

**CeramTec TopCo GmbH
Plochingen**

**Operating and Financial Review
for the period ended
31 March 2021**

On March 8, 2018, a consortium led by funds advised by leading private equity firm BC Partners (“BC Partners”) acquired the CeramTec Group. The Public Sector Pension Investment Board (“PSP Investments”) and Ontario Teachers’ Pension Plan (“Ontario Teachers’”) are part of the consortium. As a result of the transaction, CeramTec AcquiCo GmbH (“CeramTec AcquiCo”) acquired the shares in CeramTec Holding GmbH (“CeramTec Holding”). CeramTec AcquiCo GmbH is a 100% subsidiary of CeramTec BondCo GmbH (“CeramTec BondCo”), which is itself a 100% subsidiary of CeramTec TopCo. As a result of the acquisition, CeramTec TopCo indirectly obtained control of the operating Advanced Ceramics Business as from the acquisition date March 8, 2018. CeramTec TopCo is the ultimate parent and prepares the interim condensed consolidated financial statements of the CeramTec Group.

The purpose of this Operational and Financial Review is to show the development of the financial results of the operating Advanced Ceramics Business for the three-month period ended March 31, 2021 in comparison to the three-month period ended March 31, 2020. The financial data for both periods have been derived from the interim condensed consolidated financial statements.

The following discussion should be read in conjunction with the information contained in our interim condensed consolidated financial statements for the three-month period ended March 31, 2021 including the notes thereto. In the following, we discuss certain financial quantities on an adjusted basis before giving effect to depreciation and amortization, and certain extraordinary, non-recurring items.

The figures in this review are presented in Euro. The amounts are in millions of Euros (EURm). All amounts are rounded using standard commercial principles. In some cases, adding single values to the total values may therefore lead to differences. Due to rounding differences, figures in tables and cross-references may differ slightly from the actual figures (units of currency, percentages, etc.).

Business Overview

We are a leading global developer, manufacturer and supplier of high performance ceramic (“HPC”) solutions for various end markets including medical, automotive, industrial, consumer and electronics. Our HPC solutions are made of advanced ceramics, which are highly specialized materials with superior biological/chemical, mechanical, thermal, electric, magnetic or optical properties compared to competing products made from metal or polymers (plastics). We have been engaged in the HPC industry for over 100 years, with operational expertise and experience in creating innovative system solutions for longstanding customers at an industrial scale. We currently offer a wide range of HPC solutions, including among others, hip joint prosthesis components, ceramic dental implants, actuators in engine valves for fuel injection systems, electronic substrates for chip resistors and electrical vehicles, high speed cutting tools and piezo components critical for many different sensors. The versatility of HPC products and resulting wide range of applications provides us with a highly diversified end market and customer base. Our operations can be divided into two businesses: Medical Products and Industrial.

Medical Products

Our Medical Products business focuses on developing and manufacturing ceramic components for hip joint prostheses, such as ball heads and cup inserts used in total hip replacement (“THR”) procedures. In the three-month period ended March 31, 2021, it generated 44.1% of our revenue.

Ceramic materials are replacing traditional materials for hip joint prosthetic components such as metal which can trigger negative physical reactions, for example due to allergic reactions resulting from metal sensitivity. Our HPC medical solutions are biologically inert and have high wear resistance and excellent friction behaviour, making them one of the few materials that are durable and stable enough to withstand the corrosive effects of bodily fluids. More than 20 million of our BIOLOX® ceramic components have been implanted in patients globally to date. We estimate that nearly one in two hip joint implant systems sold worldwide includes at least one ceramic component. We believe that our BIOLOX® brand has come to symbolize high quality and innovation and is increasingly preferred by surgeons and other medical professionals. We anticipate that our HPC solutions will be used for various other joint replacements, such as more knees and shoulder implants in the future. Furthermore, in future, the superior characteristics of the ceramic materials will also drive the market for dental implants, a market in which we are increasingly active.

Industrial

Our Industrial business develops, manufactures and supplies a broad range of highly specialized, performance-critical HPC solutions for customers spanning a wide range of industries including automotive, defence, electronics, industrial machinery and medical equipment. In the three-month period ended March 31, 2021, 55.9% of our revenue was generated by our Industrial business.

Our dedicated teams of scientists and engineers collaborate closely with customers to develop tailor - made solutions and production processes to fulfil distinct functionality and performance requirements. We believe that we are one of the few advanced ceramics manufacturers with a full range of HPC materials and manufacturing processes with a global reach. Our HPC solutions are often used in performance-critical components. For example, our cutting tools have a longer life and faster cutting speeds compared to non-HPC cutting tools, allowing our customers to save costs and reduce downtime. In automotive engineering, HPC products, including our piezo ceramic components, play a vital role in increasing safety, improving cost-effectiveness and enhancing comfort in vehicles. Our ceramic substrates are used for a variety of purposes in the electronics and telecommunications sector, including measurement and control technology and entertainment electronics. We believe that the specialized, mission-critical nature of our solutions, our longstanding customer relationships and our highly diversified portfolio of solutions and customer base, reduce the exposure of our Industrial business to any single industry or product.

Results of Operations

The following table sets forth amounts from our income statement along with the percentage change for the three-month period ended March 31, 2021 compared to the three-month period ended March 31, 2020.

	Three months Ended March 31,		
	2021	2020	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Revenue	168.4	158.1	+6.5
Cost of sales	93.2	89.2	+4.4
Gross profit	75.2	68.9	+9.2
Selling costs	25.3	23.8	+6.3
Research and development costs	5.9	5.8	+2.0
General administrative costs	5.9	6.0	-0.8
Other income and expenses (-), net.....	1.4	1.8	-26.0
Operating income	39.5	35.1	+12.3
Interest income and other finance income.....	5.9	0.4	>1k
Interest expenses and other finance costs.....	22.2	49.4	-55.1
Financial result	-16.3	-49.0	-66.7
Profit/(Loss) before income tax	23.1	-13.9	N/A
Income tax expense.....	6.7	-2.7	N/A
Net profit/(loss) for the period	16.4	-11.1	N/A

Our management considers the results of operations on the adjusted basis, before giving effect to depreciation and amortization as well as certain extraordinary, non-recurring items, to be an important indicator of business performance. Management adjusted EBITDA, its main components and its reconciliation to Operating Income as reported is shown in the following table.

	Three months Ended March 31,		
	2021	2020	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Revenue	168.4	158.1	+6.5
Cost of sales*	77.7	74.4	+4.4
Gross profit*	90.7	83.7	+8.4
Selling costs*	11.1	11.2	-0.5
Research and development costs*	4.7	5.3	-10.5
General administrative costs*	4.9	4.9	+0.7
Other income and expenses (-), net*	0.5	1.3	-58.0
Management Adjusted EBITDA	70.5	63.7	+10.8
- Exceptional Items	3.8	1.7	+119.6
EBITDA	66.7	61.9	+7.7
- Amortization, Depreciation and impairment charges on non-current assets	27.2	26.8	+1.7
Operating income	39.5	35.1	+12.3

* Excluding depreciation, amortization and exceptional items

The following table provides a breakdown of the Exceptional Items for the three months ended March 31, 2021, compared to the three months ended March 31, 2020.

	Three months Ended March 31,	
	2021	2020
	<i>(in EUR m)</i>	
Exceptional items	3.8	1.7
Restructuring costs	1.4	0.3
Other non-recurring costs	2.2	2.2
Foreign exchange conversion effects	-1.0	-1.5
Acquisition costs	0.1	0.1
Start-up losses	0.6	0.3
Discontinued operations	0.3	0.3
PPA on inventories	0.3	-

Restructuring costs in 2020 and 2021 mainly comprise severance payments for the reduction of staff at CeramTec GmbH and CeramTec-ETEC GmbH for restructuring initiatives undertaken mainly in our Industrial business, related to the Covid-19 pandemic.

Other non-recurring costs in 2020 and 2021 mainly are comprised of non-recurring consulting and litigation expenses, Covid-19 related direct costs for measures to safeguard employees' health, additional IT spending to adjust to changed work environment, while 2020 also includes plant shutdowns.

Foreign exchange conversion effects reflect certain impacts related to currency conversions of intercompany receivables that are accounted in our Operating income.

Acquisition costs in 2020 and 2021 comprise costs related to the acquisition of CeramTec by the consortium.

Start-up losses reflect the ramp up cost of our knee and dental businesses in Medical.

Discontinued operations mainly comprise the exit / discontinuation of some product groups in our Industrial business.

Revenue

The following table provides a breakdown of our revenue for the three months ended March 31, 2021, compared to the three months ended March 31, 2020, by business:

	Three months Ended March 31,		
	2021	2020	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Medical Products	74.4	70.4	+5.6
Industrial	94.1	87.7	+7.3
.....			
Total revenue	168.4	158.1	+6.5
.....			

Total revenue for the three months ended March 31, 2021 was €168.4 million, an increase of €10.3 million or 6.5%, as compared to €158.1 million for the three months ended March 31, 2020.

Revenue in our Medical Products business was €74.4 million for the three months ended March 31, 2021, an increase of €3.9 million or 5.6%, as compared to €70.4 million for the three months ended March 31, 2020. Revenues in 2020 were impacted by lower order income and order cancellations and postponements from customers in the context of a lower number of elective surgeries taking place due to Covid-19.

Revenue in our Industrial business was €94.1 million for the three months ended March 31, 2021, an increase of €6.4 million or 7.3%, as compared to €87.7 million for the three months ended March 31, 2020. This increase is mostly due to the recovery from lower volumes across most products groups due to lower demand from customers and order cancellations following the Covid-19 outbreak in 2020.

The following table provides a breakdown of our revenue for the three months ended March 31, 2021, compared to the three months ended March 31, 2020, by region.

	Three months Ended March 31		
	2021	2020	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Europe (excluding Germany)	71.3	74.0	-3.6
Germany	34.6	34.0	+0.2
Asia	33.5	21.9	+53.0
North America*	27.8	27.3	+0.2
Other regions	1.1	1.0	+10.0
Total net sales	168.4	158.1	+6.5

*Sales in North America consist of sales in USA, Canada and Mexico

Cost of Sales and Gross Profit

The following table provides a breakdown of our cost of sales for the three months ended March 31, 2021, compared to the three months ended March 31, 2020.

	Three months Ended March 31			
	2021		2020	
	(in EUR m)	(% of net sales)	(in EUR m)	(% of net sales)
Personnel expenses	35.0	20.8	33.7	21.3
Material and packing costs	30.0	17.8	26.8	16.9
Amortization and depreciation	13.9	8.3	14.0	8.9
Other cost of sales	14.3	8.5	14.8	9.3
Cost of sales	93.2	55.3	89.2	56.4

Cost of sales was €93.2 million (55.3% of revenue) for the three months ended March 31, 2021, an increase of €4.0 million or 4.4%, compared to €89.2 million (56.4% of revenue) for the three months ended March 31, 2020. Excluding amortization and depreciation and non-recurring items, our adjusted cost of sales increased by 4.4% from €74.4 million or 47.0% of revenue for the three months ended March 31, 2020 to €77.7 million or 46.1% of revenue for the three months ended March 31, 2021.

Gross profit was €75.2 million for the three months ended March 31, 2021, an increase of €6.3 million or 9.2%, as compared to €68.9 million for the three months ended March 31, 2020. Adjusted gross profit margin, before giving effect to depreciation and amortization and non-recurring items, was 53.9% for the three months ended March 31, 2021 compared to 53.0% for the three months ended March 31, 2020.

Selling Cost

Selling costs were €25.3 million (15.0% of revenue) for the three months ended March 31, 2021, an increase of €1.5 million or 6.3%, as compared to €23.8 million (15.1% of revenue) for the three months ended March 31, 2020. Excluding amortization and depreciation and non-recurring items, our adjusted selling costs decreased by €-0.1 million to €11.1 million or 6.6% of revenue for the three months ended March 31, 2021, compared to €11.2 million or 7.1% of revenue for the three months ended March 31, 2020.

Research and Development Cost

Research and development costs were €5.9 million (3.5% of revenue) for the three months ended March 31, 2021, an increase of €-0.1 million or 2.0%, as compared to €5.8 million (3.7% of revenue) for the three months ended March 31, 2020. Excluding amortization and depreciation and non-recurring items,

our adjusted research and development costs decreased by €0.6 million to €4.7 million or 2.8% of revenue for the three months ended March 31, 2021 compared to €5.3 million or 3.4% of revenue for the three months ended March 31, 2020.

General Administrative Cost

General administrative costs were €5.9 million (3.5% of revenue) for the three months ended March 31, 2021, a decrease of €0.1 million or 0.8%, as compared to €6.0 million (3.8% of revenue) for the three months ended March 31, 2020. Excluding amortization and depreciation and non-recurring items, our adjusted general administrative costs stay on prior year level with €4.9 million or 2.9% of revenue for the three months ended March 31, 2021 compared to €4.9 million or 3.1% of revenue for the three months ended March 31, 2020.

Other Income and Expenses

Other expenses were €1.4 million for the three months ended March 31, 2021, a decrease of €0.5 million compared to other expense of €1.8 million for the three months ended March 31, 2020. This decrease was mainly due to impairment effects on Industrial goodwill. Excluding non-recurring items, our adjusted other expenses, net, decreased to €0.5 million or 0.3% of revenue for the three months ended March 31, 2021 compared to expenses of €1.3 million or 0.8% of revenue for the three months ended March 31, 2020.

Interest Income and Other Financial Income

Interest income and other finance income was €5.9 million for the three months ended March 31, 2021, an increase of €5.5 million as compared to €0.4 million for the three months ended March 31, 2020. This increase was mainly due to €1.2 million gains from the fair value measurement of derivatives.

Interest Expenses and Other Finance Costs

Interest expenses and other finance costs were €22.2 million for the three months ended March 31, 2021, a decrease of €27.2 million as compared to €49.4 million for the three months ended March 31, 2020. The financial expenses of €22.2 million include €13.1 million of syndicated loan, revolving credit line and bond interest expenses, €5.0 million of interest expenses for a shareholder loan, €1.9 million of expenses from the effective interest rate method, €1.7 million exchange rate losses and €0.5 million of other interest expenses.

Income Tax Expenses

Income tax expenses were €6.7 million for the three months ended March 31, 2021, a change of €9.4 million as compared to €-2.7 million income tax expenses for the three months ended March 31, 2020.

This was mainly due to lower deferred tax income resulting from the valuation of derivatives and higher current tax expenses mainly resulting from the German and the US Tax Group.

Net Profit / Loss

As a result of the developments described above, net income for the period was €16.4 million for the three months ended March 31, 2021, compared to a net loss of €11.1 million for the three months ended March 31, 2020.

Financial Condition, Liquidity and Capital Resources

As of March 31, 2021, the gross financial debt, the cash balance as well as the Revolving Credit Facility and Ancillary Line were as follows:

	As of March 31, 2021 <i>(in EUR m)</i>
Gross financial debt (without accrued transaction costs)	1,612.5
<i>thereof bond</i>	406.0
<i>thereof term loans</i>	1,196.1
<i>thereof revolving credit facility</i>	0.0
<i>thereof ancillary line</i>	0.0
<i>thereof bank loans</i>	4.8
<i>thereof accrued interest</i>	5.6
Cash.....	200.6
Net debt.....	1,411.9
Undrawn Revolving Credit Facility	67.0
Undrawn Ancillary Line.....	8.0

The management-adjusted EBITDA for the last twelve months ended March 31, 2021 was €219.9 million leading to the net debt leverage ratio of 6.4x, compared to the management-adjusted EBITDA for the last twelve months ended March 31, 2020 of €241.6 million and the net debt leverage ratio of 5.9x, respectively.

With effect as of January 4, 2021, Dentalpoint AG, a company based in Spreitenbach, Switzerland, was acquired. With this acquisition, the CeramTec Group invests into the high growth market for ceramic dental implants and continues to expand the offering in the Medical Products segment. The preliminary purchase price of €51.0 million was paid using cash and cash equivalents.

Cash Flow Statement

The following table shows the cash flow statement for the three-month period ended March 31, 2021 and for the three-month period ended March 31, 2020.

	Three months ended March 31, 2021	Three months ended March 31, 2020
	<i>(in € million)</i>	<i>(in € million)</i>
Net profit / (loss) for the period.....	16.4	-11.1
Income tax expenses / benefit (-)	6.7	-2.7
Interest result	19.8	18.7
Amortization, depreciation and impairment changes of non-current assets	27.2	26.8
Gain (-) / Loss on disposal of fixed assets	0.0	-0.1
Increase / decrease (-) in provisions (excluding deferred taxes)	3.5	1.3
Income tax refund / (payment)	-9.0	-8.1
Other non-cash expenses / income (-), net.....	-1.3	28.3
Increase (-) / decrease in inventories	-3.8	-3.5
Increase (-) / decrease in trade receivables	-30.5	-19.1
Increase (-) / decrease in other receivables and (financial) assets.....	0.7	0.1
Increase / decrease (-) in trade payables.....	-3.1	-2.7
Increase / decrease (-) in other (financial) liabilities	5.3	-1.5
Cash flow from operating activities	32.0	26.5
Cash received from disposals of property, plant and equipment	0.2	0.1
Cash paid (-) for investments in property, plant and equipment.....	-9.3	-9.9
Cash received from grants	0.0	0.0
Cash paid (-) for investments in intangible assets.....	-0.7	-0.7
Cash paid (-) for the acquisition of entities	-50.0	0.0
Cash flow from investing activities.....	-59.9	-10.5
Cash received from / repayment (-) of syndicated loan	0.0	7.3
Interest paid (-)	-15.9	-55.4
Cash received from drawing / repayment (-) of revolver loan	0.0	67.0
Cash received from / repayment (-) of shareholder loan.....	0.0	-19.6
Cash paid for capitalized leases (right-of-use assets)	-0.9	-0.7
Cash flow from financing activities.....	-16.7	-1.4
Change in cash and cash equivalents.....	-44.7	14.6
Net foreign exchange difference	1.1	-0.3
Cash and cash equivalents at the beginning of the period.....	244.1	64.4
Cash and cash equivalents at the end of the period.....	200.6	78.8

Cash flows from operating activities increased from €26.5 million for the three months ended March 31, 2020 to €32.0 million for the three months ended March 31, 2021. The increase is driven by an overall higher business partly offset by increasing trade receivables driven by good volume growth.

Cash flows used in investing activities for property, plant and equipment and intangible assets increased from €-10.5 million for the three months ended March 31, 2020 to €-59.9 million for the three months ended March 31, 2021. The increase is driven by the acquisition of Dental Point AG (€-50 million).

Cash flows used in financing activities increased from an outflow of €-1.4 million for the three months ended March 31, 2020 to an outflow of €-16.7 million for the three months ended March 31, 2021 which comes from €-15.9m paid interest and €-0,9m right-of-use assets.

Capital Expenditures

The following table provides an overview of our capital expenditures (w/o right-of-use assets) for the three months ended March 31, 2021 and 2020:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Additions to intangible assets	0.7	0.7
Additions to property, plant and equipment	5.5	4.9
Capital expenditures (gross)	6.2	5.6
Government grants	0.0	0.0
Capital expenditures (net)	6.2	5.6
Additions from business acquisitions	0.0	0.0

In general, our capital investment is split evenly between maintenance and growth projects. Cash outflow for the three months ended March 31, 2021 for intangible assets amounts to €0.7 million and for tangible assets amounts to €9.3 million.

Employees

As of March 31, 2021, the CeramTec Group employed a workforce of 3,471 people, a decrease of -1.6% compared to the previous year.

Headcount	March 31, 2021	March 31, 2020
Employees by region		
Europe (w/o Germany)	643	630
Germany	1,965	2,061
North and South America	311	334
Asia	520	503
	3,471	3,528
Employees by function		
Manufacturing	2,740	2,793
Sales	306	305
Research and development	167	179
Administration	258	251
	3,471	3,528

Recent Developments

There were no significant events after the reported date.

Plochingen, 17 May 2021

CeramTec TopCo GmbH

The Management

Dr. Hadi Saleh