

Bittium

Bittium Corporation

Business Review

January-September 2022

Net sales

54.8

MEUR

Net sales growth

-3.5 %

Operating result

-2.6

MEUR

Operating result, % of net sales

-4.8 %

Business Review January-September 2022

Strategy Implementation is Proceeding Strongly, Third Quarter Was Weak as Expected

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

Summary July-September 2022

- The net sales declined by 19.4 percent year-on-year to EUR 13.8 million (EUR 17.1 million).
- The share of product-based net sales was EUR 9.3 million (EUR 12.2 million), representing 67.3 percent of the net sales. The share of Medical Technologies products was EUR 6.2 million (EUR 6.9 million) and the share of Defense & Security products was EUR 3.1 million (EUR 5.3 million).
- The share of services-based net sales was EUR 4.5 million (EUR 5.0 million), representing 32.7 percent of the net sales. The share of Connectivity Solutions R&D services business was EUR 3.0 million (EUR 3.1 million).
- EBITDA was EUR 0.2 million (EUR 2.9 million).
- The operating result was EUR -2.4 million (EUR 0.2 million).

Summary January-September 2022

- The net sales declined by 3.5 percent year-on-year to EUR 54.8 million (EUR 56.8 million).
- The share of product-based net sales was EUR 36.5 million (EUR 40.1 million), representing 66.5 percent of the net sales. The share of Medical Technologies products was EUR 17.4 million (EUR 20.3 million) and the share of Defense & Security products was EUR 19.0 million (EUR 19.7 million).
- The share of services-based net sales was EUR 18.4 million (EUR 16.8 million), representing 33.5 percent of the net sales. The share of Connectivity Solutions R&D services business was EUR 11.0 million (EUR 11.0 million).
- EBITDA was EUR 5.2 million (EUR 7.1 million).
- The operating result was EUR -2.6 million (EUR -0.5 million).
- The order backlog was EUR 24.8 million (EUR 29.5 million on December 31, 2021).

Bittium's CEO Hannu Huttunen

The third quarter of the year was, as expected, weak. The net sales decreased year-on-year and were EUR 13.8 million. Due to the global component shortage, net sales and the operating result remained exceptionally low due to the postponement of several product deliveries. In addition, no large orders, or deliveries were realized during the third quarter. Product sales in the third quarter consisted largely of sales of Bittium Faros™ ECG devices that measure the electrical activity of the heart. The component shortage affected the sales of Medical Technologies products and especially of tactical communication systems and products. Sales of R&D services remained at the same level as during the corresponding period last year. The third quarter operating result was negative.

The net sales for January-September 2022 decreased by 3.5 percent from the previous year, and the operating result was negative caused by the weak third quarter. The order backlog decreased from the level at the turn of the year and was EUR 24.8 million. However, the order intake is expected to improve towards the end of the year.

The war in Ukraine and the sanctions against Russia have not had a direct financial impact on Bittium's business. Bittium has no business in Russia, Ukraine, or Belarus. In order to ease our situation caused by the disruption of component availability, we have extended the outlook of material procurement and ordered critical components to ensure deliveries in 2023 and 2024. In addition, we have made changes to the products that enable the use of alternative components in our products.

In the Defense & Security business area, we continued to deliver tactical communication products to the Finnish Defence Forces. Field testing of Bittium Tough SDR™ radios continued as planned. Preparations for the large-scale implementation of radios together with the Finnish Defense Forces proceeded as planned. During the third quarter, together with the Finnish Defense Forces, Bittium has been preparing new product orders and defining future product development service projects.

We have progressed well towards our strategic goal of growing our international business. We continued deliveries of tactical communication system products as well as integration and testing to our customers in Austria and Estonia. After the coronavirus pandemic eased, several countries have restarted tactical communication modernization projects. Russia's war of aggression against Ukraine has also increased defense budgets and had a favorable effect on demand in the defense market. As in the first phase the defense spendings have been allocated primarily to consumable items, budget increases did not yet result in an increase in the demand for our products. However, it is expected that future budget increases will be also allocated to modernizing and developing national defense forces in different countries.

Finland's possible NATO membership will also have a positive effect on the demand for our products for the defense and authorities' markets. We have started pilots of the tactical communication systems (Bittium Tactical Wireless IP Network™) and Bittium Tough SDR™ radios in several countries. We are waiting for results from them as the evaluation and procurement processes progress. Delivering tactical communication solutions to international companies developing air defense and sensor systems is a new and promising market area for us.

The demand for Bittium Tough Mobile™ 2 smartphones and related information security software in the authorities' market has increased with the Russian war of aggression and numerous data security attacks. We continued deliveries of different variants of the Bittium Tough Mobile 2 smartphone to the domestic and international markets and started several new international pilot and testing projects. We have further developed the features of the Tough Mobile 2 smartphone and related security software, and we are aiming for international security approvals for our solution.

In the third quarter, demand for Bittium Faros™ ECG measuring devices increased, but component shortages affected our ability to deliver products. Challenges in delivery capacity also affect our ability to accept new orders. The reason behind this is the existing contracts with our largest customers, according to which we are obliged to deliver the ordered products within a certain time frame.

The MDR (Medical Device Regulation) European medical device approval of the Bittium Respiro™ sleep apnea measuring device has progressed and the device received the approval in August. In order to start actual sales, we still need the approval for the device's analysis software, which we expect to receive by the end of the year. We have continued introducing Respiro to the market, and the reception has been very positive. Respiro's FDA (Food and Drug Administration) medical device approval for the North American market has progressed, and approval is expected around the turn of the year when the first product deliveries to customers in the American market can begin.

The demand for R&D services remained at the same level compared to the previous year. There was demand, especially in the industrial, telecom, and medical technology markets, where companies seek wireless connectivity for their products. The goal of the Connectivity Solutions business is to increase the number of customers, especially in the industrial and medical technology markets.

The availability of workforce in the labor market is still challenging, and the situation is not expected to change in the near future. During the past year, we have invested in building an employer image, which has helped us in attracting new employees.

Despite the delivery difficulties caused by the component shortage, the demand for our products is still good, and we have progressed towards our strategic goals in all our business areas. We are continuing our efforts to acquire the components needed for product deliveries and we believe that when the disruption slowly ends, we will be able to return to the growth-driven path in accordance with our financial goals.

Outlook for 2022

The worldwide disruption in the availability of electronic components has significantly affected Bittium's ability to deliver products to its customers during this year. Some tactical communication product deliveries have already been postponed to 2023, and we have not been able to fully meet the demand for medical technology products because we have not been able to manufacture all products due to the lack of components. About 70 percent of Bittium's net sales accumulate from products and related systems, and uncertainties related to product deliveries cause significant uncertainty for the accumulation of Bittium's net sales and operating result during the end of 2022.

Bittium expects the net sales of 2022 to be at the same level as in the previous year (EUR 86.9 million in 2021), and the operating result of 2022 to be positive (EUR 3.2 million in 2021).

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

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.

Especially the global disruption in the availability of electronic components and their price development has caused fast changes in the company's operating environment. The company monitors the development of the situation and actively strives to ensure the availability of components required for product deliveries. Poor availability of components can have a detrimental effect on the progress of the ability to deliver products.

The spread of the coronavirus around the world is still ongoing, and the resulting sick leaves may affect the development of Bittium's business. It is difficult to estimate the duration of the pandemic and its effects on business and financial results.

Further information about Risks and Uncertainties is presented on the company's internet pages at www.bittium.com.

Events after the Review Period

On October 17, 2022, Mr. Hannu Huttunen, the CEO of Bittium Corporation announced that he will leave his position as CEO of the Company. The Board of Directors of Bittium Corporation has initiated a search for a new CEO with the goal of having a new CEO selected by the beginning of next year. Mr. Hannu Huttunen will continue in his position until then with the full support of the Company's Board of Directors. It has been agreed that Mr. Huttunen will continue as an Advisor to the Company's Board of Directors until the end of 2023.

Key Figures

GROUP (MEUR)	7-9/2022 3 months	7-9/2021 3 months	1-9/2022 9 months	1-9/2021 9 months
NET SALES	13.8	17.1	54.8	56.8
Change of the net sales, %	-19.4 %	22.2 %	-3.5 %	0.4 %
EBITDA	0.2	2.9	5.2	7.1

EBITDA, % of net sales	1.2 %	16.8 %	9.5 %	12.5 %
OPERATING PROFIT / LOSS	-2.4	0.2	-2.6	-0.5
Operating profit / loss, % of net sales	-17.2 %	1.4 %	-4.8 %	-0.9 %
RESULT OF THE PERIOD FROM CONTINUING OPERATIONS	-2.6	0.1	-3.2	-1.0
EARNINGS PER SHARE (EUR)	-0.073	0.002	-0.091	-0.027
TOTAL R&D INVESTMENTS	4.9	3.8	16.1	14.9
R&D INVESTMENTS, % FROM NET SALES	35.8 %	22.4 %	29.3 %	26.2 %
CAPITALIZED R&D INVESTMENTS	1.8	1.2	4.8	5.6
NET CASH FROM OPERATING ACTIVITIES	2.0	2.9	8.0	4.1
NET CASH FROM INVESTING ACTIVITIES	-2.0	-1.6	-5.7	-6.8
NET CASH FROM FINANCING ACTIVITIES	-0.4	-0.3	-2.6	-2.1
NET CHANGE IN CASH AND CASH EQUIVALENTS	-0.3	1.0	-0.3	-4.8
CASH AND OTHER LIQUID ASSETS	21.7	19.8	21.7	19.8
NET GEARING (%)	0.5 %	2.2 %	0.5 %	2.2 %
EQUITY RATIO (%)	71.8 %	73.2 %	71.8 %	73.2 %
AVERAGE PERSONNEL DURING THE PERIOD	639	661	645	667
PERSONNEL AT THE END OF THE PERIOD	633	660	633	660

Oulu, October 21, 2022

Bittium Corporation
The Board of Directors

Further Information:

Hannu Huttunen
CEO
Tel. +358 40 344 3507

Pekka Kunnari
CFO
Tel. +358 40 344 2229

Distribution:

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Major media

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 2021 were EUR 86.9 million and operating profit was EUR 3.2 million. Bittium is listed on Nasdaq Helsinki. www.bittium.com