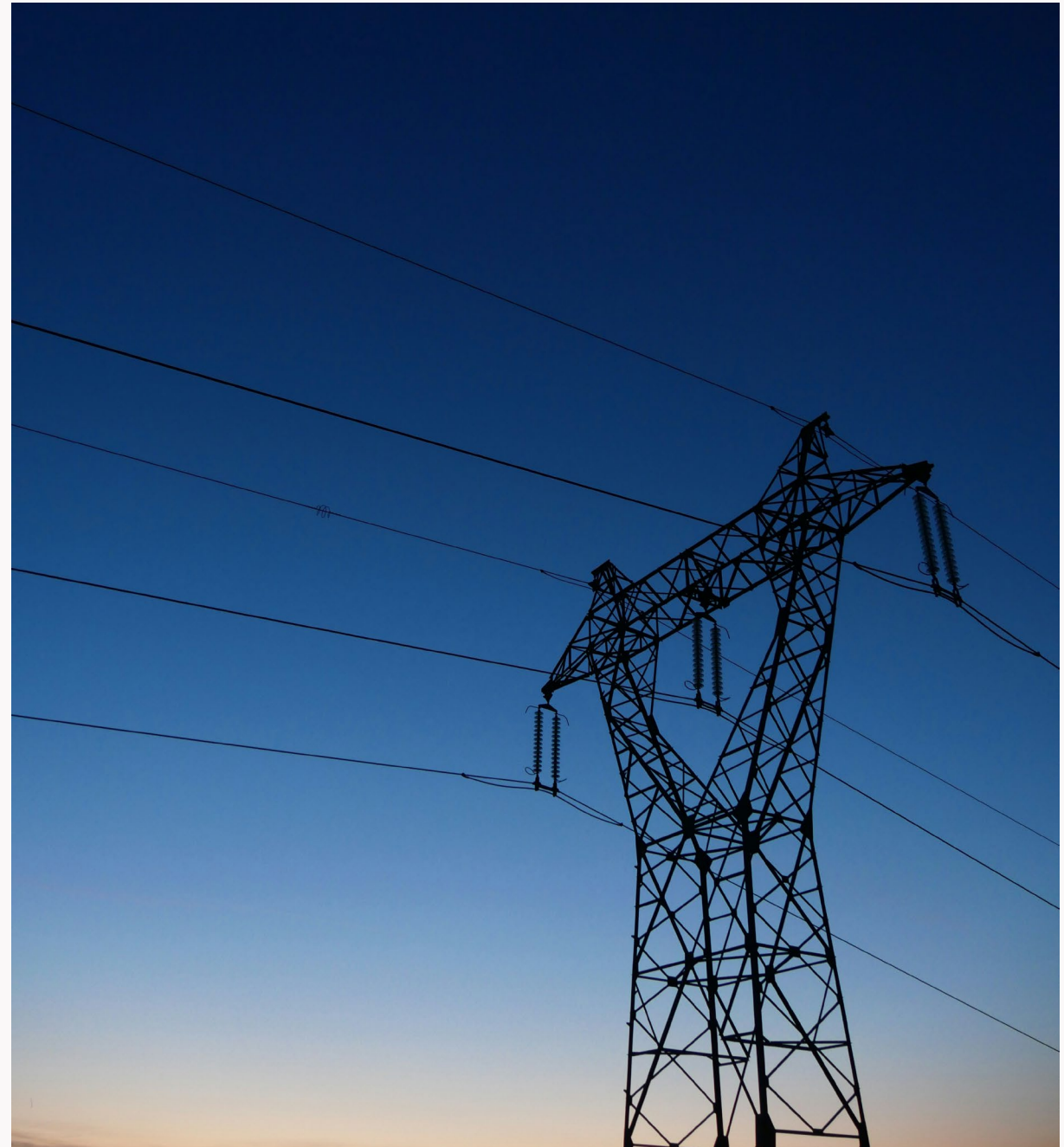
# Outlook – focus, optimize

- **Energy transition, electrification and digitization** will continue to drive growth in all portfolio companies.
- **Capital to be carefully allocated** toward accelerating most promising value creation opportunities.
- Short to medium term focus on **realizing full value potential in existing portfolio**.
- **We do not expect significant new investments** on AFK level in short to medium term, and limited capital market activity, however active M&A agendas in portfolio companies.



# Closing summary

- **Mixed results** for portfolio companies. Profitability affected by Commeo impairment and lower electricity prices. Softer top line development in Value, ENRX and Tekna, somewhat offset by NSSL, Property and Alytic.
- **Portfolio focused and de-risked** through the actions taken with Commeo and Vergia. Exposure to capital intensive, and subsidy dependent business reduced.
- Contemplated voluntary **cash offer for Value**.
- **Focused business development** on-going in all portfolio companies driving growth in long term NAV.
- **Diversified and well positioned portfolio** containing both stable cash flow generating businesses and attractive growth opportunities.





# Thank you!

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