



# PIONEERING TECHNOLOGY

H1 Report 2020



## Highlights

	Unit	H1/2020	H1/2019	Change
Revenue	kEUR	31,178	16,378	90%
Total operating revenue	kEUR	32,062	18,330	75%
Cost of materials	kEUR	(14,011)	(10,680)	31%
Cost of materials ratio (in % of total operating revenue)	%	(44)	(58)	14 pts
Personnel costs	kEUR	(17,405)	(17,624)	1%
Personnel cost ratio (in % of total operating revenue)	%	54	96	(42) pts
EBITDA	kEUR	(6,010)	(18,907)	68%
EBITDA-Margin (in % of total operating revenue)	%	(19)	(103)	96 pts
Consolidated net result	kEUR	(12,498)	(30,795)	59%
Earnings per share	EUR	(0,63)	(1,56)	60%
New order intake*	kEUR	13,679	20,767	(34)%
Backlog – Machine related*	kEUR	19,249	14,644	31%

\* refers to the sale of machines including any service offerings, does not include stand-alone service contracts

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Meddah Hadjar (Vorstandsvorsitzender)

## Briefing Note by the CEO

Dear shareholders, customers, business partners and employees,

The end of H1 2020 marks the first anniversary of the significant change and restructuring process that we started at SLM Solutions in May 2019. In the last twelve months we were able to retain very experienced executives for vital areas of our business that require fundamental improvement. The enhanced organizational maturity in all areas of the Company is allowing us to leverage SLM's strong technology position to deliver standardized high quality, reliable 3D printing systems to our customers. The advanced capabilities of our products allow our customers to start integrating our systems in sophisticated, larger scale, industrial manufacturing processes and improve engineering and manufacturing efficiency dramatically.

We have previously mentioned that the fundamental change we are implementing at SLM Solutions will take time to lead to a meaningful improvement in our financial metrics. However, already in H1 2020 we were able to convert the better technological and economic value proposition for our customers into significant revenue growth, increased profitability, and a better cash flow profile at SLM Solutions. We are especially proud of this against the backdrop of the adverse economic environment that the global COVID-19 pandemic has created.

The COVID-19 pandemic and the related lockdowns globally had a significant impact on our customers being able to conduct business and also on how we were able to interact with our customers. During the lockdowns in various countries it was significantly more difficult, and took more effort and time, to install our systems at our customers premises. The ability and willingness of our clients to interact with us in this extraordinary time on new, complex projects also slowed as many were more inward focused as they tried to navigate the challenges brought on by COVID-19. Customers in some of our core end markets, e.g. the market for aeroengines, are facing significant end market demand weakness, which will result in a delay in the application of Additive Manufacturing technologies in these industries. At the same time, however, we have experienced an increased interest from current and new customers across the manufacturing space for our systems and technology as the COVID-19 pandemic focusses companies heavily on derisking their global supply chains, localizing key component manufacturing and creating increased flexibility in their manufacturing processes. SLM Solutions and Additive Manufacturing technologies in general are expected to play a vital role in supporting companies implementing such strategies.

Despite some of the COVID-19 headwinds we were able to increase H1 2020 revenue year-on-year by 90% to EUR 31.2 million (H1 2019: EUR 16.4 million) and improve EBITDA by EUR 12.9 million to EUR -6.0 million (H1 2019: EUR -18.9 million), providing evidence of the ongoing turnaround of the company. The COVID-19 situation still limits the visibility we have on our business but has also highlighted our strength as an agile organization that can adapt quickly to change. Under the assumption that the COVID-19 pandemic will not further deteriorate, and new broader lock downs can be avoided, we expect revenue for FY 2020 to be at least 20% over the previous year, with EBITDA to improve to between EUR -13 million to -18 million (2019 EBITDA: EUR -26 million).

On 26 March 2020 we announced a convertible bond offering for total proceeds of EUR 60 million in three tranches. All SLM Solutions security holders were able to participate in the rights offering of the convertible bond. The first tranche with proceeds of EUR 15 million closed on 14 July 2020. The entire offering was, and future tranches continue to be backstopped by funds managed by Elliott Advisors (UK) Limited, our largest shareholder, a strong sign of confidence in our Company.

Finally, we are on the last stretch of being able to present to the broader public our NextGen product in November 2020. We believe that our NextGen machine will not only be a key factor for SLM Solutions growth and economic success, but it will be ground-breaking for the Metal Additive Manufacturing industry.

Lübeck, August 13, 2020



Meddah Hadjar  
(CEO)

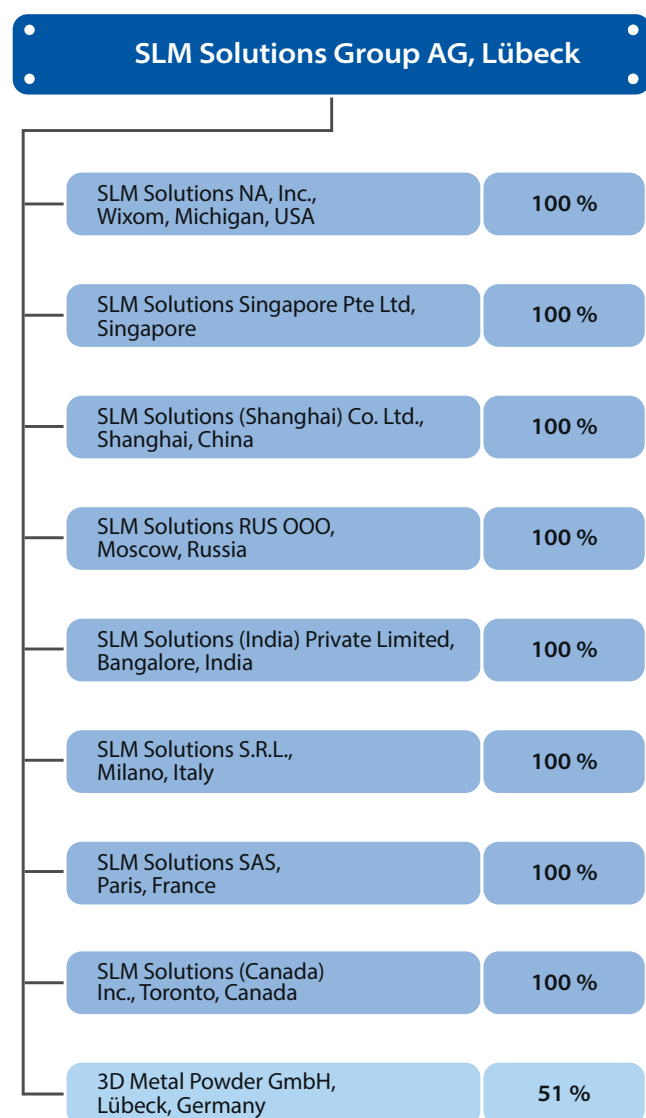
## Group Management Report

### Basic of the Group

#### Group structure

SLM Solutions Group AG, headquartered in Lübeck, Germany, had eight wholly owned subsidiaries and one joint venture as of June 30, 2020. SLM Solutions Group AG acts as the only production facility in the Group and is responsible for a large proportion of operating and administrative tasks as well as product development within the Group, and it also coordinates global sales activities. The subsidiaries based in Singapore, the USA, Canada, China, Russia, India, Italy and France promote local sales activities in their allocated geographical regions. In addition, they also provide services for customers.

The joint venture 3D Metal Powder GmbH was responsible for the development, production and sale of metal powders. This company was founded due to the difficult availability of a “by-product” that SLM Solutions Group AG needed from metal powder producers. After the establishment of the entity, the availability of the product significantly improved. Therefore, SLM Solutions Group AG decided to offer its shares in the joint venture for sale due to strategic reasons. SLM Solutions Group AG currently holds 51% of the share capital.



## Employees

SLM Solutions Group AG increased the number of FTE (Full-time equivalents) by 24 compared to the previous year. The increase was driven by all functions except for production.

Full-time equivalents (FTEs)	June 30, 2020	June 30, 2019
Research and Development	96	88
Sales	98	87
After Sales	82	76
Production	89	96
Administration	55	49
<b>Total</b>	<b>420</b>	<b>396</b>
of which in Europe	337	328
of which in USA	39	32
of which in Asia	44	36

## Business Model

SLM Solutions Group AG („SLM Solutions“), headquartered in Lübeck, Germany, is a leading provider of metal-based additive manufacturing technology (“3D printing technology”).

The business was divided into two operating segments in the period under review:

- The Machine Business segment encompasses the development and production as well as the marketing and sale of machines and peripheral equipment for selective laser melting. The machines are sold via a global distribution network. This segment currently represents the focal point of the business.
- The After-Sales Business segment is of strategic interest for the Company and is increasingly gaining in importance. It encompasses business with machine-related services, the sales of replacement parts and accessories, as well as the sales of merchandise, consumables and services not related to machines.

The product range currently comprises four systems – the SLM®125, SLM®280, SLM®500 and SLM®800 – which are differentiated by the size of the build chamber and the number of lasers which can be fitted. These systems enable direct production of highly complex metal components from many different alloys produced from source materials such as aluminum, titanium, cobalt chrome, nickel, tool steel or stainless steel, as well as super alloys. Our systems are capable of processing almost any type of weldable alloy into a finished product. The systems are constantly improved and equipped with new functions.

The systems of SLM Solutions make use of the selective laser melting technology: A computer 3D model of the object to be made constitutes the starting point for the additive manufacturing process. This object is melted in layers by applying one or multiple laser beams simultaneously in a metallic powder bed. Parts manufactured in this way meet the highest standards in terms of stability, surface structure and biocompatibility – different requirements are prioritized depending on the intended application.

One of the significant benefits of additive manufacturing is its lower level of material consumption compared with conventional manufacturing methods. This approach also creates new degrees of freedom in product design which focuses on and benefits the desired functionalities of the component in question. As a result, additive manufacturing is well suited to producing complex components which can be used as prototypes or in series production. In contrast to conventional production methods, complexity is not a cost factor in this type of manufacturing (“complexity comes for free”). The additive manufacturing of metal parts also offers enormous advantages in terms of speed, as no molds or tools are required. SLM Solutions’ patented multi-laser technology underlines the Company’s technology leadership. Industrial manufacturing processes such as precision casting are being increasingly supplemented by laser melting.

The customers of SLM Solutions come from a wide variety of industries, including the aviation and space industries, automotive, tooling, engineering, the medical and energy sectors, both contract manufacturers and end-users. Target markets for SLM Solutions are Europe and the North American and Asia-Pacific regions.

SLM’s machine business is subject to cyclical fluctuations which are typical within this industry. Generally, a significant share of turnover and order intake is achieved in the fourth quarter with the first quarter traditionally being the weakest of the year. In order to minimize the impact of seasonality in the medium term, the board intends to expand SLM’s after sales business, in particular, by widening the product portfolio to include less-volatile products such as powder.

## Goals and Strategy

SLM Solutions pursues the objective of securing its position as the technology leader in metal-based additive manufacturing over the long term, playing a key role in shaping the technology and thereby growing significantly and profitably in the foreseeable future. To this end, SLM Solutions pursues a medium-term growth strategy consisting of three pillars for which interim targets are frequently defined and evaluated:

- SLM Solutions focuses on research and development (R&D) to secure and extend its technology leadership in the metal-based additive manufacturing area. The intellectual property rights portfolio is continuously optimized, and in the company's view, the R&D team ensures that its technology leadership is extended in a range of different projects. SLM Solutions also cooperates with research institutes and universities in order to further develop its technology, and to enable it to be deployed for increasingly new applications from all sectors.
- SLM is aiming to evolve into a full-service solutions provider in the field of additive manufacturing and grow into related business areas. For example, SLM Solutions continues to expand its business with metal powders which form the starting point for manufacturing by its selective laser melting plants. This expansion in the powder business by means of strategic partnerships in the form of close cooperation, is intended to develop as an additional business alongside machine sales, and should contribute to a lessening of the typical industry seasonality of the Group on a revenue and earnings level. To receive a high-quality finished product, the specification and qualification of the metal powder requires specialized expertise and quality-assured processes which is compensated by the market accordingly.
- Given the complexity of selective laser melting, its proximity to customers represents a critical competitive advantage for SLM Solutions. In order to retain existing customers in the long term, generate recurring service revenues and acquire new customers, SLM Solutions is gradually expanding its international sales and service network by establishing subsidiaries and partnerships based in different regions. The Company is constantly increasing its presence through presentation centers, demonstration machines, customer training sessions and participation at important trade fairs and keynote speeches.

## Management System

SLM Solutions has identified the following key figures as the most important financial performance indicators for business and it publishes these regularly:

- The Company's order and revenue trend is the key performance indicator to assess exploitation of the Company's growth potential within a completed reporting period. This KPI is also regularly compared with the growth rate of the global market for additive manufacturing.
- For SLM Solutions, as a young growth company, the margin before interest, tax, depreciation and amortization (EBITDA margin) provides us with the best indicator of profitability. This key indicator excludes national particularities relating to tax legislation, the selected financing structure and the intensity of investment in operating business, facilitating the comparison of the company with the international peer group. Compared to prior year, SLM adjusted the calculation of this metric to be based on total operating revenue (previous year: revenue).
- In addition, absolute EBITDA serves as the main key figure disclosing the Company's profit. The intention of this key figure is to present the actual operating business and in doing so make earnings more comparable between fiscal years and other companies.

As part of the internal steering system, the Management Board of SLM Solutions is informed at regular intervals about internal key performance indicators. These mainly comprise:

- The personnel cost ratio (defined as personnel costs in relation to total operating revenue)
- The cost of materials ratio (defined as cost of materials in relation to total operating revenue)

## Research and development

For years, SLM Solutions has been setting the stage for crucial elements of its business success through its Research and Development Department. Especially in the field of multi-laser technology where the company claims to be one of the market leaders, SLM Solutions was able to adapt its technology to further areas of the market. The Company thereby commands an extensive portfolio of intellectual property rights, including patents and licenses not only for selective laser melting technology and the hull-core imaging process.

Global alliances with universities and research facilities allow SLM Solutions to always be at forefront of technological enhancements. This ensures a platform for the successful use of SLM® technology in volume production in various sectors. Investments in research and development concentrate primarily on the areas of productivity increases and robust production systems. Moreover, the focus is also on making improvements in the area of material research (e.g. materials that are hard to form/work) as well as finding ways to shorten the total production time of a new component. Interconnections in the industrial production environment ("Industry 4.0") are now an integral part of modern production and fit perfectly with the fully digitalized SLM® process.

The research and development department of SLM Solutions consisted of 96 FTEs (full-time equivalents) as of June 30, 2020 (previous year: 87.5 FTEs). Development costs of kEUR 3,713 were capitalized in the first half of 2020 (previous year kEUR 4,204). Total development costs before other work performed by the company and capitalized and excluding depreciation of completed projects was kEUR 8,496 (previous year: kEUR 8,950). Depreciation for completed projects was kEUR 1,961 (previous year: 1,806).



## Economic and Business Report

### Macroeconomic situation in target markets

The Kiel Institute for the World Economy (IfW) estimates that the world economy is far behind the initial growth estimates for 2020 due to the COVID-19 pandemic. The IfW indicator which estimates worldwide business activity based on indicators from 42 countries, shows a dramatic decrease. The world economy shrank in the first half of 2020 compared to the previous year by almost 10% with the low point reached in April.<sup>1</sup> Despite an expected increase of production in the second half of the year following various state aid programs, the IfW expects production to shrink by 3.8%. In 2021, production is expected to recover with a growth rate of 6.2%.<sup>2</sup> Overall, the COVID-19 pandemic is expected to have a long-lasting impact on capital expenditure decisions and therefore impacting worldwide production.

Within the European Union, GDP decreased by 3.2% in the first quarter. The IfW expects a further decrease by 13% in the second quarter.<sup>3</sup> France, Italy and Spain were impacted the most in the first quarter showing GDP declines of 5% as a result of the significant number of infections and the resulting restrictions. Germany and the Netherlands shown a relatively modest decrease by 2% in the first quarter reflecting lower infection rates in those countries.<sup>4</sup> The IfW expects production in the Euro zone to fall by 8.6% in 2020 followed by an increase of 6.6% in 2021.<sup>5</sup>

The GDP of the United States shrank by 1.3% in the first quarter of 2020. The IfW estimates a further decrease of 12% in the second quarter. For the total year 2020, the IfW expects a decrease of 5.8% while growing 4.2% in 2021.<sup>6</sup>

China in comparison is believed to better weather the impact of COVID-19. Industrial production grew by 33% in March and reached prior year levels in April. However, the business activity is still impacted by lower exports as most countries still facing significant restrictions. Based on IfW estimates, China's GDP grew by 8% in the second quarter of 2020.<sup>7</sup>

### Metal-based Additive Market

SLM Solutions operates in the growth market for metal-based additive manufacturing techniques. Consulting house Ampower puts the global volume of metal-based additive manufacturing at EUR 2.0 billion in 2019 (2018: EUR 1.5 billion).<sup>8</sup> Ampower estimates that the market continuous to grow dynamically and expects the volume to reach EUR 6.9 billion in 2024 reflecting an annual compound growth rate of 28%.<sup>9</sup>

Based on a worldwide survey of Ernst & Young, metal-based additive manufacturing is becoming increasingly important for industrial users. 65% of participants expect metal to be the most important material for additive manufacturing.<sup>10</sup> The selective laser melting technology that SLM Solutions applies ranks among the so-called "powder bed fusion" processes that offer greater precision, surface quality and design freedom compared with other 3D printing processes. In addition, the Management Board of SLM Solutions is convinced that additive production techniques are now ready for use in volume production. From a technical point of view, this degree of development at SLM Solutions is indicated, among other things, by the option of being able to use up to four lasers at the same time to produce a part. SLM Solutions AG is currently developing a new generation of laser machines which far exceed previous technical capabilities thus creating new areas of application.

The management expects the new machine generation to contribute significantly to the productivity of metal-based additive manufacturing and therefore make it more cost-efficient.

### Business Progress

During the first half of 2020, SLM Solutions recorded an order intake of kEUR 13,679 (June 30, 2019: kEUR 20,767). The Covid-19 pandemic significantly influenced the order intake due the overall uncertain situation for both customers and the overall market as well as lower customer availability, travel restrictions and the cancellation of trade fairs. Most projects were delayed and not cancelled as customers understand the importance of additive manufacturing for their own supply chain. As of June 30, 2020, machine-related order backlog was at kEUR 19.249 (June 30, 2019: kEUR 14.644).

The segment Machine business, which accounts for the sale of machines including options, generated revenue of kEUR 23,758 (June 30, 2019: kEUR 9,374), representing 76% of the group revenue (June 30, 2019: 57 %), during the first half of 2020. The segment After Sales Business, comprising service revenue and the sale of spare parts and commodities, generated revenue of kEUR 7,421 (June 30, 2019: kEUR 7,004), representing 24% of group revenue (June 30, 2019: 43%).

The sixth Annual General Meeting of SLM Solutions took place as a virtual meeting on June 16, 2020. Among other points, the shareholders approved the acts of the management and supervisory boards, elected a new supervisory board members and external auditors for the year 2020, and approved a new convertible bond. The results of the voting were published after the Annual General Meeting on the homepage of the company.

<sup>1</sup> Institut für Weltwirtschaft: Kieler KonjunkturberichtmWeltkonjunktur im Sommer 2020, S. 2.

<sup>2</sup> Institut für Weltwirtschaft: Kieler KonjunkturberichtmWeltkonjunktur im Sommer 2020, S. 2.

<sup>3</sup> Institut für Weltwirtschaft: Kieler KonjunkturberichtmWeltkonjunktur im Sommer 2020, S. 12.

<sup>4</sup> Institut für Weltwirtschaft: Kieler KonjunkturberichtmWeltkonjunktur im Sommer 2020, S. 4.

<sup>5</sup> Institut für Weltwirtschaft: Kieler KonjunkturberichtmWeltkonjunktur im Sommer 2020, S. 11.

<sup>6</sup> Institut für Weltwirtschaft: Kieler KonjunkturberichtmWeltkonjunktur im Sommer 2020, S.11

<sup>7</sup> Institut für Weltwirtschaft: Kieler KonjunkturberichtmWeltkonjunktur im Sommer 2020, S. 5.

<sup>8</sup> Ampower (2020), Metal Additive Manufacturing Report 2020, S. 19

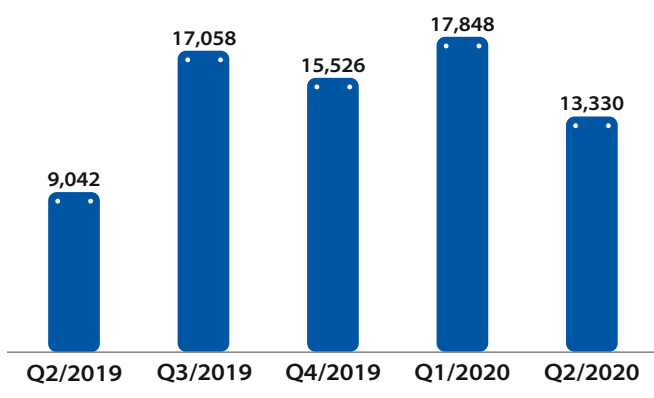
<sup>9</sup> Ampower (2020), Metal Additive Manufacturing Report 2020, S. 19

<sup>10</sup> Ernst & Young (2019), EY's Global 3D Printing Report 2019, S. 11

## Results of Operation

In the first half year 2020, **total sales** of SLM Solutions increased by 90% to kEUR 31,178 (June 30, 2019: kEUR 16,378), with 76% derived from the sale of laser melting machines, the core business of the company (June 30, 2019: 57%). In this segment the revenue is significantly up to kEUR 23,758 from kEUR 9,374 in the previous year (June 30, 2019) and therefore was the main growth driver.

## Development consolidated revenue (kEUR)



**Overall operating revenue** (the total of sales revenue, changes in inventories and other capitalized expenses) of kEUR 32,062 is 75% higher compared to previous year (kEUR 18,330). Besides the significant revenue growth, SLM Solutions increased its other work performed by the company and capitalized by 10% to kEUR 2,242 (June 30, 2019: kEUR 2,033).

**Other operating income** of kEUR 1,555 was significantly higher compared to prior year (kEUR 827), mainly driven by the release of accruals of sales commissions for third party agents.

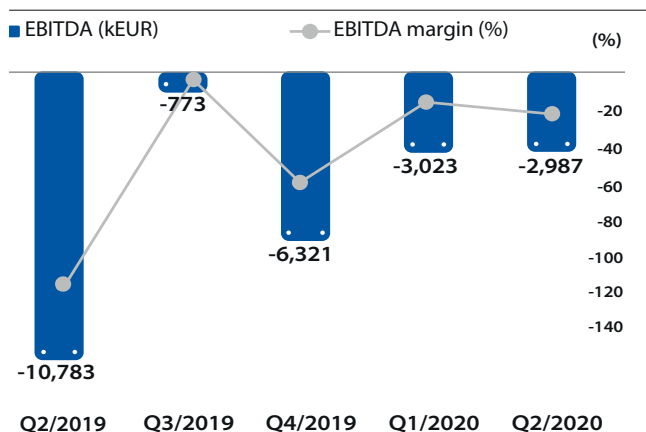
**Cost of material** increased due to the revenue growth significantly by 31% to kEUR 14,011 (June 30, 2019: kEUR 10,680) while the cost of material ratio (as % of total output) of 44% was well below the previous year (June 30, 2019: 58%) indicating improved purchasing conditions as well as better efficiency within material management.

Employee count increased to 420 full-time equivalents (FTEs) as of June 30, 2020 (June 30, 2019: 396 FTEs); while **personnel cost** of kEUR 14,405 increased by 1% compared with the prior year period (June 30, 2019: kEUR 17,624).

**Other operating expenses** in the first half of 2020 were kEUR 8,206 or 14% above the previous year value as of June 30, 2019 (kEUR 9,554). Major drivers for the reduction were lower bad debt reserves, travel and marketing expenses due to the COVID-19 pandemic.

**EBITDA** (earnings before interest, tax, depreciation, and amortization) in the reporting period significantly improved to kEUR -6,010 if compared to the prior year period (kEUR -18,907). EBITDA margin (as % of total operating revenue) was -19% for the first half of 2020 (June 30, 2019: -103%). The positive development was mainly driven by revenue growth and a lower material cost ratio.

## EBITDA and EBITDA margin



**Depreciation** for the first half of 2020 increased by 4% to kEUR 4,368 (June 30, 2019: kEUR 4,214).

The **operating result** (EBIT) of kEUR -10,378 (June 30, 2019: kEUR -23.120) and EBIT margin of -32% (as % of total operating revenue) for the first half year 2020 improved significantly (June 30, 2019: -126%).

**Interest income** and expenses for the first half of 2020 were kEUR -2,072 (June 30, 2019: kEUR -2,024). With income being at kEUR 2,097 (June 30, 2019: kEUR 2,110) and kEUR 25 (June 30, 2019: kEUR 86), respectively. The interest expenses are mainly related to the convertible bond issued in October 2017.

**Tax expense** for the first half 2020 was kEUR 47 (tax expense June 30, 2019: kEUR 5,651). The main effect in 2019 here is the first-time non-recognition of the amounts exceeding the deferred tax liabilities from the deferred tax assets from the loss carryforwards.

The **period result** after tax for the first half of 2020 was kEUR -12,498 (June 30, 2019: kEUR -30,795). This is equivalent to earnings per share (EPS) of EUR -0,63 (June 30, 2019: EUR -1,56).

## Financial position

Cash flow from operating activities of kEUR -3,919 was negative and significantly below the previous year value (June 30, 2019: kEUR -591). The positive operating cash flow in the first half of 2019 was mainly driven by the reduction of the account receivables in the first quarter 2019 (kEUR -16,406), which is seen as one-time effect by the company.

Cash flow from investment activities of kEUR -3,565 was below that for the prior year period at June 30, 2019 (kEUR -8,349). This refers pre-dominantly to investments in tangible fixed assets and development projects.

Cash flow from financing activities was kEUR -2,900 (June 30, 2019: kEUR -10,280). The positive amount in the previous year is related to the capital increase in March 2019.

As of June 30, 2020, cash reserves were kEUR 15,010 (June 30, 2019: kEUR 30,383).

## Asset situation

**Total balance sheet** of the SLM Solutions as of June 30, 2020, was kEUR 126,969 (June 30, 2019: kEUR 154,747).

**Long-term assets** of kEUR 63,139 were slightly below the level of the prior year period (June 30, 2019: kEUR 65,187). Fixed assets of kEUR 36,612 made up the most significant part of the long-term assets (June 30, 2019: kEUR 37,871). This primarily represents the investment in the new headquarter in Lübeck-Genin. Intangible assets, such as laser technology and capitalized development cost, amounted to kEUR 26,185 in the first half 2020 and on the same level as of the prior year period at June 30, 2019 (kEUR 25,768). The deferred tax assets were kEUR 51 (June 30, 2019: kEUR 0) and are exclusively related to the carry forwarding loss of the subsidiaries.

**Short-term assets** of kEUR 63,558 (June 30, 2019: kEUR 89,561) as at the reporting date represent 50% of the balance sheet total (June 30, 2019: 58%). The main reason was the decrease in cash reserves to kEUR 15,010 (June 30, 2019: kEUR 30,383). In addition, inventories decreased to kEUR 27,994 and were significantly lower than in the prior year period (June 30, 2019: kEUR 37,592). Detailed information regarding working capital is listed in the Group Annex under point 8.

Compared to the previous year, the company's **equity** decreased to kEUR 31,485 (June 30, 2019: kEUR 62,204) as of June 30, 2020. The equity ratio was 25% (June 30, 2019: 40%).

The **long-term liabilities** increased slightly to kEUR 74,804 (June 30, 2019: kEUR 72,481) if compared to the previous year. This is related to the increase of the provision for employee pensions and the deferred tax liabilities. This was partially offset by the repayment of the loan for the new headquarter building.

**Short-term liabilities** of kEUR 20,407 at balance sheet date were slightly above those at June 30, 2019, of kEUR 20,062. The increase in provisions is primarily due to the reserves for warranties that can be regarded as short-term and is driven by the increase in revenue. Trade accounts payable at balance sheet date amounted to kEUR 5,856 are significantly below the prior year period (June 30, 2019: kEUR 8,213) mostly due to the improved cost of material ratio and an optimization of the purchasing processes.

## Opportunities and risks report

The opportunities and risks classified as action relevant on page 45 and 46 in the Annual Report 2019 have been reassessed. Besides the four significant risks listed in the annual report 2019, the business has identified one additional risk related to the COVID-19 pandemic which is seen as significant.

### **Declining demand caused by the COVID-19 pandemic**

The ongoing COVID-19 pandemic had a significant impact on specific industries which hold a notable share of our revenues. Therefore, we experienced a significant decline in demand, specifically within the civil aerospace as well as in the oil and gas sector. To counter measure those developments, we intensified our sales activities in other industries. We are reviewing the development of the pandemic very closely and continuously assess measures to minimize the impact to our business.

### **Loss of data through criminal activity with the aid of malware from third parties**

The integrity or availability of data or systems could be put at risk by means of malware. As a result of an infection or unauthorised access by third parties (e.g. email communication, phishing), it is conceivable that company / business data or personal data might be lost. One possible result could be that data confidentiality could not be guaranteed. Overall, any such attack leads to a competitive disadvantage, loss of knowledge as well as to damage to reputation and possible compensation claims. The potential level of loss is rated as serious. Various measures have been implemented by the IT Department to mitigate the risk. Specifically, there are regular system updates and backups to save data, consistent patch management, extensive antivirus software and foolproof monitoring of systems and data flows. The IT Department has optimised its internal processes and continues to work on improving the systems and automating the monitoring process. It is also planned to increase staffing levels. The aim is to achieve 24-hour availability in close collaboration with qualified external partners to enable the company to respond as quickly as possible in the event of a potential loss.

### **Pirate copies and breach of company's own property rights**

Newly founded companies could imitate the copyrighted name or logo of the SLM Solutions Group as well as its products. In the past, there have been several companies set up with the name "SLM" or similar designation – particularly in Asia. SLM Solutions has also registered various patents to protect the technology developed by the company. Competitors could also attempt to imitate the design of the product. The probability of occurrence is rated as definitely conceivable as in the last annual report. The potential loss is rated as high and is manifested in the form of lost profit and increasing risk of customers changing suppliers. The damage to the company's reputation would be very noticeable. SLM Solutions has registered various patents. Suspected breaches of copyright and patent infringements are consequent pursued.

### **Violation of third-party property rights**

The use of technology protected by third parties, which is used unintentionally in our products, could lead to an injunction if the proprietor of the property right is not willing to license and ultimately to impairment of the business activity or even claims for damages. A damage to the company's image cannot be ruled out. Increasing intellectual property rights activity can be observed in the market environment. Despite the very sensitive handling of third-party property rights, an infringement could occur. The probability of occurrence is classified as possible. However, the impact would be severe, so that the overall risk falls into the "material" category. Among other things, regular monitoring of competition registrations counteracts the risk. In some cases, one can proceed against property rights that are allegedly wrongly granted. In addition, there is occasionally a willingness to license among competitors, so that license agreements or so-called cross-license agreements can be agreed. Proceedings are being taken against allegedly wrongly granted property rights.

### **Insufficient procurement of resources to fund expansion**

It might be impossible to procure resources to the extent required or only on less favorable terms. The probability of occurrence is classed as possible. However, the impact could be serious. The following measures have been initiated to counter this risk. The company was authorized at the annual general meeting to raise capital, relationships with banks and investors are continuously cultivated and greater attention paid to the availability of liquid assets.

## Forecast

As announced by SLM Solutions on 26 March 2020, the visibility, in particular as it relates to the timing of orders, had been drastically reduced at that time due to the dramatic global economic slow-down as a result of COVID-19. For this reason, the Management Board was unable to provide a full year guidance in March 2020.

After a phase of a considerable slowdown during the second quarter, SLM Solutions recorded an uptake of customer activities towards the end of the first half of 2020. So far, this trend solidified in the third quarter, providing the Company better fundamentals to assess the order-intake and therefore financial performance for the remainder of the year. Overall, the Company experienced a quicker rebound of activity in its Asian and US markets compared to its European market, albeit at lower levels than before the crisis. For the second half of 2020, the Management Board expects customer activities to increase overall and, as a result, business to pick up further.

On this basis, the Company forecasts its revenue to increase by at least 20% for total year 2020 compared to the previous year (Group revenue 2019: EUR 49.0 million). Furthermore, SLM Solutions expects Earnings before interest, taxes, depreciation and amortization (EBITDA) to improve to a level between EUR –13 million and EUR –18 million (Group EBITDA 2019: EUR –26.0 million).

This forecast is based on the assumption that there will be no significant deterioration of the COVID-19 pandemic with extensive lockdown measures in the Company's key sales markets during the remainder of 2020

## Group Interim Financial Statement (IFRS) For the Period January 1, to June 30, 2020

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## Consolidated Income Statement (January 1 to June 30, 2020)

in kEUR	H1 / 2020	H1 / 2019	2019
Revenue	31,178	16,378	48,962
Reduction/ Increase in inventories of finished goods and work-in-progress	-1,358	-81	-7,524
Other work performed by the company and capitalized	2,242	2,033	3,368
<b>Total operating revenue</b>	<b>32,062</b>	<b>18,330</b>	<b>44,806</b>
Cost of materials	-14,011	-10,680	-20,896
<b>Gross profit</b>	<b>18,051</b>	<b>7,650</b>	<b>23,910</b>
Personnel costs	-17,405	-17,624	-31,871
Other operating income	1,555	827	1,635
Other operating expenses	-8,206	-9,554	-19,234
Profit or loss from equity-accounted companies	-3	-205	-442
<b>EBITDA</b>	<b>-6,010</b>	<b>-18,907</b>	<b>-26,001</b>
Depreciation, amortization and impairment losses	-4,368	-4,214	-8,659
<b>Operating profit or loss (EBIT)</b>	<b>-10,378</b>	<b>-23,120</b>	<b>-34,660</b>
Other interest income	25	86	176
Interest and similar expenses	-2,097	-2,110	-4,152
<b>Earnings before tax (EBT)</b>	<b>-12,451</b>	<b>-25,144</b>	<b>-38,636</b>
Income tax	-47	-5,651	-8,419
<b>Net profit/loss for the period</b>	<b>-12,498</b>	<b>-30,795</b>	<b>-47,055</b>
Net profit/loss for the period allocated to the owners of the parent company	-12,498	-30,795	-47,055
Earnings per share *in EUR	-0.63	-1.56	-2.38

\* Undiluted and diluted calculated with 19,778,953 shares

## Consolidated Statement of Comprehensive Income (January 1 to June 30, 2020)

in kEUR	H1 / 2020	H1 / 2019	2018
Net profit / loss for the period	-12,498	-30,795	-47,055
<b>Income / expenses not to be reclassified to profit or loss in the future:</b>			
Actuarial gains and losses	0	0	-730
<b>Income / expenses to be reclassified to profit or loss in the future:</b>			
Income / expenses from currency conversion	-531	548	130
<b>Consolidated total comprehensive income</b>	<b>-13,029</b>	<b>-30,247</b>	<b>-47,655</b>
Attribution of comprehensive income			
Shareholders of SLM Solutions	-13,029	-30,247	-47,655



## Consolidated Income Statement (April 1 to June 30, 2020)

in kEUR	Q2/2020	Q2/2019
Revenue	13,330	9,042
Reduction/ increase in inventories of finished goods and work-in-progress	-938	-727
Other work performed by the company and capitalised	1,219	1,059
<b>Total operating revenue</b>	<b>13,611</b>	<b>9,374</b>
Cost of materials	-6,098	-5,180
<b>Gross profit</b>	<b>7,514</b>	<b>4,194</b>
Personnel costs	-7,625	-9,303
Other operating income	864	118
Other operating expenses	-3,738	-5,699
Profit or loss from equity-accounted companies	-2	-94
<b>EBITDA</b>	<b>-2,987</b>	<b>-10,783</b>
Depreciation, amortisation and impairment losses	-2,184	-2,092
<b>Operating profit or loss (EBIT)</b>	<b>-5,171</b>	<b>-12,875</b>
Other interest income	10	0
Interest and similar expenses	-1,082	-1,081
<b>Earnings before tax (EBT)</b>	<b>-6,242</b>	<b>-13,956</b>
Income tax	-156	-9,136
<b>Net profit/loss for the period</b>	<b>-6,399</b>	<b>-23,092</b>
Net profit/loss for the period allocated to the owners of the parent company	-6,399	-23,092
Earnings per share *in EUR	-0.32	-1.17

\* Undiluted and diluted calculated with 19,778,953 shares

## Consolidated statement of comprehensive income (April 1 to June 30, 2020)

in kEUR	Q2/2020	Q2/2019
Net profit / loss for the period	-6,399	-23,092
<b>Income / expenses not to be reclassified to profit or loss in the future:</b>		
Actuarial gains and losses	0	0
<b>Income / expenses to be reclassified to profit or loss in the future:</b>		
Income/Expenses from currency conversion	64	483
<b>Consolidated total comprehensive income</b>	<b>-6,335</b>	<b>-22,609</b>
Attribution of comprehensive income		
Shareholders of SLM Solutions	-6,335	-22,609

## Consolidated Balance Sheet

in kEUR	June 30, 2020	June 30, 2019	December 31, 2019
<b>Assets</b>			
Cash on hand	15,010	30,383	25,523
Accounts receivable	15,194	18,350	15,488
Other financial assets	256	0	345
Inventories	27,994	37,592	28,281
Other non-financial assets	55	0	475
Current tax receivables	5,049	3,236	1,817
<b>Total current assets</b>	<b>63,558</b>	<b>89,561</b>	<b>71,929</b>
Intangible assets	26,185	25,768	24,288
Tangible fixed assets	36,612	37,871	39,136
Companies accounted for by equity method	0	908	0
Other assets	3	264	0
Other financial assets	92	375	525
Other non-financial assets	193	0	717
Deferred tax assets	51	0	43
<b>Total non-current assets</b>	<b>63,139</b>	<b>65,187</b>	<b>64,708</b>
<b>Total assets</b>	<b>126,696</b>	<b>154,747</b>	<b>136,637</b>

in kEUR	June 30, 2020	June 30, 2019	December 31, 2019
<b>Equity and Liabilities</b>			
Trade payables	5,856	8,213	5,341
Other financial liabilities	2,547	3,088	2,536
Other non-financial liabilities	5,642	3,938	4,054
Tax provisions	0	106	23
Provisions	5,612	4,717	5,293
Deferred income	751	0	0
<b>Total current liabilities</b>	<b>20,407</b>	<b>20,062</b>	<b>17,246</b>
Financial liabilities	63,827	65,736	64,098
Pensions and similar obligations	7,061	6,471	6,719
Other non-financial liabilities	1,151	0	1,256
Deferred tax liabilities	2,727	0	2,240
Deferred income	39	204	425
Provisions	0	70	139
<b>Total long-term liabilities</b>	<b>74,804</b>	<b>72,481</b>	<b>74,877</b>
Subscribed share capital	19,779	19,779	19,779
Additional paid-in capital	98,225	98,225	98,225
Consolidated loss for the period included in retained earnings	-83,834	-55,077	-71,337
Reserves	-2,685	-723	-2,153
<b>Total equity</b>	<b>31,485</b>	<b>62,204</b>	<b>44,514</b>
<b>Equity and liabilities (total)</b>	<b>126,696</b>	<b>154,747</b>	<b>169,925</b>

## Consolidated Cash Flow Statement (January 1 to June 30, 2020)

in kEUR	H1 / 2020	H1 / 2019	2019
Net profit / loss for the period	-12,498	-30,795	-47,055
Depreciation, amortisation and impairment losses	4,368	4,456	8,659
Interest expenses	2,097	2,110	4,205
Interest income	-25	-86	-176
Income tax	47	5,651	8,419
Non-cash expenses	3	205	442
Changes in assets and liabilities	2,087	18,152	28,440
Inventories	287	-829	8,482
Receivables	294	16,406	19,269
Pensions and similar obligations	342	917	1,165
Liabilities	890	-1,628	-4,500
Provisions	45	226	872
Other liabilities	-1,061	1,006	3,144
Other assets and liabilities	1,290	2,053	7
Income tax paid	0	899	833
Other changes in current assets	0	0	-260
<b>Net cash-flow from operational activities</b>	<b>-3,919</b>	<b>591</b>	<b>3,453</b>
Cash outflows for investments in intangible assets and property, plant and equipment	-1,334	-6,132	-9,482
Investments for development costs	-2,242	-2,033	-3,368
Cash outflows for investments in joint ventures	0	-200	-200
Cash outflows for investments in financial assets	0	-2	0
Interest received	12	19	36
<b>Net cash inflow / outflow from investment activities</b>	<b>-3,564</b>	<b>-8,349</b>	<b>-13,015</b>
Capital injection by shareholders	0	13,000	13,000
Interest payment	-2,013	-2,002	-3,368
Cash outflows for loans	-220	-476	-963
Repayment of lease liabilities	-666	-242	-850
<b>Net cash flows from financing activities</b>	<b>2,900</b>	<b>10,280</b>	<b>7,149</b>
Net increase (decrease) in cash and cash equivalents	-10,383	2,523	-2,360
Change in financing funds due to exchange rate changes	-131	74	97
Financing funds at the start of the reporting period	25,523	27,786	27,786
Financing funds at the end of the reporting period	15,010	30,383	25,523
<b>Financing funds at the end of the period</b>	<b>15,010</b>	<b>30,383</b>	<b>25,523</b>

## Consolidated Statement of Changes in Group Equity

in kEUR	Subscribed capital	Capital Reserve	Consolidated loss for the period included in retained earnings	First-time application reserve	Foreign exchange equalisation reserve	Other Reserves	Total Equity
<b>Balance as of January 1, 2019</b>	<b>17,981</b>	<b>87,023</b>	<b>-24,281</b>	<b>-632</b>	<b>-51</b>	<b>-953</b>	<b>79,087</b>
First-time application of IFRS 9 and 15				365			
Consolidated net result			-30,795				-30,795
Changes in equity from foreign currencies					548		548
Equity changes arising from actuarial gains/losses	1,798	11,202					+13,000
<b>Balance as of June 30, 2019</b>	<b>19,778</b>	<b>98,225</b>	<b>-55,076</b>	<b>-267</b>	<b>497</b>	<b>-953</b>	<b>62,204</b>
<b>Balance as of January 1, 2020</b>	<b>19,779</b>	<b>98,225</b>	<b>-71,337</b>	<b>-549</b>	<b>79</b>	<b>-1,683</b>	<b>44,514</b>
Consolidated net result			-12,498				-12,498
Changes in equity from foreign currencies					-531		-531
<b>Balance as of June 30, 2020</b>	<b>19,779</b>	<b>98,225</b>	<b>-83,834</b>	<b>-549</b>	<b>-452</b>	<b>-1,683</b>	<b>31,485</b>

# Notes to the Consolidated Annual Financial Statements (IFRS) for the period of January 1 to June 30, 2020

## SLM Solutions, Lübeck

### Note 1) General comments

SLM Solutions with its head office in Lübeck, is a publicly listed company and the ultimate parent company of the SLM Group. It is registered in the commercial register of the municipal court of Lübeck under HRB 13827. The company's address is Estlandring 4, 23560 Lübeck, Germany.

The shares of SLM Solutions (WKN A11133) have been traded on the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) since May 9, 2014, where they are quoted in the Prime Standard.

The composition of the reportable segments has not changed compared to the previous year. The segment Machine Business and After Sales Business have been identified as main business areas by the board. The segment Machine Business deals with machines from the sector Selective Laser Melting together with options such as powder screening stations and other peripheral. The segment After Sales Business provides service activities, spare part sales, commodities including powder, training, and the installation of machines into account.

The consolidated interim financial statement of SLM Solutions as at June 30, 2019, has been prepared in EUR. Unless otherwise stated, all amounts are given in thousand euros (kEUR). Deviations of up to one unit (kEUR, %) are due to rounding differences.

In the interim financial statements, both the notes and the consolidated interim financial statements are presented in a condensed form.

### Note 2) Accounting Principles

#### No changes in accounting principles

The interim consolidated financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS) for interim reporting as adopted by the EU and was compiled in compliance with IAS 34. The group management report was prepared in compliance with the Securities Trading Act (WpHG).

In terms of scope and level of detail, the interim consolidated financial statement is not comparable with a group consolidated financial, however, it contains all necessary details as per IAS 34 and § 115 section 5, clause 2 WpHG, and shows the actual earnings, financial, and asset situation required for the interim financial statement.

The accounting and valuation methods correspond essentially with those in the consolidated financial statement for the financial year 2019. A detailed description of the generally accepted accounting principles is contained in the consolidated financial statement as at December 31, 2019.

The income tax expense as shown in the interim report was calculated based on the applicable tax rate currently expected.

#### Newly implemented and changed standards

Will following amended standards in interpretations were implemented since the beginning of fiscal year 2020 without having any material effect on the consolidated financial statements.

- Definition of a business (amendments to IFRS 3) (from 1 January 2020)
- Definition of "material" (amendments to IAS 1 and IAS 8) (from 1 January 2020)
- IFRS 17 Insurance contracts
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (time of first application still open)

### Note 3) Consolidated Companies

In addition to the parent company SLM Solutions, Lübeck, the group interim financial statement comprises the following companies:

Name	Share in %
SLM Solutions NA, Inc., Wixom, Michigan, USA	100
SLM Solutions Singapore Pte Ltd, Singapore	100
SLM Solutions Shanghai Co. Ltd., China	100
SLM Solutions RUS OOO, Russia	100
SLM Solutions (India) Private Limited, India	100
SLM Solutions (Italy) S.R.L, Italy	100
SLM Solutions (France) SAS, France	100
SLM Solutions (Canada) Ltd., Canada	100

\* including indirect participation through SLM Solutions Singapore Pte Ltd. of 0.1%

The conditions of the control concept for the 3D Metal Powder GmbH entity are not fulfilled because of the shareholder resolutions which requires unanimity. Furthermore there are negotiations about selling the company. Consequently this asset will be shown below other financial assets on June 30, 2020 (June 30, 2019: Financial assets accounted for Using the equity method).

### Note 4) Seasonal influences on the business activities

SLM Solutions's business is subject to seasonal influences so that income and operational results of the company may fluctuate from quarter to quarter. Especially a weak fourth quarter has a strong impact on the full year result. In order to mitigate the risk of seasonal fluctuations, SLM Solutions is enhancing the composition of customer portfolio from manufacturing companies, service centers, and research institutes. After sales business, which is less affected by fluctuations, is in addition being expanded.

### Note 5) Segment Reporting

The composition of the reportable segments has not changed compared to the previous year. The segments Machine Business and After Sales Business have been identified as main business areas for internal reporting by the board. The segment Machine Business deals with machines from the sector Selective Laser Melting together with options like powder screening stations and other peripheral devices. The segment After Sales Business takes service activities, spare part sales, sales of commodities including powders, training, and the installation of machines into account.

H1/2020 in kEUR	Machine Business	After Sales Business	Total
<b>Revenue</b>	<b>23,758</b>	<b>7,421</b>	<b>31,178</b>
Expenses	-27,407	-9,780	37,187
<b>EBITDA</b>	<b>-3,650</b>	<b>-2,359</b>	<b>-6,010</b>
Depreciation			-4,368
Interest result			-2,073
<b>EBT</b>			<b>-12,451</b>
Income tax			-47
<b>Result for the period</b>			<b>-12,498</b>

H1/2019 in kEUR	Machine Business	After Sales Business	Total
<b>Revenue</b>	<b>9,374</b>	<b>7,004</b>	<b>16,378</b>
Expenses	-20,479	-14,805	-35,284
<b>EBITDA</b>	<b>-11,106</b>	<b>-7,801</b>	<b>-18,907</b>
Depreciation			-4,214
Interest result			-2,024
<b>EBT</b>			<b>-25,144</b>
Income tax			-5,651
<b>Result for the period</b>			<b>-30,795</b>

Apart from depreciation, there were no further significant non-cash expenses. The segment revenue as shown above represents sales revenue from business with external customers.

No significant transactions were generated between the segments.

### Sales by Region

in kEUR	2020	2019
Germany	5.696	2.760
Asia/Pacific	9.101	5.617
European countries (excl. Germany)	6.253	3.185
United States of America	9.327	4.344
Other countries	801	712
<b>Total</b>	<b>31.178</b>	<b>16.618</b>

The above revenue information relates to the location of the customer.

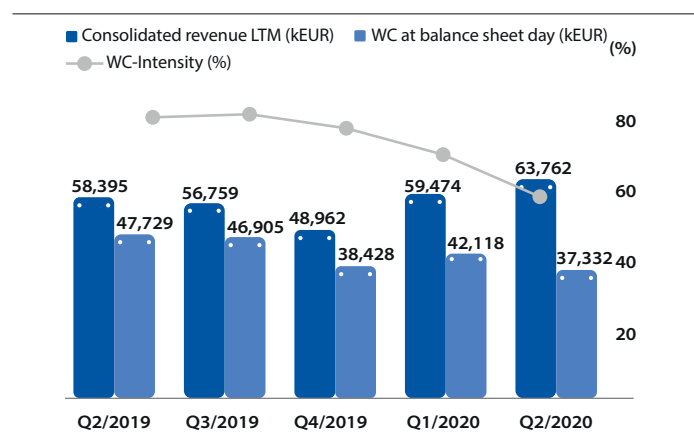
### Note 6) Liquidity and financial liabilities

Liquidity was assured at all times in both the prior year and as at June 30, 2020. At balance sheet date, cash and cash equivalents were at kEUR 15,010. To further enhance liquidity, the first tranche of the convertible bond 2020/2026 was issued (refer to Note 11).

Working Capital at kEUR 37,332 significantly improved compared to previous year (June 30, 2019: kEUR 47,729). Overall, the company implemented various operational measures compared to the previous year resulting in an improved working capital intensity of 59% at balance sheet date (June 30, 2019: 82%)

Working capital (kEUR)	June 30, 2020	December 31, 2019	June 30, 2019	Difference	
				6-month period	12-month period
Accounts receivable	15,194	15,488	18,350	-294	-3,156
Inventories	27,994	28,281	37,592	-287	-9,598
Accounts payable	-5,856	-5,341	-8,213	-516	2,357
<b>Total</b>	<b>37,332</b>	<b>38,428</b>	<b>47,729</b>	<b>-1,096</b>	<b>-10,397</b>

### Working capital intensity



### Note 7) Equity

As of June 30, 2020, the equity ratio was 25% (June 30, 2019: 40%; Dec 31, 2019: 33%) at a 13% lower balance sheet total in comparison to the preceding year.



## Earning per Share (EPS) (undiluted and diluted)

The undiluted and diluted result per share is calculated by the quotient of the net profit attributable to the share-holders of the parent company and the average number of shares on issue during the financial year.

As in the preceding year, the diluted result corresponds to the undiluted result. The convertible bond issue may have a diluting effect, however, currently it does not which is due to the counter-dilution effect of the negative result for the year.

	June 30, 2020	June 30, 2019
Number of shares issued as at 01.01.	19,778,953	17,980,867
Number of shares issue during the financial year	0	1,798,086
<b>Weighted average number of issued shares</b>	<b>19,778,953</b>	<b>19,778,953</b>
Profit attributable to shareholders of the parent company in EUR	-12,497,576	-30,795,203
Weighted average number of issued shares	19,778,953	19,778,953
Undiluted and diluted earnings per share in EUR	-0.63	-1.56

## Note 8) Significant business transactions with related parties

Related parties within the meaning of IAS 24 are those persons or parties who can be influenced by the reporting entity or who can exert influence on the company.

The members of the Executive and Supervisory Boards of the SLM Group were identified as related persons.

Members of the Executive Board as at June 30, 2020:

- Meddah Hadjar
- Sam O'Leary
- Dr. Gereon W. Heinemann (until February 18, 2020)
- Frank Hülsmann (until March 2, 2020)

Members of the Supervisory Board as at June 30, 2019:

- Hans-Joachim Ihde
- Magnus René
- Thomas Schweppe
- Dr. Roland Busch
- Kevin Czinger
- Dr. Nicole Englisch (from June 2020)

No shareholder exerts direct control.

## Note 9) Events after the balance sheet date

The company successfully issued the first tranche of the so-called convertible bond 2020/2026 (ISIN: DE000A289N86) with a volume of kEUR 15,000 on July 14, 2020. The convertible was offered exclusively to existing shareholders of the company and owners of the convertible bond 2017/2022.

## Affirmation by the legal representatives

We hereby certify to the best of our knowledge that in accordance with the applicable accounting principles the group interim consolidated financial statement conveys an accurate picture commensurate with the actual conditions of the assets, financial position, and earnings of the group. We also certify that the interim management report including the course of business and business trend reflect a true picture of the actual conditions, opportunities, and risks facing the group in the foreseeable future.

Lübeck, August 13, 2020



Meddah Hadjar



Sam O'Leary

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