



鷹普精密工業有限公司

Impro Precision Industries Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1286

2023 ANNUAL RESULTS PRESENTATION

March 12, 2024





Disclaimer

The information set forth in this presentation relates to the business of Impro Precision Industries Limited (the “Company”, together with its subsidiaries, the “Group”) for the year ended December 31, 2023. This presentation is intended to provide updated information on the Group for the year ended December 31, 2023 and does not constitute an offer, solicitation, invitation or recommendation to subscribe for or purchase any securities of any member of the Group. The information in this presentation is in summary form and is not a complete description of the business and the operating results of the Group for the year ended December 31, 2023. No representation or warranty, express or implied, is made and no reliance should be placed on the accuracy, fairness or completeness of the information herein contained. For more detailed information of the annual results of the Group for the year ended December 31, 2023, please refer to the 2023 annual results announcement of the Group published on the websites of The Stock Exchange of Hong Kong Limited and the Company.

This presentation contains certain forward-looking statements with respect to the financial conditions, operating results, and business of the Group and certain plans and objectives of the management of the Group. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Group to be materially different from any future results of performance expressed or implied by such forward looking statements. Accordingly, you should not place reliance on any forward-looking information or statements.



FY2023 Results Summary



Resilient Revenue Growth

- 2023 Group revenue up 5.7% y-on-y to HK\$4,604.4M
- Aerospace, Energy & Medical end-markets revenue grew strongly, up 47.7% to HK\$696.1M
- Diversified Industrials end-market revenue up 1.4% with agricultural equipment, construction equipment & high horsepower engine end-markets up 19.2%, 7.4% & 7.0%, respectively
- Automotive end-market revenue down 0.3%, passenger car up 3.9% while commercial vehicle end-market revenue down 4.0%



Significant increase in Free Cash Flow & Stable Dividend Payout

- Free cash flow increased significantly by 2 times to HK\$508.5M in 2023, driven by effective control of working capital management
- Net debt decreased by \$95.7M to \$1,626.9M, net gearing decreased to 33.2%
- 2023 2nd interim dividend at HK\$0.08 per share, FY 2023 total dividend at HK\$0.16 per share, remains unchanged vs last year, equivalent to dividend payout rate of 57% based on adjusted profit attributable to shareholders



Increase in Reported Profit; Decrease in Adjusted Profit

- Reported profit att. to shareholders increased to HK\$585.1M or up 0.5% y-on-y; adjusted for the one-off items, adjusted profit att. to shareholders decreased 18.0% to HK\$532.0M, mainly due to:
 - (a) Mexican new plants were still in the ramp-up stage, increased in depreciation expense & MXN peso appreciation, etc. led to an after-tax loss of more than HK\$100M;
 - (b) Nantong plant was still in the reconstruction period after 2022 fire incident, and most of the production lines are still suspended, reported after-tax loss exceeding HK\$30M;
 - (c) Interest expenses increased significantly by more than HK\$50M compared to last year



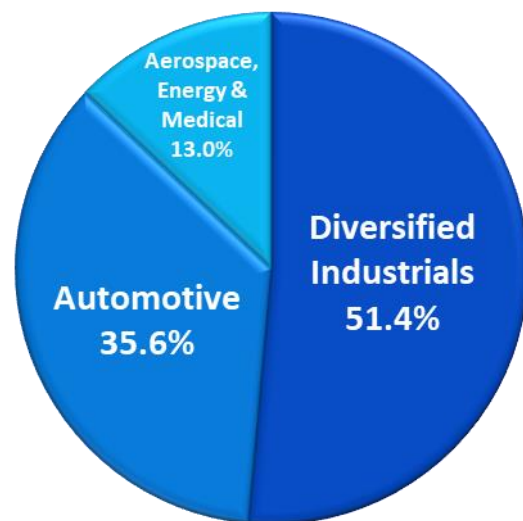
Effective Implementation of 3 major Strategies

- Despite the current challenging macro environment added pressure to the Group's sales and profit growth, the Group will continue to implement "Global Footprint" & "Diversified End-markets" strategies, solidifying manufacturing plants in Asia, Europe and Americas offering reliable and convenient services to customers
- Integration of the two 2H/2022 acquired businesses proceeded well, Foshan Ameriforge revenue grew strongly in 2023 and the hydraulic orbital motor business also expanded overseas sales network during the year, "Twin Growth Engines" strategy shows effectiveness

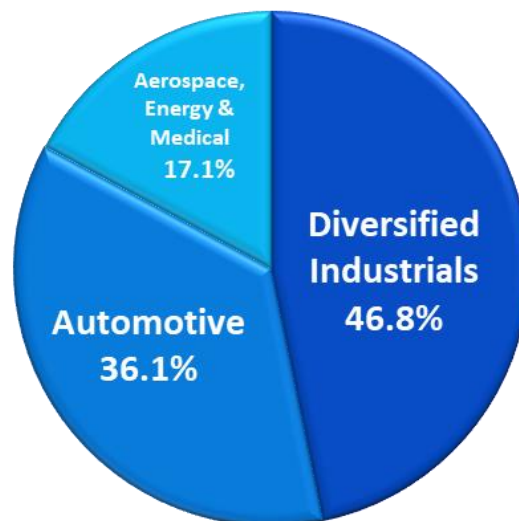


Revenue by End Markets

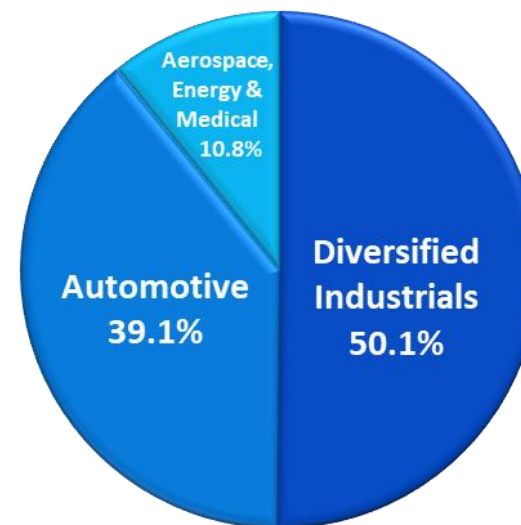
2H/2022



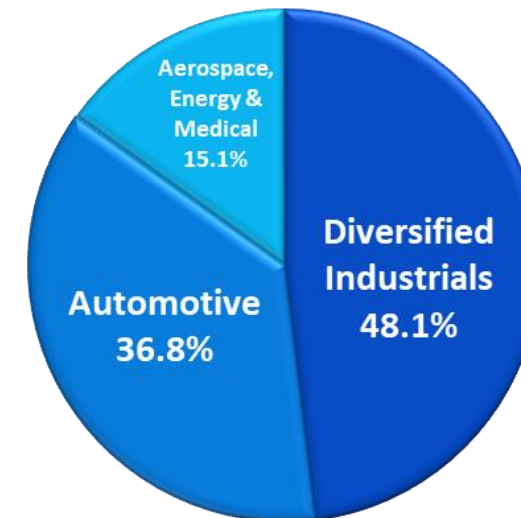
2H/2023



FY2022



FY2023



By End Market	2H/2022	2H/2023	Inc/(Dec)		FY2022	FY2023	Inc/(Dec)	
	HK\$ mil	HK\$ mil	HK\$ mil	Change	HK\$ mil	HK\$ mil	HK\$ mil	Change
Diversified Industrials	1,112.0	1,029.5	(82.5)	-7.4%	2,183.8	2,213.6	29.8	1.4%
Automotive	769.8	793.8	24.0	3.1%	1,699.5	1,694.7	(4.8)	-0.3%
Aerospace, Energy & Medical	280.2	376.3	96.1	34.3%	471.4	696.1	224.7	47.7%
Total	2,162.0	2,199.6	37.6	1.7%	4,354.7	4,604.4	249.7	5.7%

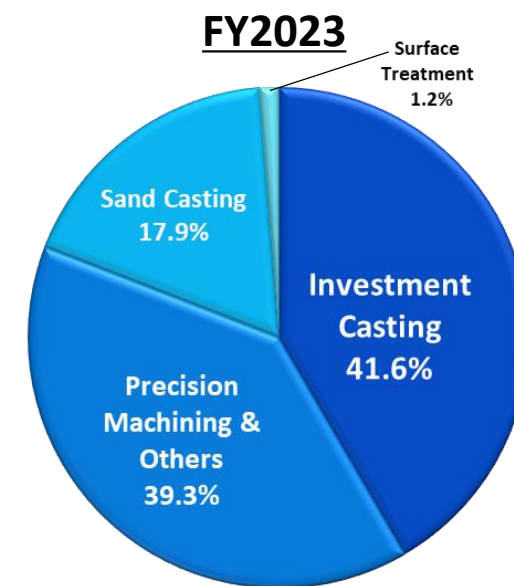
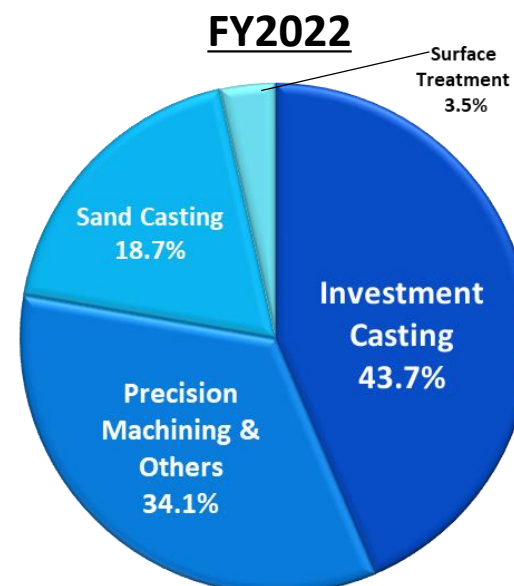
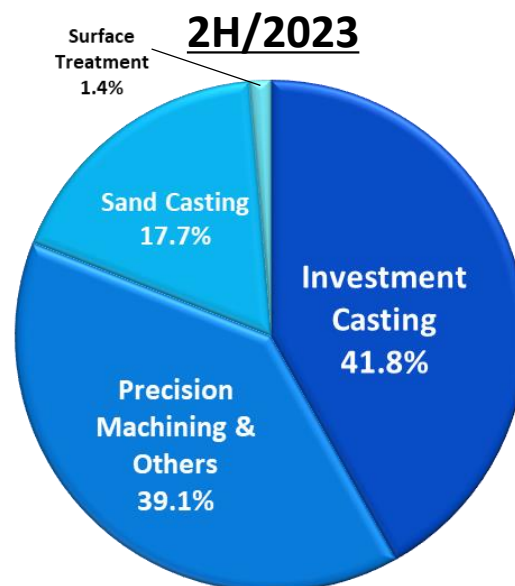
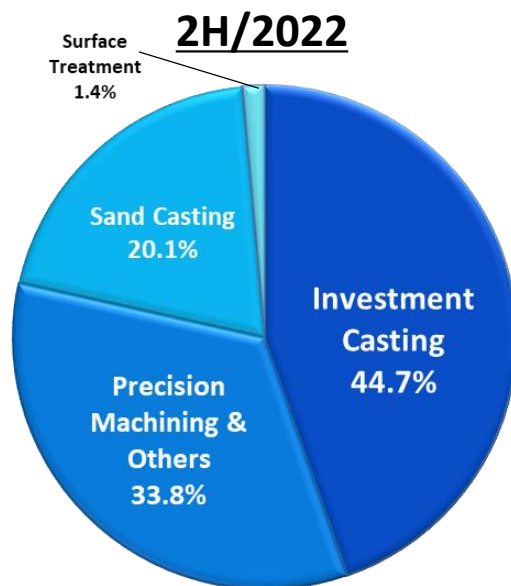


Revenue by End Markets

By End Market	2H/2022	2H/2023	Inc/(Dec)		FY2022	FY2023	Inc/(Dec)	
	HK\$ mil	HK\$ mil	HK\$ mil	Change	HK\$ mil	HK\$ mil	HK\$ mil	Change
Diversified Industrials	1,112.0	1,029.5	(82.5)	-7.4%	2,183.8	2,213.6	29.8	1.4%
- Construction Equipment	332.0	292.8	(39.2)	-11.8%	646.9	695.0	48.1	7.4%
- High Horsepower Engine	254.5	243.8	(10.7)	-4.2%	463.1	495.6	32.5	7.0%
- Agricultural Equipment	176.1	215.0	38.9	22.1%	353.3	421.0	67.7	19.2%
- Recreational Boat & Vehicle	121.7	93.8	(27.9)	-22.9%	248.2	217.7	(30.5)	-12.3%
- Others	227.7	184.1	(43.6)	-19.1%	472.3	384.3	(88.0)	-18.6%
Automotive	769.8	793.8	24.0	3.1%	1,699.5	1,694.7	(4.8)	-0.3%
- Commercial Vehicle	442.8	381.9	(60.9)	-13.8%	896.0	859.8	(36.2)	-4.0%
- Passenger Car	327.0	411.9	84.9	26.0%	803.5	834.9	31.4	3.9%
Aerospace, Energy & Medical	280.2	376.3	96.1	34.3%	471.4	696.1	224.7	47.7%
- Aerospace	168.1	236.0	67.9	40.4%	281.1	424.9	143.8	51.2%
- Energy	48.2	89.9	41.7	86.5%	72.5	170.2	97.7	134.8%
- Medical	63.9	50.4	(13.5)	-21.1%	117.8	101.0	(16.8)	-14.3%
Total	2,162.0	2,199.6	37.6	1.7%	4,354.7	4,604.4	249.7	5.7%



Revenue by Business

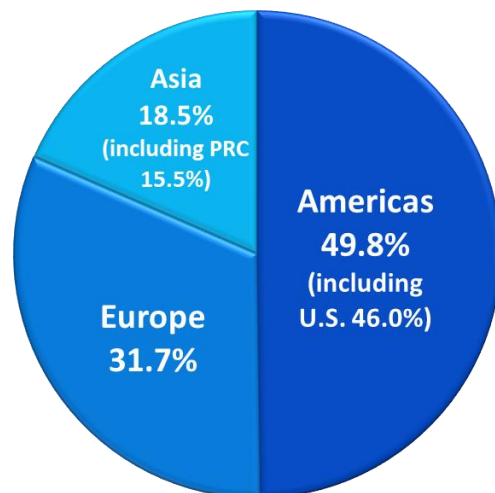


By Business	2H/2022	2H/2023	Inc/(Dec)		FY2022	FY2023	Inc/(Dec)	
	HK\$ mil	HK\$ mil	HK\$ mil	Change	HK\$ mil	HK\$ mil	HK\$ mil	Change
Investment Casting	965.8	919.9	(45.9)	-4.8%	1,899.6	1,914.8	15.2	0.8%
Precision Machining & Others	731.2	859.6	128.4	17.6%	1,486.0	1,808.3	322.3	21.7%
Sand Casting	435.0	390.1	(44.9)	-10.3%	815.6	823.9	8.3	1.0%
Surface Treatment	30.0	30.0	-	0.0%	153.5	57.4	(96.1)	-62.6%
Total	2,162.0	2,199.6	37.6	1.7%	4,354.7	4,604.4	249.7	5.7%

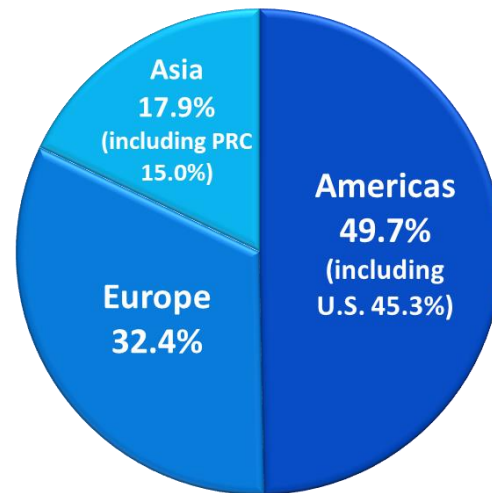


Revenue by Geographical

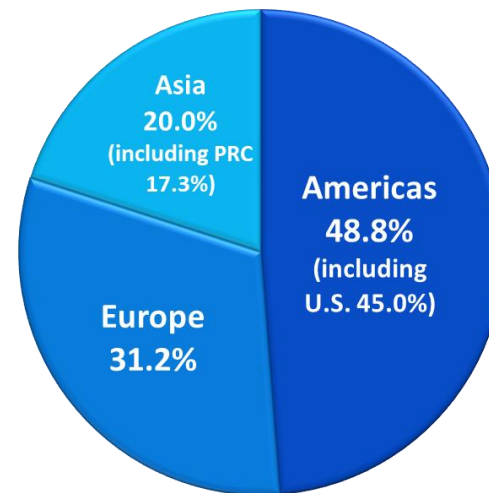
2H/2022



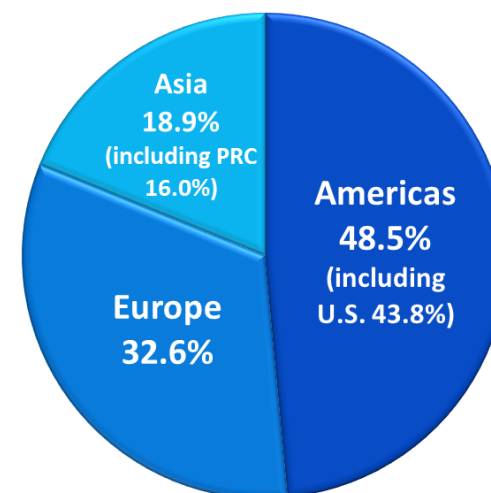
2H/2023



FY2022



FY2023



	2H/2022	2H/2023	Inc/(Dec)		FY2022	FY2023	Inc/(Dec)	
By Geographical	HK\$ mil	HK\$ mil	HK\$ mil	Change	HK\$ mil	HK\$ mil	HK\$ mil	Change
Americas	1,076.6	1,092.8	16.2	1.5%	2,123.0	2,233.3	110.3	5.2%
- United States	994.6	995.7	1.1	0.1%	1,957.7	2,019.0	61.3	3.1%
- Others	82.0	97.1	15.1	18.4%	165.3	214.3	49.0	29.6%
Europe	686.2	712.6	26.4	3.8%	1,358.4	1,502.7	144.3	10.6%
Asia	399.2	394.2	(5.0)	-1.3%	873.3	868.4	(4.9)	-0.6%
- PRC	336.0	331.0	(5.0)	-1.5%	753.3	736.6	(16.7)	-2.2%
- Others	63.2	63.2	-	0.0%	120.0	131.8	11.8	9.8%
Total	2,162.0	2,199.6	37.6	1.7%	4,354.7	4,604.4	249.7	5.7%



2023 Financial Review



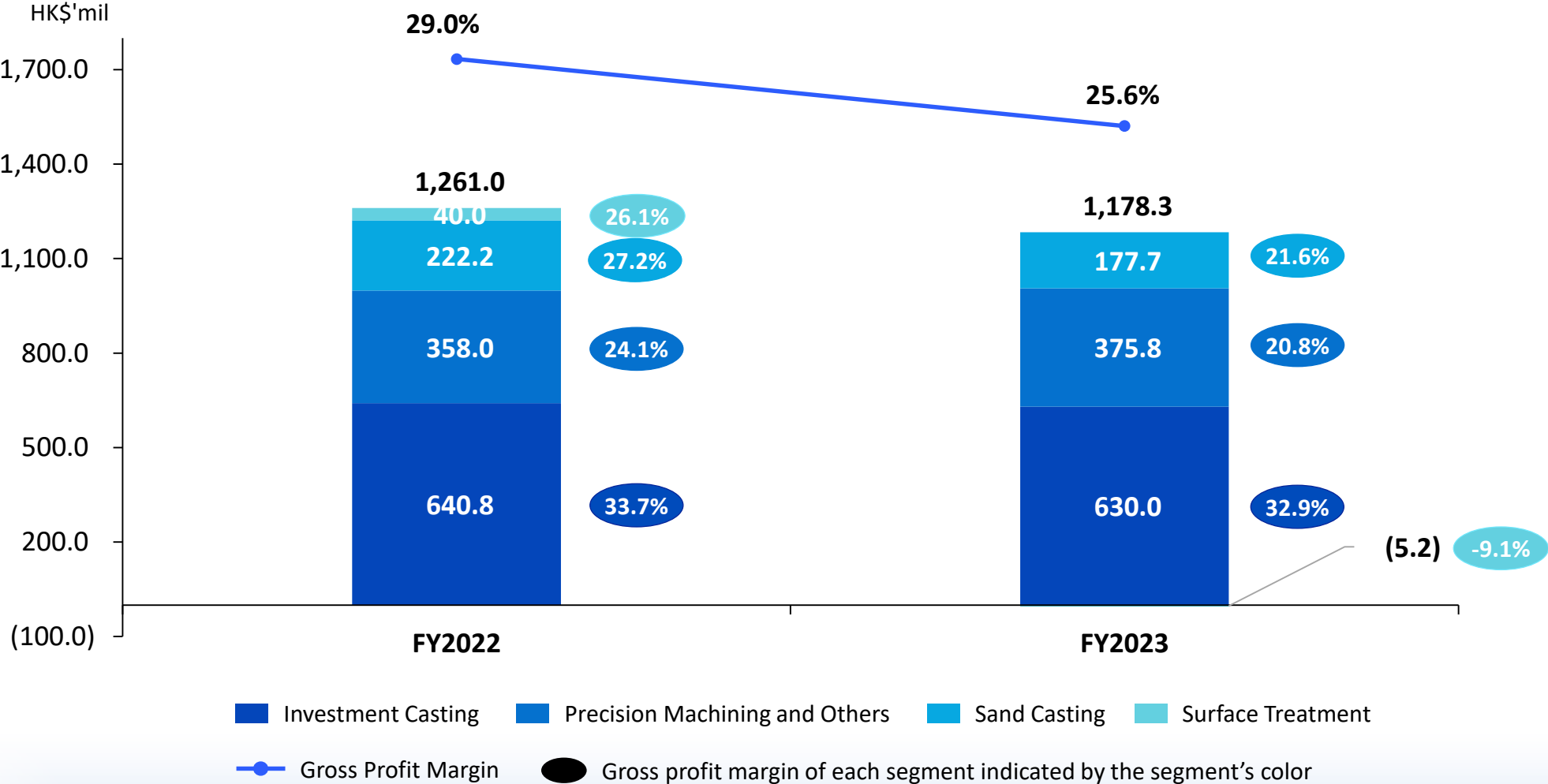


FY2023 Financial Review

Financial Highlights	FY2022	FY2023	Change
	HK\$ mil	HK\$ mil	
Revenue	4,354.7	4,604.4	5.7%
Gross profit	1,261.0	1,178.3	-6.6%
Gross profit margin	29.0%	25.6%	-3.4%
Other revenue	23.9	30.2	26.4%
Other net (loss)/income	(24.6)	20.0	-181.3%
Selling and distribution expenses	(180.7)	(158.5)	-12.3%
Administrative and other operating expenses	(334.7)	(341.7)	2.1%
Adjusted EBITDA	1,227.6	1,214.9	-1.0%
Adjusted EBITDA margin	28.2%	26.4%	-1.8%
Profit att. to shareholders of the Company	582.0	585.1	0.5%
Adj. Profit Attr. to shareholders of the Company	649.1	532.0	-18.0%
Adjusted basic EPS (HK cents)	34.5	28.2	-18.3%
DPS (HK cents)	16.0	16.0	-

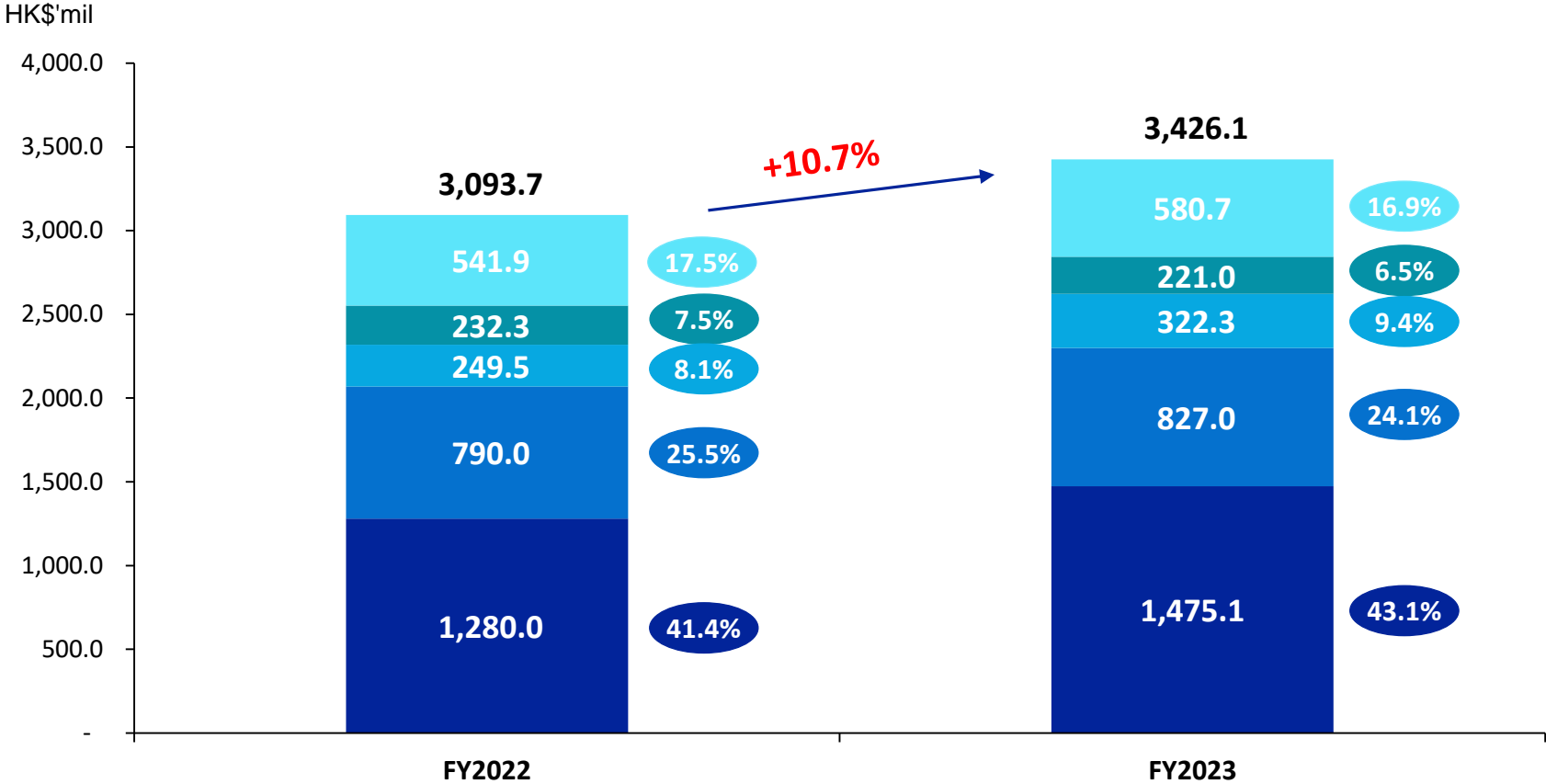


Gross Profit





Cost of Sales Analysis

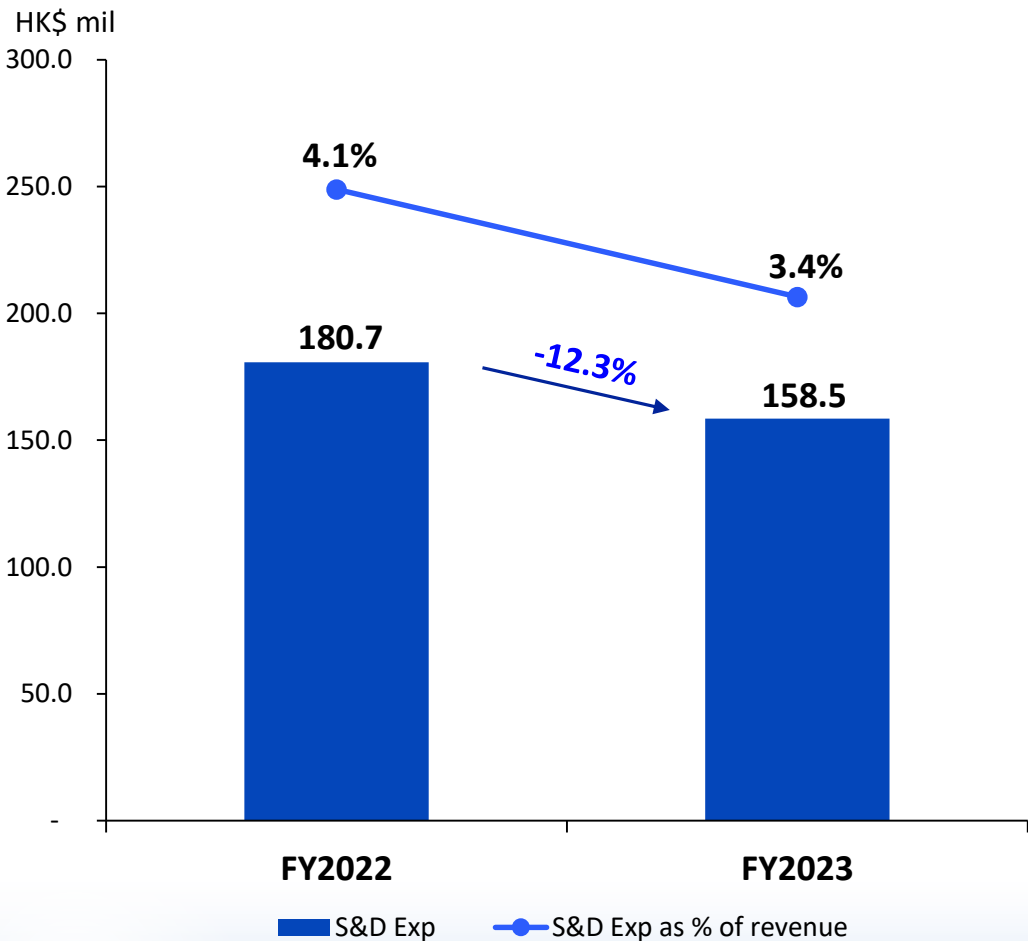


- Cost of materials (raw materials & auxiliary materials)
- Staff Costs
- Depreciation
- Fuel Expenses and Utilities
- Others
- Percentage of Cost of Sales indicated by the expense's color

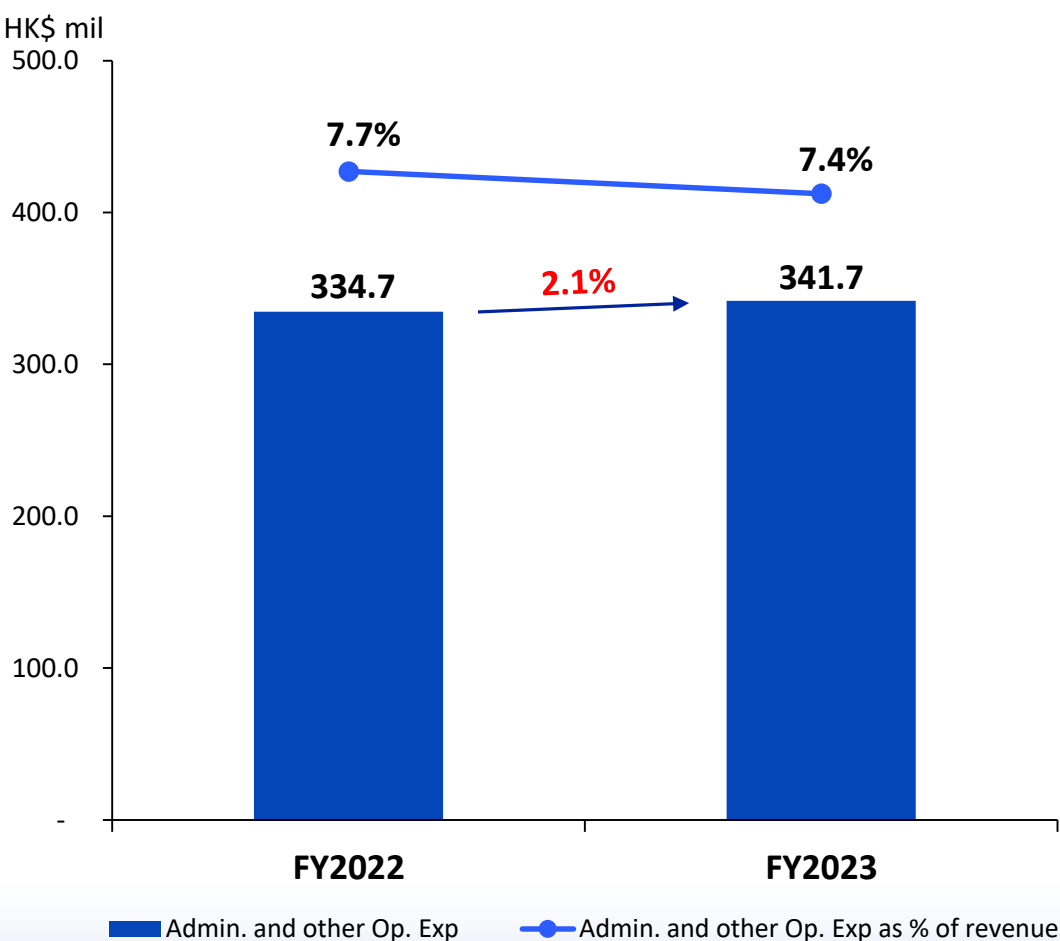


Operating Expenses Analysis

Selling and Distribution Expenses



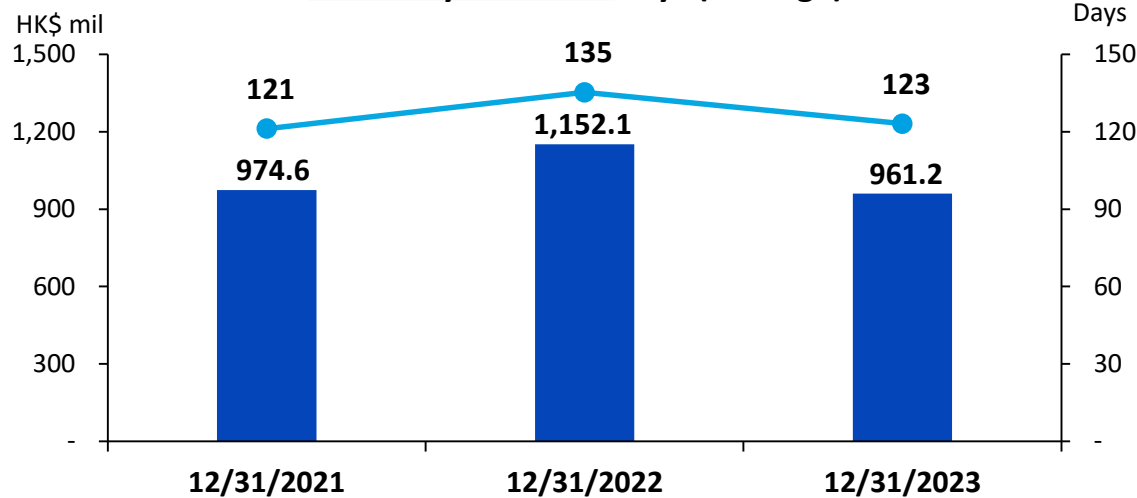
Administrative and Other Operating Expenses



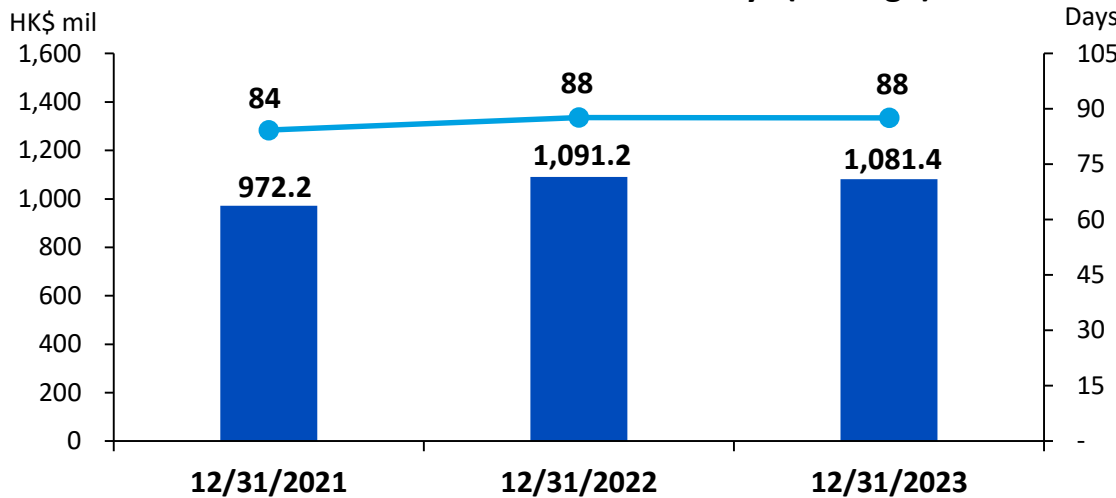


Key Working Capital Ratios

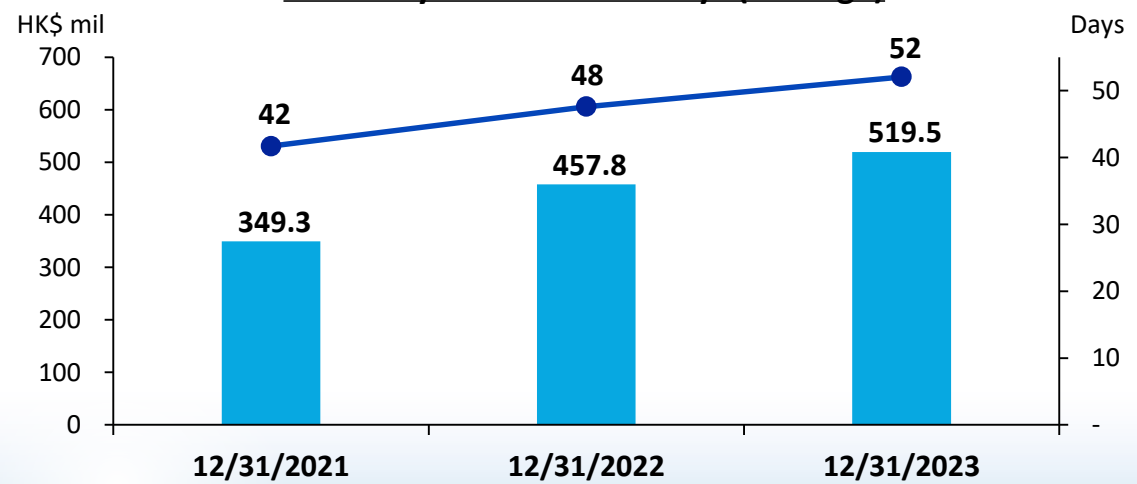
Inventory Turnover Days (Average)



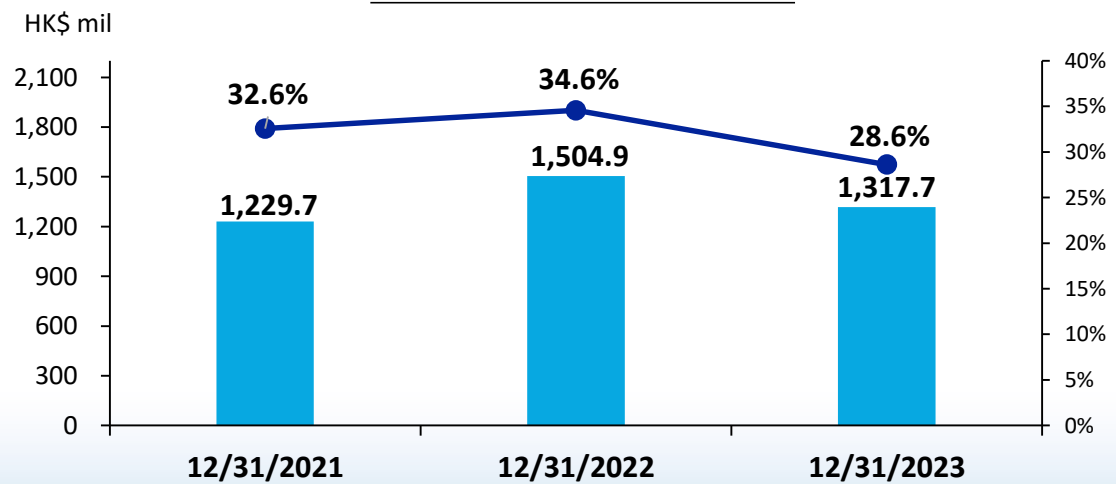
Trade and Bills Receivable Turnover Days (Average)



Trade Payable Turnover Days (Average)

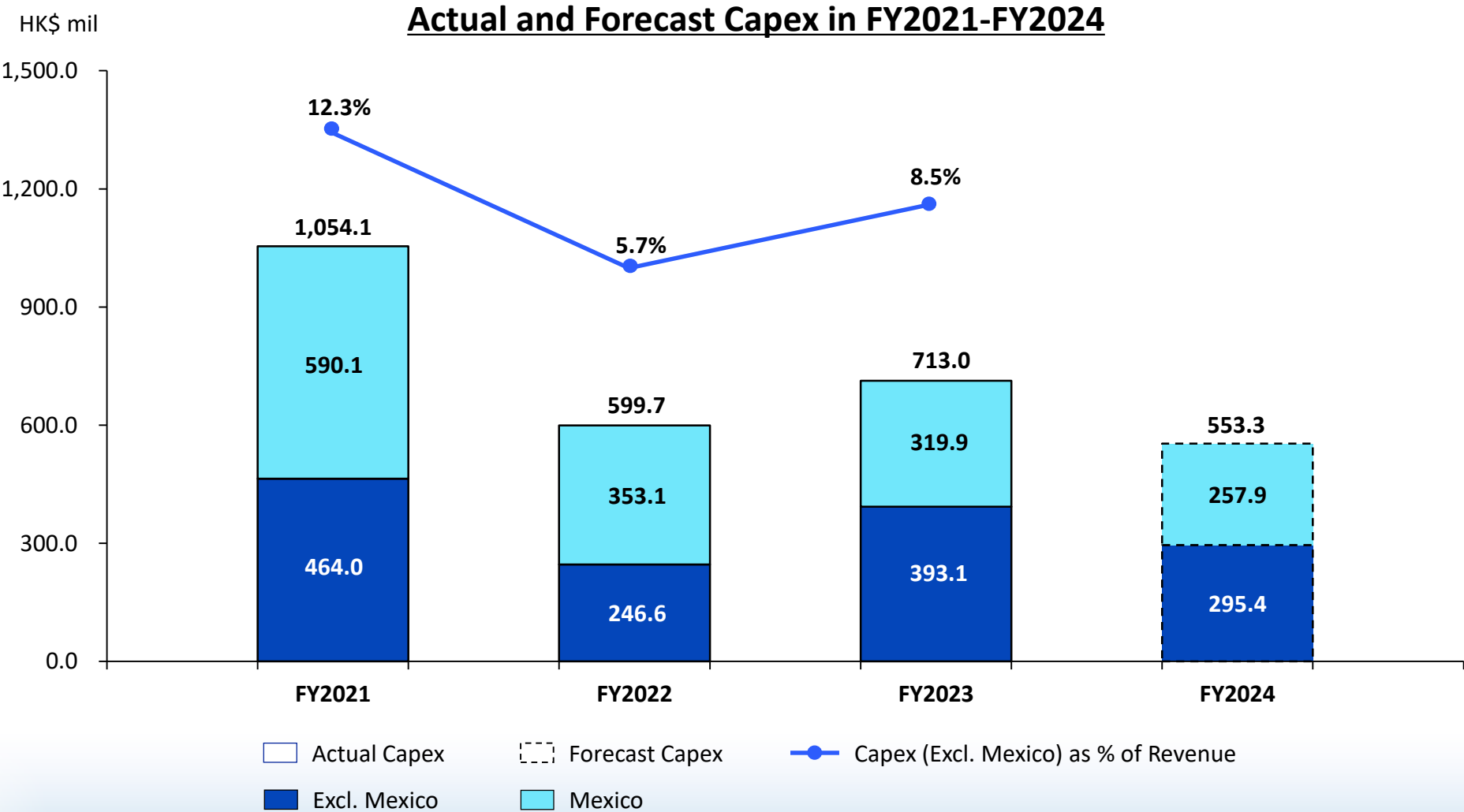


Total WC as a % of Revenue





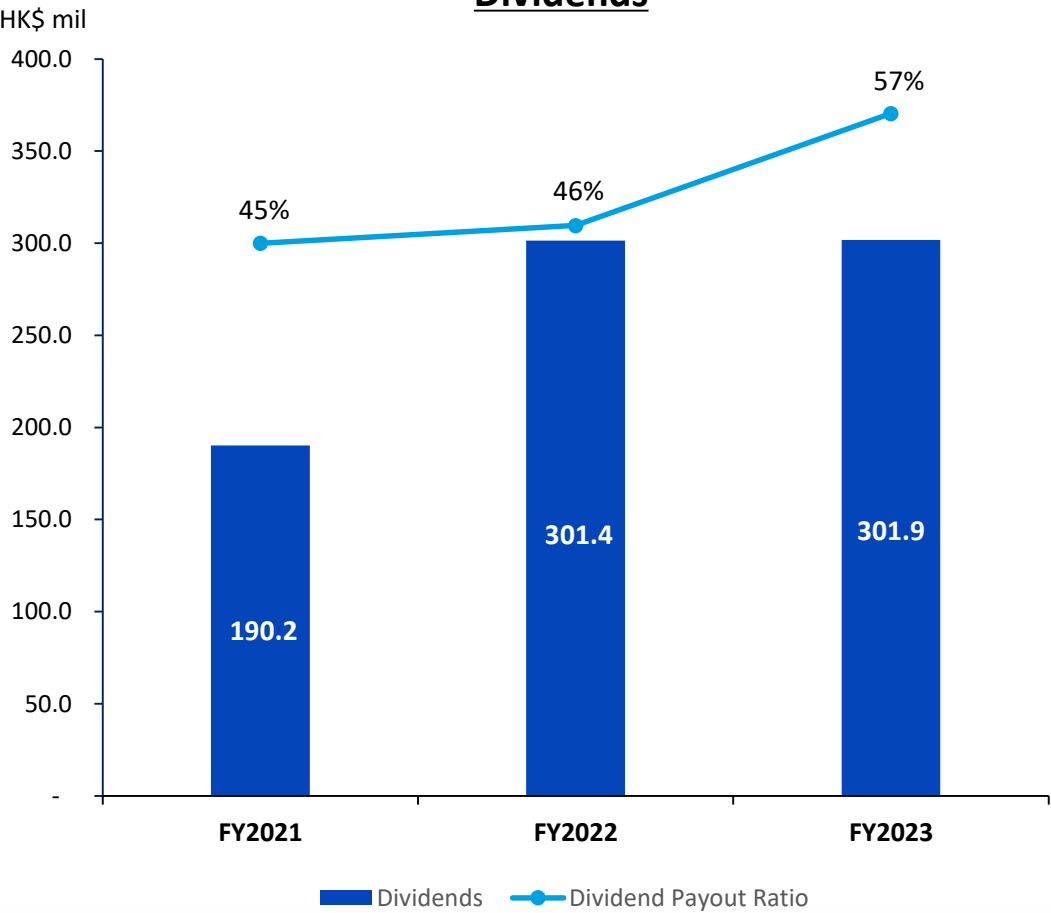
Capital Expenditure



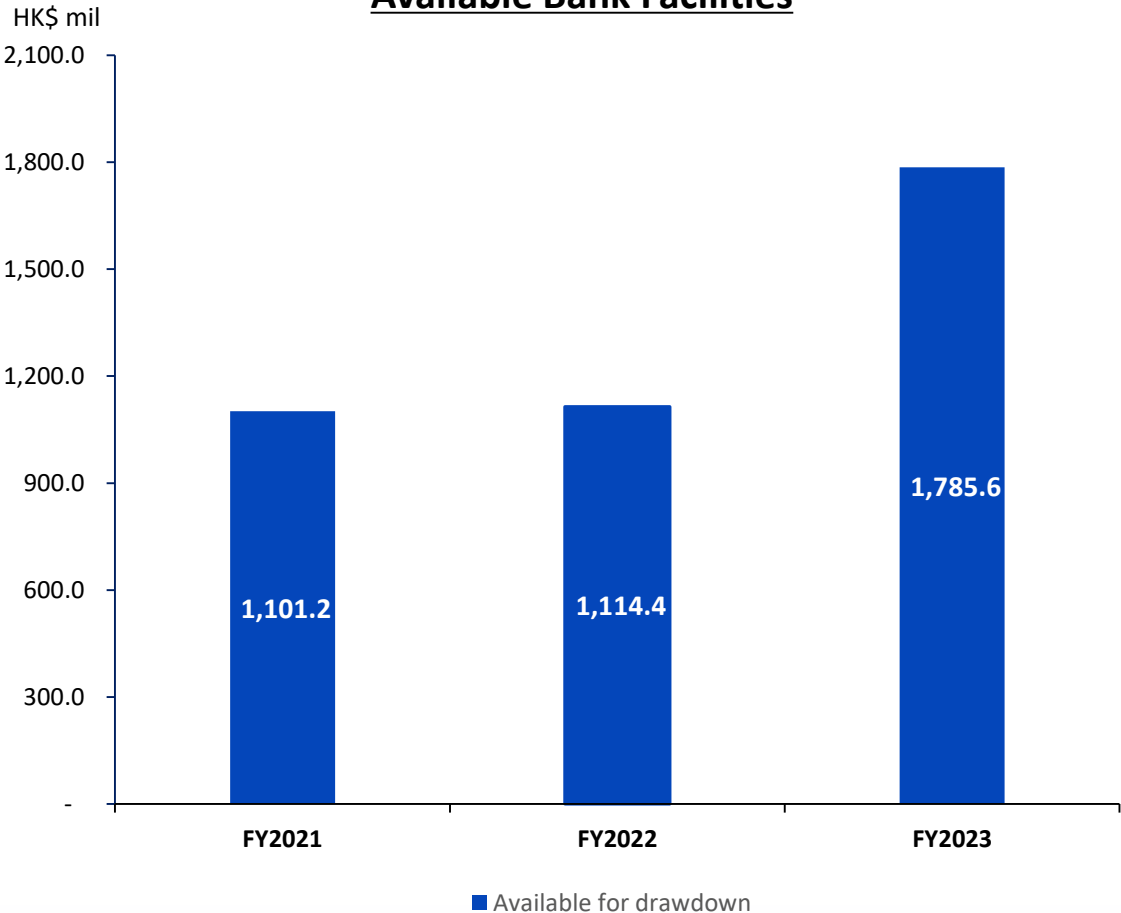


Dividends & Available Bank Facilities

Dividends



Available Bank Facilities

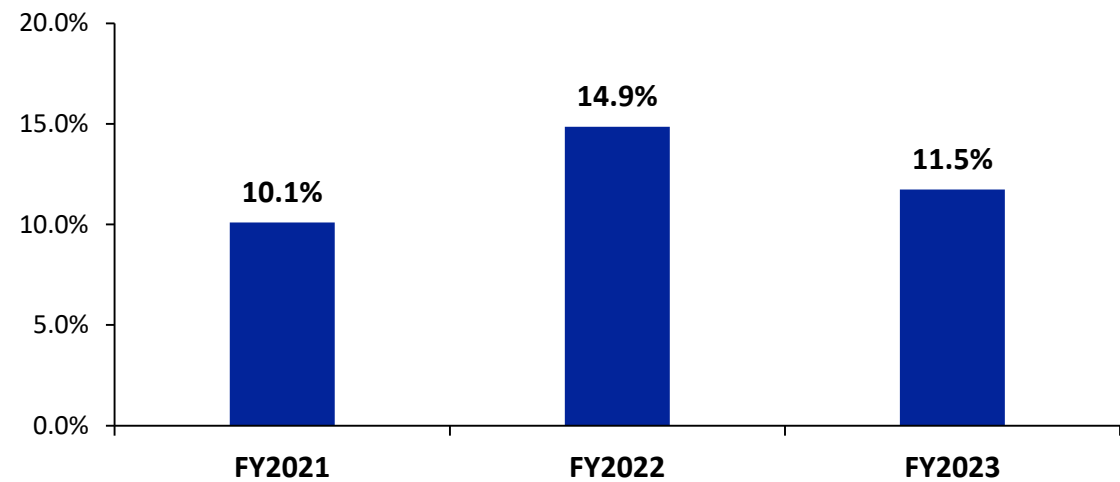


* Based on adjusted profit attributable to shareholders

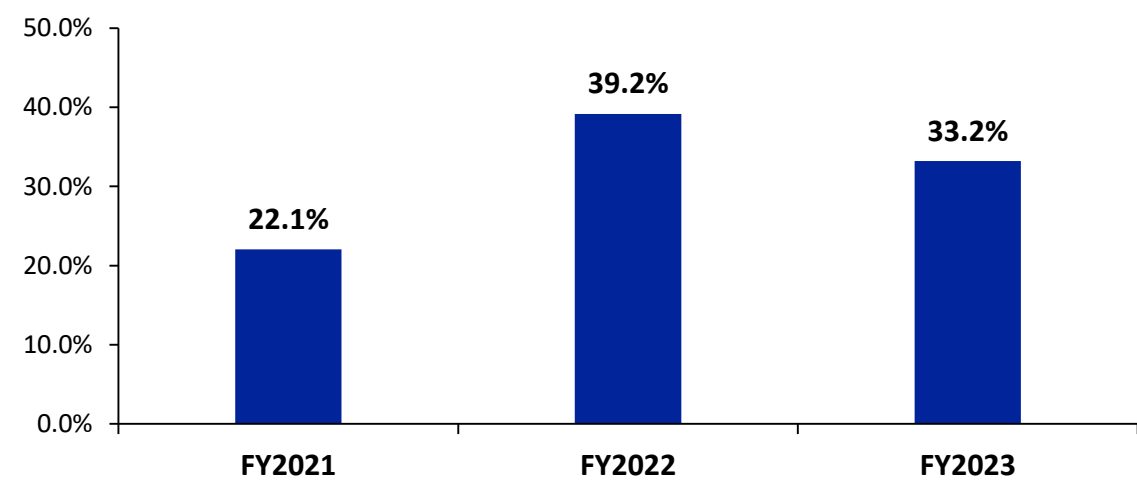


Key Financial Ratios

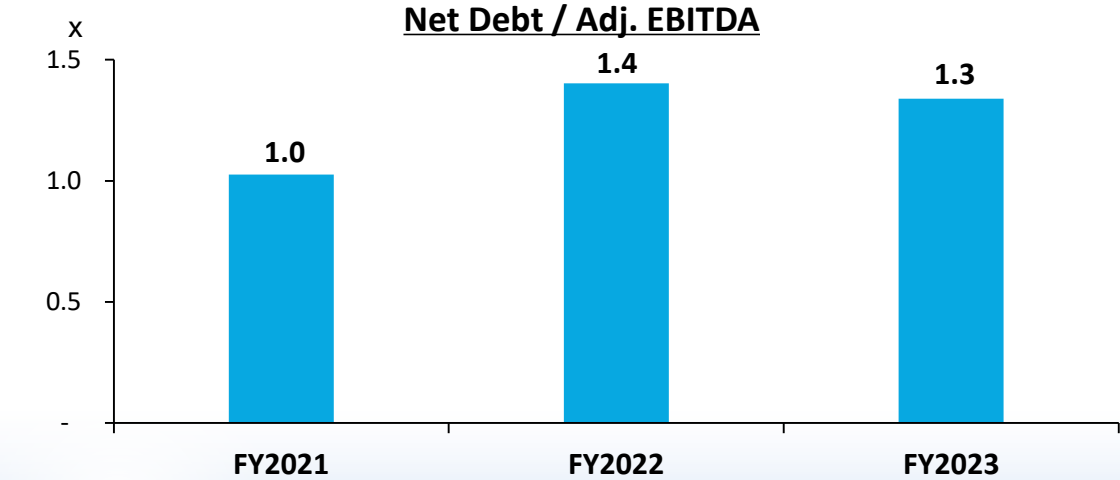
Adjusted Return on Shareholders' Equity



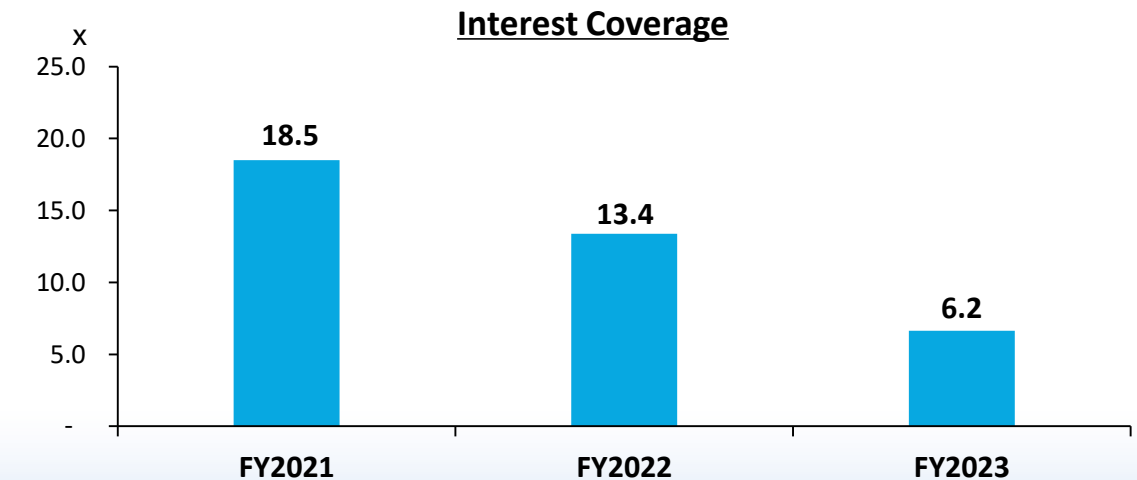
Net Gearing Ratio



Net Debt / Adj. EBITDA



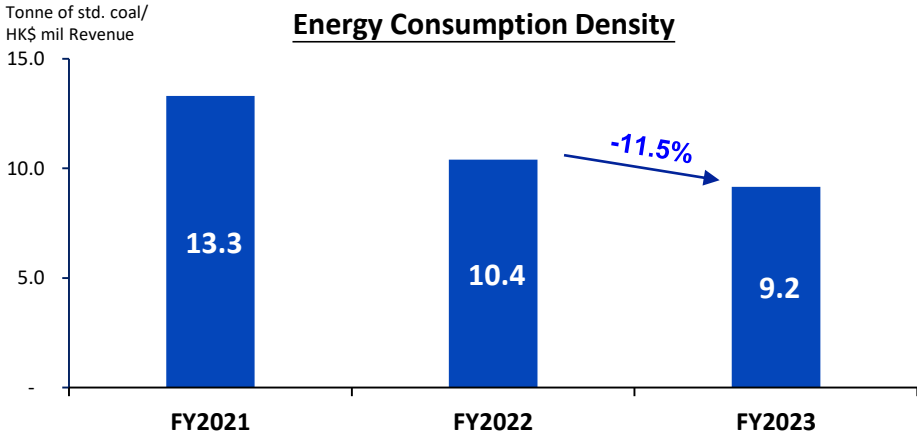
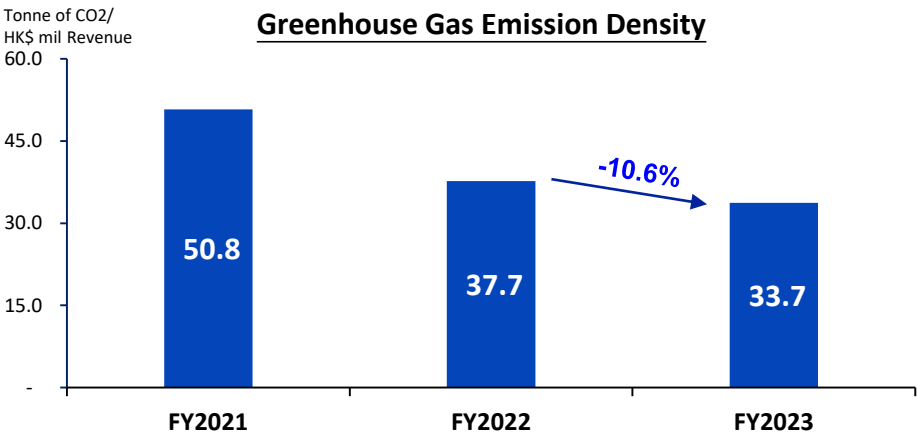
Interest Coverage





Sustainability Highlights

- Insist in low carbon emissions during manufacturing process, consistently reducing group’s carbon emissions and energy consumption density over the last 3 years



- Pledged to reduce 2030 greenhouse gas emission and energy consumption intensity by at least 30% and water intensity by 40% as compared to 2020; Cumulatively as of December 31, 2023, greenhouse gas emission, energy consumption intensity and water density have dropped by 41.1%, 32.4% and 57.9%, respectively;
- Awarded Bronze Medal by a global reputable sustainability rating agency EcoVadis again in January 2024, signifying the Group’s outstanding corporate social responsibility and sustainability achievements
- Earned “Excellent ESG Enterprise of 2022-2023” Award again from Hong Kong Economic Times
- China Plant 6 refurbished staff quarters and new Mexico SLP Village Phase 1 have completed in order to improve the living quality and happiness of employees



Impro

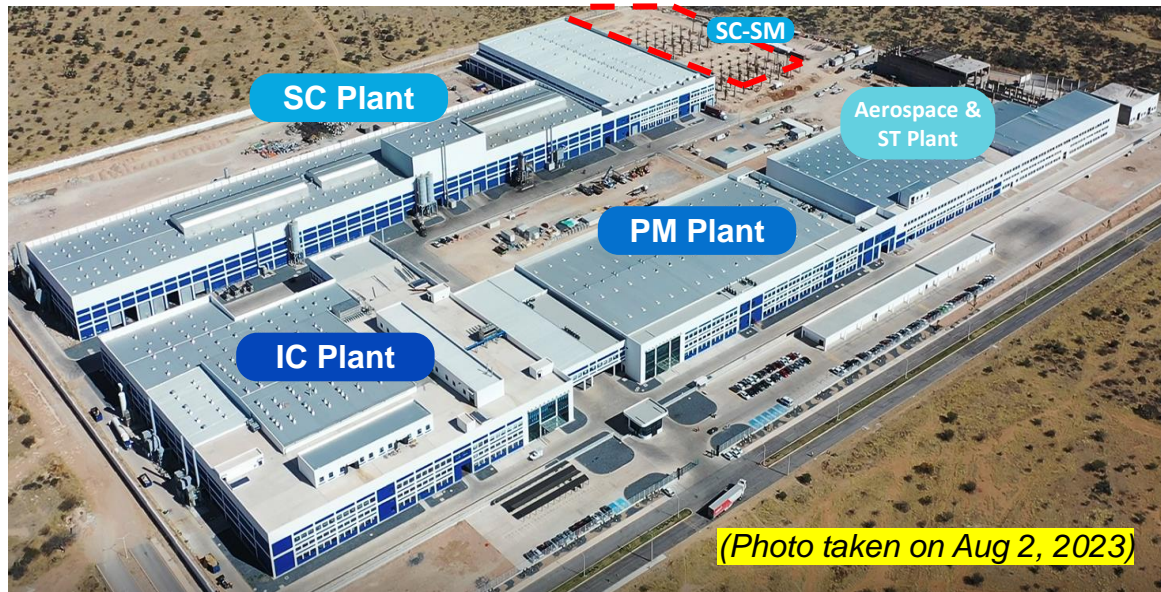
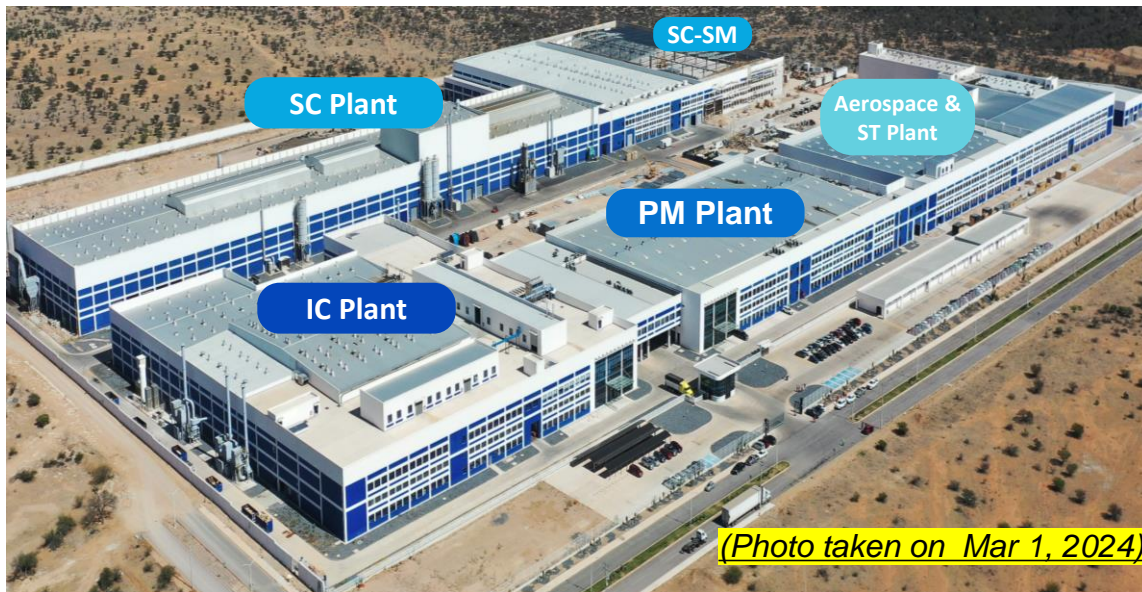


Business Outlook





Mexico SLP Campus Construction Update



- Mexico SLP Campus Precision Machining (PM), Sand Casting (SC) and Investment Casting (IC) plants are currently operating
- Remaining two plants, including Aerospace components and Surface Treatment (ST) plants are now expected to complete the installation of production lines and commence aerospace system certification and trial production in 2024
- In view of the significant future growth expectations of the Group's Mexico SLP campus, the Group will deploy the second phase plant construction in the Mexico SLP campus; 2024 capex budget for Mexico plants is approximately HK\$260 million
- Revenues from the Mexico SLP campus are expected to grow strongly in the coming years and operating results will improve as revenue increases



Business Outlook

- Global economy remains exposed to a number of uncertainties: high inflation, potential geopolitical conflicts and multilateral tensions that would dampen near term revenue growth rate
- The Group's "Global Footprint" and "Diversified End-markets" strategies will continue to diversify our business portfolio and reduce risk
- **Aerospace and energy end markets are expected maintain strong growth, and the medical end market has many new products in the development and certification stages**
- With the rapid development of artificial intelligence, the demand for artificial intelligence-related big data centers in the European and American markets has increased significantly, **which has led to a significant increase in demand for high horsepower engines, critical components for distributed power generators**
- **In the passenger car end market, we will continue to seize more markets and customer wallet shares with high-quality and cost-effective products.** In the commercial vehicle end market, there are a considerable number of new projects under development
- Despite the possibility of cyclical fluctuations and downward pressure in certain end-markets of the Group in 2024, considering the Group's total order on hand and future new project development, **the Company forecasts that the revenue growth will be approximately between 5% and 10% in 2024**
- Sound financial and cash flow position of the Group, and ~HK\$1.8B undrawn banking facilities will provide the Group with ample resources to continue executing "Twin Growth Engines" strategy prudently...

Impro



Q&A Session





Appendices – Financials Summary





Appendix 1 - Reconciliation of Adjusted Profit Attributable to Shareholders and Adjusted EBITDA

	FY2022 HK\$ mil	FY2023 HK\$ mil	Change
<u>Reconciliation to Adj. Profit Attr. to Shareholders</u>			
Profit after tax	582.8	586.8	
Adjustments (net of tax):			
- Recognition of deferred tax assets of a Turkish subsidiary in accordance with inflation accounting as prescribed by the Turkish Tax Procedure Code	-	(80.8)	
- Net impairment loss prov. of PPE & inv. re: Nantong fire incident	62.2	(14.6)	
- Amort'n and Dep'n related to past acq's PPA adj	18.0	36.2	
- Prov. for staff severance costs re: FSMD relocation	-	6.1	
- Gain on disposal of a Germany plant's property and machinery	(13.1)	-	
Adjusted NPAT	649.9	533.7	-17.9%
Less: Profit Attr. to non-controlling interest	(0.8)	(1.7)	
Adjusted Profit Attr. to Shareholders	649.1	532.0	-18.0%
<u>Reconciliation to Adj. EBITDA</u>			
EBITDA	1,165.5	1,224.9	
Adjustments:			
- Net impairment loss prov. of PPE & inv. re: Nantong fire incident	80.4	(17.2)	
- Prov. for staff severance costs re: FSMD relocation	-	7.2	
- Gain on disposal of a Germany plant's property and machinery	(18.3)	-	
Adjusted EBITDA	1,227.6	1,214.9	-1.0%
Adjusted EBITDA Margin	28.2%	26.4%	-1.8%



Appendix 2 – Consolidated Statement of Profit or Loss

	FY2022	FY2023
	HK\$ mil	HK\$ mil
Revenue	4,354.7	4,604.4
Cost of sales	(3,093.7)	(3,426.1)
Gross Profit	1,261.0	1,178.3
Other revenue	23.9	30.2
Other net (loss)/income	(24.6)	20.0
Selling and distribution expenses	(180.7)	(158.5)
Administrative and other operating expenses	(334.7)	(341.7)
Operating Profit	744.9	728.3
Net finance costs	(55.9)	(108.4)
Profit before taxation	689.0	619.9
Income tax	(106.2)	(33.1)
Profit for the year	582.8	586.8
Attributable to:		
Equity shareholders of the Company	582.0	585.1
Non-controlling interest	0.8	1.7
Profit for the year	582.8	586.8



Appendix 3 – Consolidated Statement of Financial Position

	12/31/2022	12/31/2023
	HK\$ mil	HK\$ mil
Non-current assets		
Property, plant and equipment	4,050.2	4,535.5
Prepayments for Property, plant and equipment	46.8	52.4
Intangible assets	248.4	214.8
Goodwill	230.8	227.5
Deferred expenses	163.2	161.1
Other financial assets	1.6	1.6
Deferred tax assets	69.3	121.3
	4,810.3	5,314.2
Current assets		
Inventories	1,152.1	961.2
Trade and bills receivables	1,091.2	1,081.4
Prepayments, deposits and other receivables	219.2	302.9
Taxation recoverable	6.9	10.3
Cash and cash equivalents	483.3	630.9
	2,952.7	2,986.7
TOTAL ASSETS	7,763.0	8,300.9



Appendix 3 – Consolidated Statement of Financial Position

	12/31/2022	12/31/2023
	HK\$ mil	HK\$ mil
Current liabilities		
Bank loans	942.4	1,028.6
Lease liabilities	14.4	7.7
Trade payables	457.8	519.5
Other payables and accruals	303.1	308.9
Taxation payable	94.5	59.6
	1,812.2	1,924.3
Net current assets	1,140.5	1,062.4
Total assets less current liabilities	5,950.8	6,376.6
Non-current liabilities		
Bank loans	1,244.2	1,211.9
Lease liabilities	4.9	9.6
Deferred income	129.4	135.1
Defined benefit retirement plans obligation	67.3	64.3
Deferred tax liabilities	107.0	54.8
	1,552.8	1,475.7
NET ASSETS	4,398.0	4,900.9



Appendix 3 – Consolidated Statement of Financial Position

	12/31/2022	12/31/2023
	HK\$ mil	HK\$ mil
Capital and reserves		
Share capital	188.5	188.7
Reserves	4,190.8	4,691.9
Total equity attributable to equity shareholders of the Company	4,379.3	4,880.6
Non-controlling interest	18.7	20.3
TOTAL EQUITY	4,398.0	4,900.9



Appendix 4 – Condensed Consolidated Cash Flow Statement

	FY2022	FY2023
	HK\$ mil	HK\$ mil
Operating activities		
Cash generated from operations	940.5	1,454.5
Tax paid	(103.0)	(173.1)
Net cash generated from operating activities	837.5	1,281.4
Investing activities		
Payment of property, plant and equipment	(634.9)	(711.4)
Proceeds from disposal of property, plant and equipment	38.0	6.6
Payment for deferred expenses	(76.1)	(76.0)
Interest received	4.5	7.9
Acquisitions of subsidiaries, net	(545.0)	-
Net cash used in investing activities	(1,213.5)	(772.9)



Appendix 4 – Condensed Consolidated Cash Flow Statement

	FY2022	FY2023
	HK\$ mil	HK\$ mil
Financing activities		
Proceeds from bank loans	1,626.6	1,295.0
Repayment of bank loans	(950.7)	(1,228.3)
Interest paid	(59.6)	(115.5)
Lease rentals paid	(9.4)	(15.7)
Proceeds from exercise of share options	3.0	6.5
Dividends paid to equity shareholders of the Company	(286.3)	(301.7)
Dividend paid to non-controlling interest	(3.8)	-
Net cash generated from/(used in) financing activities	319.8	(359.7)
(Decrease)/increase in cash and cash equivalents	(56.2)	148.8
Cash and cash equivalents at January 1	579.0	483.3
Effect of foreign exchange rate changes	(39.5)	(1.2)
Cash and cash equivalents at December 31	483.3	630.9

The background features a light blue geometric pattern of intersecting lines. Overlaid on this are several images: a large wireframe wing structure in the upper left, an offshore oil rig in the middle left, a white private jet on a tarmac in the lower left, a blue industrial engine component in the bottom center, and a blue sports car in the bottom right.

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