

FLASH NOTE

XTPL - Buy

Target Price: PLN 152.00 | Close as of 19/09/2024: PLN 99.70

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Q2'24 results above expectations, yet weak prospects for the following quarter

Q2'24 results were above our expectations on the revenue/EBIT/EBITDA lines. The difference on the EBIT/EBITDA/net profit line was mainly due to the recognition of higher-than-expected revenues from R&D and grants. The lack of difference vs. our estimates on the net profit line is due to the recognition of a lower balance on financing activities.

Quarterly snapshot

Consolidated, IFRS (PLN, mn)	Reported		y/y	Expected Erste	Reported vs. Erste
	2Q24	2Q23			
Revenue	3.2	3.9	-18%	2.9	10%
EBIT	-4.4	-0.9		-4.7	
EBITDA	-3.5	-0.4		-4.0	
Net income	-4.6	-0.8		-4.6	
EBITDA margin	-107%	-9%			
EBIT margin	-136%	-24%			
Net margin	-141%	-21%			

Source: Company Data, Erste Group Research

Revenue. Revenues from sales of products and services were slightly higher (+0.1m PLN) than previously published preliminary estimates, and amounted to PLN 2.9m in Q2'24 (+13% y/y). Revenues from product sales increased 5% y/y to PLN 2.7m, the R&D line recorded PLN 0.2m in revenues in Q2'24 (no revenues from this line in Q2'23), and revenues from grants fell 55% y/y to PLN 0.34m in Q2'24. Printer sales and rental generated PLN 2.4m in revenue in Q2'24 (+2% y/y), and HPM (High Performance Materials) sales generated PLN 0.4m in revenue in Q2'24 (+57% y/y).

Costs. Cost of sales increased y/y due to higher product sales. Research and development costs increased 96% y/y, likely related to work done in connection with ongoing industrial implementation processes. General selling and marketing expenses decreased by 11% y/y to PLN 1.0m in Q2'24, while general and administrative expenses increased by 53% y/y to PLN 2.5m, mainly due to the increased scale of operations.

Financial activities and net income. The balance on financing activities amounted to PLN -0.2m in Q2'24 vs. PLN -0.1m in Q2'23. Income tax amounted to PLN 0m, which, together with the loss on EBIT, translated into a net loss of PLN 4.6m in Q2'24 vs. a net loss of PLN 1.5m in Q2'23.

Cash flow from operations amounted to PLN -4.1m in Q2'24 (vs. PLN 0.3m in Q2'23), negatively affected by a y/y decline in earnings and an

increase in inventories (inventory for new orders). Capital expenditures amounted to PLN -1.2m in Q2'24 (down q/q and flat y/y).

Opinion. **NEGATIVE.** Q2'24 results were above our expectations on the EBIT/EBITDA level mainly due to higher-than-expected R&D and grant revenues. Costs counted as R&D, marketing and general and administrative expenses were reduced by PLN 0.9m q/q, which may indicate the implementation of some cost savings. Cash was reduced by PLN 5.4m q/q and amounted to PLN 14m at the end of Q2'24. Work on the first industrial deployment is progressing, and there are now four industrial prototype devices with an embedded XTPL printing module in operation worldwide. Work with two partners is advanced; however, management does not indicate when industrial deployment may occur.

We are negative on the outlook for 2H'24 revenues, especially given the much weaker DPS equipment order backlog y/y for this period. The expected y/y revenue decline may be offset to a small extent by a y/y increase in printing module orders. In its commentary on the results, the company's management indicates that contracting for DPS devices in 2H'24 is weaker than expected (it is also weaker than our expectations). Given the above, we see a risk of accelerated cash burn rate in the following quarters, which increases the risk of issuing shares or convertible bonds in the near term. The company's management indicates that the cash needed to run on operations will be raised from available debt financing and "other available forms of financing." Given the company's deteriorating financial condition and the weak outlook for 2H'24 results, we expect a negative market reaction.

We are not changing our target price or recommendation for the company in this flash note

Q2'24 results review

P & L (PLN mn)	2Q23	3Q23	4Q23	1Q24	2Q24	Y/Y	Q/Q
Revenue	3.3	3.9	4.6	2.9	3.2	-2%	13%
Sales of products and services	2.6	3.6	4.2	2.7	2.9	13%	6%
Grants	0.8	0.3	0.4	0.1	0.3	-55%	189%
Costs of sales	1.9	2.0	2.6	4.5	4.1	122%	-8%
R&D costs	1.3	1.1	1.4	2.7	2.5	96%	-6%
Costs of products sold	0.6	1.0	1.2	1.8	1.6	181%	-10%
Gross profit	1.5	1.9	2.1	-1.6	-0.9		
G&A	1.7	4.5	4.5	4.2	3.5	111%	-16%
Other operating activities	0.0	0.0	0.0	0.0	0.0		
EBITDA	-0.9	-0.4	-1.8	-5.1	-3.5		
EBIT	-1.3	-0.9	-2.4	-5.8	-4.4		
Balance on financial activities	-0.1	0.1	0.2	0.0	-0.2		
Profit before tax	-1.5	-0.8	-2.2	-5.7	-4.6		
Income tax	0.0	0.0	0.0	0.0	0.0		
Net profit	-1.5	-0.8	-2.3	-5.8	-4.6		

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