



Theon Full Year 2023 Preliminary Results

Friday, 22nd March 2024

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Nikos Malesiotis: Good afternoon, ladies and gentlemen. Apologies for the inconvenience. Welcome to our full year 2023 preliminary results conference call.

Today, our CEO, Christian Hadjiminias, will take you through the important progress that we achieved during the last year. Our Business Development Director, Philippe Mennicken, will then provide an update on the market environment and business development. Last, our CFO, Dimitris Parthenis, will take you through the full year 2023 preliminary results and explain how we are positioned looking forward before we open for questions to the analysts.

It should be noted that the announcement of Theon International's annual financial statements and consolidated financial statements as of 31st December 2023 is scheduled for 19th April 2024. Therefore, the information throughout this call is to be considered as preliminary and referable to the current date. The preliminary results of 2023 have not been audited by the appointed independent auditors.

Now I will hand you over to our CEO.

Christian Hadjiminias: Thank you, Nikos. Good afternoon, everyone. And thank you for joining this call. Before going into any details, I would first like to reiterate how happy and proud we are of having completed our IPO at Euronext Amsterdam on 7th February this year. And I want to thank the full team for completing this process with such great success.

I would like also to note and stress that actually this was the first IPO in Europe. And we are very happy about that because of the subsequent performance of our shares, as well as the other companies that followed the listing in Europe. There were such that bring a positive breeze into the IPO markets.

Now, we believe – to come back to Theon, we believe we are well-positioned to continue driving growth in the business, both through organic and inorganic growth, as well as through acquisitions. We raised €100 million in gross proceeds in our IPO, with the goal of accelerating our inorganic growth. Thus, we have created a task force who is sourcing potential investments, and we have identified a pipeline of opportunities, some of which we are engaging with as suitable targets.

We are already engaging such targets. We intend for those acquisitions to both allow us to grow within our core Night Vision and Thermal Imaging markets, as well as expanding into adjacent markets. Separately, we have also been listed in the Financial Times 1,000 list of Europe's fastest growing companies, something we are very proud of as well. I would like to note here that in the list of those 1,000 companies, only Theon was a pure defence company. If I'm not mistaken there are two more aerospace companies but none defence. So we were the only defence company in this list of Financial Times.

Today, we're very happy to have this call because we have delivered excellent performance throughout fiscal year 2023 with heightened activity across the business. And we are very proud that we have more than delivered whatever we have been saying on our road to IPO. Of course, none of this would be possible without the commitment and dedication of our people, and I want to acknowledge and thank them for their professionalism and hard work.

I need to stress here that we have full alignment of management and shareholders' interests. Their efforts delivered operational and financial results with revenues up by 53% to €218.7 million of turnover and operating profit up 41% to €56.8 million.

Order intake for fiscal year 2023 was exceptionally strong at €506 million, delivering a book to bill ratio of 2.3 times. The soft order backlog at the end of December stood at €540.2 million, covering 2.5 times 2023 revenue and providing excellent visibility for the near term. As you will also hear from my colleagues, this soft order backlog, the biggest chunk of it is already converted to hard order backlog, pursuant to the Belgian and German parliament's ratification of the major OCCAR contract we have. This happened ten days ago.

Also, I'm very, very pleased, and we, at Theon, were very pleased to announce something that it was not expected. Because as you know in our prospectus, we have clearly stated we will be giving dividends as of 2025 based on the performance of 2024. However, since we've already said in the IPO, and it's a consistent message, whenever the company has cash, it intends to return it to the shareholders. As a result and given our current cash position deriving solely from our operations, we decided to have a dividend payout of 40% starting already in 2024 against the operating results of 2023.

This concludes my initial remarks. And I will now hand over to Philippe Mennicken, who – as you know, he's the Director of Business Development, the most important part of our organisation, to provide an overview of the market environment and the latest development in the business. Philippe?

Philippe Mennicken: Thank you, Christian. And also a welcome to everybody from me. Over the last month of 2023, we have been awarded several significant contracts confirming the momentum in the business and laying, of course, a foundation for the continued growth of the company.

Some contracts I want to specifically draw your attention to are firstly the USMC IDIQ contract with a value of \$500 million for the supply of additional Night Vision binoculars, so the end SBNVG system, which is produced by Elbit Systems of America, and for which we are acting as the exclusive provider of the system.

In December, we were also awarded with a contract amendment for our OCCAR contract we hold together with HENSOLDT, for an additional 19,500 Night Vision goggles for Belgium and Germany, as well as a total option of additional 50,000 systems. As Christian already mentioned, while the Belgian part was already approved by the end of 2023, the German part just passed the parliament about ten days ago, as expected.

I will now give you a quick overview of the market environment that we currently operate in, before giving a bit more colour on the development of our business specifically. The geopolitical situation globally continues to be turbulent, with the continued war in Ukraine with an uncertain future, the Israel-Hamas conflict, which has led to the Houthi attacks in the Red Sea, and the risk of this conflicts spilling over all in the Middle East. And beyond that, the recent elections in Taiwan, as well as the upcoming US elections later this year, could all have material geopolitical consequences as well.

These tensions are having an impact, obviously on defence budgets, with, for example, European NATO allies expected to invest a combined total of \$380 billion in defence spending, amounting to 2% of the combined GDP for the first time.

In the US, President Biden's defence budget request calls for a 9% year-on-year nominal increase, while Asian countries as well boosted their defence budgets by 4.7% on average in 2023. But beyond these budget increases, we also see a drive for more spending staying in Europe and a better coordinated spending in defence, as highlighted very recently by European Commission President Mrs von der Leyen when she said, Europe must spend more, spend better and spend European.

In our own product markets, we continue to see the trend which acknowledges the importance of night fighting capability and the equipment of all troops, including reserve troops. And we expect the procurement cycle in particular for Night Vision and Thermal sites and FCS to pick up speed in 2024, while we also see increased demand for advanced interconnected systems.

Now, moving on to our business, we continue to develop and introduce new products into the market with the ARMED Ecosystem being demonstrated to various potential customers around the world and first orders being received. On the platform-based system side, we are now preparing for participation in our first tender for our multi-sensor based TALOS system.

And in Europe, we expect continued and increased spending on defence, in particular in North and Eastern Europe, while with Sweden's NATO accession being expected to lead to an increased cooperation between the Scandinavian and Baltic states, countries in which, as you may know, Theon is already very much present.

Finally, while the situation in Ukraine remains unchanged, the allies are expected to continue helping them, in particular European countries.

When we look at the US, we are seeing several large programmes for Night Vision systems currently ongoing and picking up speed, including the NVD-Next and various FCS programmes. In Asia, we're expecting also various standards and procurements for Night Vision equipment to come out in 2024.

So this concludes my overview of the key highlights for the year 2023. And I will now hand over to Dimitris, who will take you through the financial results.

Dimitris Parthenis: Thank you, Philippe, and good afternoon, everyone. We've had another year of strong performance with especially strong revenue growth and robust profitability. The graph on the left shows the strong order intake we've seen in 2023 at a record of €506 million, showing 52% growth versus 2022. This order intake has been driven to a large extent by key new contracts, including the USMC and OCCAR that Christian has already mentioned.

Revenue for the year was around €219 million, up 53% compared to 2022. Over 90% of revenue comes from Night Vision products, and around 80% was generated in Europe. Just want to highlight here that Theon is recording a remarkable average annual growth of more than 50% since 2018.

Moving to our order backlog, we have achieved significant growth, recording a soft backlog of €540 million, covering 2.5 times revenue. On top of the soft backlog, we have options attached to these contracts for an additional €520 million, adding up to a total soft backlog plus options of over €1 billion. Of our current backlog, we expect to deliver 60% in 2024, 30% in 2025, and the remainder in 2026 and beyond.

2023 was another year of robust profitability with an EBIT of €56.8 million, up 41% compared to the previous year. This EBIT translates into a margin of 26%, slightly below the margin recorded in 2022, but well above our previous and

in line with our mid-term guidance. In H1, we recorded a lower profitability due to business mix and supply chain constraints. But strong Q4 performance has mitigated this to a high extent.

We continue to run an asset-light business model with a CapEx of \$7.7 million and a low DNA of only 0.6% of revenue this year, resulting to an EBITDA margin of 26.5%. During the financial year of 2023, we continue to generate a healthy cash flow, driving our net financial position to net cash of €13.9 million, in line with our goal to be a self-funded business with a conservative capital structure. This net cash position does not include the gross proceeds of around €100 million we raised in our IPO in the beginning of 2024.

Before opening the floor for questions, I want to give you also our financial targets for 2024, as well as for the mid-term. For the financial year 2024, we forecast our revenue to be in the range of €330 million to €350 million and to achieve an EBIT margin in the mid-20s. CapEx to be spent will be in the area of €10 million to €12 million and will be channelled mainly to the completion of our second production facility in Athens and the increase of our production output.

At the Annual General Meeting, as Christian has mentioned earlier, we will propose a dividend payout of 40% of net income realised in 2023. In the mid-term, we expect to continue growing in line with our addressable market and to maintain an EBIT margin in the mid-20s. CapEx is expected to remain in line with historical levels.

Last but not least, we will aim to maintain a 30-40% dividend payout ratio over the mid-term.

Okay. And now back to Christian for some closing remarks.

Christian Hadjiminias: Yes. Thank you, Dimitris. Thank you, Philippe, and thank you, Nikos. As you have heard from the team today, we have delivered strong performance in 2023 and continue to see good momentum in the business. We believe this creates a good foundation to move forward on and to continue delivering on our targets.

Thank you all for attending today's call, and we would like to invite you now to ask any questions you have. Thank you.

Questions and Answers

Nikos Malesiotis: Okay. You can type your questions in the chat room. We have a first question from Lucas Duxen Bichler[?], if I'm correct. The question is the following. Can you put more colour on M&A? How big can we expect future acquisitions to be, or can you give us a range? Do you plan to spend the total proceeds of the IPO on M&A?

Christian Hadjiminias: Yes. Okay. Thank you for the question. I cannot disclose a lot at this point, but it's consistent with what we have been discussing in the IPO. We don't – the acquisitions refer to vertical integration to adjacent products, which we have specified in the IPO. And regarding the range, again, as we discussed in the IPO, we don't want those acquisitions to be large at this stage, because the target we have identified that will all be in €20 million to €30 million max.

Do we plan to spend the total proceeds of the IPO on M&A? The answer is yes. But again, we have to differentiate. And this is a fine balance between M&A that fulfil those criteria I've described earlier, and they could be additive to our EBIT for '24 and '25 onwards.

But on the other hand, they also – our emphasis is also on acquiring technology that is missing. Despite the fact that we are doubling our R&D already department, we believe that we need to acquire also companies that would not only will give us additional synergies and related additional EBIT, but there will be companies that will be giving us some essential technological elements that we need.

Nikos Malesiotis: Okay. Thank you, Christian. Next question comes from Ian Douglas-Pennant and is the following. Could we have some more detail on the NVD-Next contract that you alluded to earlier in the call?

Christian Hadjiminas: Yes. This is a well-known fact. This relates to US Army. As we discussed in the IPO, this is a very large procurement that will happen over eight to ten years. I cannot say right now more, but I can only say that this has speeded up as we have also predicted during the IPO. And I would say also that the conditions for our participation have drastically improved. I cannot say anything more than that.

Nikos Malesiotis: And second question again from Ian Douglas-Pennant. Why have you downgraded 2024 sales guidance from €360 million to a range of €330 million to €350 million?

Dimitris Parthenis: On the backlog that we had in – I mean, September and October, we had the meetings with the analysts and also with the investors. So we never indicated a specific number. In any case, I have to say here that the bottom end of this range, €330 million is more or less secured either from contracted or awarded contracts.

We expect, of course, ad hoc projects come throughout the year and probably delivered within a year. And we believe that this range €330 million to €350 million is a conservative approach.

Nikos Malesiotis: Thank you, Dimitris. Yes, the next question comes from Hendrik Stahlschmidt. Will we see a return to 28% EBIT margins in financial year 2024, since there are no expected supply chain issues in this year?

Christian Hadjiminas: Yeah, let me answer that. This again is Christian. We – our performance is exactly as per our guidance when we're talking about mid-20s. We give the same performance – the same target for this year. I need to point out here that these variations, which are not so big actually, there are a few percentage points, they are related more to the composition of the product sales.

For instance, in – back in 2022, we had a very high percentage of kits that we supply the US market, which obviously without the tube, they have a much higher profit margin than this one. Not far away, but in any effect, they have a positive impact on the final profit margin. Therefore, it all depends whether we're going to have more kits this year as opposed to end products.

Nikos Malesiotis: Thank you, Christian. Next question comes from Pericles Philippou[?] and is the following. Apart from adjusted EBITDA, what are the net income bottom line figures and expectations for net income margins for 2024 and 2025?

Dimitris Parthenis: You have to be a bit patient a few weeks. We're going to disclose this information together with the official announcement of the financial results on 19th April.

Nikos Malesiotis: Thank you, Dimitris. We don't have any more questions as of now. Please. Next question comes from Alexandros Tavlaridis[?]. How do you envision the company five years from now?

Christian Hadjiminas: The company needs to have not a reliance on the unmanned portable where we have a very, very high percentage of market share, especially monoculars and binoculars. But it has to go up the food chain, and

that's why we are investing quite a bit now on platforms. Platforms are bigger systems. And therefore, we would like five years from now to be an optronics house covering fully and have a dominant position, of course, not just on manned portable, but also on platform-based optronics.

Nikos Malesiotis: Thank you, Christian. Are there any more questions? Please type your questions in the chat room, otherwise we can conclude the meeting for today. Let's give them more seconds. I believe there are no more questions.

Christian Hadjiminias: Okay.

Nikos Malesiotis: So thank you everyone for participating in this first earnings call for Theon.

Christian Hadjiminias: Yes, thank you very much. Thank you very much. And we will be talking again very soon.

Nikos Malesiotis: And again, apologies for the technical glitches we faced in the beginning of the call. Thank you very much.

Christian Hadjiminias: Thank you.

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Investor Relations:

Nikos Malesiotis
E-Mail: ir@theon.com
Tel: +30 210 6772290

Media contact:

Elli Michou
E-Mail: press@theon.com
Tel: +30 210 6728610

About THEON

THEON INTERNATIONAL PLC is the parent company of THEON, a leading manufacturer of Night Vision and Thermal Imaging systems for defense and security applications with a global footprint. THEON started its operations in 1997 from Greece and today plays a leading role in the industry with international presence, including offices in Greece, Cyprus, USA, UAE, Switzerland and Singapore, as well as 3 production facilities in Athens, Wetzlar (Germany) and Plymouth (USA).

Through this network of companies, offices and facilities around the world, THEON has more than 150,000 systems in service with Armed and Special Forces in 69 countries around the world, 24 of which are NATO countries. THEON INTERNATIONAL PLC listed its shares on Euronext Amsterdam in February 2024.