

News Release

Nanofilm recorded 3Q2023 revenue of S\$55 million compared to 1H2023 revenue of S\$73m, with improved operational performance

- Despite ongoing challenges in the macro and operating environment, the Group maintains its focus on balancing its business expansion initiatives, ongoing investments in deep tech innovation, and continuous efforts in streamlining its cost structure
- In 3Q2023, operational performance improved with ongoing efforts in cost efficiency, leading to an increase in the gross profit margin to over 40%, up from 32% in 1H2023. This improvement occurred even though there was a 19% YoY decline in revenue for the same quarter. Additionally, 3Q operating expenses, which are calculated after the gross profit, saw a 10% reduction compared to the previous year
- The Group was profitable in 3Q2023 and continued to generate positive operational cash flows for 9M2023
- Nanofilm sees opportunities in strategically located sites where it is gaining a strong foothold to benefit from supply chain diversification and access to established markets not yet penetrated by its proven nanotechnology solutions

SINGAPORE, 7 November 2023 – Mainboard-listed Nanofilm Technologies International Limited (the “Company” or “纳峰科技有限公司” and together with its subsidiaries, “Nanofilm” or the “Group”), a leading provider of nanotechnology solutions, today released its business update for the three months and nine months ended 30 September 2023 (“3Q2023” and “9M2023” respectively).

Mr Gary Ho (“何福荣”), Group CEO, commented: *“Despite persistent macro headwinds continuing to dampen overall consumer sentiment with customers cautious on capital expenditure in 3Q2023, we saw an improved business performance quarter-on-quarter (“QoQ”) helped by the seasonal 3C demand and ongoing cost optimisation efforts. Nearer term, we expect to see continued market volatility in 4Q and are continuing our efforts to balance cost with the necessary investment and market expansion activities to*

support future growth and innovation whilst remaining focused on our strategic goals to deliver sustainable long-term growth.”

Review of 3Q2023

- The operating environment for 3Q2023 continued to be challenging, exacerbated by macro headwinds and the dampening of overall consumer sentiment. The Group saw an uptick in operational activity for 3Q2023, which was driven by the seasonal peak period for the Computer, Communication and Consumer (“**3C**”) segment, but this was comparatively lower on a year-on-year (“**YoY**”) basis.
- The 3Q2023 recovery also saw an improvement in the Group’s operational performance with higher gross profit margins achieved through improved cost control efforts. However, given the macro uncertainties, customers continue to be cautious about their capital expenditure, and this impacted the Group’s equipment sales.
- In 3Q2023, the Group’s gross profit margin was above 40%, compared to 32% in the first half of the financial year (“**1H2023**”). This was on the back of a 76% QoQ gross profit increase due to the improvement in operational performance in 3Q2023. However, the 3Q2023 gross profit saw a 28% decrease YoY due to the Group's inability to enjoy more economies of scale benefits as a result of lower production volumes in the current challenging environment.
- The Group’s operational expenditure for 3Q2023 increased 5% QoQ but decreased 10% YoY, which was indicative of the Group’s efforts to balance its investments for longer term business expansion initiatives together with its various cost control measures. Nevertheless, the Group was profitable in 3Q2023 and continued its generation of positive operational cash flows for 9M2023.
- The resultant Group revenue for 9M2023 reached S\$128 million, representing a 29% decrease YoY. The Group’s Advanced Materials Business Unit (“**AMBU**”) contributed approximately 81% to the 9M2023 revenue, while the Nanofabrication Business Unit (“**NFBU**”) and Industrial Equipment

Business Unit (“IEBU”) each contributed approximately 9% respectively. Given its early-stage of development, Sydrogen did not contribute meaningfully to 9M2023. However, the Group remains excited about Sydrogen’s long term potential and the wide-ranging applications for hydrogen fuel cells.

- The Group was profitable in 3Q2023 and continued to generate positive operational cash flows for 9M2023 despite the challenging environment.
- Over the course of 9M2023, the Group has been engaged in capacity rebalancing efforts to address excess capacity at its Shanghai plants resulting from lower utilisation of certain equipment. This equipment will be redeployed to other locations, while the Group will continue to utilise its Shanghai plants for multiple business units (“BUS”) that leverage demand from the China market. Some equipment is being utilised for new business initiatives involving new product introductions (“NPIs”) and process qualifications, which will generate revenue when the projects transition to mass production.

Business Updates

- The 3C consumer business (under AMBU and NFBU) continue to be involved with customers’ NPIs for future generation of products as well as new product lines for the 3C segment; while the industrial business (under AMBU and IEPU) continue to focus on replicating their success across different industrial segments like precision engineering, multi-functional printer, automotive, *etc.*
- The Group’s joint venture, ApexTech, is currently undergoing customer qualification at the component level for electric vehicle busbar connectors but progress has been slowed due to customers having excess production capacity due to current market weakness. ApexTech is also exploring with potential customers the application of its green plating solutions to other components.

- In August 2023, Sydrogen entered into a strategic partnership with Shanghai Hydrogen Propulsion Technology Co., Ltd. (“SHPT”) to capitalise on their respective technical advantages, marketing channels and after-sales service resources to further increase market penetration into Southeast Asia, Europe, and America. The parties will jointly develop the sales and services of fuel cell stacks, systems and components, providing in-depth services and competitive solutions to meet the diverse needs of customers in different fields such as on-road automotive and non-automotive applications.
- In terms of continuing R&D activities, the Group’s Advanced Technology Research Centre for new application and product development is expected to be completed by end-2023 at its Singapore HQ and the Group has entered into a research and collaboration agreement with Nanyang Technology University (“NTU”) to establish a corporate laboratory for advancing deep tech R&D for earlier Technology Readiness Levels (“TRLs”)¹ which was announced in October 2023.

European Expansion

- The Group has embarked on its expansion into Europe with plans for strategic investments that will introduce the Group's functional thin film coating solutions for industrial applications. The European market and original equipment manufacturers (“OEMs”) in the region are early technology adopters and embrace advanced technologies that add value and differentiate their products and services, making them prospective customers for Nanofilm's cost-leading advanced technologies. This represents a significant opportunity for Nanofilm to leverage its cutting-edge FCVA thin film technologies and manufacturing scale to provide these solutions.
- The estimated Total Addressable Market in Europe for 2023 is €13 billion, out of which it has a Serviceable Obtainable Market estimated to be in excess of €400 million². This market is expected to continue growing at an approximate 10% CAGR³ over the next five years². The Group plans to enter

¹ Technology Readiness Levels (“TRLs”) are a type of measurement system used to assess the maturity level of a particular technology. Each technology project is evaluated against the parameters for each technology level and is then assigned a TRL rating based on the projects progress.

² Based on Company internal estimates and analysis

³ Compound Annual Growth Rate

Europe via Germany as the leading market in Europe, accounting for approximately 51%² of the thin film coating market, and is actively assessing potential sites and pursuing an M&A strategy to gain a foothold there.

- Attractive market segments for the Group’s thin film coating solutions in the European market include:
 - General industry with applications such as Off Highway Diesel, CNC Machine Tools, Industrial Hydraulics. The Group’s films offerings provide value through improving fuel efficiency, system longevity and performance.
 - Decorative applications in areas like automotive interiors, sanitary fittings, consumer luxury goods. The value proposition here is for Nanofilm to provide abrasion resistant decorative surfaces combined with cost leadership via its in-line technologies.
 - Medical devices with particular applications in dental implants & tools, medical devices and medical robotics. The value proposition is to provide thin film coating solutions with enhanced performance.
- The Group’s expansion into Germany thus paves the way for Nanofilm to have a larger multi-country footprint within Europe, which is aligned with its geographical and diversification coverage strategic pillar to become a truly global company.

Business Outlook

- The Group’s 3C consumer business under its AMBU and NFBU, is seeing improvement in inventory rebalancing but production volumes are still lower YoY. For IEBU, customers remain tight on their capital expenditure but there are active engagements with customers for their requirements in the coming year. As the Group moves toward the new financial year 2024 (“FY2024”), the macro environment continues to be uncertain. Nevertheless, the Group will redouble efforts to balance cost management with the necessary spending to support future growth and innovation whilst remaining focused on its strategic goals to deliver sustainable long-term growth.

- The Group will continue with its cost optimisation efforts to drive its profit margin recovery. In addition, the Group will be redeploying its equipment from its Shanghai plants to new geographical sites for the 3C supply chain as calibrated with customers and expects net business growth with this move. The Group's Shanghai plants will continue to feature as an important strategic site for the 3C and other BUs, including IEBU, Sydrogen, and NFBU.
- The Group will be building up its functional coating capabilities and presence in Europe and this will be supplemented through selective inorganic growth opportunities. In India, the Group is finalising a factory-in-factory arrangement with a partner to expedite its deployment of equipment for the 3C supply chain, and this is expected to be completed by first quarter of FY2024 ("**1Q2024**"). As for Vietnam, with Phase One renovations and fit-out for the Group's second Vietnam site expected to be completed by 1Q2024, the installation and commissioning of AMBU Consumer and NFBU equipment will commence first, with IEBU operations to follow thereafter.
- While aiming for profitability, the Group's FY2023 financial performance will be dependent on end-consumer demand for new 3C product launches, and its bottom line may be negatively impacted if end-consumer demand remains muted.
- Going forward into FY2024, the Group's focus will be on materialising revenues through its sales strategy of offering proven nanotechnology coating solutions to focused markets, while green shoots from its business initiatives are expected to gradually take shape. With these potential enhanced revenues, the Group will be able to achieve high operating leverage and drive profitability to improve going forward.

END.

About Nanofilm Technologies International Limited (MZH / NANO.SI)

Listed on the Mainboard of Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 30 October 2020, Nanofilm Technologies International Limited (“**Nanofilm**”) is a leading provider of nanotechnology solutions in Asia, leveraging its proprietary technologies, core competencies in R&D, engineering and production, to provide technology-based solutions across a wide range of industries. Nanofilm’s solutions serve as key catalysts in enabling its customers to achieve high value-add advancements in their end-products in an environmentally sustainable manner. Nanofilm is a constituent of the FTSE ST All-Share Index, FTSE ST China Index, FTSE ST Large & Mid Cap Index, FTSE ST Mid Cap Index, MSCI ACWI Small Cap Index, MSCI Singapore Small Cap Index, and the MSCI World Small Cap Index.

For media queries, please contact:

Nanofilm Technologies International Limited

Kay Lim / Duane Tan
E ir@nti-nanofilm.com

Cogent Media Pte. Ltd.

Contact : Mr Gerald Woon / Mr Derek Chng
Office : (65) 6704 9288
Email / DID / Mobile : woon@cogentcomms.com / (65) 6704 9268 / (65) 9694 8364
derekchng@cogentcomms.com / (65) 6704 9285 / (65) 9638 8635