KEMPOWER

Q&A Kempower Q2/2024

- **What is your current assessment of the markets, and how reliably can the markets be evaluated in this situation?**

  Electrification of transportation has only just started. When we consider the long and medium term, electrification is still in its early stages. We continuously assess market conditions to adapt our efforts effectively. Market evaluations are challenging but crucial for informed decision-making.

  We see from the data that DC charging installations are growing 20% during the 2024 in Europe and 40% in North America, indicating continued growth of DC charging industry. Unfortunately, we don't see growth in sales for the DC charging equipment manufacturers because large proportion of this installed base is coming from customers inventories. This situation makes this year challenging for DC charging equipment manufacturers.

  Despite these challenges, the growth in installations suggests that inventories are gradually declining and grid connections are becoming more available, which is a positive sign for the future.

- **How do you see the price and quality competitiveness of your products in the coming year?**

  We have differentiated our product portfolio to avoid intense price competition. In a smaller market, price competition naturally intensifies, impacting the entire charging industry, including manufacturers. However, our strong reputation as a reliable supplier, known for dependable deliveries and high product performance, positions us well to navigate these challenges.

- **How do you see your market share developing in the coming year?**

Kempower has kept the DC charging industry market share on the same level as in 2023 based on installed charging points on our key markets even though our new guidance indicates that disappointingly, we will be below last year's revenue level because the inventory levels are declining more slowly than expected.

- **Do you feel that factory investments and expansion efforts have been too rapid?**

  Our production facility investments are designed for both the medium and long term, aligned with our financial targets and planned capacity. We see that the market is growing in the long term (EUR 14 billion), and capacity must serve that growth. While these expansions impact cash flow due to CAPEX investments, our facilities are relatively CAPEX light. Most running costs are employee-related, which we can adjust as needed.

  Kempower leases its buildings, which house scalable equipment and production lines that can be ramped up according to demand. In the current market, we focus on improving factory efficiencies to support future investments. The ongoing expansions are part of a continuous investment process, not just a single phase in factory development.

  Investing in production facility in North America has been the right decision as it strengthens our competitiveness in the market as well as makes us NEVI funding compliant. We are happy to see the North America revenue grow, and it will be a key figure in our future growth.

- **You mentioned challenges in closing enough orders from new clients. Do you expect this to change?**

  Our Q2/2024 report highlighted a significant increase in the number of customers with substantial potential compared to last year. This is very positive news for sales growth from new customers. Earlier this year, we emphasized the need to improve new customer acquisition, and we are now actively achieving this goal. Over the next six months, a key focus will be supporting customers in accelerating their charger rollouts.

- **Could you give more insight into the recent profit warning and its underlying causes?**

  Two main factors contributed to our profit warning. First, customer inventory levels remained high and did not decrease as expected. Second, we did not close as many orders as anticipated during the second quarter, particularly in the last month, which is usually our strongest for order intake. Unfortunately, this was not the case in Q2, significantly impacting our results.

  To illustrate, over the past four to five quarters on average 50% and up to 70% of our orders typically come in the last month of each quarter. We expected this pattern to continue, based on real customer forecasts. However, given the slower market and customer behavior in the first two quarters, our assumptions were not met, leading to a substantial profit warning.

- **How long will it take for our customers to sell the EUR 100m excess inventories?**

  We cannot comment on behalf of our customers, but we expect the situation to prevail until the end of this year.

- **What's the status of the next generation charger portfolio availability and how big is the issue with customers waiting for the full availability?**

  The whole process of the full ramp up has progressed well and according to the plan despite small delays. Some customers are still qualifying our next generation product portfolio which has hindered our sales.

- **Is the current capital structure satisfactory or are changes expected soon?**

  Our financial position is overall healthy. At the end of the second quarter, we had approximately €59 million in liquid funds. On top of that we have €30 million revolving credit facility and €15 million bank overdraft.

- **Are there plans to enhance profitability through pricing strategies?**

  Our pricing has remained stable and strong and we are not intending to enhance profitability through pricing. As we have communicated, profitability will be enhanced by implementing significant short-term and mid-term cost base adjustments to optimize organizational effectiveness.

- **Could you explain the 5% drop in gross margin between Q1 and Q2 2024?**

  Our gross margin in Q2/2024 was 44%, including an inventory write-down of €2.4 million. Without this write-down, the gross margin would have been 48%, reflecting a healthy level. Our pricing has remained stable and strong.

- **Cost saving actions are mainly targeted in Finland. What does this mean regarding the production facility expansions in Lahti, Finland? What does this mean to North America facility?**

  The factory investment is intended for medium-term growth, with production lines already in place. While the number of full-time employees may be lower initially, the factory is partially operational and major investments are complete. In North America, we also have ongoing operations. Our investment strategy is demand-based, continuously improving production capacity as needed. This approach ensures that our factories evolve and expand efficiently in response to market demand.

- **Do you anticipate reaching your midterm objectives on schedule, given recent revisions?**

  Despite short-term challenges, we remain committed to reaching our financial targets.

- **What is your visibility to the demand going forward?**

  The DC charging installations are growing. Despite current market situation, we see positive mid-term growth potential based on our sales pipeline and new customer base.

  The demand for electric vehicle charging remains strong, with infrastructure still lagging behind the growing number of vehicles. Long-term, electrification is the only viable option to reduce emissions in Europe, where transportation accounts for 20% of emissions. The commitments made by countries to cut emissions reinforce the need for continued growth in electric vehicle charging infrastructure.

- **How quickly do you expect US sales to grow in the mid-term?**

  North America sales growth is a strategic priority, with expectations aligned with market expansion and regulatory developments. In the mid-term we expect the share of revenue from North America to be significant.

- **Kempower expects to do EUR 10m cost savings annually compared to cost level of Q2. Do you include bad debt provisions and inventory write-downs from Q2 in your cost savings calculations?**

Savings are targeted to actual cost base, so excluding inventory write-downs and bad debt provisions from Q2 cost level.