Nedap '2016 annual figures' press release

Revenue and operating profit rose in 2016

One-off costs of supply chain reorganisation lower than expected

Groenlo, Netherlands, 16 February 2017

**Nedap's overall revenue was up 3% in 2016, rising to €186.0 million (€180.9 million in 2015). Excluding the Energy Systems business unit, whose activities have been phased out as planned, revenue grew by 5%.
The Healthcare, Identification Systems, Library Solutions, Livestock Management, Retail, Staffing Solutions and Security Management business units all showed growth, while the Light Controls business unit and Nedap's subsidiary Nsecure posted lower revenue than in the previous year. In 2016, the operating profit excluding one-off items rose 29% to €14.3 million (€11.1 million in 2015). The profit for 2016 came in at €10.8 million, up 132% on 2015.**

The supply chain reorganisation is on schedule. Coming in at €1.8 million in 2016, the one-off costs involved in the supply chain reorganisation have stayed well below the level previously expected, mainly as a result of the lower-than-expected write-down on inventories. In 2017, the positive effects of the reorganisation will gradually become visible, but there are still one-off operating costs. The targeted annual cost reduction of at least €4 million and the €10-million decrease in the balance sheet total will be realised in full in 2018. We currently do not expect additional provisions or additional impairment of assets on account of the phasing out of production and logistics activities. On balance, the operating profit for 2016 is €1.5 million lower due to the total one-off items. Please refer to the 'Financial highlights' section for a breakdown of these one-off items.

Earnings per share were up to €1.61 (€0.70 in 2015), while dividends for 2016 have been set at €1.40 per share (€1.28 per share in 2015. The solvency ratio remained steady at 48%.

Key figures	2016	2015	2014
Revenue *in millions of euros*	186.0	180.9	177.2
Revenue growth	3%	2%	2%
Growth in recurring revenues	18%	20%	13%
Added value *as % of revenue*	64%	62%	64%
Added value per FTE *(x €1,000)*	158	153	155
Operating profit excluding one-off items in millions of euros	14.3	11.1	12.4
Operating profit excluding one-off items *as % of revenue*	8%	6%	7%
Profit for the financial year *in millions of euros*	10.8	4.7	17.9
Earnings per share *(x €1)*	1.61	0.70	2.67
Earnings per share excluding one-off items *(x €1)*	1.77	1.67	1.46
Dividend per share *(x €1)*	1.40	1.28	1.25
ROIC	19%	16%	18%
Net debt/EBITDA	1.0	0.9	0.8
Solvency	48%	48%	50%

Business unit developments

Energy Systems

As planned, the activities of the Energy Systems business unit (electricity generation, storage and consumption systems) were phased out over the first half of 2016, while commercial operations were ceased halfway into the financial year, which led to a sharp drop in revenue. Having been downsized to a minimum, this business unit's commercial operations are now limited to complying with existing warranty and support obligations.

Healthcare

The Healthcare business unit (automation of tasks for healthcare professionals) again recorded healthy growth in revenue in 2016. This unit saw its share of the elderly care market grow further, while it also achieved significant growth in the mentally handicapped market. On top of that, Nedap's services have also started attracting interest from mental healthcare institutions, and several have already contracted our services. In light of the positive feedback from the market in response to the Healthcare business unit's initiatives, further revenue growth is expected for the coming years.

Identification Systems

The Identification Systems business unit (vehicle and people identification products and wireless parking systems) achieved considerable growth in revenue in 2016 too. Growth was driven by operations all over the world, excepting only southern Europe, and came mainly from the vehicle identification and vehicle detection propositions. The other two propositions - people identification and city access control - also contributed to revenue growth. The Identification Systems business unit is confident that revenue will continue to grow over the coming years.

Library Solutions

The Library Solutions business unit (RFID systems for libraries) again realised revenue growth, while continuing to invest in developing its product portfolio. Through its core portfolio, this business unit enables an increasingly large network of partners to offer competitive solutions for 'smart' libraries. Library Solutions expects revenue to keep growing over the coming years.

Light Controls

At the Light Controls business unit (power electronics and control systems for the lighting industry), revenue for 2016 came in lower than in the previous year. Growth in revenue from light management systems was insufficient to absorb the drop in revenue from UV lamp drivers for disinfection. In light of the positive outlook for the ballast water treatment market and for Nedap Luxon light management, Light Controls expects to return to revenue growth over the coming years.

Livestock Management

Revenue generated by the Livestock Management business unit (automation of livestock management processes based on identification of individual animals) was hit hard by very low milk prices and waning investment appetite in the dairy sector in 2016.

Thanks to revenue growth in the pig farming market, this business unit still managed to post overall revenue growth. Livestock Management's market position has strengthened over the past years on the back of its continuous development of new products and distribution channels, direct contacts with end users and good services. Despite heavily fluctuating revenue in livestock farming on a global level, the Livestock Management business unit still expects revenue to grow further in 2017 and beyond.

Retail

Market conditions in the retail sector continue to be challenging. Despite that, the Retail business unit (systems aimed at improving in-store product availability) managed to expand its market share and record further revenue growth in 2016. The transition from supplier of anti-theft gates to supplier of smart systems that boost in-store product availability has continued unchanged. Prompted by excellent growth opportunities in the North American retail market, the Retail business unit decided to expand its sales team there. Label and tag sales were up further in 2016. Given increased market interest in the !D Top and the !D Cloud and the first commercial successes in the North American market, this business unit expects revenue to continue to grow in 2017.

Security Management

The Security Management business unit (development and supply of top-quality security systems) once again achieved fine revenue growth in 2016. Growth in the European security management market is expected to slow down over the coming years, but the Security Management business unit still expects its investments in product innovation and its commercial might to drive further expansion of its market share, and therefore to achieve further revenue growth.

Staffing Solutions

On 1 July 2016, PEP activities (digitised work schedules and timesheet processing) were split off from the Healthcare business unit and moved to the new Staffing Solutions business unit. This business unit saw its PEP customer base increase on the back of growth in the temporary employment market and the fact that more and more companies chose the unit's software services for its staff registration and scheduling. This drove Staffing Solutions' revenue up in 2016. The business unit is also confident that revenue will continue to grow over the coming years.

Nsecure

In 2016, Nsecure (development, implementation and maintenance of sustainable, user-friendly security solutions) only just failed to equal the revenue recorded in 2015. Throughout the year, this full Nedap subsidiary managed to attract custom from a range of leading Dutch companies. New service formats will play a crucial role in boosting Nsecure's competitive clout.

New Changing Gears multi-year plan

Over the past year, we have worked on a new multi-year plan, which will replace the Road to Excellence programme. Called Changing Gears, this new plan will focus on accelerating Nedap's development as an organisation. The key elements of the Changing Gears plan are explained in more detail in the 2016 annual report.

New statement of profit or loss

The supply chain reorganisation has a major impact on the company's financial profile. As the costs of proprietary production operations go down, procurement from third parties goes up. In line with this transition, and with a view to improving insight into financial performance over the coming years, we have restructured the statement of profit or loss.

In the new statement of profit or loss, the shift in focus to markets and operations is reflected in the added value item. Added value is calculated by deducting spending on third-party products, materials and services from the revenue. The effect of inventory movements on added value is also factored in.

In the new statement of profit or loss, employee costs are made up of the total costs of permanent staff and the costs of staff insourced from third parties. The other operating costs include marketing, accommodation and other management expenses. Depreciation and amortisation of fixed assets is now broken down into depreciation of tangible fixed assets and amortisation of intangible fixed assets. Impairment is recognised separately.

The operating profit/loss (often called EBIT outside IFRS) is the balance of added value and the aforementioned costs.

Besides the IFRS results, Nedap will specify which items are one-off, so as to create greater clarity on underlying operating performance. One-off items comprise income and costs that were classified as exceptional in previous years, as well as other non-recurring items. One-off items that were recognised over the past five years related to the settlement of the old pension plan, the phasing out of the Energy Systems business unit and the reorganisation of the supply chain. The 2016 annual report provides a detailed reconciliation of such one-off items with the IFRS results.

The comparative figures for 2015 have been changed to bring them into line with the new definitions.

Financial highlights for 2016

Revenue
Overall revenue in 2016 amounted to €186.0 million, which was up 3% on 2015 (€180.9 million). Excluding the Energy Systems business unit, whose activities have been phased out as planned, revenue grew by 5%. Recurring revenues (subscriptions and maintenance contracts) showed an 18% rise to €33.3 million (€28.3 million in 2015), amounting to 18% of total revenue (16% in 2015). The added value of €118.4 million represents 64% of revenue (62% in 2015), which is €158k per FTE (€153k in 2015).

Costs and profit/loss
Employee costs were down €3.1 million to €67.3 million, mainly owing to the €6.2-million provision made for the social plan for the supply chain reorganisation. Like in 2015, employee costs for 2016 included one-off items relating to the settlement of the old pension plan. At €28.0 million, other operating costs remained at the same level as in 2015. Other operating costs included several one-off items in both 2016 and 2015.

Depreciation of tangible fixed assets fell by €0.4 million to €7.8 million in the 2016 financial year. Amortisation of intangible fixed assets was up €0.2 million to €1.5 million.
Development costs stood at €20.7 million (€20.5 million in 2015), of which €0.1 million has been capitalised (€0.3 million in 2015).
Impairment totalled €0.9 million in 2016, consisting mainly of one-off non-cash impairment of inventories as part of the supply chain reorganisation.

One-off costs in 2016 amounted to €1.5 million. This concerns income totalling €0.3 million, recognised under employee costs, costs of €0.8 million as part of other operating costs, and €0.9 million in impairment of assets in the form of non-cash impairment of inventories.
The one-off items relate to the settlement of the old pension plan, the phasing out of the Energy Systems business unit, and the reorganisation of the supply chain. Settlement of the old pension plan has led to one-off income totalling €0.6 million in 2016. The supply chain reorganisation is resulting in one-off costs totalling €1.8 million. As part of this reorganisation, Nedap N.V. acquired the remaining 10% stake in Nedap Iberia to become the 100% owner of Nedap Iberia. The phasing out of the Energy Systems business unit produced one-off costs of €0.2 million.
The 2016 annual report provides a detailed breakdown of one-off costs in 2015 and 2016.

Net financing costs dropped by €0.1 million to €0.2 million, mainly on the back of improved interest rate conditions. The 2016 tax rate stood at 19.5% (-16.2% in 2015). The tax rate was negative in 2015 due to the effect of the Innovation Box tax regime in combination with provisions made for the supply chain reorganisation.

The aforementioned developments produce a profit for the 2016 financial year of €10.8 million (€4.7 million in 2015).

Financing and capital structure

The balance sheet total rose by €6.0 million to €116.6 million in 2016, largely as a result of the temporary creation of buffer inventories for the supply chain reorganisation.

The inventory value increased by €4.7 million to €29.4 million, amounting to 15.8% of revenue at the end of the financial year (13.7% in 2015). At the end of 2016, trade and other receivables totalled €36.0 million, up €4.9 million on the previous financial year. The average credit term of trade accounts receivable rose from 7.3 weeks in 2015 to 7.4 in 2016. Standing at €24.3 million at the end of 2016, trade liabilities and other payables were up €1.7 million on 2015.

Due to the increased inventories, net debt rose €5.1 million to €23.9 million. Net debt/EBITDA stood at 1.0 at the end of 2016 (0.9 in 2015). Nedap's financing facilities were changed in 2016. A credit agreement was sealed with Nedap's main bank, with committed credit facilities totalling €44 million up to May 2023. No covenants have been agreed for these facilities, which have a flexible repayment scheme and take seasonal patterns into account.

By the end of 2016, committed credit facilities - excluding seasonal amounts - totalled €42.8 million (€44.9 million in 2015), of which €26.1 million has been used.
Cash and cash equivalents were €2.3 million as at 31 December 2016 (€3.6 million in 2015).
The solvency ratio remained steady at 48%, the same level as in the previous year. The definition of solvency ratio has been brought into line with the market standard of 'shareholders' equity excluding minority interest divided by the balance sheet total.'

Return on invested capital (ROIC, i.e. the operating profit/loss excluding one-off items, divided by invested capital) rose 3% to 19% in 2016.

For further details about financial risk management, please refer to the 'Risk management' section in the annual report.

Outlook

Nedap focuses on smart applications of technology to help solve the challenges of today and tomorrow. In recent years, we have constantly worked to gear our organisation towards customer groups, products and activities for which we can really make a difference. By fully focusing our talents on this goal, we will increase our impact on our markets. The development and expansion of our market position is a lengthy process, and one that requires plenty of perseverance and drive. It is often impossible to predict when we will achieve commercial and financial success, but the robustness of our organisation will give us the patience we need to acquire a leading market position. What is more, all of our business units can draw on the ample expertise in technology, markets and processes available throughout the organisation as a key tool in setting Nedap apart from other market players. Continuous investment in developing our propositions and commercial strength has enabled us to expand our position on the various markets and enter new ones. A keen focus on maintaining a solid balance sheet and long-term financing arrangements will result in a strong financial position. We are confident about the future and expect healthy long-term growth. On this basis, we expect a further increase in revenue in 2017, unforeseen circumstances notwithstanding.

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Annual report publication and general meeting of shareholders

The 2016 Nedap annual report will be published electronically on 21 February (after the close of trading). The annual general meeting of shareholders will take place at 11am on Thursday 6 April at De Hallen Studios in Amsterdam.

Since the company's founding in 1929, Nederlandsche Apparatenfabriek 'Nedap' N.V. has been manufacturing smart technical applications for the challenges of today and tomorrow, and selling them all over the world. Headquartered in Groenlo in the Netherlands, Nedap boasts a workforce of approx. 780 employees and operates on a global scale, while the company has been listed on Euronext Amsterdam since 1947.

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Consolidated balance sheet as at 31 December

(€ x 1,000)

		2016	2015
Assets			
Fixed assets			
Intangible fixed assets	3,247		4,665
Tangible fixed assets	40,692		42,430
Associate	3,849		3,681
Deferred tax assets	272		215
		48,060	50,991
Current assets			
Inventories	29,397		24,728
Income tax receivable	842		390
Loans receivable	-		63
Trade and other receivables	36,013		31,106
Cash and cash equivalents	2,329		3,638
		68,581	59,925
		116,641	110,916
Liabilities			
Group equity			
Shareholders' equity	55,851		52,884
Minority interests	-		96
		55,851	52,980
Non-current liabilities			
Borrowings	14,953		14,458
Derivatives	92		142
Employee benefits	765		598
Provisions	994		6,219
Deferred tax liabilities	619		979
	17,423		22,396
Current liabilities			
Borrowings	127		1,751
Derivatives	31		31
Employee benefits	23		-
Provisions	4,824		2,150
Bank overdrafts	11,010		6,125
Income tax payable	230		74
Taxation and social security contributions	2,848		2,854
Trade and other payables	24,274		22,555
	43,367		35,540
Total liabilities		60,790	57,936
		116,641	110,916

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Consolidated statement of profit or loss

(€ x 1,000)

		2016	2015
Revenue		185,959	180,875
Cost of materials and outsourced work	73,320		66,841
Inventory movements of finished goods and work in progress	-5,740		1,101
		67,580	67,942
Added value		118,379	112,933
Staff expenses	67,280		70,365
Amortisation	1,549		1,383
Depreciation and amortisation	7,840		8,212
Impairment of assets	900		1,571
Other operating costs	27,993		27,912
		105,562	109,443
Operating profit/loss		12,817	3,490
Financing income	74		41
Financing costs	-331		-417
Value movements in derivatives	50		66
Net financing costs		-207	-310
Associate share of profit (after income tax)		617	955
Result before taxation		13,227	4,135
Taxation		2,448	-517
Profit for the financial year		10,779	4,652
Profit attributable to shareholders of Nedap N.V.		10,779	4,671
Profit attributable to minority interests		-	-19
Profit for the financial year		10,779	4,652
Average number of shares in issue		6,692,920	6,692,920
Earnings per ordinary share (in €)		1.61	0.70
Diluted earnings per ordinary share (in €)		1.61	0.70

Consolidated statement of comprehensive income

(€ x 1,000)

		2016	2015
Profit for the financial year		**10,779**	4,652
Unrealised profit/loss			
Items that will (or may) be reclassified to profit or loss after initial recognition:			
Currency translation differences	-62		60
		-62	60
Unrealised profit/loss over the reporting period after taxation		**10,717**	4,712
Total realised and unrealised profit/loss attributable to:			
Nedap N.V. shareholders		**10,717**	4,731
Minority interests		-	-19
Total comprehensive income		**10,717**	4,712

The annual figures are derived from the 2016 financial statements, which have not yet been adopted. The financial statements will be adopted during the General Meeting of Shareholders, which will be held on 6 April 2017.
The financial statements have not yet been filed with the trade register.

Consolidated statement of cash flows

(€ x 1,000)

	2016		2015
Cash flow from operating activities			
Profit for the financial year		10,779	4,652
Adjustments for:			
Depreciation and amortisation including impairment	9,389		10,694
Book profit/loss on sale of tangible fixed assets	118		-135
Associate share of profit	-617		-955
Exchange differences for participations	16		-92
Net financing costs	207		310
Share-based remuneration	396		-
Income taxes	2,448		-517
		11,957	9,305
Movements in trade and other receivables	-4,904		-1,653
Movements in inventories	-4,669		-1,291
Movements in taxation and social security contributions	-6		-359
Movements in trade and other payables	1,889		-3,777
Movements in employee benefits	190		598
Movements in provisions	-2,551		6,178
		-10,051	-304
Interest paid	-351		-430
Interest received	71		32
Income tax paid	-3,161		-166
		-3,441	-564
Cash flow from operating activities		9,244	13,089
Cash flow from investing activities			
Investments in tangible fixed assets	-6,702		-6,518
Investments in intangible fixed assets	-131		-617
Proceeds from sale of tangible fixed assets	332		465
Dividend received from associate	449		426
		-6,052	-6,244
Cash flow from financing activities			
Long-term borrowings drawn	630		-
Repayments on long-term borrowings	-1,759		-181
Repayments on loans receivable	63		91
Dividend paid to shareholders of Nedap N.V.	-8,567		-8,366
Acquired minority interest	-96		-34
Sale of own shares	421		530
Acquisition of own shares	-		-462
		9,308	-8,422
Movements in cash and cash equivalents and bank overdrafts		-6,116	-1,577
Cash and cash equivalents and bank overdrafts at 1 January		-2,487	-1,062
Exchange differences for cash and cash equivalents and bank overdrafts		-78	152
Cash and cash equivalents and bank overdrafts at 31 December		-8,681	-2,487