EXTRAORDINARY FACTORS AFFECT THE DEVELOPMENT IN PARTS OF THE DUROC GROUP

PROFIT DEVELOPMENT IS CLEARLY NEGATIVELY AFFECTED IN THE SHORT TERM, WHILE NET DEBT DECREASES

September 15, 2022

The first months of the first quarter have been characterized by extraordinary events that can almost be described as a "perfect storm". It is above all the units with heavy manufacturing such as IFG, Cotting and Cresco that have been affected by a significantly worse result than expected and it is highly unlikely that the group will reach the same level of results as the strong comparison quarter 21/22. The quarter has so far been marked by a rapid and sharp drop in prices for input goods, which has caused customers to hold back on their purchases temporarly while waiting for the price to stabilize at a lower level. This primarily applies to IFG. The drop in prices has also resulted in significant write-downs of inventory, which negatively affects earnings, but not cash flow. Another factor that has pressured the result is exceptionally strong increases in prices of electricity and gas, which have not yet been compensated with price increases to customers.

A positive result of these events, however, is that capital tied up in the business has decreased, and thus the group's net debt has decreased considerably. Net debt at the end of August amounted to approximately SEK 210 million excluding IFRS 16 effects, compared to SEK 270 million at the end of June. Excluding Griffine, which is not part of the central financing system at the parent company, and for whose debts Duroc is no longer responsible, the net debt amounts to approximately SEK 170 million. As of 30/6 2022, the Duroc Group's equity amounted to approximately SEK 1,240 million.

The Duroc Group's customers must, for their own material supply, soon return to more normal ongoing purchases from our subsidiaries. When this happens, we assess that we have good conditions to improve our margins again. Remaining parts of Duroc recorded normal order intake for the opening months and have well-filled order books.

The consolidated operating profit from July to August is clearly negative (including Griffine S.A), with a turnover that is almost 20% lower than budgeted. The result includes costs related to assessed temporary effects of approximately SEK 6-7 million, plus the effects of the unexpected reduction in the business's production volumes. The result for the first quarter will thus be significantly worse than for the strong comparison quarter 21/22.

The market will probably be characterized by continued volatility in the coming months, depending among other things on the price development of raw materials and energy. However, Duroc is well prepared to face the difficult circumstances that our world is now facing. As a consequence of our conservative financial policy, the group has a healthy balance sheet, a strong underlying cash flow and established conditions for a return to good profitability when the perfect storm we find ourselves in today has subsided. Duroc's long-term financial goals remain and are not affected by the circumstances that currently weigh on us.

For further information
John Häger, CEO Duroc, +46 702 48 72 99

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Duroc AB (publ)
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