

## Q&A – Hove Group September 2024

10 stakeholders have asked a total of almost 40 questions to the Management of the Hove Group. There has been some overlap of questions. For the sake of clarity, Management has chosen to answer the questions together under the following 5 topics:

- Strategy
- Finance
- The market
- Organization
- Communication

Some questions Management has chosen not to answer. For example, Management cannot comment on fluctuations in the share price. Questions regarding guidance for this year and next year, forecasts for the coming years and/or estimates of developments in the market for lubrication pumps and greases for wind turbines and cranes are not covered in this presentation.

## Strategy

### **When does Hove expect to release a new strategic plan?**

Hove's strategy is more focused today compared to the announcement at the IPO in November 2021:

- Hove sees the wind turbine market as its core business to be defended and thereby maintain a profitable business.
- Hove sees lubrication of cranes in port terminals as its new growth market. Hove does not focus on other industries as it is a deliberate strategy to focus its resources on succeeding in the lubrication/servicing of cranes in port terminals, which management estimates to be of a considerable size also compared to the wind market.

### **What are the outlooks for 2025 and beyond?**

Guidance for 2025 will be announced in March 2025. The Hove Group is focused on:

- Maintain the position in the current wind turbine lubrication market.
- Successfully penetrate the market for crane lubrication in port terminals.

### **If you could travel back in time, would Hove have done things differently?**

Hove has had several new initiatives over the past few years. Some have been successful, while others have been less successful. However, it is only after trying out these initiatives that Hove has been able to assess whether they have been successful or not. Examples of less successful initiatives include the unsuccessful development of coffee pumps in the subsidiary Hafnia and the establishment in Brazil, which - despite high start-up costs - has not yet generated the expected revenue and earnings.

## Finance

### **What is the revenue split between pumps and grease sales?**

For competitive reasons, Hove will not disclose figures for revenue or contribution margin for lubrication pumps or grease, but it can be stated that sales of lubrication pumps have been constant over a period of 3 years (2019-2022), while there has been an increase in sales since 2023 and until now.

Logically, grease sales should have a constant slightly increasing trend over several years, as the number of wind turbines installed globally is increasing and the need for grease should follow this trend. This has not been experienced in Hove, which has difficulty getting reliable forecasts from Hove's customers, and year after year has to realize that it is difficult to explain the large variations in customers' purchasing patterns. This is the main reason why Hove has found it very difficult to provide accurate guidance for revenue and EBITDA in recent years.

### **What is the revenue split between regions?**

Except for China, Hove is represented in most wind markets. For competitive reasons, Hove will not provide further information about the distribution by regions.

12 countries have installed 86% of the total global wind turbine capacity (reference Global Wind Report 2023). China has 40% of the total global wind turbine capacity. Hove has chosen not to sell its products in China for geopolitical reasons. In the remaining 11 countries with a total of 46% of the total global wind turbine capacity, Hove considers itself the market leader in supplying its two main products: lubrication pumps and grease in specially developed collapsible plastic containers. Hove is represented in most of the 11 countries mentioned, either through subsidiaries (USA, India, Brazil and Turkey) or distributors (UK and Australia) or local sales representation (Germany and Spain).

It should be emphasized that Hove also has a presence in countries that are not part of the top 11 countries in terms of installed wind turbine capacity. For example, Hove has distributors in South Korea and Chile.

Focusing on sales to cranes in port terminals, Hove has a presence in Finland, where the world's largest manufacturer of cranes is headquartered, with plans to expand to even more areas in the near future.

### **What revenue will sales to cranes in port terminals contribute in 2024?**

Sales to cranes in port terminals have been omitted from the latest guidance for 2024, as the Executive Board does not expect to achieve the desired penetration in the current year. The Executive Board is optimistic about the opportunities and continues to expect cranes in port terminals to be a major growth market for the Hove Group. Field tests have been successfully completed and Hove is awaiting customers' final acceptance of submitted offers for lubrication and servicing of the cranes. From the end of 2024, three international sales employees will be 100% focused on opening global sales for cranes in port terminals. In addition, this activity will be supported from the head office in Denmark with technical support for products, marketing and external expertise for support and maintenance of Hove Smart Lube.

**In 2023, extraordinarily high depreciation was recognized due to the write-down of Hafnia pumps. Will investments in cranes in port terminals risk large write-downs?**

**Could similar write-downs affect 2024 and beyond?**

The impairment of Hafnia pumps was a one-off depreciation in 2023 and will therefore not affect the financial statements again. The Hove Group has capitalized development costs totalling approximately DKK 7.2 million. DKK 7.2 million (cf. interim report 2024), which theoretically could risk being written down, but the Executive Board believes that this is very unlikely to happen. Development costs cover several development projects, all of which are expected to lead to increased sales. The focus on cranes in port terminals represent a minor part of the capitalized development costs, so the risk of major impairment of assets is low.

**Measures have been taken to reduce fixed costs, including personnel costs, in the foreign subsidiaries. To what extent are these costs included in the expected EBITDA for 2024?**

In the latest announced guidance for EBITDA in 2024, all known items are included - including changes in personnel costs.

**Is repurchasing own shares or dividends something that is considered by the board of directors?**

Hove Group has currently reduced its debt so that no bank credit is utilized in the parent company or subsidiaries. At the same time, the Group has a significant inventory, which is currently just under DKK 40 million. The goal is to build a positive cash flow of 5-10% of revenue, so that the Group is self-financing and will thus be able to finance organic growth. After that, repurchase of own shares or dividends could be considered - perhaps already in connection with the presentation of the financial statements for 2025.

## The Market

### **What makes customers choose Hove products over the competition?**

Hove is committed to identifying customer problems and providing technologically, ergonomically and economically competitive solutions.

Hove is known for its highly innovative approach and is constantly aware of problems that existing pumps or grease reservoirs do not solve well enough. Hove's development department with 5 engineers is constantly working on innovative projects so that Hove can both solve problems with current equipment and keep an eye on future needs. This means that Hove is constantly working on development projects that will solve tomorrow's problems. Often it is sales people in close contact with customers who see observe new problems. In other cases, Hove's development department has the opportunity to work closely with developers and/or quality assurance people at Hove's major customers. This close co-operation is of course a very important prerequisite for customers to choose Hove over competitors.

It should also be emphasized that Hove is constantly working to optimize its production in order to simplify, streamline and optimize work processes (e.g. the introduction of standard modules for use in several different lubrication pumps) and/or automate them, which is important for delivery reliability, quality assurance and competitive prices.

In addition, Hove invests a lot of resources in meeting new quality requirements, such as those required to obtain and maintain certifications, which are a prerequisite for major customers to choose Hove as a business partner.

Hove's global presence is also an important parameter for customers' choice of Hove products, and finally, a fast response time when it comes to repairing lubrication pumps is of great importance for customer satisfaction with Hove.

### **Does Hove have any problems increasing sale prices of your lubrication in relationship to inflation etc.?**

Hove's prices generally follow the market for raw materials and general inflation. Hove generally holds annual price negotiations with all major customers. These negotiations can have different courses and outcomes depending on the size and dominance of the customer and external market conditions such as competitors, inflation, interest rates, exchange rate fluctuations, transport costs, supplier price increases, Danish grease taxes, quality requirements, sales volumes/discounts, etc. All these factors are included in the negotiations, which typically take place between Hove's senior salespeople and buyers from customers.

### **How large is Hove's churn rate?**

Most of Hove's revenue comes from major players in the wind industry, where customer relationships are typically stable, but with large variations in the customers' purchasing patterns. In addition, Hove has several smaller customers who are smaller players in the wind industry, with longer intervals between purchases. The churn rate for 2024 is currently estimated at 1-2% of revenue.

### **Hasve Hove noticed an increase in competition from competitors in the sale of pumps?**

#### **Who does Hove see as their biggest competitors?**

Hove has a Danish competitor that offers comparable lubrication pumps globally, but as far as we know, there are no other significant competitors globally. Hove has a leading position in the lubrication pump

market. As our major customers in the wind industry always obtain dual sourcing (minimum two suppliers), the Danish competitor is a relevant and welcome competitor that constantly pushes Hove to improve its products.

Regarding the filling of grease on the collapsible containers originally invented and patented by Hove (patent expired in 2016), competitors are basically large grease suppliers who want to take over Hove's filling tasks (downstream integration). Hove tries to navigate these market conditions in the best possible way and has therefore chosen to offer large grease suppliers 'private label' fillings in order to maintain the large grease filling activity, which is a prerequisite for introducing profitable automated filling processes.

**How has the initial reaction to Easy Grease V5 (EGV5) been on the market?**

The biggest customers have responded positively. One major customer had this to say about the EGV5: 'This is the Rolls Royce of lubrication pumps'. It usually takes some time before customers are ready to take new products into their portfolio in practice. Hove's management expects 2025 to be the year when sales of the EGV5 will realize its potential.

**Can Hove elaborate on how the expansion into new regions within the wind industry is progressing?**

Overall, Hove is doing well globally, although Brazil has been a challenging market. Hove has a very large global presence in the wind industry. For strategic reasons, Hove has chosen not to enter the Chinese market for the time being. Hove cannot profitably seek out small markets with few wind turbines anywhere in the world if Hove is to have a profitable business. Hove wants to defend its market-leading position in the wind industry through high quality, delivery reliability, technology and, as far as possible, follow the global growth in terms of installed wind turbines.

**Several questions relate to the feedback and challenges of penetrating the new market for cranes in ports.**

Successful field tests have been completed. Right now, Hove is negotiating with some large customers who need to change their business processes and routines to use Hove's solution. Therefore, it is taking longer than expected to land these orders. Hove offers - as something new - a total service package including sales of lubrication pumps, grease, quality assurance - Hove Smart Lube (HSL) - and service teams to perform the actual lubrication of cranes in port terminals.

## Organization

### **Is Hove considering changing the composition of its management team to better expand?**

Hove has an executive board consisting of a CEO and three additional directors, each for their own specialized area: Sales (CCO), Production (COO) and Finance (CFO). There has been an organizational change in the US and Brazil, as the two local general managers have left and instead the three functional directors have taken over direct contact with the relevant team members in the subsidiaries. The Executive Board believes that this will simplify organization, communication, coordination and professionalism when direct contact is established. In India, the local general manager is retained, which is considered a very important function in a very different market that is difficult to manage from the head office in Denmark. Turkey is such a small organization that it is managed directly from the head office in Denmark.

In addition, Hove has distributors in several countries (e.g. UK, Australia, South Korea and Chile) and sales representatives in several countries (e.g. Finland, Germany, Spain, Singapore and probably soon the MENA region). These areas are mainly managed by the very experienced CCO from the headquarters in Denmark, which naturally results in many travelling days.

In a question, a criticism has been raised regarding the CEO's interest in the company's global expansion. It should be emphasized that the CEO has a clear global focus on the company and, together with the Executive Board, is a leading driver in enabling the expansive global journey that Hove is on, having decided at a strategic level to prioritize the establishment of the lubrication, quality assurance (Hove Smart Lube) and crane service markets in the world's largest port terminals.

### **Is Hove able to grow Brazil and the US from Denmark without general managers with the necessary competences in the countries?**

In the current situation, it is assessed that it can best be managed from Hove's head office, but the future organization will be decided on an ongoing basis. See also the answer above.

## Communication

### **Additional questions related to:**

- **The weekly announcement of orders.**
- **Whether Hove can become more transparent in its communication with investors.**
- **Whether Hove has an ambition to report selected key figures on a quarterly basis.**

Hove recognizes that the information value of announcing large orders to the market has not been high. Hove has received some criticism of its weekly announcement of orders over 500,000 DKK. Some investors have tried to calculate from the number of orders whether revenue would be higher in a given period compared to a previous period. This has led to misleading conclusions. Hove is considering how to make this communication more informative, or alternatively stop using this form of information.

There has been a great desire for quarterly reporting, but Hove believes that the timing has not been right for quarterly reporting, as there are very large periodic fluctuations, on which the market will probably conclude incorrectly.

The Executive Board is considering introduction of quarterly Q&A, which would allow for a direct dialogue with shareholders - but with a natural limitation, as too much openness can be vulnerable to the company's competitiveness and profitability.

### **Can Hove be better at issuing guidance that doesn't need too much correction afterwards?**

Hove experiences significant fluctuations in the main customers' orders, especially for lubricating grease. When analyzing previous years' sales, Hove has not been able to identify any fixed pattern in customer orders. Hove's management and Board of Directors naturally have a strong desire to be able to announce guidance with as much certainty as possible. We will also continue to work on making the internal processes for preparing this more robust. However, it must be emphasized that this has been and remains a difficult exercise.

### **When does Hove expect to publish guidance for 2025?**

Guidance for 2025 will be announced by the end of March 2025.

### **Will Hove consider organizing an investor day?**

Hove is positive about this initiative and the management will continue to work on it.