Group interim report

as at 30 June

2023

HOFTEX GROUP

TEXTILE TECHNOLOGIES

HOFTEX GROUP AG

At a glance

Key Group Figures		1.1.2023 to 30.6.2023	1.1.2022 to 30.6.2022
External sales	EUR million	84.7	75.9
Gross revenue	EUR million	85.1	74.5
Cash flows from operating activities	EUR million	6.4	-0.7
Employees		974	1,020
Consolidated net income for the period	EUR million	0.2	-1.9
EBITDA	EUR million	6.7	4.3
Total assets 30 June (prior year 31 Dec)	EUR million	174.5	177.0
Equity 30 June (prior year 31 Dec)	EUR million	110.9	112.0
Equity ratio 30 June (prior year 31 Dec)	%	63.6	63.3

ABOUT THE HOFTEX GROUP

The Hoftex Group is a medium-sized group of companies 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 the holding company for the Hoftex Group. The Group's main activities are the development, production and sale of nonwovens for technical applications in the automotive industry, the construction industry, for medical applications and the garment trade and for other consumer goods sectors. Additional areas of activity include the manufacture and sale of decorative fabrics and textile sun protection solutions along with the operation of a yarn dyeworks.

The Hoftex Group's activities are divided into the three production divisions TENOWO, NEUTEX and HOFTEX. 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.

TENOWO Division	**NEUTEX Division**	**HOFTEX Division**
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.		
Tenowo Italia S.r.l.		
Tenowo de Mexico S. de R.L. de C.V.		

*) Merged into Hoftex Färberei GmbH effective 1 January 2023.

HOFTEX GROUP AG is responsible for the Group's global strategic orientation and performs central functions 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 company Hoftex Immobilien I GmbH manages and performs administrative duties for the various properties and real estate assets.

THE HOFTEX GROUP SHARE

Hoftex Group shares are traded on the m:access segment 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 principal shareholder ERWO Holding AG currently holds 4,616,223 shares. This corresponds to 84.8% of the voting shares.

Share type	No-par value shares, each representing a proportionate amount of the subscribed capital of EUR 2.56 (rounded) per share
Subscribed capital	EUR 13,919,988.69
Number of no-par value shares	5,444,800
Listing	Munich Stock Exchange
Market segment	m:access
Stock exchange symbol	NBH
ISIN	DE0006760002
WKN 1)	676000

Share performance		**1.1. to 30.6.2023**	**1.1. to 30.6.2022**
Net earnings per share	EUR	0.03	-0.35
Equity per share 30 June (prior year 31 Dec)	EUR	20.37	20.57
Opening share price	EUR	9.60	12.90
Year high	EUR	10.40	12.90
Year low	EUR	9.20	11.10
Closing share price	EUR	9.90	11.30
Market capitalisation	EUR million	53,904	61,526

BUSINESS DEVELOPMENT IN H1 2023

Economic environment

According to the World Economic Outlook Update, July 2023, global economic growth for the year 2023 is expected to reach a moderate 3%, which is 0.5% below the previous year's level. Overall, the IMF predicts a decline in growth in 93% of all economies this year, meaning that global growth will remain weak by historical standards. Above all, high inflation rates around the world are preventing the global economy from recovering faster.

Experts forecast below-average growth of 0.9% in the Eurozone in 2023. Germany is the worst-performing country in the Eurozone with an expected negative growth rate of -0.3%. Export-oriented companies are suffering from the general global economic decline. However, inflation and high energy prices are also contributing to the difficult economic outlook. After the first two quarters of 2023, Germany has slipped into a recession and experts expect the economic stagnation to continue. Above-average growth of 1.1% and 2.5% is forecast for Italy and Spain, respectively, due to the stronger services and tourism sector. France can expect to see growth of 0.8%.

The global economy has been slow to recover from the COVID-19 pandemic that weighed heavily on the past few years, not to mention the war between Russia and Ukraine that erupted in February 2022. Transport costs and delivery times for raw materials have now returned to pre-crisis levels, and although energy prices have fallen from the previous year's peaks, they still remain elevated. The German economy in particular is at a competitive disadvantage in terms of energy costs compared to other countries around the world. However, inflation rates remain high and continue to depress consumer spending. The central banks' inflation rate hike has resulted in high borrowing costs and inhibited economic growth. According to the World Economic Outlook Update, July 2023, a reduction in key interest rates is not expected until 2024. Higher financing costs, declining consumption and uncertainty about the future geopolitical situation also mean that companies are now less likely to invest.

Sector trends

In the period from January to May, the German textile and apparel industry achieved 4.9% higher sales than during the same period in the year prior. This increase is chiefly attributable to the apparel industry, which saw 15.0% growth in sales. Textile industry sales, on the other hand, have declined by -0.5%. In May 2023, producer prices for apparel were 5.8% higher than in the previous year; in the case of textiles, they were 8.8% higher than in the previous year, in particular due to the growing dependence on energy-intensive raw materials. Variances in the development of the textile and apparel industry are also reflected in order intake: While new orders for apparel increased by 3.6% in the period from January to May 2023 compared to the previous year, new orders for textiles fell at mostly double-digit rates and the outlook for short-term improvement remains bleak. The business climate in the industry is experiencing a downturn, and companies' expectations and current assessments of the situation are becoming increasingly negative.
(Source: textil+mode konjunktur July 2023)

Division trends

In the first half of 2023, our largest business unit TENOWO generated sales of EUR 74.2 million. This translates into a 14.3% increase over the previous year's sales of EUR 64.9 million. Sales growth compared to the previous year was mainly attributable to price increases; volumes sold were around 4% above the same period in the preceding year.

Sales in the individual segments have developed in line with our expectations. During the reporting period, our largest segment – automotive – recovered from the sharp decline in demand last year and was able to increase both sales volumes and sales revenues. Sales growth was also positively impacted by shifting the mix towards higher-value products and applications.

Following last year's upturn in sales, the consumer goods segment remained on its growth trajectory during the first half of the year, thereby making a positive contribution to earnings.

As expected, sales in the apparel segment fell year-on-year due to an inflation-related decline in consumer spending.

The first positive impacts of our strategic realignment in the healthcare segment towards more innovative products and applications became evident in 2023, which enabled us to achieve the planned sales growth.

Tenowo improved its earnings compared to the previous year with the sales volumes planned for 2023 and achieved in the first half of the year. However, it is still not operating at the maximum achievable or pre-pandemic capacity utilisation rate, with corresponding negative effects on profitability.

Sales in the NEUTEX division in the first half of 2023 amounted to EUR 5.8 million (prior year: EUR 6.1 million) and were again below expectations. NEUTEX was unable to meet its sales targets due to continued lack of demand in the European household textiles market. The structural crisis in the European household textile industry, which has persisted for years, was exacerbated by high inflation and a recession in Germany, which further intensified pressure on NEUTEX's business. While sales in the Ready segment increased compared to the previous year, all other divisions recorded further declines in sales. Due to capacity reductions carried out as part of a restructuring concept in 2023, the earnings situation showed virtually no improvement, resulting in another net loss.

As a result of rising pressure from increasingly higher quality, less expensive home deco import products, the current global economic framework and challenges and the resulting assumptions for the market environment in which NEUTEX will continue to operate in the coming years, the Management Board and Supervisory Board resolved at the Supervisory Board meeting on 28 August 2023 to implement a concept for adapting the organisation, which will result in the closure of the German production facility in Münchberg. Around 90 jobs in Münchberg are affected by the closure. Production is expected to stop at the end of the first quarter of 2024.

Going forward, the Neutex business unit will leverage the Ready 3.0 programme to focus on the growing segment of made-to-measure home textiles and sun protection solutions that can be individually designed and dimensioned by customers. Neutex Home Deco GmbH in Münchberg will continue to spearhead product development and take over sales operations. The Romanian subsidiary SC Textor S.A. will also be preserved as a finishing operation. Fabrics that were previously manufactured at the Münchberg facility will be sourced from third-party suppliers in the future. This decision has no effect on the two other business divisions TENOWO and HOFTEX.

The HOFTEX division generated sales of EUR 4.0 million in the first half of 2023, falling short of the previous year (EUR 4.3 million) and this year's expectations.

The apparel and home deco customer segments recorded a decline in sales, which is attributable to the decline in consumer demand caused by current economic conditions. The business model of the Hoftex dyeworks encompasses both the full dyeing business and the contract business, in which customers supply their own yarns for dyeing. The percentage of contract business in the first half of 2023 was higher than in the previous year and higher than expected overall. The HOFTEX division's contribution to earnings remained stable compared to the previous year.

As planned, real estate company sales revenues of EUR 1.8 million in the first half of 2023 were slightly higher than during the same period in the previous year (EUR 1.6 million). The earnings situation also improved as planned compared to the previous year.

Net assets, financial position and results of operations

Results of operations

Despite the difficult business environment, the Hoftex Group achieved consolidated sales of EUR 84.7 million in the first six months, which is above the prior year's level (prior year: EUR 75.9 million). The development of sales in the different divisions varied as follows:

in EUR million	1.1. to 30.6.2023	1.1. to 30.6.2022
Tenowo	74.2	64.9
Neutex	5.8	6.1
Hoftex	4.0	4.3
Other	3.6	3.4

In line with the increase in sales revenues in the first half of the 2023 financial year, gross profit is also higher than in the previous year at EUR 43.3 million (EUR 38.9 million), which represents an increase of 11.3%. Despite the growth in gross profit, the gross profit margin declined by 1.2% to 51.0%, reflecting the decrease in other operating income of EUR -1.8 million to EUR 2.1 million in the first half of 2023. As in the previous financial year, both of these figures were positively influenced by insurance compensation. Taking into account the one-off effects within other operating income, the adjusted gross profit margin is 49.4%, which is a slight improvement over the previous year's margin of 48.4%.

Despite the year-over-year increase in material expenses of 10.7% to EUR 43.8 million, the cost of materials ratio fell by 1.6% to 51.4%, as it was possible to compensate for higher procurement costs by adjusting sales prices. Personnel expenses decreased from 30.1% of gross revenue in the same period of the previous year to 27.1% of gross revenue during the reporting period. Depreciation, amortisation and write-downs amount to EUR 5.5 million, which is slightly lower than the previous year's figure of EUR 5.6 million. Other operating expenses of EUR 13.4 million were EUR 1.7 million higher than in the previous year. The increase is mainly attributable to higher operating costs – primarily due to greater expenses incurred for repairs and maintenance contracts. Other operating expenses were 15.8% (prior year: 15.7%) of gross revenue. In total EBIT is EUR 1.1 million (prior year: EUR -1.3 million. After deduction of the interest result of EUR -0.6 million (prior year: EUR -0.5 million €), income tax of EUR -0.3 million (prior year: EUR -0.1 million) and other taxes of EUR -0.3 million (prior year: EUR -0.5 million), consolidated earnings for the reporting period amount to EUR 0.2 million (prior year: EUR -1.9 million). This corresponds to earnings per share of EUR 0.03 (prior year: EUR -0.35).

Financial position

in EUR thousand	1.1. to 30.6.2023	1.1. to 30.6.2022
Cash flows from operating activities	6,418	-716
Cash flows from investing activities	-3,132	-1,731
Cash flows from financing activities	-2,473	-301
Balance	813	-2,748

The consolidated net income for the period of EUR 0.2 million (prior year: EUR -1.9 million) along with the reduction of inventories and provisions significantly impacted the cash flows from operating activities of EUR 6.4 million (prior year: EUR -0.7 million). As in the previous year, negative cash flows from investing activities of EUR -3.1 million (prior year: EUR -1.7 million) are principally due to capital expenditure on tangible fixed assets. Negative cash flows from financing activities of EUR -2.5 million (prior year: EUR -0.3 million) include in particular repayment of the EUR 10.0 million loan drawn in December 2021 from the syndicated loan agreement concluded on 16 December 2021 with a total volume of EUR 51.0 million and the associated interest. 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 20.2 million (31 December 2022: EUR 19.5 million).

Net assets

During the reporting period, EUR 3.5 million was invested in tangible fixed assets and intangible assets (prior year: EUR 2.0 million). Depreciation, amortisation and write-downs in the first half of 2023 totalled EUR 5.5 million (prior year: EUR 5.6 million). Overall, fixed assets declined by EUR 3.0 million in the first six months. Current assets, on the other hand, remain at virtually the same level as the year prior due to the decrease in inventories (EUR -2.3 million), as well as the increase in receivables and other assets (EUR +1.7 million) at EUR 82.9 million (prior year: EUR 82.8 million). Cash equivalents were up from EUR 19.5 million at the end of 2022 to EUR 20.2 million. Equity was boosted by consolidated net income of EUR 0.2 million in the reporting period and depressed by currency translation losses of EUR 1.2 million, leading to a total decrease from EUR 112.0 million (31 December 2022) to EUR 111.0 million. The equity ratio was 63.6% as at 30 June 2023 and thus slightly higher than the equity ratio on the balance sheet date of 31 December 2022 (63.3%).

Provisions of EUR 16.0 million are EUR 0.7 million higher than on the balance sheet date of 31 December 2022 (EUR 15.3 million). Liabilities decreased by EUR 2.2 million to EUR 46.8 million in total (31 December 2022: EUR 49.0 million), with EUR 1.4 million attributable to the decrease in liabilities to banks from EUR 33.3 million as at 31 December 2022 to EUR 31.9 million. Trade payables and liabilities on bills accepted and drawn decreased by EUR 0.8 million to EUR 7.0 million. Other liabilities remained unchanged at the prior year’s level of EUR 7.9 million. Overall, the Group’s equity and liabilities fell by 1.4% to EUR 174.5 million (31 December 2022: EUR 177.0 million).

Employees

The number of employees as at 30 June 2023 is 974, which is lower than in the prior year (1,008). The headcount reduction was mainly due to the Neutex restructuring project, which adjusted the organisation to lower sales and production volumes. The necessary job cuts were mainly implemented on the basis of early retirement packages and individual severance agreements in the most socially responsible manner possible.

Risks and opportunities

There have been no significant changes to the Hoftex Group's risk and opportunity assessment in the reporting period compared to the corresponding statements in the 2022 Annual Report. Detailed information on the significant risks and opportunities of our business and on risk management is provided on pages 24 to 28 of the 2022 Annual Report.

Outlook

Following the COVID-19 pandemic in the preceding years and the Russian invasion of Ukraine in February 2022, 2023 has presented further challenges to the Group. Persistently high inflation, rising interest rates and high energy costs are weighing on national economies and also having a negative impact on the Hoftex Group's business. Despite an improvement in the earnings situation and a stabilisation of business in the first half of the year, we continue to expect a difficult market environment.

A challenging economic situation, especially in Europe, could potentially reduce the business divisions' order intake levels during the second half of the year. We are also seeing customers reducing inventories due to the higher costs of capital. In light of these developments, we expect sales in the second half of the year to be lower than originally planned, but above the previous year's level.

We do not view the developments in the home deco sector in the NEUTEX business division as a temporary dip in the market, but rather as a more pervasive, structural crisis in the home textile industry in Germany. It is impossible to compete against countries such as Turkey and China in the international marketplace due to the differences in cost structures. Consequently, we resolved to close the German production plant in Münchberg, as reported in the ad hoc announcement released on 28 August 2023. There will be no operational changes in the second half of 2023, as production will not be fully phased out until the end of 2024. However, the planned measures will lead to closure costs, which will have an additional impact on earnings in the Neutex division and the Hoftex Group in 2023.

Due to the closure, it will not be possible to achieve the EBITDA forecast of EUR 12 million to EUR 14 million for 2023 as projected in the 2022 Annual Report Based on current information, the Management Board expects an EBITDA of between EUR 8.0 million and EUR 10.0 million in the 2023 financial year. This is primarily attributable to financial effects of the partial closure and the fact that business development in the NEUTEX division has not met expectations. Consolidated sales are expected to reach around EUR 160 million, which is at the lower end of the EUR 160 million to 180 million guidance range in the 2022 Annual Report.

Hof, August 2023

Klaus Steger	Manuela Spörl
Chief Executive Officer	Chief Financial Officer

HOFTEX GROUP AG

Consolidated balance sheet as at 30 June 2023

Assets in EUR thousand		30.6.2023	31.12.2022
A. Fixed assets			
I.	Intangible assets	378	416
II.	Tangible fixed assets	88,881	91,827
III.	Long-term financial assets	17	17
		89,276	**92,260**
B. Current assets			
I.	Inventories	35,965	38,294
II.	Receivables and other assets	26,718	24,987
III.	Cash and cash equivalents	20,183	19,533
		82,866	**82,814**
C. Prepaid expenses		**1,217**	**740**
D. Deferred tax assets		**1,146**	**1,146**
Total assets		**174,505**	**176,960**

Equity and liabilities in EUR thousand		30.6.2023	31.12.2022
A. Equity			
I.	Subscribed capital	13,920	13,920
II.	Capital reserves	41,158	41,158
III.	Retained earnings	57,754	57,754
IV.	Change in equity from currency translation	-1,533	-293
V.	Consolidated net loss	-362	-541
		110,937	**111,998**
B. Provisions		**16,039**	**15,294**
C. Liabilities		**46,845**	**48,984**
D. Deferred tax liabilities		**684**	**684**
Total equity and liabilities		**174,505**	**176,960**

HOFTEX GROUP AG

Consolidated income statement
from 1 January to 30 June 2023

in EUR thousand	1.1. to 30.6.2023	1.1. to 30.6.2022
Sales	84,742	75,853
Change in inventories	341	-1,314
Gross revenue	**85,083**	**74,539**
Other operating income	2,069	3,886
Cost of materials	-43,762	-39,517
Gross profit	**43,390**	**38,908**
Personnel expenses	-23,012	-22,421
Depreciation, amortisation and write-downs	-5,534	-5,601
Other operating expenses	-13,412	-11,735
Operating result	**1,432**	**-849**
Net interest	-606	-532
Taxes on income	-338	-89
Earnings after taxes	**488**	**-1,470**
Other taxes	-309	-451
Consolidated net income for the period	**179**	**-1,921**

HOFTEX GROUP

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