

Group Interim  
Report

as of 30 June

2020

**HOFTEX GROUP**  
TEXTILE TECHNOLOGIES

## HOFTEX GROUP AG

### At a glance

Key Group Figures		1 Jan 2020 to 30 Jun 2020	1 Jan 2019 to 30 Jun 2019
External sales	EUR million	65.9	89.1
Gross revenue	EUR million	64.2	88.0
Cash flows from operating activities	EUR million	5.3	7.8
Employees		1,066	1,190
Consolidated net income for the period	EUR million	-3.5	1.2
EBITDA	EUR million	3.0	8.2
Balance sheet total	EUR million	180.2	196.1
Equity	EUR million	104.2	107.4
Equity ratio	%	57.8	54.8

## ABOUT THE HOFTEX GROUP

The HOFTEX GROUP is an SME operating in the textile industry with subsidiaries in Germany, Italy, Romania, the US, China and Mexico. With its headquarters in Hof, Germany, HOFTEX GROUP AG (ISIN: DE0006760002; WKN: 676000) serves as a holding company for the HOFTEX GROUP. The Group's core activities are the development, production and sale of nonwovens for technical, medical, automotive and construction applications and the apparel industry, the production of decorative fabrics and technical textiles along with the dyeing and finishing of yarns.

The HOFTEX GROUP's activities are divided into the three production divisions TENOWO, HOFTEX and NEUTEX. Each of these divisions has a management company that performs all of its sales and administrative functions, which gives the Group a clear-cut and lean structure.

<b>HOFTEX Division</b>	<b>TENOWO Division</b>	<b>NEUTEX Division</b>
Hoftex GmbH	Tenowo GmbH	Neutex Home Deco GmbH
Hoftex Färberei GmbH	Tenowo Hof GmbH	Neutex Betriebs GmbH
Hoftex Färberei Betriebs GmbH	Tenowo Reichenbach GmbH	SC Textor S.A.
	Tenowo Mittweida GmbH	
	Tenowo Inc.	
	Tenowo Huzhou New Materials Co. Ltd.	
	Resintex Industriale S.r.l.	
	Tenowo de Mexico S. de R.L. de C.V.	

HOFTEX GROUP AG is responsible for the Group's global strategic direction and performs core duties for the Group's companies across multiple divisions.

HOFTEX GROUP AG has control and profit transfer agreements with the main production subsidiaries. All profit and loss transfers from the subsidiaries are bundled at the holding company level and combined with the primary earnings of HOFTEX GROUP AG to produce the final result of the holding company. The real estate companies Hoftex Immobilien I GmbH and Hoftex Immobilien II GmbH & Co. KG manage and perform administrative duties for the various properties and real estate assets.

## THE HOFTEX GROUP SHARE

Hoftex Group shares are traded on the m:access market of the Munich Stock Exchange. Following the move to the Open Market on 29 June 2009, the Hoftex Group is no longer considered to be “publicly listed” as defined in the German Securities Trading Act (Wertpapierhandelsgesetz, or WpHG). For this reason, shareholders are no longer subject to the special provisions in the WpHG governing the duty to disclose holdings that exceed or fall below certain reporting thresholds. The principle shareholder ERWO Holding AG currently holds 4,611,129 shares. This corresponds to 84.7% of the total shares.

<b>Share type</b>	No-par value shares, each with a proportional share of EUR 2.56 (rounded) in the share capital
<b>Subscribed capital</b>	EUR 13,919,988.69
<b>Number of no-par value shares</b>	5,444,800
<b>Listing</b>	Munich Stock Exchange
<b>Market segment</b>	m:access
<b>Stock exchange symbol</b>	NBH
<b>ISIN</b>	DE0006760002
<b>WKN 1)</b>	676000

The Hoftex Group has continually raised its dividend over the previous fiscal years, which amounted to EUR 0.25 for the 2018 fiscal year. Due to the decline in net income and the uncertain situation, on 10 July 2020 the Management Board and the Supervisory Board proposed a dividend payment of EUR 0.15 per no-par value share, which corresponds to a total dividend payment of EUR 816,720.00. This proposal was adopted by a majority vote at the Annual General Meeting.

Share		1 Jan to 30 Jun 2020	1 Jan to 30 Jun 2019
Net result per share	EUR	-0.64	0.22
Equity per share	EUR	19.13	19.73
Opening share price on 2 Jan 2020	EUR	11.40	12.60
High	EUR	11.60	13.90
Low	EUR	8.70	12.60
Closing share price on 30 Jun 2020	EUR	10.90	13.80
Market capitalization	EUR million	59,348	75,138

During the first half year global stock markets were dramatically impacted by COVID-19. This also led to strong fluctuations in the Hoftex Group share. Following a steep drop in the Hoftex Group share price with a low of EUR 8.70 on 27 March 2020 and 30 March 2020, the situation continued to ease over time. The Hoftex Group AG share price was EUR 9.80 on 27 August 2020.

## **GROUP PERFORMANCE IN H1 2020**

### **Economic environment**

The COVID-19 pandemic plunged the global economy into a deep recession. The economic impact of the shutdown had a dramatic effect on national economies and resulted in an historic economic decline during the second quarter. China was the only country that was able to generate growth again in the second quarter. The COVID-19 pandemic broke out much earlier there, so they were able to check the spread of the disease and generally bring it under control by spring. Overall, experts anticipate at least a 5% decline in the global economy.

Economic performance in the Eurozone fell sharply again in the second quarter following a dip in the first quarter (-3.6%). The IMF is forecasting a drop of -10.2% for the year as a whole. The national economies in Italy, Spain and France are expected to bear the brunt of the crisis, while a -7.8% decline is predicted in Germany. (Source: World Economic Outlook Update June 2020)

The uncertainty regarding how the pandemic will continue to play out and its influence on society, including decreased sales and earnings for businesses and diminished incomes and job security among the population is not indicative of a rapid recovery and return to normal economic performance.

### **Sector trends**

Sales in the German textile and apparel industry receded by 14.3% during the first half year. Retail sales closures affected the apparel sector in particular: At the apex of the lockdown during the month of April alone, apparel suffered a decline of -45.3% compared to the same month the previous year. But sales also plummeted by -10.8% in the textile sector compared to the first half year of 2019. Consequently, production and employment declined steeply during the first half year. The order situation for the entire sector remains negative – order intake fell both in textiles (-12.1%) and apparel (-14.8%), with the poorest performance in April and May having a massive impact on overall performance during the first half year. The economic climate in the textile and apparel industry has improved somewhat since July, largely due to the increasing expectations for the coming months. (Source: textil+mode konjunktur August 2020)

### **Division trends**

In our largest division TENOWO, which specializes in the development and manufacturing of technical textiles and nonwovens, sales came in at EUR 55 million, or 21.2% lower than the previous year (EUR 69.8 million). Business went according to plan during the first quarter, with sales reaching the previous year's level. Beginning in the second quarter, nearly all of TENOWO's market segments were affected by the economic impact of the pandemic and declined considerably. The automotive segment in particular suffered a serious downturn as many automotive manufacturers closed their plants for weeks at a time. As the crisis progressed, it also had an extremely detrimental effect on other applications for industry, packaging and apparel. Only the medical/healthcare division saw growth. The COVID-19 pandemic led to an increased demand for the production of protective materials such as face coverings and protective clothing. TENOWO was able to win orders from new customers in the short term, particularly in the US market.

TENOWO responded to these changes with maximum flexibility and rapidly adjusted its production capacities to meet customer requirements. With the exception of the Chinese location, which had to be shut down temporarily due to the absolutely mandatory nationwide shutdown, we succeeded in keeping all of our locations operational and continuing production. Nevertheless, TENOWO had to contend with extreme under-utilization of capacities along with uneven plant utilization. Short-time work proved to be an exceptionally useful and effective measure.

The NEUTEX division generated EUR 6.2 million in sales during the first half of 2020 (prior year: EUR 7.4 million). Sales at NEUTEX also declined compared to the same period the previous year, but not on the same scale as in other sectors.

Despite COVID-19, there was a considerable amount of buyer interest in household textiles. However, because retail stores were closed for weeks, purchases had to be made online, which noticeably dampened the demand for consumer goods. Sales with customers with their own online sales channels rose during the second quarter, but this could not compensate for the drop in sales with industrial customers and stationary retailers. The exceptional situation in the area of medical personal protective equipment presented an opportunity for NEUTEX to expand its portfolio by utilizing finishing capacities for the production of face coverings.

Companies in the NEUTEX Division quickly adjusted their capacities in response to the changing order situation and correspondingly reduced their production output.

The HOFTEX division achieved sales of EUR 3.7 million (prior year: EUR 10.9 million) during the first half year with its dyeing business. Adjusted for the spinning segment divested on 31 August 2019, comparable sales during the same period the previous year were EUR 4.5 million; i.e. HOFTEX experienced a drop of 17.8%. The economic downturn during the second quarter resulted in a dramatic decline in orders along with many order cancellations in all customer segments. Production capacities were also adjusted downward in the dyeing plant in the short term in response to the order situation.

Real estate company business went according to plan during the first half year. Revenues and results have remained at the previous year's level due to the stable rental situation.

The abrupt and intense drop in sales and production during the second quarter of 2020 placed a nearly equal burden on virtually every aspect of the HOFTEX GROUP's business and resulted in losses in the producing divisions.

## Net assets, financial position and results of operations

### Earnings position

The HOFTEX GROUP experienced seriously diminished sales and overall performance during the first half of the year due to corona. Consolidated sales plunged by 26% from EUR 89.1 million in the previous year to EUR 65.9 million. The results by division break down as follows:

in EUR million	1 Jan to 30 Jun 2020	1 Jan to 30 Jun 2019
<b>Hoftex</b>	3.7	10.9*)
<b>Neutex</b>	6.2	7.4
<b>Tenowo</b>	55.0	69.8
<b>Other</b>	1.0	1.0
	<b>65.9</b>	<b>89.1</b>

\*) including the spinning segment divested on 31 August 2019

Lower sales severely impaired Group profitability during the first half year. Gross profit (EUR 35.2 million) tumbled by 22.6% compared to the prior year. However, the gross profit margin increased by around 3% to 55%. A decline in the cost of materials to EUR 29.9 million (prior year: 43.9 million) had a positive impact. This is offset by lower other operating income of EUR 0.8 million (prior year: EUR

1.3 million). Personnel expenses were EUR 20.4 million – lower than the previous year’s figure of EUR 24.1 million. The reduction reflects adjustments to personnel capacities through the use of short-time work and accrued overtime and downsizing during the second quarter. Personnel expenses based on gross revenue rose from 27.4% during the same period the previous year to 31.8% during the reporting period. Depreciation and amortization and write-downs amounted to EUR 5.8 million, slightly higher than the previous period with EUR 5.7 million, and solely include scheduled depreciation of tangible and intangible assets. Other operating expenses fell from EUR 12.8 million to EUR 11.3 million; based on gross revenue, they were 17.6% (prior year: 14.6%) – due to the overall decline in gross revenue. In total EBIT is EUR -2.4 million (prior year: EUR 2.8 million). Taking into account net interest income of EUR -0.6 million (prior year: EUR -0.9 million), EUR -0.1 million in income taxes (prior year: EUR -0.3 million) and other taxes of EUR -0.4 million (prior year: EUR -0.3 million), consolidated earnings as of 30 June were EUR -3.5 million (prior year: EUR 1.2 million). This corresponds to earnings per share of EUR -0.64 (prior year: EUR 0.22).

### Financial position

in EUR thousand	1 Jan to 30 Jun 2020	1 Jan to 30 Jun 2019
<b>Cash flows from operating activities</b>	5,278	7,810
<b>Cash flows from investing activities</b>	-4,217	-4,843
<b>Cash flows from financing activities</b>	-457	-1,639
<b>Balance</b>	604	1,328

Despite a significant reduction in trade receivables, cash inflows from operating activities of EUR 5.3 million declined by EUR 2.5 million compared to the previous period, above all as a result of the consolidated earnings of EUR -3.5 million (prior year: 1.2 million). The negative cash flows from investing activities (EUR -4.2 million (prior year: EUR -4.8 million)) relate mainly to payments to acquire tangible fixed assets. We are currently investing in the continuation and completion of the investments we started last year. The TENOWO division is installing a new binder line at the nonwoven site in Hof, which will pave the way for the development of new markets and products. Neutex Home Deco GmbH, located in Münchberg, is focusing on investments in digital marketing for its products. The negative cash flows from financing activities of EUR -0.5 million (prior year: -1.6 million) were mainly affected by the interest from the *Schuldscheindarlehen*, or bonded loan. The combined effect of cash inflows and outflows from operating activities, investing activities and financing activities during the period under review resulted in cash and cash equivalents of EUR 23.3 million (31 December 2019: EUR 32.2 million). After deducting bank loans the Group’s net debt was EUR 18.0 million (31 December 2019: EUR 18.4 million).

### Net assets

The Group balance sheet total fell by around 8% to EUR 180.2 million as of 30 June 2020 (30 June 2019: EUR 196.1 million). Intangible assets and tangible fixed assets rose from EUR 100.3 million to EUR 103.4 million net, whereas the release of funds for inventories of EUR 4.5 million and a drop in receivables and other assets from EUR 24.8 to EUR 19.0 million reduced current assets. The EUR 9.0 million *Schuldscheindarlehen* was already paid on schedule in late 2019, lowering cash equivalents to EUR 23.3 million (prior year EUR 32.2 million). Half year losses resulted in a reduction in equity capital from EUR 107.4 million to EUR 104.2 million. The equity ratio declined to 57.8% as a result (31 December 2019: 59.0%). Provisions of EUR 18.3 million as of June 2020 are EUR 2.0 million lower

than the reporting date of 30 June 2019. The first repayment of the *Schuldscheindarlehen* lowered liabilities to EUR 57.1 million (prior year: 67.7 million).

### **Employees**

The number of employees as of 30 June 2020 is 1,055 (prior year: 1,189). The number of employees therefore declined by 134 compared to the previous year. However, the previous year's values include Hoftex CoreTech GmbH employees who were part of the group of companies at that time.

### **Risks and opportunities**

The HOFTEX GROUP is faced with risks and opportunities that can have either a negative or positive impact on our net assets, financial position and results of operations as well as the Group's market position. For detailed information on the HOFTEX GROUP's risk management activities, please consult the 2019 Annual Report, pages 19 through 23.

The effects of the corona pandemic will result in a higher level of operational risk in terms of customer demand and order handling, which could impact EBITDA.

Overall, despite these circumstances, as of today there are no identifiable risks that could jeopardize the future of the company.

### **Outlook**

The COVID-19 pandemic plunged the global economy into a deep recession. The slump in earnings is much greater than assumed in the spring. Economic experts anticipate a recovery during the second half of the year. However, the economy will continue to perform below capacity. Economic performance is not expected to reach the previous year's level until late 2021 at the earliest. Global economic performance is expected to drop by 4.9% this year. Growth of 5.4% is predicted for 2021. The impact on the Eurozone economy will be much greater, with forecasts indicating a 10.2% decline in performance in 2020. Italy, Spain and France will bear the brunt of the economic consequences of COVID-19. Experts believe that the worst of the crisis is over in Germany and that there will be an upswing in economic activity. That notwithstanding, the German economy is largely dependent on global economic development due to its status as one of the world's largest exporters. The 2021 GDP growth forecast for the Eurozone is 6.0%. The Eurozone economy is not expected to recover fully until 2022. (Source: World Economic Outlook Update June 2020)

All sectors of the economy can expect an increase in corporate bankruptcy filings and continued deterioration of the employment market. The European Commission is forecasting a 9.5% rise in unemployment in the Eurozone.

The risk of another wave of infections should not be underestimated. If stricter safety precautions are required as a result of an increase in new infections with corresponding restrictions to economic life, this will result in massive long-term damage to national economies.

At present it is difficult in general to predict the economic impact COVID-19 will have on our customers and, in turn, business development in the HOFTEX GROUP.

Right now the HOFTEX GROUP expects the relevant customer markets to recover gradually over the coming months. After reaching an absolute low in the second quarter, we are currently experiencing a slight upturn. We expect to see noticeable improvement beginning in the fourth quarter.

The automotive sector so essential to TENOWO faces a number of extensive structural challenges alongside the downturn in the economy due to COVID-19. The automotive markets will likely recover



over the medium term as a result of the necessary structural shift towards alternative drive systems. Nevertheless, regardless of potential drive types or means of transport, there are many different application possibilities for nonwovens in the field of mobility thanks to their outstanding product characteristics.

The HOFTEX GROUP expects a revival of customer markets in industrial applications (construction, filtration, packaging) and home decor/apparel. We see positive impetus and growth potential in the medical/healthcare segment, although the contribution to Group sales is still low in the short term.

Uncertainty is high among consumers in general. The fear of another major COVID-19 outbreak, but above all the effects of the economic crisis triggered as a result, has overshadowed life and thus the economic recovery.

In spite of the COVID-19 pandemic, we will continue undeterred with our strategically important projects during this time. We are sticking to the investment projects we planned for 2020 with around EUR 10 million. They are primarily directed at the continuation and completion of the investments we started last year.

In general, all forecasts are fraught with tremendous uncertainty. Due to business development during the first half year and our assessments concerning ongoing business performance, which are marked by a great deal of uncertainty, the HOFTEX GROUP anticipates a decline in sales in the low double digits as a percentage and a much lower EBITDA than originally forecast. However, the Management Board is unable to offer a precise annual forecast in light of the volatile general conditions.

Hof, August 2020

Klaus Steger  
Chief Executive Officer

Manuela Spörl  
Chief Financial Officer

## HOFTEX GROUP AG

### Consolidated balance sheet as of 30 June 2020

Assets in EUR thousand		30 Jun 2020	30 Jun 2019
<b>A. Non-current assets</b>			
I.	Intangible fixed assets	2,184	2,598
II.	Tangible assets	101,234	97,739
III.	Long-term financial assets	43	43
		<b>103,461</b>	<b>100,380</b>
<b>B. Current assets</b>			
I.	Inventories	32,358	36,830
II.	Accounts receivable and other assets	18,966	24,840
III.	Cash and cash equivalents	23,342	32,245
		<b>74,666</b>	<b>93,915</b>
<b>C. Accrued and deferred items</b>		<b>978</b>	<b>714</b>
<b>D. Deferred tax assets</b>		<b>1,092</b>	<b>1,107</b>
<b>Balance sheet total</b>		<b>180,197</b>	<b>196,116</b>
<b>Equity and liabilities in EUR thousand</b>		<b>30 Jun 2020</b>	<b>30 Jun 2019</b>
<b>A. Equity</b>			
I.	Subscribed capital	13,920	13,920
II.	Capital reserves	41,158	41,158
III.	Revenue reserves	54,254	51,454
IV.	Change in equity from currency translation	-1,857	-1,929
V.	Consolidated net losses (prior year: consolidated net gains)	-3,325	2,804
		<b>104,150</b>	<b>107,407</b>
<b>B. Provisions</b>		<b>18,260</b>	<b>20,311</b>
<b>C. Liabilities</b>		<b>57,103</b>	<b>67,714</b>
<b>D. Deferred tax liabilities</b>		<b>684</b>	<b>684</b>
<b>Balance sheet total</b>		<b>180,197</b>	<b>196,116</b>

## HOFTEX GROUP AG

### Consolidated income statement from 1 January to 30 June 2020

in EUR thousand	1 Jan to 30 Jun 2020	1 Jan to 30 Jun 2019
Sales	65,853	89,090
Change in inventories	-1,626	-1,118
<b>Gross revenue</b>	<b>64,227</b>	<b>87,972</b>
Other operating income	821	1,336
Cost of materials	-29,878	-43,868
<b>Gross profit</b>	<b>35,170</b>	<b>45,440</b>
Personnel expenses	-20,444	-24,073
Depreciation, amortization and write-downs	-5,833	-5,746
Other operating expenses	-11,334	-12,817
<b>Operating result</b>	<b>-2,441</b>	<b>2,804</b>
Net interest income	-566	-928
Taxes on income	-89	-310
<b>Earnings after tax</b>	<b>-3,096</b>	<b>1,566</b>
Other taxes	-362	-348
<b>Consolidated net income for the period</b>	<b>-3,458</b>	<b>1,218</b>

# HOFTEX GROUP

TEXTILE TECHNOLOGIES

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