

# MagneticMRO

CONSOLIDATED NON-AUDITED INTERIM REPORT FOR Q1 2020



TALLINN

## GENERAL INFORMATION

Magnetic MRO is a total technical care maintenance and asset management organization with a global presence and more than two decades of worldwide experience. The company has a well-established reputation in innovative aviation solutions and proven track record as a one-stop shop for airlines, asset owners, OEMs and operators. It offers a wide range of services varying from asset management and engineering, to line and base maintenance.

## Q1 2020 OPERATIONS AND ACTIVITIES

- **SAS entrusts their whole new A320-NEO fleets' Base Maintenance services to Magnetic MRO – 56 aircraft to be serviced in Tallinn**

Magnetic MRO, a Total Technical Care and asset management organization, and SAS has extended the Base Maintenance agreement for Base Maintenance service for the whole A320-NEO fleet. The original contract between two companies has been signed in December 2017 and recently has been prolonged until 2023 and consists of maintenance visits of 56 airplanes.

- **Magnetic MRO launches a leasing arm, aims half a billion USD portfolio by 2025**

Magnetic MRO, a Total Technical Care and asset management organization has announced the launch of a company that will focus on long and short-term aviation asset management and leasing – Magnetic Leasing. The recently established company specializes in mid-life Airbus A320 Family and Boeing 737 CL/NG, as well as engines and landing gear systems for narrow-body aircraft. By the end of 2020, Magnetic Leasing expects to have a portfolio worth \$100 million under its management. The co-founder is Crestline Investments, a US institutional alternative investment management firm.

- **Magnetic MRO receives CAAC certification**

Magnetic MRO, a Total Technical Care and asset management organization, has received the Civil Aviation Administration of China (CAAC) certification, proving the company has qualifications and meet local regulatory requirements for the maintenance, repair and overhaul organizations. Obtaining this certification allows the company to expand its capabilities and provide maintenance service on Chinese registered aircraft and its engines.

- **Estonian's very first apprenticeship program for aircraft mechanics celebrates student graduation**

In February 2018, Magnetic MRO and Estonian Aviation Academy started unique cooperation aimed at training a new generation of aircraft mechanics under a two-year apprenticeship program. On 31st of January 2020, the first group of ten students received their diplomas during a graduation ceremony at Estonian Aviation Academy in Tartu and will now continue their aviation careers at Magnetic MRO as mechanics.

- **EngineStands24 signs exclusive engine stand maintenance agreement with Rhinestahl CTS**

EngineStands24, a subsidiary of a global provider of Total Technical Care for aircraft operators and lessors, Magnetic MRO, and Rhinestahl CTS, authorized provider of aviation and gas turbine engine tooling to GE, CFM and Rolls-Royce, has signed an engine stand service agreement, covering the maintenance service of EngineStands24 stands pool for all company's global hubs.

- **Magnetic MRO increased its share capital and issued new shares**

Magnetic MRO AS increased its share capital by 20,486.40 euros and issued 3,201 new shares for the issue price of 950,000 euros to Sapphire Investment Holding Limited in accordance with the investment agreement entered into with Sapphire Investment Holding Limited, a Hong Kong company, on 5 June 2019 and in accordance with the resolution of 10 February 2020 on increase of the share capital of Magnetic MRO AS.

Sapphire Investment Holding Limited subscribed for the shares to the maximum extent prescribed in the investment agreement. After the subscription for the new shares, the amount of the registered share capital of Magnetic MRO AS is 1,110,675.20 euros and the total number of shares is 173,543.

- **Securing the future careers for the next generation of aircraft engineers: Magnetic MRO and OSM Aviation launch a pioneering joint apprenticeship program**

Magnetic MRO and OSM Aviation (OSM) signed a MoU to engage in a strategic partnership by generating an apprenticeship program aimed at OSM recruits and employees. The first group of qualified technical apprentices from Norway and Sweden has been selected and will start their 24 months practical studies program at the Magnetic MRO in Tallinn, Estonia, from early September 2020.

- **MAC Aero Interiors enters the new chapter by establishing new production facility in Estonia**

MAC Aero Interiors, a United Kingdom-based subsidiary of a global provider of Total Technical Care for aircraft operators and lessors, Magnetic MRO, has moved its production facility to Tallinn, Estonia. The new facility in Estonia's capital was opened in January 2020 and publicly on 4th of March 2020.

- **Magnetic MRO and Airbus sign airframe maintenance agreement**

Magnetic MRO, a Total Technical Care and asset management organization, and Airbus, a global leader in aeronautics, space and related services, have signed a long-term airframe maintenance agreement for the support and maintenance of Airbus family aircraft.

## COVID-19 information

The COVID-19 crisis will have a major global social-economical impact. The related economical downturn has already and will continue to adversely impact Magnetic MRO's business activities. Closed borders and travel restrictions imposed by many countries globally, especially those within the European Union, will have a negative impact on various business areas we operate in. Reduced number of passengers for potentially long periods of time lead to fewer flights, hence the need for fewer aircrafts, which in turn results in less maintenance, and less spare parts and other support required by the airlines.

Taking into account industry research conducted by established consultancy firms such as Oliver Wyman<sup>1</sup> and McKinsey, the measures announced and already taken by leading aviation companies as well as leveraging our senior management's own industry network and experience, we have put together this report on the 2020 business outlook for Magnetic MRO, along with corresponding crisis-management measures that we have undertaken and will look to implement.

In short, we believe **we will manage through the hard times**:

- **Diversified business model:** Magnetic MRO has 20 different business units with a diverse customer and vendor base and we operate in several geographical regions.
- **Solid customer and vendor relationships:** We have long standing relationships with top names in the aviation industry. Despite the crisis, our base maintenance hangars remain loaded as of today as we have sufficient base maintenance work pre-booked.
- **Flexible cost base:** Our cost base has been built up conservatively and over years of gradual expansion. As such we have adapted our business needs to cater for seasonality with a high degree of variable costs.
- **Strong support from shareholders:** Our parent company, Guangzhou Hangxin Aviation Technology, is a listed company in China with market capitalisation of EUR 450 million. Hangxin is committed to support Magnetic MRO's ongoing businesses throughout the entire business cycle.
- **Accelerated recovery post crisis:** Due to pent up demand, the MRO industry is expected to recover very quickly as soon as planes start flying. Airlines are incentivised to fly their aircrafts to restart cash flow and no commercial aircraft can nor are legally allowed (by local, European and Global) by authorities to operate without having a valid maintenance contract.
- **Unique reputation and positioning.** Furthermore, Magnetic MRO is unique in that it would not have the same post-crisis constraints as airline- or state-owned MROs in seeking business opportunities and we operate with substantial market share and history especially in Northern Europe.

## What are we doing about it and how we intend to come out of the downside scenario?

- Immediate cost cutting measures.
- Equity injection from shareholders into the company (the final portion of the 2019 equity injection).

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<sup>1</sup> <https://www.oliverwyman.com/our-expertise/insights/2020/mar/COVID-19-Impact-On-Commercial-Aviation-Maintenance.html>

# MagneticMRO

- Close cooperation with our owners to make sure we remain financially healthy as well as looking how to best revise our debt facilities in this new reality.

It goes without saying, that Magnetic MRO services will be needed after the crisis and we will rebound quickly.

## STATEMENT OF THE MANAGEMENT BOARD

Magnetic MRO Group AS (further on **Magnetic MRO Group** or the **Group**) consists of parent company Magnetic MRO AS (EE), and its subsidiaries: Direct Maintenance Holding BV (NL) (further on **Direct Maintenance Group**), MAC Aero Interiors Ltd (UK), Magnetic Leasing Ltd (IE), Arrowhead assistance UAB (LT), Magnetic MRO Malaysia Sdh Bhd (MY).

The financial and other additional information of the Magnetic MRO Group published in the interim report Q1 2020 is true and complete. The consolidated main financial statements give a true and fair view of the actual financial position, results of operations and cash flows of the Group.

The consolidated financial statements of the Magnetic MRO Group in the report for the period Q1 2020 and Q1 2019 are not audited. The financial information in Interim Report is prepared in accordance with the Estonian financial reporting standards. The Estonian financial reporting standards are prescribed by the Accounting Act of Estonia and supplemented by the guidelines issued by the Accounting Standards Board.

### COMPLIANCE WITH COVENANTS

According to p.3.4.2 and 3.4.3 of the Terms and Conditions of **Magnetic MRO 8% 21.12.2021 bonds**, the Issuer shall be obliged to comply with the following covenants until the Notes are fully repaid:

3.4.2 **Equity Ratio** shall not fall **under 25%** at the end of each Reporting Period;

3.4.3 **Net Debt/EBITDA Ratio** shall **not be higher than 3.2**.

The Management Board confirms the following execution of covenants as of March, 31 2020:

1) **Equity Ratio: 40%**.

2) **Net Debt/EBITDA: 3.1**.

3) In July 2019 Magnetic MRO Group received two thirds of the contribution from the equity capital injection announced in Q2 2019, in Q1 2020 this contribution is reported as unregistered share capital. At the date of the release Q1 2020 Interim Report the equity increase is not registered in Commercial Register of Estonia. The remaining one third is **received in April 2020**.

Covenants calculation:

	kEUR	TTM 3.2020	TTM 3.2019
1 Interest bearing liabilities		20,006	16,726
<i>incl. Bonds</i>		8,000	7,092
2 Cash and bank		2,284	940
<b>3=1-2 Net Debt</b>		<b>17,722</b>	<b>15,787</b>
4 Total Equity		25,471	16,723
5 Total Assets		64,347	49,070
<b>6=4/5 Equity Ratio</b>		<b>40%</b>	<b>34%</b>
<b>7 EBITDA</b>		<b>5,751</b>	<b>4,928</b>
<b>8=3/7 Net Debt/EBITDA</b>		<b>3.1</b>	<b>3.2</b>

\*TTM - trailing twelve months

\*\* Per p.2.1.11 of Terms and Conditions of **Magnetic MRO 8% 21.12.2021 bonds**, EBITDA means the net income of the measurement period before:

- a) Any provision on account of taxation;
- b) Any interest, commission, discounts or other fees incurred or payable, received or receivable in respect of financial indebtedness;
- c) Any depreciation and amortization of tangible and intangible assets; and
- d) Any re-valuation, disposal or writing off of assets.

\*\*\* Equity method income:

- 49,9% of net income from associated company Magnetic Parts Trading Ltd;
- 10,0% of net income from associated company MAC Sichuan Aviation Technology Ltd.

**Astrit Viisma-Kass**  
**CFO, Member of the Management Board**  
 Tallinn

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS, KEUR

### PROFIT and LOSS STATEMENT CONSOLIDATED

	Q1 2020	Q1 2019
Sales revenue	28,087	19,315
Variable direct costs	-24,667	-15,506
Fixed direct costs	-162	-175
Other operating income	494	198
Other operating expenses	-612	-159
<b>GROSS PROFIT</b>	<b>3,140</b>	<b>3,673</b>
Marketing expenses	-87	-95
Administrative costs	-1,514	-1,644
Personnel costs	-1,046	-923
<b>EBITDA</b>	<b>492</b>	<b>1,011</b>
Depreciation and amortization	-732	-425
Financial income and expenses	-262	315
Assets revaluation (FX)	210	-161
Equity method income *	457	-323
<b>NET PROFIT</b>	<b>164</b>	<b>417</b>
Minority Interest **	6	-60
<b>ATTRIBUTABLE NET PROFIT</b>	<b>158</b>	<b>476</b>

\* Shareholding in Magnetic Parts Trading Ltd: 49.9%

\*Shareholding in MAC Sichuan Aviation Technology Ltd: 10.0%

\*\*Minority Interest:

Direct Maintenance East Africa Ltd 49%

Direct Maintenance Zanzibar Ltd 49%

Fourth of the four aircrafts Boeing 737 purchased in Q4 2019 from airBaltic was sold in Q1 2020 and has an impact on revenues and direct costs.

For MAC Aero Interiors Ltd Q1 2020 was the period of moving and restarting of production processes that also found reflection in quarterly results.



## Sales by Business Units and Subsidiaries:

<i>non-consolidated, kEUR</i>	Q1 2020	Q1 2019	Q1 2020, %
Base Maintenance	8,274	7,560	33.5%
Line Maintenance	1,282	1,229	5.2%
Trading	7,675	6,621	31.1%
Engines	5,828	1,704	23.6%
Engineering	316	534	1.3%
Workshop	271	588	1.1%
Others	1,068	203	4.3%
<b>MMRO TOTAL</b>	<b>24,715</b>	<b>18,441</b>	<b>88.0%</b>
<b>MAC Aero Interiors</b>	<b>446</b>	<b>824</b>	<b>1.6%</b>
<b>Direct Maintenance</b>	<b>2,917</b>	<b>864</b>	<b>10.4%</b>



## CASHFLOW CONSOLIDATED

	Q1 2020	Q1 2019
<b>OPERATIONAL ACTIVITIES</b>		
Operating profit	492	1,011
<i>Adjustments</i>	328	595
Change in receivables and prepayments	2,263	-2,372
Change in inventories	-1,224	190
Change in liabilities and prepayments	-6,970	5,785
<b>TOTAL from OPERATIONAL ACTIVITIES</b>	<b>-5,111</b>	<b>5,209</b>
<b>INVESTMENT ACTIVITIES</b>		
Proceeds from sale and purchase of Fixed Assets	-962	24
Long-Term Investments	-708	-9,866
<b>TOTAL from INVESTMENT ACTIVITIES</b>	<b>-1,671</b>	<b>-9,842</b>
<b>FINANCING ACTIVITIES</b>		
Financing activities	3,408	4,647
<b>TOTAL from FINANCING ACTIVITIES</b>	<b>3,408</b>	<b>4,647</b>
<b>TOTAL CASHFLOW</b>	<b>-3,374</b>	<b>14</b>

## BALANCE SHEET CONSOLIDATED

	03.2020	3.2019
Cash and bank	2,284	940
Receivables	20,507	15,797
Inventory	14,929	9,115
<b>Total current assets</b>	<b>37,720</b>	<b>25,851</b>
<b>Non-current assets</b>		
Long-term Investments	7,760	15,839
Fixed Assets	14,603	6,822
Goodwill	4,249	557
<b>Total non-current assets</b>	<b>26,612</b>	<b>23,219</b>
<b>TOTAL ASSETS</b>	<b>64,332</b>	<b>49,070</b>
<b>LIABILITIES AND OWNERS EQUITY</b>		
<b>Short term liabilities</b>		
Short-term Loans	11,171	7,777
Payables	18,855	15,620
<b>Total Short-term liabilities</b>	<b>30,026</b>	<b>23,397</b>
<b>Long-term liabilities</b>		
Long-term Loans	8,836	8,949
<b>Total long-term liabilities</b>	<b>8,836</b>	<b>8,949</b>
<b>TOTAL LIABILITIES</b>	<b>38,861</b>	<b>32,347</b>
Share capital	1,111	1,090
Unregistered Share Capital	5,317	
Share premium	7,549	6,619
Reserves	79	79
Unrealized FX BS	264	94
Minority Interest	-37	-10
Retained earnings	11,031	8,377
Profit for the period	158	474
<b>Total Owners' equity</b>	<b>25,471</b>	<b>16,723</b>
<b>TOTAL LIABILITIES AND OWNERS EQUITY</b>	<b>64,332</b>	<b>49,070</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Unregistered Share Capital	Share premium	Statutory reserve capital	Unrealised exchange rate	Retained earnings (loss)	Minority interest	Total
31.12.2018	1,090		6,619	79	-63	8,524		16,250
Annual period profit (loss)					157	326		483
Minority interest								
31.03.2019	1,090		6,619	79	94	8,851	-10	16,723
31.12.2019	1,090	5,317	6,619	79	195	10,560	31	23,891
Annual period profit (loss)	20		930		68	629		1,648
Minority interest							-68	-68
31.03.2020	1,111	5,317	7,549	79	264	11,189	-37	25,471

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