

CeramTec TopCo GmbH
Plochingen

Operating and Financial Review
for the period ended
30 September 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 wholly-owned subsidiary of CeramTec BondCo GmbH (“CeramTec BondCo”), which is itself a wholly-owned 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. Canada Pension Plan Investment Board (“CPP Investments”), through its wholly owned subsidiary, CPP Investment Board Europe S.à.r.l., and BC Partners, a leading international investment firm, announced on August 17, 2021, an agreement to jointly acquire CeramTec TopCo Group, from existing owner BC European Capital X (“BCEC X”) and its co-investors. On completion of the transaction, CeramTec TopCo will be jointly owned by CPP Investments and BC Partners Fund XI (“BC XI”). Under the new ownership structure, CPP Investments and BC XI, together with co-investors, will each hold a 50% stake in the CeramTec TopCo. 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 nine-month period ended September 30, 2021 in comparison to the nine-month period ended September 30, 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 nine-month period ended September 30, 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, highspeed 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 Unit focuses on the development and manufacturing of ceramic components for orthopedics, dentistry and veterinary medicine. These include ceramic ball heads and cup inserts for hip joint replacement or ceramic implants for dental restoration. In the nine-month period ending September 30, 2021, this business generated 43.6% of our sales.

High performance ceramics (HPC) replace conventional materials for hip joint prostheses such as metal, which can trigger negative immunological reactions, leading to the loss of the implant. Medical HPC solutions have excellent biocompatibility and very high wear resistance with excellent friction behavior. This makes them one of the few materials that are durable and strong enough to withstand the corrosive effects of body fluids. To date, more than 20 million of our BIOLOX® ceramic components have been implanted in patients worldwide. We estimate that nearly one in two hip implant systems sold worldwide contains at least one BIOLOX® ceramic component. We believe that our BIOLOX® brand stands for high quality and innovation and is increasingly preferred by surgeons and other medical professionals. We expect that in the foreseeable future our HPC components will also be used for other joint prostheses such as knee and shoulder and for spinal applications. Furthermore, we are convinced that the superior properties of ceramic materials will also have a significant impact on the market for dental implants. We are contributing to this with our custom-made dental implant solutions, but also with the acquisition of Dentalpoint, a Swiss manufacturer of dental implants and white label solutions for dental OEM manufacturers.

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, defense, electronics, industrial machinery and medical equipment. In the nine-month period ended September 30, 2021, 56.4% 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 nine-month period ended September 30, 2021 compared to the nine-month period ended September 30, 2020.

	Nine months ended September 30,		
	2021	2020	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Revenue.....	495.1	418.3	+18.3
Cost of sales	275.1	251.3	+9.5
Gross profit	219.9	167.1	+31.7
Selling costs	72.8	65.8	+10.7
Research and development costs.....	17.0	15.6	+8.9
General administrative costs	19.1	17.7	+7.8
Other income and expenses (-), net.....	3.2	-136.5	N/A
Operating income	114.1	-68.6	N/A
Interest income and other finance income.....	26.1	2.4	+984.3
Interest expenses and other finance costs.....	65.3	85.5	-23.6
Financial result	-39.2	-83.1	-52.8
Profit/(Loss) before income tax	74.9	-151.7	N/A
Income tax expense	-24.2	-1.9	>1,000
Net profit/(loss) for the period	50.7	-153.6	N/A

Our management considers the results of operations on an 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 are shown in the following table.

	Nine months ended September 30,		
	2021	2020	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Revenue.....	495.1	418.3	+18.3
Cost of sales*.....	229.7	205.0	+12.1
Gross profit*	265.3	213.3	+24.4
Selling costs*.....	31.4	27.1	+15.6
Research and development costs*.....	13.6	13.2	+3.2
General administrative costs*.....	14.5	13.3	+9.2
Other income and expenses (-), net*.....	1.1	3.8	-72.1
Management-Adjusted EBITDA	206.9	163.5	+26.5
- Exceptional Items.....	10.3	14.8	-30.4
EBITDA	196.6	148.7	+32.2
- Amortization, depreciation and impairment charges on non-current assets.....	82.1	217.3	-62.2
Operating income	114.1	-68.6	N/A

* Excluding depreciation, amortization and exceptional items

The following table provides a breakdown of the Exceptional Items for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020.

	Nine months ended	
	September 30,	
	2021	2020
	<i>(in EUR m)</i>	
Exceptional items	10.3	14.8
Restructuring costs.....	2.3	4.3
Other non-recurring costs.....	7.5	8.6
Foreign exchange conversion effects.....	-1.3	-0.6
Acquisition costs.....	0.5	0.2
Start-up losses.....	1.6	0.9
Discontinued operations.....	-1.6	0.8
Transaction related costs.....	0.3	0.3
PPA on inventories.....	1.0	-
Additional contribution related to pensions.....	-	0.2

Restructuring costs in 2020 and 2021 mainly comprised of 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. In the third quarter of 2020 we aligned the presentation table for exceptional items of our already published discussions for the sake of comparability and consistency by switching €0.3 million for a risk insurance from other non-recurring costs to transaction related costs.

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

Acquisition costs in 2020 and 2021 represent mainly acquisition-related consulting.

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.

Transaction related costs containing a risk insurance due to the CeramTec AcquiCo acquisition with effectiveness of March 8, 2018. In the third quarter of 2020 we aligned the presentation table for exceptional items of our already published discussions for the sake of comparability and consistency by switching €0.3 million for a risk insurance from other non-recurring costs to transaction related costs.

PPA on inventories comprises step-ups at transactions, in finished goods and work in progress inventories

Additional contribution related to pensions represent the expenses relating to the pension plan at Pensionskasse Dynamit Nobel VVaG, which was closed at the end of 2014 but with a continuing contractual obligation to cover potential underfunding. On July 20, 2016, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) approved the solvency plan dated June 24, 2016 in favor of Pensionskasse Dynamit Nobel VVaG. The provision was based on the planned payments until 2021. Additional contributions for 2020 are based on annual projections by the German Federal Financial Supervisory Authority.

Revenue

The following table provides a breakdown of our revenue for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, by business:

	Nine months ended September 30,		
	2021	2020	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Medical Products.....	215.8	176.4	+22.3
Industrial	279.3	242.0	+15.4
Total revenue	495.1	418.3	+18.3

Total revenue for the nine months ended September 30, 2021 was €495.1 million, an increase of €76.7 million or 18.3%, as compared to €418.3 million for the nine months ended September 30, 2020.

Revenue in our Medical Products business was €215.8 million for the nine months ended September 30, 2021, an increase of €39.4 million or 22.3%, as compared to €176.4 million for the nine months ended September 30, 2020. Revenues in 2020 were impacted by lower order income, 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 €279.3 million for the nine months ended September 30, 2021, an increase of €37.3 million or 15.4%, as compared to €242.0 million for the nine months ended September 30, 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 nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, by region:

	Nine months ended September 30		
	2021	2020	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Europe (excluding Germany)	216.8	173.7	+24.8
Germany	97.3	84.6	+14.9
Asia.....	90.4	77.1	+17.2
North America*	88.5	75.9	+16.5
Other regions	3.9	2.9	+33.4
Total net sales	495.1	418.3	+18.3

*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 nine months ended September 30, 2021, compared to the nine months ended September 30, 2020.

	Nine months ended September 30			
	2021		2020	
	(in EUR m)	(% of net sales)	(in EUR m)	(% of net sales)
Personnel expenses	99.6	20.1	93.0	22.2
Material and packing costs	90.8	18.3	74.3	17.8
Amortization and depreciation.....	42.5	8.6	42.0	10.0
Other cost of sales.....	42.2	8.5	42.0	10.0
Cost of sales	275.1	55.6	251.3	60.1

Cost of sales was €275.1 million (55.6% of revenue) for the nine months ended September 30, 2021, an increase of €23.9 million or 9.5%, compared to €251.3 million (60.1% of revenue) for the nine months ended September 30, 2020. Excluding amortization and depreciation and non-recurring items, our adjusted cost of sales increased by 12.1% from €205.0 million or 49.0% of revenue for the nine months ended September 30, 2020 to €229.7 million or 46.4% of revenue for the nine months ended September 30, 2021.

Gross profit was €219.9 million for the nine months ended September 30, 2021, an increase of €52.9 million or 31.7%, as compared to €167.1 million for the nine months ended September 30, 2020. Adjusted gross profit margin, before giving effect to depreciation and amortization and non-recurring items, was 53.6% for the nine months ended September 30, 2021 compared to 51.0% for the nine months ended September 30, 2020.

Selling Costs

Selling Costs were €72.8 million (14.7% of revenue) for the nine months ended September 30, 2021, an increase of €7.0 million or 10.7%, as compared to €65.8 million (15.7% of revenue) for the nine months ended September 30, 2020. Excluding amortization and depreciation and non-recurring items, our adjusted Selling Costs increased by €4.2 million to €31.4 million or 6.3% of revenue for the nine months ended September 30, 2021, compared to €27.1 million or 6.5% of revenue for the nine months ended September 30, 2020.

Research and Development Costs

Research and Development Costs were €17.0 million (3.4% of revenue) for the nine months ended September 30, 2021, an increase of €1.4 million or 8.9%, as compared to €15.6 million (3.7% of revenue) for the nine months ended September 30, 2020. Excluding amortization and depreciation and non-recurring items, our adjusted Research and Development Costs increased by €0.4 million to €13.6 million or 2.7% of revenue for the nine months ended September 30, 2021, compared to €13.2 million or 3.1% of revenue for the nine months ended September 30, 2020.

General Administrative Costs

General Administrative Costs were €19.1 million (3.9% of revenue) for the nine months ended September 30, 2021, an increase of €1.4 million or 7.8%, as compared to €17.7 million (4.2% of revenue) for the nine months ended September 30, 2020. Excluding amortization and depreciation and non-recurring items, our adjusted General Administrative Costs increased by €1.2 million to €14.5 million or 2.9% of revenue for the nine months ended September 30, 2021, compared to €13.3 million or 3.2% of revenue for the nine months ended September 30, 2020.

Other Income and Expenses

Other income was €3.2 million for the nine months ended September 30, 2021, a variance of €139.6 million compared to other expense of €136.5 million for the nine months ended September 30, 2020. This was mainly due to impairment effects on Industrial goodwill in 2020. Excluding non-recurring items, our adjusted other income, net, decreased to €1.1 million or 0.2% of revenue for the nine months ended September 30, 2021 compared to an income of €3.8 million or 0.9% of revenue for the nine months ended September 30, 2020.

Interest Income and Other Financial Income

Interest income and other finance income was €26.1 million for the nine months ended September 30, 2021, an increase of €23.7 million as compared to €2.4 million for the nine months ended September 30, 2020. This increase was mainly due to €24.9 million gains from the fair value measurement of derivatives.

Interest Expenses and Other Finance Costs

Interest expenses and other finance costs were €65.3 million for the nine months ended September 30, 2021, a decrease of €20.2 million as compared to €85.5 million for the nine months ended September 30, 2020. The financial expenses of €65.3 million include €39.5 million of syndicated loan, revolving credit line and bond interest expenses, €15.1 million of interest expenses for a shareholder loan, €6.0 million of expenses from the effective interest rate method, €3.0 million exchange rate losses and €1.7 million of other interest expenses.

Income Tax Expenses

Income tax expenses were €24.2 million for the nine months ended September 30, 2021, a change of €22.3 million as compared to €1.9 million income tax expenses for the nine months ended September 30, 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 Tax Group.

Net Profit / Loss

As a result of the developments described above, net income for the period was €50.7 million for the nine months ended September 30, 2021, compared to a net loss of €153.6 million for the nine months ended September 30, 2020.

Financial Condition, Liquidity and Capital Resources

As of September 30, 2021, the gross financial debt, the cash balance as well as the Revolving Credit Facility and Ancillary Line were as follows:

	As of September 30, 2021 <i>(in EUR m)</i>
Gross financial debt (without accrued transaction costs)	1,610.8
<i>thereof bond</i>	406.0
<i>thereof term loans</i>	1,197.7
<i>thereof revolving credit facility</i>	0.0
<i>thereof ancillary line</i>	0.0
<i>thereof bank loans</i>	1.8
<i>thereof accrued interest</i>	5.4
Cash	276.0
Net debt	1,334.9
Undrawn Revolving Credit Facility	67.0
Undrawn Ancillary Line.....	8.0

The management-adjusted EBITDA for the last twelve months ended September 30, 2021 was €256.5 million leading to the net debt leverage ratio of 5.2x, compared to the management-adjusted EBITDA for the last twelve months ended September 30, 2020 of €219.9 million and the net debt leverage ratio of 6.3x, respectively.

Cash Flow Statement

The following table shows the cash flow statement for the nine-month period ended September 30, 2021 and for the nine-month period ended September 30, 2020.

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
	<i>(in € million)</i>	<i>(in € million)</i>
Net profit / (loss) for the period	52.1	-153.6
Income tax expenses / benefit (-)	22.8	1.9
Interest result	60.3	56.1
Amortization, depreciation and impairment changes of non-current assets	82.4	217.3
Gain (-) / Loss on disposal of fixed assets.....	0.3	0.0
Increase / decrease (-) in provisions (excluding deferred taxes).....	6.7	0.6
Income tax refund / (payment).....	-28.7	-22.0
Other non-cash expenses / income (-), net	-22.6	22.3
Increase (-) / decrease in inventories.....	-2.5	3.1
Increase (-) / decrease in trade receivables.....	-22.1	-13.2
Increase (-) / decrease in other receivables and (financial) assets	0.6	-1.8
Increase / decrease (-) in trade payables	-1.7	-4.5
Increase / decrease (-) in other (financial) liabilities.....	3.9	-4.3
Cash flow from operating activities	151.6	101.9
Cash received from disposals of property, plant and equipment.....	0.2	0.2
Cash paid (-) for investments in property, plant and equipment	-24.4	-24.7
Cash received from grants.....	0.0	0.0
Cash paid (-) for investments in intangible assets	-2.7	-2.4
Cash paid (-) for the acquisition of entities	-49.0	0.0
Cash flow from investing activities.....	-75.8	-26.9
Cash received from / repayment (-) of syndicated loan	0.0	0.0
Interest paid (-).....	-42.8	-80.7
Cash received from drawing / repayment (-) of revolver loan.....	0.0	0.0
Cash received from / repayment (-) of shareholder loan	0.0	-19.6
Cash paid for capitalized leases (right-of-use assets)	-2.6	-2.0
Cash flow from financing activities	-45.4	-102.3
Change in cash and cash equivalents	30.4	-27.2
Net foreign exchange difference.....	1.5	-0.7
Cash and cash equivalents at the beginning of the period.....	244.1	64.4
Cash and cash equivalents at the end of the period	276.0	36.5

Cash flows from operating activities increased from €101.9 million for the nine months ended September 30, 2020 to €151.6 million for the nine months ended September 30, 2021. The increase is driven by overall higher profitability, good inventory management 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 €-26.9 million for the nine months ended September 30, 2020 to €-75.8 million for the nine months ended September 30, 2021. The increase is driven by the acquisition of Dentalpoint AG (€-50 million).

Cash flows used in financing activities decreased from an outflow of €-102.3 million for the nine months ended September 30, 2020 to an outflow of €-45.4 million for the nine months ended September 30, 2021 which results from €-42.8m paid interest and €-2.6m right-of-use assets.

Capital Expenditures

The following table provides an overview of our capital expenditures (w/o right-of-use assets) for the nine months ended September 30, 2021 and September 30, 2020:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Additions to intangible assets.....	2.7	2.4
Additions to property, plant and equipment.....	21.3	19.5
Capital expenditures (gross)	24.0	21.9
Government grants	0.0	0.0
Capital expenditures (net).....	24.0	21.9
Additions from business acquisitions	54.6	0.0

In general, our capital investment is split between around two-thirds maintenance and one-third growth projects. Cash outflow for the nine months ended September 30, 2021 for intangible assets amounts to €1.9 million and for tangible assets amounts to €16.5 million.

Additions from the Dentalpoint acquisition of €54.6 million consisting of goodwill in the amount of €23.6 million, intangibles €26.7 million and PPE €4.3 million. Furthermore, short-term assets of €6.2 million as well as liabilities of €10.9 million were acquired, resulting in a purchase price of €49.9 million.

Employees

As of September 30, 2021, the CeramTec Group employed a workforce of 3,477 people, an increase of +1.1% compared to the previous year.

Headcount	September 30, 2021	September 30, 2020
Employees by region		
Europe (w/o Germany)	645	628
Germany	2,000	1,998
North and South America.....	295	304
Asia.....	537	508
	3,477	3,438
Employees by function		
Manufacturing.....	2,732	2,734
Sales.....	303	290
Research and development.....	175	161
Administration	267	253
	3,477	3,438

Recent Developments

In October 2021 it was agreed to pay an amount of EUR 5,093k of the shareholder loan to the shareholder, CTEC Acquisition S.á.r.l., consisting of a nominal amount of EUR 4,816k and the respective interest payable which has been accrued until the date of payment of EUR 277k.

Plochingen, 12 November 2021

CeramTec TopCo GmbH

The Management

Dr. Hadi Saleh