

Bittium

Bittium Corporation

Business Review

January-September 2023

Net sales

49.5 MEUR

Net sales growth

-9.7 %

Operating result

-5.3 MEUR

Operating result, % of net sales

-10.7 %

Business Review January-September 2023

Third Quarter Was Slightly Better Than Last Year, the Initiated Measures to Develop the Company Further Are Progressing

Unless otherwise mentioned, the figures in brackets refer to the corresponding period in the previous year.

Summary July-September 2023

- The net sales increased by 0.8 percent year-on-year to EUR 13.9 million (EUR 13.8 million).
- The share of product-based net sales was EUR 7.6 million (EUR 9.3 million), representing 54.9 percent of the net sales (67.3 percent). The share of Medical Technologies products was EUR 5.3 million (EUR 6.2 million) and the share of Defense & Security products was EUR 2.3 million (EUR 3.1 million).
- The share of services-based net sales was EUR 6.3 million (EUR 4.5 million), representing 45.1 percent of the net sales (32.7 percent). The share of Connectivity Solutions R&D services business was EUR 3.8 million (EUR 3.0 million).
- EBITDA was EUR 0.3 million (EUR 0.2 million).
- The operating result was EUR -2.1 million (EUR -2.4 million).
- Cash flow from operating activities was EUR 5.2 million (EUR 2.0 million).
- Net cash flow was EUR 2.9 million (EUR -0.3 million)

Summary January-September 2023

- The net sales declined by 9.7 percent year-on-year to EUR 49.5 million (EUR 54.8 million).
- The share of product-based net sales was EUR 29.0 million (EUR 36.5 million), representing 58.6 percent of the net sales (66.5 percent). The share of Medical Technologies products was EUR 16.4 million (EUR 17.4 million) and the share of Defense & Security products was EUR 12.6 million (EUR 19.0 million).
- The share of services-based net sales was EUR 20.5 million (EUR 18.4 million), representing 41.4 percent of the net sales (33.5 percent). The share of Connectivity Solutions R&D services business was EUR 12.7 million (EUR 11.0 million).
- EBITDA was EUR 1.9 million (EUR 5.2 million).
- The operating result was EUR -5.3 million (EUR -2.6 million).
- Cash flow from operating activities was EUR 0.6 million (EUR 8.0 million).
- Net cash flow was EUR -9.4 million (EUR -0.3 million).
- The order backlog was EUR 25.3 million (EUR 24.8 million).

Bittium's CEO Johan Westermarck

The net sales for the third quarter of the year increased slightly from the previous year and was EUR 13.9 million. The operating result also improved slightly but remained at EUR -2.1 million in loss. The development of the operating result was negatively affected by a lower sales

margin percentage than in the comparison period, but on the other hand, the company's fixed expenses remained lower compared to the previous year. The order backlog grew year-on-year and was EUR 25.3 million.

The product-based net sales decreased in the third quarter of the year by -17.8 percent year-on-year and was EUR 7.6 million. The decline in net sales was caused by lower sales of medical technology products and the cyclical nature of orders for tactical communication products as well as the timing of product deliveries. Service-based net sales increased by 39.2 percent year-on-year and was EUR 6.3 million.

The development in January-September was weak. Turnover decreased by 9.7 percent year-on-year and the operating result was EUR -5.3 million. In September, we lowered our financial outlook for the whole year. The main reason for the decrease in the net sales and the operating result was the delivery volumes of tactical communication products and security solutions, which were realized at a slower pace and lower volume than expected.

Despite the negative operating result, the operating cash flow for the third quarter was EUR 5.2 million positive resulting from the change in the net working capital, and the net cash flow was EUR 2.9 million. The operating cash flow for January-September was EUR 0.6 million, but after the items affecting the cash flow from investing and financing activities, the net cash flow resulted at EUR -9.4 million.

However, on a positive note for an otherwise challenging year, it would seem that the impact of the component shortage on our product deliveries is reducing, and in that respect the situation appears to be finally normalizing. However, we will continue to take measures to ensure the availability of components that are important to us in the future as well.

After the summer, we started taking measures to make our operations more efficient and improve our profitability. As part of these measures, we went through change negotiations with the personnel in our Finnish subsidiaries. As a result of the negotiations, we dismissed 61 employees and laid off 8 employees for the time being due to production, financial and operational restructuring reasons.

With the dismissals and layoffs, as well as with other cost-saving measures, we estimate that we will achieve a total of approximately EUR 6.0 million in annual savings, of which an estimated EUR 0.8 million will realize during the current year. In full, the annual cost savings are estimated to be achieved during the year 2024. As a result of the decisions and measures taken, we will record non-recurring costs resulting from the changes a total of EUR 0.7 million in the income statement for the fourth quarter of the current year.

We have continued the strategy work and seek a clear focus on business operations and sales, as well as review of the processes, operating methods, and cost structure. The change that is currently being implemented in the company's operational model is major and necessary to get the company on the profitable growth path. We are also reorganizing the organization into independent business units, which will bring decisions and operations closer to our customers, serving them even better. The change will also significantly streamline the company at the group-level.

There have also been changes in our group management team as Jari Sankala, the head of the Defense & Security business unit, decided to leave the company. Tommi Kangas, the head of the Connectivity Solutions business unit, took over the Defense & Security business unit for the time being, and Jari Inget, who has a long career at Bittium, was appointed to replace him as the head of the Connectivity Solutions business unit. In July, Bittium signed an agreement with Lieutenant General (EVP) Raimo Jyväsjärvi, according to which Jyväsjärvi started as an advisor to Bittium Corporation's Board of Directors, especially regarding the Defense & Security business.

The interest in Bittium's tactical communication solutions has continued to grow, and new customer pilots have started. Russia's war of aggression against Ukraine has increased the states' interest to modernize their tactical communication systems. Bittium is involved in several tenders, but the total duration of the tenders can be several years. We expect the results of the first tenders in the following months or in the first half of next year.

The deployment of Bittium Tough SDR™ radios by the Finnish Defense Forces has progressed according to plans, and preparations to promote the larger-scale deployment of the radios have continued well.

Product deliveries of tactical communications continued to our customers in Finland, Austria, and Estonia. The delivery volumes were somewhat lower compared to the corresponding time of the previous year. The Defense & Security product business is very cyclical in nature, and the accumulation of net sales can vary significantly between different quarters depending on the timing of deliveries. The demand for secure phones and software has been positively affected by numerous security attacks around the world, and we have continued product deliveries to our new customers, mainly in Europe. We expect the listing of the Bittium Tough Mobile™ 2 C solution, classified as Confidential, on the list of NATO-approved devices to take place within the current year.

In the medical technology market, demand for Bittium Faros™ ECG measuring devices continued to be good. Product deliveries of Bittium Respiro™ home sleep apnea test devices continued in Europe, and sales are expected to improve in the future and form one significant growth driver for the Medical Technologies business area. The medical device 510k clearance by the US Food and Drug Administration (FDA) for Respiro and its analysis software is progressing, and according to the information we have received, the estimate for obtaining

the permit in 2024 is still realistic. The authority's further interpretation of possible additional material needs may still affect the processing time of the application.

The demand for R&D services grew, with a particular emphasis on the Industrial IoT market, where the need for wireless connectivity and cloud services are increasing. New customers were won from, for example, the professional tool market and the chemical industry. Shifting the design and manufacturing focus of European companies to Europe has also influenced the growth in demand for Bittium's R&D services. However, it can already be seen that the market heading for recession affects the demand for R&D services as customers have to save on costs.

We will tell you more about the updated strategy in conjunction with the Capital Markets Day, which will be held on October 30, 2023. The organizational renewal will be completed by the end of the current year, and our goal is to start segment-based reporting following the new structure no later than the beginning of 2024. We are now going through a major change in the organization's operating methods and processes, as well as in developing the sales, and the full implementation of these will still take some time. Bittium has excellent products and market trends to support the achievement of future profitable growth goals.

Outlook for 2023

Market Outlook 2023

The global disruption in the availability of electronic components has had a slowing effect on the development of the company's business and sales in 2023. However, the markets are recovering, and the company estimates that the component shortage will ease during 2023.

About 70 percent of Bittium's net sales in total are generated from products and related systems, and the uncertainties related to product deliveries have caused significant uncertainty for the accumulation of Bittium's net sales and operating result during the year 2023.

More information about Bittium's market outlook is presented on the company's internet pages at www.bittium.com.

Financial Outlook 2023 (unchanged, updated on September 15, 2023)

Bittium expects the net sales in 2023 to be at the same level or lower than in the previous year (EUR 82.5 million in 2022) and the operating result to be lower than in the previous year (EUR 0.3 million in 2022). Cash flow in 2023 is expected to be negative.

Long-term Financial Targets (unchanged)

Bittium aims for an average annual net sales growth of more than 10 percent and an operating profit level of 10 percent and estimates that it will achieve these goals in 2024.

Risks and Uncertainties

Bittium has identified several business, market, and finance-related risk factors and uncertainties that can affect the level of sales and profits.

Russia's war of aggression against Ukraine and the subsequent global geopolitical instability combined with high inflation, supply chain challenges, and European energy market problems have caused various supply and demand-related risks and increased uncertainty.

The global disruption in the availability of electronic components and their price development has caused fast changes in the company's operating environment, however, the situation has improved significantly. The company monitors the development of the situation and actively strives to ensure the availability of components required for product deliveries.

More information about risks and uncertainties can be found on the company's internet pages at www.bittium.com.

Key Figures

GROUP (MEUR)	7-9/2023 3 months	7-9/2022 3 months	1-9/2023 9 months	1-9/2022 9 months
NET SALES	13.9	13.8	49.5	54.8
Change of the net sales, %	0.8 %	-19.4 %	-9.7 %	-3.5 %
EBITDA	0.3	0.2	1.9	5.2
EBITDA, % of net sales	2.0 %	1.2 %	3.8 %	9.5 %
OPERATING PROFIT / LOSS	-2.1	-2.4	-5.3	-2.6
Operating profit / loss, % of net sales	-14.9 %	-17.2 %	-10.7 %	-4.8 %
RESULT OF THE PERIOD FROM CONTINUING OPERATIONS	-2.4	-2.6	-6.0	-3.2
EARNINGS PER SHARE (EUR)	-0.066	-0.073	-0.168	-0.091
TOTAL R&D INVESTMENTS	3.9	4.9	15.1	16.1
R&D INVESTMENTS, % FROM NET SALES	27.9 %	35.8 %	30.4 %	29.3 %
CAPITALIZED R&D INVESTMENTS	1.4	1.8	5.7	4.8
NET CASH FROM OPERATING ACTIVITIES	5.2	2.0	0.6	8.0
NET CASH FROM INVESTING ACTIVITIES	-1.4	-2.0	-6.1	-5.7
NET CASH FROM FINANCING ACTIVITIES	-0.9	-0.4	-3.8	-2.6
NET CHANGE IN CASH AND CASH EQUIVALENTS	2.9	-0.3	-9.4	-0.3
CASH AND OTHER LIQUID ASSETS	9.7	21.7	9.7	21.7
NET GEARING (%)	12.2 %	0.5 %	12.2 %	0.5 %
EQUITY RATIO (%)	71.0 %	71.8 %	71.0 %	71.8 %
AVERAGE PERSONNEL DURING THE PERIOD	609	639	611	645
PERSONNEL AT THE END OF THE PERIOD	604	633	604	633

Events after the Review Period

On October 9, 2023, Bittium concluded the change negotiations started on August 23, 2023. The change negotiations were initiated as part of measures to improve company's profitability and to develop company's operations towards independent business units. The change negotiations concerned all Bittium Corporation's subsidiaries in Finland, and the negotiations covered around 600 employees. At the start of the negotiations, the company estimated that the planned measures, if implemented, could lead to a termination of employments or lay-offs of a maximum of 80 employees. As a result of the negotiations, 61 employees were dismissed, and 8 employees were temporarily laid off due to the financial and production-related reasons as well as for reasons related to the reorganization of the company's operations.

With the dismissals and layoffs, and other cost saving measures disclosed on August 23, 2023, Bittium estimates to achieve approximately EUR 6.0 million annual cost savings, from which EUR 0.8 million will realize during 2023. The company estimates to achieve the annual cost savings of EUR 6.0 million in 2024 in full. Caused by the changes resulting from the decisions and measures, the company will record non-recurring costs a total of EUR 0.7 million in its income statement in the fourth quarter of 2023.

Oulu, October 20, 2023

Bittium Corporation
The Board of Directors

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Nasdaq Helsinki
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About Bittium

Bittium specializes in the development of reliable, secure communications and connectivity solutions leveraging its over 35-year legacy of expertise in advanced radio communication technologies. Bittium provides innovative products and services, customized solutions based on its product platforms and R&D services. Complementing its communications and connectivity solutions, Bittium offers proven information security solutions for mobile devices and portable computers. Bittium also provides healthcare technology products and services for biosignal measuring in the areas of cardiology and neurophysiology. Net sales in 2022 were EUR 82.5 million and operating profit was EUR 0.3 million. Bittium is listed on Nasdaq Helsinki. www.bittium.com