Secop Group Holding GmbH

Interim Report
Q4-2022

MANAGEMENT REPORT

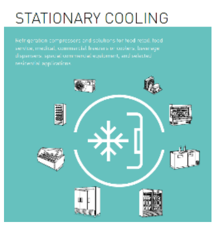
The Secop Group

The Secop Group

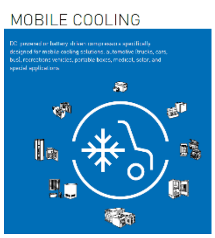
Secop is the expert for advanced hermetic compressor technologies and cooling solutions in commercial refrigeration. We develop high performance stationary and mobile cooling solutions for leading international commercial refrigeration manufacturers and are the first choice when it comes to leading hermetic compressors and electronic controls for refrigeration solutions for AC-powered stationary light commercial, DC-powered, and medical cold-chain applications.

Secop has a long track record of successful projects to adopt energy efficient and green refrigerants that feature innovative solutions for both compressors and control electronics.

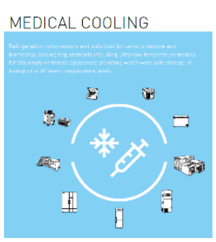
Business Segments



Our **Stationary Cooling** business segment (AC-supply compressors for static applications) encompasses compressors for light commercial applications in food retail, food service, merchandisers, and special applications including selected residential applications.
https://www.secop.com/products/stationary-cooling



Our **Mobile Cooling** business segment (battery-driven DC-supply for mobile applications) is the global leader in high-performance hermetic DC compressors for automotive, trucks, recreation vehicles, portable boxes, solar, and other mobile applications.
https://www.secop.com/products/mobile-cooling



Our **Medical Cooling** business segment with its stationary and mobile solutions make us a reliable partner for leading companies supporting the development of a global ULT (ultra-low temperature) supply chain and medical cold-chain optimization with green and efficient solutions.
https://www.secop.com/products/medical-cooling

Message of the CEO

The year 2022 was a year full of challenges. We experienced shortages for some key materials, especially electronics, which didn't allow us to fully satisfy our customers' demand. Additionally, the year was characterized by high raw material, transportation and energy costs, but in that regard we witnessed first signs of ease in Q4-2022. Secop could manage to pass cost increases to customers with different rounds of price increases, but this happened with some time delay and consequently a negative effect on our margins. Also, the market demand faced some fluctuations in different areas and segments. The Ukraine-Russia conflict generated a high market uncertainty in Europe, which led to a reduced demand for refrigeration equipment and reduced level of investments, especially in the food retail segment, and contributed to a sudden increase of energy costs for productions in Europe. In parallel, the demand level in China was influenced by Covid restrictions and permanently below expectations for both local consumption and export. All these effects resulted in a lower than planned revenue and results, however, consequent measures to tackle these effects have been implemented, among which the reduction of the total workforce.

While the external conditions of 2022 were challenging, Secop continued to develop the planned projects and along the year Secop launched new innovative products for all segments to the market, to further foster the sustainability strategy for green and low-energy consumption solutions and the medical cold-chain:

- BD nano: new battery driven solution for efficient mobile applications and e-cars.
- KLF-compressors: efficient compressor optimized for green refrigerants.
- ULT mobile box: a new portable ultra-low temperature box suitable to transport vaccines even in remote ambient conditions.
- Modular electronic controller: a new generation of controllers for energy efficient compressors offering premium control features.

For 2023, Secop is cautiously optimistic despite a soft start in Q1-2023 following a conservative approach from customers, which are careful in handling stocks and orders due to the uncertain market demand. For the following quarters, a slight recovery is expected, even if not equally distributed over the regions and segments. Still, 2023 will be characterized by a higher level of uncertainty and unpredictability. In the supply chain, we expect an improved situation regarding electronic components' shortages and an improved material costs setting. Furthermore, after intensive qualification processes at our customers, we expect our new product launches to generate good revenues in the second half of 2023. Despite the critical market conditions and difficulties that we faced during 2022, I recognize the high level of passion and customers mindset inside Secop, with all teams committed to satisfy customers' needs, optimize costs, ensure results and develop the new projects with a lean and agile approach.

Key Highlights Q4-2022

Q4-2022

- Net Sales have been softening to EUR 57,6m (Q4-2021: EUR 66,0m EUR) due to a market- and year-end-driven reduction of demand.
- Internal Adjusted EBITDA ended with EUR 4,8m (Q4-2021: EUR 2,4m) despite the softer sales-development.
- Reported EBITDA increased significantly to EUR 10,4m due to the resolution of the arbitration proceeding with Nidec (Q4-2021: EUR 0,7m).
- EBIT amounts to EUR 4,4m (Q4-2021: EUR -2,0m) with a corresponding EBIT-margin of 7,6% (Q4-2021: -3,1%).
- Net income reached EUR 1,1m (Q4-2021: EUR -0,9m).
- Strong Cash-flow from operating activities of EUR 12,2m following a consequent Trade Working Capital-management (Q4-2021: EUR 1,4m).
- Net Cash increased by EUR 7,8m (Q4-2021: EUR -5,7m).

Q1-Q4 2022

- Net Sales have been softening over the last 4 quarters to EUR 277,8 m (2021: EUR 299,7) following the market-driven reduction of demand.
- Internal Adjusted EBITDA ended with EUR 18,2m due to lower volumes and higher raw-material and energy costs, that could only with a time-delay compensated by own price increases (2021: EUR 26,7m).
- The Reported EBITDA increased to EUR 23,9m benefitting from the settlement agreement with Nidec (2021: EUR 20,2m).
- The EBIT ended with EUR 7,9m (2021: EUR 9,1m) following the impairment of assets in connection with the closed household business. The corresponding EBIT margin of 2,8% was almost stable (2021: 3,0%).
- Net income amounted to EUR -2,6m (2021: EUR 2,0m EUR).
- Cash-flow from operating activities of EUR 19,4m showed a strong improvement vs. previous year (2021: EUR 9,7m).
- Net Cash increased by EUR 4,2m (2021: EUR -16,2m).

Business Development Q4-2022

General

Q4-2022 experienced a business consolidation in different segments and areas but also showed first improvements on the supply-side.

The external factors that heavily influenced the business during previous quarters, especially in China and Europe, have begun to show a mild positive trend inversion. Cost trends in Europe that affected the production in Slovakia with relevant impact on the profitability started to show some signs of relief, but not yet relevant for the Q4-2022 profitability. Supply constrains for electronics improved to sustain the business of electronic controlled compressors, and the backlog was reduced.

Regions

Europe: A low demand confirmed a cautious investment level in the food and beverage channels, which is a consequence of a high inflation rate and uncertainties regarding the business stability in 2023. Most customers rebalanced their stock levels at the end of the year since the projections for 2023 are volatile and uncertain, and the price pressure started to increase with a more stable supply of parts.

China: The demand remained on a low level but showed some first signals of a possible recovery, however, the predictivity was still uncertain and strongly related to the Covid-19 zero tolerance policies.

America: A slowdown of demand has been recorded, after a year of positive trends, because of customers' stock rebalancing comparable with the Europe-region.

Middle East, Africa, Southeast Asia: A good recovery has been recorded in Africa after previous roadblocks for the inflow of goods into the region have been released. The price pressure in some price-sensitive countries continued after Secop's price increases, causing some reduction of volume levels.

Revenue

EUR M	Q4 2022	Q4 2021	Q1-Q4 2022	Q1-Q4 2021
Stationary Cooling	36,3	47,7	190,8	215,3
Mobil Cooling	19,0	16,3	79,8	75,9
Medical Cooling	2,3	2,0	7,2	8,5
Net Sales	**57,6**	**66,0**	**277,8**	**299,7**

Stationary Cooling: Net Sales declined due to the lower demand from customers, especially from the food retail sector. This was a consequence of the high inflation, uncertainties about the economic development in 2023 and the year-end inventory optimization. The first indications of declining raw material prices triggered already price concession requests in some markets. The introduction of new products is proceeding, and various business opportunities are in the pipeline to compensate for volume losses with legacy products.

Mobile Cooling: Many customers reduced their inventory levels after the supply shortage slowly subsided in order to optimize their working capital and to prepare for uncertain and volatile market conditions in 2023. A recovery of the electronics backlog with a better availability of components could be recorded, however, shortages of some specific components can still create some obstacles to satisfy the demand in full.

Medical Cooling: As in previous quarters, Q4-2022 confirmed a solidly growing demand in this segment, albeit on a relatively low level. The segment did not face a slow down or fluctuation of demand at the end of the year. During Q4, a strong commitment from key customers was tangible to accelerate and prioritize the development of new green and efficient platforms, using Secop's new product generation for the medical cold-chain.

Profit

EUR M	Q4 2022	Q4 2021	Q1-Q4 2022	Q1-Q4 2021
Internal Adjusted EBITDA	4,8	2,4	18,2	26,7
Bond EBITDA	4,8	0,9	18,2	25,3
Reported EBITDA	10,4	0,7	23,9	20,2
Net Income	1,1	-0,9	-2,6	2,0

In Q4-2022, the Internal Adjusted EBITDA was significantly higher than in the respective previous year's period. Main reasons for this improvement were a higher capitalization of R&D cost for new product developments versus last year and the release of some provisions that were mostly built up during the previous quarters but proved not to be needed in the initially anticipated amounts. These effects overcompensated negative effects from lower volumes following the reduction in demand from customers. The full year Internal Adjusted EBITDA falls short of the previous year due to the lower business volume and a lower profitability following the increased raw material, energy and transportation cost, that could only with a time-delay be offset by own price increases. This time-lag was resolved during the second half of 2022.

The Bond EBITDA follows the Internal Adjusted EBITDA, however, the previous year's figures were affected by a limitation of adjustments for extraordinary, non-recurring and non-operative items according to the Bond Terms & Conditions.

The Reported EBITDA of Q4-2022 exceeded previous year significantly, following the settlement agreement with Nidec regarding the arbitration proceeding that also covered the deferred purchase price. The positive effect of this settlement agreement also affects the full-year development.

The Net Income follows the Reported EBITDA, however, higher depreciation following the high investments in the Slovakian factory and specific additional amortizations, mainly resulting from the closure of the household business in 2020, created a bottom-line negative deviation vs. 2021.

Supply Chain

While the raw material prices and supply for the factory in Slovakia stabilized in Q4-2022 and even showed some first signals of improvements, high energy costs affected the factory significantly. These effects were partly compensated by a support of the Slovakian government. Also the transportation situation showed first signs of improvement in Q4-2022, regarding both cost and availability. Supply constrains for electronics were further reduced in Q4-2022, however, the price level remained on a high level.

Investments

In total, Q4-2022 registered investments of EUR 6,1m including R&D capitalization, which is lower than the respective previous year's figure. The full year investments amount in 2022 was EUR 16,8m. Main spendings were for the products Kappa R290 and BD nano and for "green" efficiency projects.

Trade Working Capital

The Trade Working Capital amounted to EUR 28,1m at the end of 2022, which is a nominal reduction of EUR 2,7m vs. December 2021. However, due to a reclassification according to IFRS within the liabilities during 2022, this reduction is understated and would amount to EUR 7,9m on a like-for-like basis. Both Inventory and Trade Receivables declined by EUR 13,8m and EUR 13,2m respectively, which overcompensated the reduction of Accounts Payables. While the general lower business volume had a positive effect on the Trade Working Capital, the reduction of the Inventory is also a consequence of the introduction of a strict inventory management and the decline of Trade Receivables is also supported by a new stringent debtor and overdue receivables management.

Cash & Bank

The Cash & Bank balance of Q4-2022 increased by EUR 4,2m vs. the respective figure of 2021 to EUR 17,2m. Main contributors to this improvement were the reduction of the Trade Working Capital and higher short-term Bank Liabilities.

Equity

The equity as of December 31st, 2022, amounted to EUR 38,0m; its development reflects the Net Income and the Other Comprehensive Income of the period. Including all shareholder loans, the equity ratio of the Secop Group amounts to 41%.

Net Debt

The Net Debt position acc. to the Bond Terms & Conditions increased by EUR 3,5m vs. December 31st, 2021, to EUR 37,9m following an increase of short-term Bank Liabilities.

Employees

As of December 31st, 2022, Secop employed 1.145 employees based on full-time equivalents (FTE), of which 151 employees in R&D and 895 employees in production facilities. This is a reduction of 184 employees (FTE) compared to the status from prior year (December 31st, 2021). The reduction was realized in the Production area to adjust the capacity to the reduced demand. In addition, third-party employees were reduced. In other functional areas, the number of employees were slightly increased.

Nidec Vendor Loan

Nidec and Secop reached a principle out-of-court settlement agreement on all topics of the pending arbitration proceeding, among which the outstanding deferred purchase price. According to the agreement, Secop pays an amount of EUR 13,0m to Nidec, which will be due in Q1-2023. In line with the Bond Terms & Conditions, the shareholders of Secop will inject EUR 3,0m in cash as new equity to partly fund the settlement amount. The remaining amount will be financed by existing Cash & Bank balance and short-term credit lines and subsequently considered in the refinancing process to replace the maturing existing Bond. The financial effects of the settlement agreement are considered in the Q4-2022 financial statement of Secop. The settlement agreement does not affect certain contractual indemnification rights of Secop for claims originating from before 2019.

New Products Roadmap

During Q4-2022, Secop presented the updated roadmap for the launch to market of the new range of products planned for all segments:

- The **new range of high efficiency KLF compressors,** specifically designed for green refrigerants in light commercial applications, was presented to the market and sampled to major food and beverage players that aim to develop the new generation of efficient green cabinets.

- A **new modular electronic controller** for energy efficient compressors has been successfully presented to Food Retail players to promote the premium advantages that this solution can offer to improve the cabinet's energy consumption and enhance the energy labelling level.

- The **new BD nano compressor** for Mobile Cooling applications, the innovative battery driven solution with small dimensions, premium efficiency and enhanced connectivity and control features, has been presented and sampled to top customers and is under approval for e-cars projects.

- The **new Solar Direct Drive controller** for photovoltaic and weak grid driven applications, developed to support enhanced requirements for remote installations supplied by photovoltaic panels in agreement with WHO directives, have been presented to major OEMs to start the approval phase.

- The **new Ultra-Low Temperature Condensing Unit for medical mobile applications**, an innovative solution optimized for the last mile distribution of new generation of vaccines even in extreme ambient conditions, successfully passed the approval phase and moved into field test trials tests to complete the approval process in partnership with the market leader for cold chain storage and transportation.

- A **dedicated range of solutions for medical applications**, a set of efficient and green compressors optimized for medical applications, successfully entered into approval phase for various projects with key players, for the development of the new generation of efficient and green medical appliances. In parallel Secop started the development and sampling of new custom cooling units for ultra-low temperature storage application, to support customers interested to have a plug and play cooling system with optimized performances and maximum efficiency.

- The **new range of R290 condensing units**, developed to support the adoption of new green refrigerants and energy saving regulations in commercial installations, was introduced to the new distribution network and various wholesalers' branches have access to the latest generation of products.

At the light of the good results from testing phases and the high interest evidenced by key players for the new products, Secop forecast the ramp-up along 2023 for the new products launched to market in 2022.

Outlook

Business Development

After a modest start into 2023, the sales volume projections are generally pointing at a recovery for most markets and regions, however, the expectations are afflicted with a high uncertainty. In China, a recovery is expected after Q1 especially for the domestic market, while the export markets can be impacted by the overall economic situation. In Europe, the business projection is still conservative since inflation rate and the economic-political stability could impact the demand level. In America, after a weak start into 2023, the demand is expected to grow since new regulations for refrigerants phase-out should boost projects for green refrigerants. Also other regions are expected to experience a more stable and constant demand, but with some price pressure. The raw material, energy and transportation costs are expected to decrease and stabilize in 2023 with positive effects on our profitability level and, in parallel, supply constrains for electronics should decrease further and grant the possibility to satisfy the expected demand level.

In Stationary Cooling, the new products launched to market will see a ramp-up in 2023. Secop aims to exploit the advantages offered by these new products to support the development of new business and serving the increasing demand for green and energy efficient cabinets.

Mobile Cooling is expected to grow further with the introduction of the BD nano premium solution, and we see a strong request for various e-cars projects under development.

In 2023, Medical Cooling will see the ramp-up of various projects developed during 2022, with the introduction to market of new solutions that will support Secop leadership in this segment.

Investments

In order to serve the expected sales volumes of the newly introduced products, a significant part of the planned investments for 2023 is considered for extra production and laboratory equipment. Further amounts will be used for rationalizations, quality improvements and replacements. In addition to these capex, R&D-expenses similar to 2022 are expected to be capitalized in 2023.

Trade Working Capital

In 2022, the company introduced an improved management of Inventories and Trade Receivables, which will be continued in 2023, with the expectation of a further reduction of the Trade Working Capital.

Cash & Bank

In Q1-2023, the payment for the settlement agreement with Nidec will create a cash-out and reduce the Cash & Bank balance accordingly. The amount will be partly supported by short-term facilities and further considered in the upcoming refinancing process for the maturing existing bond.

Bonds

Secop is reviewing the bond market carefully but has currently no plans to sell its own bonds into the market.

As the current bond matures in January 2024, Secop will start a refinancing process during 2023. No decision has been taken so far, which of the possible refinancing options will be utilized.

FINANCIAL STATEMENTS

Consolidated Income Statement

EUR M	Q4 2022	Q4 2021	Q1-Q4 2022	Q1-Q4 2021
Net Sales	**57,6**	**66,0**	**277,8**	**299,7**
Raw Materials & Consumables	-43,4	-49,8	-204,0	-213,2
Labor Production	-3,2	-3,9	-15,2	-16,8
Sales Variable Costs (incl. Royalty Fees)	-1,6	-2,4	-8,1	-8,6
Other Direct Cost	0,6	0,7	-0,7	-0,9
Contribution Margin	**10,0**	**10,6**	**49,7**	**60,3**
As Percent of Net Sales	*17,4%*	*16,1%*	*17,9%*	*20,1%*
Fixed Costs	-8,2	-10,2	-37,1	-38,0
As Percent of Net Sales	*-14,1%*	*-15,4%*	*-13,3%*	*-12,7%*
Other Income/Expenses	8,5	0,2	11,3	-2,1
EBITDA reported	**10,4**	**0,7**	**23,9**	**20,2**
Depreciation & Amortization	-6,0	-2,7	-16,0	-11,1
EBIT	**4,4**	**-2,0**	**7,9**	**9,1**
As Percent of Net Sales	*7,6%*	*-3,1%*	*2,8%*	*3,0%*
Interest Result	-2,6	-2,2	-9,4	-8,9
Profit before Tax	**1,8**	**-4,2**	**-1,6**	**0,1**
Taxes	-0,7	3,3	-1,0	1,9
Net Income	**1,1**	**-0,9**	**-2,6**	**2,0**

Adjusted EBITDA Reconciliation

EUR M	Q4 2022	Q4 2021	Q1-Q4 2022	Q1-Q4 2021
EBITDA reported	**10,4**	**0,7**	**23,9**	**20,2**
Leasing Costs acc.t to IFRS 16	-0,4	-0,4	-1,7	-1,3
Unrealized Currency Effects	0,9	0,7	-0,7	1,5
Gains/Losses from Disposed Assets	0,0	0,1	0,0	-0,1
EBITDA before Adjustment	**10,9**	**1,0**	**21,5**	**20,4**
Adjustments:				
Arbitration/SPA	-7,7	0,8	-6,4	1,9
Restructuring Costs	1,4	0,0	1,5	0,2
Consulting Fees	0,5	0,4	1,3	1,0
Others	-0,2	0,2	0,2	3,2
Internal Adjusted EBITDA	**4,8**	**2,4**	**18,2**	**26,7**
Adjustment Limitation acc. to Bond T&C	0,0	-1,5	0,0	-1,4
Bond EBITDA	**4,8**	**0,9**	**18,2**	**25,3**

Consolidated Balance Sheet

ASSETS

EUR M	Q4 2022	Q4 2021
Intangible Assets	63,0	61,3
Tangible Assets	91,1	90,6
Total Fixed Assets	**154,1**	**151,9**
Deferred Tax Assets	0,3	1,1
Total non-current Assets	**154,4**	**153,1**
Inventories	36,7	50,5
Trade Receivables	39,3	52,4
Current Financial Assets	4,3	4,7
Cash & Bank	17,2	13,0
Current non-financial Assets	6,6	11,6
Total current Assets	**104,0**	**132,2**
Total Assets	**258,5**	**285,3**

EQUITY & LIABILITIES

EUR M	Q4 2022	Q4 2021
Equity	**38,0**	**39,7**
Non-current Provisions	2,8	4,1
Other Provisions	1,9	2,6
Non-current provisions	**4,7**	**6,7**
Non-current Financial Liabilities	44,2	44,7
Non-current Payables	69,1	64,8
Deferred Tax Liabilities	16,1	16,9
Non-current Liabilities	**129,3**	**126,3**
Non-current non-financial Liabilities	**0,3**	**0,5**
Current Personnel-related Payables	2,9	5,7
Other current Payables	4,1	4,0
Current non-financial Liabilities	**7,0**	**9,7**
Current Financial Liabilities	11,5	20,9
Bank Liability	10,1	0,0
Accounts Payables	47,8	72,1
Current Provisions	9,7	9,3
Other Current Liabilities	0,0	0,0
Current Liabilities	**79,1**	**102,4**
Total equity and liabilities	**258,5**	**285,3**

Consolidated Cash Flow Statement

EUR M	Q4 2022	Q4 2021	Q1-Q4 2022	Q1-Q4 2021
EBIT	**4,4**	**-2,0**	**7,9**	**9,0**
Correction for non-cash Items	-4,6	2,4	2,1	9,0
Cash flow from Operations excl. TWC	**-0,3**	**0,4**	**10,0**	**18,0**
Change in Working Capital	11,8	3,4	8,2	-7,2
Other balance sheet itms	0,7	-2,4	1,2	-1,1
Cash generated from Operating activities	**12,2**	**1,4**	**19,4**	**9,7**
Net cash used for investment activities	-6,1	-8,2	-16,8	-22,8
Net cash from financing activities	2,0	0,5	2,1	-1,8
Net cash from tax	-0,3	0,6	-0,6	-1,3
Net increase / decrease in Cash	**7,8**	**-5,7**	**4,2**	**-16,2**

ADDITIONAL INFORMATION

General Information

Secop Group Holding GmbH

Secop Group Holding, HRB 14025, District Court Flensburg, is a limited liability company registered in Germany with its registered office in Flensburg. The address of the head office is Lise-Meitner-Straße 29, 24941 Flensburg, Germany. The operations of the Secop Group Holding GmbH (the "Parent Company") and its subsidiaries (the "Group") comprise of development, manufacturing and sale of compressor products and related activities.

Secop Group

Since September 2019, Secop Group has belonged to the ESSVP IV fund, advised by Orlando Management AG, a leading investor in industrial businesses. Since its acquisition, the company re-focused its strategy to the core business: design and manufacturing of hermetic compressors and electronic controls for refrigeration solutions used in light commercial and DC-powered applications.

Along the year 2020, a planned transformation process shaped the structure of the group, as part of the strategic plan to reallocate valuable resources and development funds to Light Commercial, Mobile Cooling and Medical developments, limiting the household segment to niche applications where Secop's experience and technology can differentiate with premium solutions. Final steps of the transformation process executed in year 2020 were the closure of the plant in Austria, an operation facility focused on the household segment, the consolidation of operations in Slovakia and China, the establishment of a new R&D center in Austria and the opening of a new headquarter in Flensburg, Germany, with corporate testing laboratories and a development center for electrical motors and electronic controls.

Basis of Preparation

The consolidated financial statements of the Secop Group Holding GmbH have been prepared in accordance with the International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The consolidated financial statements were prepared in line with the International Financial Reporting Standards in accordance with Section 315e (3) in connection with Section 315e (1) German Commercial Code.

The consolidated financial statements have been prepared on a historical cost basis. The financial year of the Secop Group Holding GmbH and its subsidiaries included in the consolidated financial statements corresponds to the calendar year. The consolidated statement of comprehensive income was prepared using the function of expense method.

The Secop Group presents assets and liabilities in the statement of financial position based on a current/non-current classification. Assets and liabilities are current, when they are expected to be realized within twelve months after the reporting period. Net employee defined benefit liabilities and deferred tax assets and liabilities are classified as non-current assets and liabilities.

This quarterly consolidated financial statement includes Secop Group Holding GmbH and subsidiaries controlled by it.

Unless stated otherwise, all amounts are presented in millions of EUR (EUR m), rounding differences of ± one digit/unit are possible.

Events after Balance Sheet Date

No material events after the balance sheet date took place.

Audit

This Interim Report has not been audited or reviewed by the Group auditor.

Additional Commentary on the Income Statement

Net Sales

Net Sales have the following regional split:

EUR M	Q4 2022	Q4 2021	Q1-Q4 2022	Q1-Q4 2021
Americas	4,6	7,5	28,5	27,7
Southeast Asia (incl. China)	28,7	24,7	114,7	124,3
Europe, SAMEO	24,3	33,9	134,6	147,6
Net Sales	**57,6**	**66,0**	**277,8**	**299,7**

In Q4-2021, Americas experienced an overstocking of customers to manage material shortages, while in Q4-2022 a reduction of stock levels at customers due to a normalization of the supply chain and uncertainties regarding the short-term demand took place. Also in Europe, the demand of Q4-2022 was affected by stock reductions at customers and market uncertainties, which were additionally supported by the unstable economic-political situation around Ukraine. In China and other areas in Southeast Asia, the demand in Q4-2021 was low due to Covid restrictions, while the demand started to recover in Q2-2022 with a reduction of lockdowns and restrictions.

Raw Materials

Despite higher prices, the total Raw Material expenses decreased in 2022 because of a lower business volume. In addition, the exchange rate of the USD had a negative effect on some USD-based raw material prices. The prices for electronics remained on a higher level.

Fixed Costs

The Fixed Costs are split as follows:

EUR M	Q4 2022	Q4 2021	Q1-Q4 2022	Q1-Q4 2021
Fixed Personnel Costs	5,7	7,2	28,0	28,2
Other Fixed Costs	2,5	3,1	9,1	9,8
Total Fixed Costs	**8,2**	**10,2**	**37,1**	**38,0**

The Fixed Personnel Costs decreased vs. 2021 mainly because of lower provisions for employee bonusses and holidays not yet taken. Other Fixed Costs undercut last year's amounts mainly because of higher R&D-grants.

Other Income/ Expenses

Other Income/Expenses mainly comprise the effect from the settlement agreement with Nidec, effects from exchange rate fluctuations and effects from the collection of bad debts.

Depreciation & Amortization

An impairment was made in Q4-2022 for specific intellectual property, which was connected to the household business and is no longer considered to be usable. An increase of depreciation followed the high investments of previous years.

Taxes

Taxes comprise a negative effect from Deferred Taxes, which were adjusted due to no longer usable tax losses carried forward in the Slovakian entity.

Adjusted EBITDA

The Adjustments comprised the costs and the other income from the arbitration process and settlement agreement with Nidec, remaining restructuring cost from the closure of the household business and certain consultancy cost, which are not connected to the operational business.

Additional Commentary on the Balance Sheet

Fixed Assets

Intangible Assets increased because of the capitalization of EUR 8,6m R&D expenses acc. to IAS 38. They were also affected by an impairment of intellectual property in connection with the closed household business. The Tangible Assets followed the investments and depreciation of the period.

Current Non-financial Assets

The Current Non-Financial Assets decreased due to lower VAT receivables in line with the lower business volume and a presentation of tools & spare parts with a useful lifetime of more than one year under Fixed Assets acc. to IAS 36.

Non-Current Provision

Pension Provisions declined because of the higher interest level and other actuarial assumptions. The pension calculation is based on IFRS rules considering the PUC-method. The number of covered employees remained almost stable.

Non-Current Liabilities	The main items under the Non-Current Liabilities are the outstanding Bonds, the long-term portion of IFRS-16 Liabilities, Subordinated Shareholder Loans, and Deferred Tax Liabilities. Including accrued interests, the book-value of outstanding Bonds amounted to EUR 37,6m as of December 31, 2022. The company held own Bonds with a nominal value of EUR 12,5m.
Current Non-financial Liabilities	The Current Non-Financial Liabilities decreased due to lower provisions for employee bonusses and other personnel related provisions.
Current Financial Liabilities	The Current Financial Liabilities decreased following the settlement agreement with the former Secop shareholder Nidec Europe B.V.
Bank Liabilities	Bank Liabilities include a supply chain financing program with Chinese banks and liabilities from Letter of Credits issued in the ordinary course of the business. The super senior revolving credit facility (RCF) was not utilized on December 31, 2022.

Definition of Key Indicators

Reported EBITDA	The Reported EBITDA is calculated according to IFRS standards. It reflects the Group Net Income according to IFRS before taking into account any Income Taxes, Financial Result and Depreciation & Amortization.
Internal Adjusted EBITDA	In line with the Bond Terms & Conditions, the Internal Adjusted EBITDA represents the Reported EBITDA excluding unrealized currency gains/losses and gains/losses from the disposal of assets but including leasing costs acc. to IFRS 16. It also does not include extraordinary and non-recurring items, which are not in line with the ordinary course of the business (so called Adjustments).
Bond EBITDA	The Bond-EBITDA represents the Internal Adjusted EBITDA, however, acc. to the Bond Terms & Conditions the excluded Adjustments are limited to 10% of the EBITDA before Adjustments or to specific “Business Plan Extraordinary Cost”.
Trade Working Capital	The Trade Working Capital comprises of Inventory and Trade Receivables minus Accounts Payable.
Net Debt	Acc. to the Bond Terms & Conditions, the Net Debt position comprises interest-bearing Financial Liabilities less the Cash & Bank balance. Subordinated Shareholder Loans are not part of the Net Debt position, while the Vendor Loan of Secop’s former shareholder Nidec is considered with a lump-sum amount.

Key Risks and Uncertainties

Demand & Supply The Group's key risks and uncertainties relate to fluctuations in the demand for its products and the prices and availability of raw material, energy, and electronics as well as other commodity material prices. Measures to secure semiconductor supplies and to limit the impact of fluctuating raw material and energy prices are ongoing. However, certain shortages, which may affect the ability to produce and sell, cannot be predicted easily given the current status of the world economy and the economic-political situation in Europe.

Operations Key operational risks are associated with the proper functioning of property, plant and equipment, the availability of trained staff and the access to raw material and logistics services.

IT Failures of the IT-infrastructure and applications form a relevant risk for the Group as all relevant business processes rely on a continuing IT-availability. In addition, increasing cybercrime activities form a more present risk for the Group.

Finance The main financial risks arise from the exposure to exchange rate fluctuations, in particular of USD and RMB, from increasing interest rates and from a possible default of Trade Receivables.

Ukraine The crisis in Ukraine creates a high uncertainty regarding the future development of the world and European economy. So far, the biggest effects on Secop are the reduction of demand and the increase in energy prices and subsequently their effect on the prices and availability of other production material.

For a more detailed description of key risks and uncertainties, please refer to Secop Group's latest Annual Report.

Company Information

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