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News Release

Nanofilm records fall in 1H2023 revenue to S$73.2 million due to seasonality and a soft consumer electronics market

- **Group EBITDA and operating cash flows remained positive at S$10.4 million and S$30.0 million respectively, despite challenging market backdrop during the first half**
- **Net PATMI loss of S$7.6 million primarily due to lower sales, as well as continued incurrence of expenses related to strategic initiatives to drive future growth**
- **A potential rebound in consumer demand with ongoing cost-cutting measures is expected to benefit Nanofilm in 2H2023**
- **Nanofilm remains the provider of choice with potential new revenue opportunities from 2024 with expanded customer product pipelines and new segments in consumer, industrial and new energy**
- **Group remains focused on longer-term objectives including strategic expansion, market diversification and investment in R&D to unlock greater opportunities and grow revenues**
- **Group is proposing an interim dividend of 0.33 Singapore cents per ordinary share**

SINGAPORE, 10 August 2023 – Mainboard-listed Nanofilm Technologies International Limited (the "**Company**" or "**纳峰科技有限公司**" and together with its subsidiaries, "**Nanofilm**" or the "**Group**"), a leading provider of nanotechnology solutions, today released its financial results for the six months ended 30 June 2023 ("**1H2023**").

1H2023 in Review

The Group's revenue in 1H2023 decreased by 34.4% year-on-year ("**YoY**") to S$73.2 million from S$111.3 million for the six months ended 30 June 2022 ("**1H2022**") whilst the Company's adjusted EBITDA decreased by 72.4% YoY to S$10.4 million. PATMI[1] fell by 140.7% to a net loss of S$7.6 million. As of 30

[1] Profit after tax and minority interest

June 2023, the Company had a total cash balance[2] of S$127.4 million. The Company proposes an interim dividend of 0.33 Singapore cents per ordinary share in view of its 1H2023 performance and full year outlook.

Commenting on the 1H2023 results, Mr Gary Ho (“何福荣”), Group CEO, said: *“1H2023 was a challenging operating period for us due to a number of factors including softer end-consumer demand, particularly in our 3C segment, and the slower-than-expected post-reopening recovery of China. Despite this, we maintained positive EBITDA and operating cash flows, and are fully focused on improving the Group’s performance by pursuing opportunities to expand our product offering and diversifying our customer base. We have taken the necessary steps to optimise operational efficiency and cost management throughout the Group in order to strengthen the foundation for future growth. We are seeing signs of a consumer recovery in the early part of 2H2023, and remain cautiously optimistic on the outlook for the rest of the year. We will continue to leverage our technological and innovative edge and leading market position to capture future revenues and growth as market conditions improve.”*

GROUP FINANCIAL HIGHLIGHTS			
S$ million	**1H2023**	**1H2022**	**Change**
Revenue	73.2	111.3	(34.4%)
Gross Profit	23.4	50.0	(53.1)
Gross Profit Margin	*32.0*	*44.9*	*(12.9 percentage pts)*
Adjusted EBITDA[3]	10.4	37.6	(72.4%)
Profit After Tax (“PAT”)	-7.9	18.2	(143.2%)
PAT attributable to equity holders (“PATMI”)	(7.6)	18.8	(140.7%)

[2] Includes cash and liquid assets as at 30 June 2023
[3] Adjusted EBITDA is net profit before interest, tax, depreciation and amortisation excluding non-recurring expenses such as PPE gains / losses, other professional fees, Restricted Share Plan-related expenses, and COVID-19 related expenses.

As stated in the Company's profit guidance announcement on 10 July 2023, the decrease in revenue and net loss for 1H2023 was mainly due to weaker demand in the consumer electronics market as well as investments in long-term business initiatives to drive future growth. End-consumer sentiment was affected by inflationary pressures, higher interest rates and ongoing geopolitical tensions which led to reduced consumer discretionary spending that affected demand. This was coupled with a softer than anticipated post-reopening recovery in China in 1H2023.

The softening demand which led to inventory wind-downs, significantly impacted the Group's Advanced Material Business Unit ("**AMBU**"), in particular its Computer, Communication and Consumer ("**3C**") segment, and its Nanofabrication Business Unit ("**NFBU**"). Overall cautious market sentiment also led to a tightening of customers' capital expenditure, which impacted the Group's Industrial Equipment Business Unit ("**IEBU**").

Updates on Business Units

REVENUE BREAKDOWN BY BUSINESS UNIT			
S$ million	**1H2023**	**1H2022**	**Change**
Advanced Materials Business Unit ("AMBU")	59.3	84.5	(29.9%)
Industrial Equipment Business Unit ("IEBU")	8.9	19.5	(54.5%)
Nanofabrication Business United ("NFBU")	4.7	7.3	(36.2%)
Sydrogen Energy ("Sydrogen")	0.4	0.02	n.m.
Total	**73.2**	**111.3**	**(34.4%)**

<u>Advanced Materials Business Unit ("AMBU")</u>

AMBU revenue in 1H2023 was S$59.3 million, a 29.9% decrease from S$84.5 million in 1H2022, and this was attributable to lower revenue contributions from the 3C sub-segments[4]. AMBU's adjusted EBITDA for

[4] Comprising Communication, Wearables & Accessories, and Computer

1H2023 was S$8.8 million, a 69.4% decrease from S$28.8 million in 1H2022, mainly due to the lower sales in 3C sub-segments.

The 3C sub-segments saw a 42% drop YoY mainly due to a softer consumer electronics market which resulted in inventory reduction in the supply chain. This was further compounded by a comparatively strong 1H2022 that was lifted by the prior year's spillover production and a weaker foreign exchange translation of RMB to SGD.

However, the Group's efforts to grow its industrial sub-segments, namely Precision Engineering and Printing and Imaging sub-segments, are showing progress. The industrial sub-segments recognised a 15% YoY growth, led by rebound in printing & imaging and increasing commercial adoption of precision engineering applications. The automotive segment also recovered with 25% YoY growth led by a rebound in the commercial vehicle market.

Nanofabrication Business Unit ("NFBU")

The 1H2023 revenue from NFBU was S$4.7 million, a decrease of 36.2% from S$7.3 million in 1H2022, similarly due to lower sales in the consumer electronics sector. NFBU's adjusted EBITDA for 1H2023 was a loss of S$50,000, from a profit of S$2.8 million in 1H2022, mainly due to the lower sales and increase in operating expenses. The soft consumer electronics demand led to a push back in the production ramp up of NFBU's Micro Lens Array wearable components as the supply chain reduced its inventory.

Industrial Equipment Business Unit ("IEBU")

IEBU's revenue for 1H2023 was S$8.9 million, a decrease of 54.5% from S$19.5 million in 1H2022, due to lower sales of industrial equipment to third party customers. This also led to IEBU's adjusted EBITDA for 1H2023 to decrease 68.5% to S$2.2 million from S$7.1 million in 1H2022. In 1H2023, IEBU mainly executed previous orders from last year's order book that was soft as customers tightened their capital expenditure spending.

Sydrogen Energy ("Sydrogen")

In contrast, the revenue from Sydrogen for 1H2023 revenue was S$0.4 million, which is an increase of 2,443.5% from S$15,000 in 1H2022, primarily due to its low base and a production ramp-up from new projects. Sydrogen's adjusted EBITDA for 1H2023 was a loss of S$0.6 million, a 45.8% improvement from a loss of S$1.1 million in 1H2022, mainly due to production ramp-up from new projects and decrease in operating expenses. Sydrogen has been successfully qualified as a preferred supplier for leading automotive makers, but volumes currently are not meaningful due to a slowdown in the Chinese market. Sydrogen is also seeing encouraging developments from other bi-polar plates customers which are going through qualification, batch samples or small batch production.

Ongoing Optimisation of Operations

Operating expenditure[5] in 1H2023 compared to the six months ended 31 December 2022 ("**2H2022**") has declined 17.1%, due to on-going cost reduction efforts. However, cost savings as a percentage of revenue are higher due to lower revenue base.

1H2023 total R&D and Engineering expenses, after capitalisation of eligible expenses, as a percentage of sales increased to 8.7% from 7.8% in 1H2022 due to a lower revenue base as well as higher capitalised expenses. The higher capitalisation of eligible R&D and Engineering expenses reflect the higher quality R&D and Engineering activities that are closer to achieving commercial benefits. The Group, as a deep-tech material science company, views R&D and engineering investments as essential to maintain its lead in technology and innovation to promote long-term sustainable growth. The focus of research includes expansion of advanced materials coating kinds, product development in fuel cell applications and new advanced nanocomposite materials.

[5] Includes expenditure related to Administration, Engineering, Research & Development, Sales & Distribution

Overall, the Group's 1H2023 EBITDA and operating cash flows were positive, with a net loss being incurred mainly due to higher depreciation and fixed non-cash expenses attributed to capacity expansion. The Group's investments in long-term business initiatives to drive future growth have increased operating expenses and these include costs related to new facility set-ups in Zigong and Huizhou, China, ongoing business-building expenses related to Sydrogen, as well as capital investments in new production facilities such as in Vietnam.

Business Outlook

The operating environment has remained challenging, with softer demand for consumer electronics exacerbated by the macroeconomic environment, inflationary pressures and geopolitical tensions. This has also weighed on the Group's customers, particularly IEBU customers who remain tight on capital expenditure. However, the 3C consumer business (AMBU and NFBU) inventory rebalancing is improving. Demand and production volume for the peak season in 2H2023 will be predicated on end-consumer interest in upcoming new product launches.

A combination of increased manpower and higher depreciation expenses[6] has led to elevated costs in the second half of 2022 but the Group has sought to optimise its cost structure with the lower revenue in 1H2023, by instituting strict cost controls while remaining focused on maintaining operational efficiency and effectiveness. These have included cost reduction measures in manpower, overheads, and other operating expenses in areas involving streamlining business processes, which are expected to be realised in 2H2023. These cost management measures, while on-going, will have to be balanced against the costs to be incurred for 2H2023 peak production requirements and new business initiatives.

Environmental, Social and Governance ("**ESG**") factors are important considerations for Nanofilm as the Group continues to explore green sustainable initiatives for its businesses and takes proactive steps towards its sustainability targets. The Group's green plating solution which is commercialised by its joint venture ApexTech for busbars and interconnects into the EV sector is one such example. The green plating solution helps alleviate the environmental impacts of electroplating and the increased costs from new

[6] Includes land, building and equipment

environmental policies being instituted. Nanofilm has also achieved full renewable energy usage for its plants in Shanghai. Solar panels cover a combined 19,000 m^2 of rooftop at its Shanghai Plant 1 and 2 and both plants have also successfully converted to 100% hydroelectricity use from January 2023.

Nanofilm remains fully focused on delivering its long-term growth through the execution of its market expansion strategy to countries like Vietnam, India, and Europe. This will focus on the three key end-markets of Consumer, Industrial, and New Energy and will be driven through multiple business models such as Equipment Sale, Coating as a Service, Components Production, and Value Chain Integration.

To ensure that Nanofilm is best positioned to deliver on this growth strategy, it will require ongoing investment into the business. This will be achieved through investing in R&D and Engineering to maintain the Group's technological and innovation edge, including the Advanced Technology Research Centre in Singapore; as well as into geographical and customer diversification.

Looking ahead to the second half of the year, business climate remains uncertain and challenging, particularly on IEBU business where customers remain tight on capex spending / investments. While 3C consumer business (AMBU and NFBU) inventory rebalancing is improving and peak seasonality production is expected, demand and production volume for 2H peak season will be predicated on end-consumer interests for the upcoming new product launches. The on-going cost improvement measures will not be applied indiscriminately. Rather, the measures will be balanced against 2H peak production requirements and new businesses initiatives. The Group anticipates strong operating leverage when the markets recover and the production volume returns.

Looking ahead to 2H2023, barring any unforeseen circumstances, revenue is expected to be higher than 1H2023, driven by seasonality peak production for the consumer segment. However, 2H2023 will not be comparable to 2H2022 due to the uncertain macro environment. The full-year profitability of the Group is subject to the level of demand from end-consumers in the upcoming new 3C product launches and customers' capital expenditures not being further tightened. The Group will continue to focus on executing pipeline contracts and lean cost management.

Despite the ongoing challenges around consumer demand, the mid to long-term prospects for the Group remains strong, especially as the choice solution provider with deeper penetration and geographical strategic sites coverage of 3C supply chain and its world leading customers' new product range; new segments such as green plating applications including EV battery connectors in New Energy[7] end-market and functional coating applications in Industrial end-market are expected to provide new revenue streams from FY2024 onwards.

END.

Note: This news release is to be read in conjunction with the SGXNet announcement released on the same day.

[7] With respect to green plating applications on EV connectors

About Nanofilm Technologies International Limited (MZH / NANO.SI)

Listed on the Mainboard of Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 30 October 2020, Nanofilm Technologies International Limited ("**Nanofilm**") is a leading provider of nanotechnology solutions in Asia, leveraging its proprietary technologies, core competencies in R&D, engineering and production, to provide technology-based solutions across a wide range of industries. Nanofilm's solutions serve as key catalysts in enabling its customers to achieve high value-add advancements in their end-products in an environmentally sustainable manner. Nanofilm is a constituent of the FTSE ST All-Share Index, FTSE ST China Index, FTSE ST Large & Mid Cap Index, FTSE ST Mid Cap Index, MSCI ACWI Small Cap Index, MSCI Singapore Small Cap Index, and the MSCI World Small Cap Index.

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