

Secop Group Holding GmbH

FINANCIAL STATEMENT
Q2 2022

SECOP



MANAGEMENT COMMENTARY

The Secop Group

Secop Group has belonged to the ESSVP IV fund since September 2019, advised by Orlando Management AG, a leading investor in industrial businesses. Since the acquisition the company re-focused the strategic plan to the core business: design and manufacture of hermetic compressors and electronic controls for refrigeration solutions used in Stationary and Mobile Cooling applications.

Along year 2020 a planned transformation process shaped the structure of the group, as part of the strategic plan to relocate valuable resources and development funds to Light Commercial and Mobile Cooling developments, limiting the household segment only to niche applications where Secop's experience and technology can differentiate with premium solutions. Final steps of the transformation process executed in year 2020 have been the closure of the plant in Austria, operation facility focused on domestic appliances segment, the consolidation of operations in Slovakia and China, and the establishment of a new R&D center in Austria.

Secop is committed to deliver advanced refrigeration compressors and controls, providing customers tailored sustainable solutions for light commercial, battery driven and special cooling applications.

Secop's "Stationary Cooling" business segment (AC-supply compressors for static applications) provides compressors for light commercial applications in food retail, food service, merchandisers, medical, and special applications and also for selected residential applications.

Secop's "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 vaccine fridges, and other mobile applications.

Secop has a long track record of successful projects for energy efficient and green refrigerants adoption projects, using innovative solutions for both compressors and control electronics. Secop can count on solid knowhow and reliable solutions to support refrigeration applications in core refrigeration segments like medical refrigeration, solar vaccine coolers and medical mobile solutions.

Business Highlights Q2 2022

Q2 2022 has seen complicated market conditions that affected demand level and order stability.

Four major effects impacted Q2 2022 business in particular:

Lock-down in China: Significant reduction of demand in China due to the forced lock-down and in the related manufacturing-deliveries constrains generated by the shut-down of production in some areas, which impacted not only the internal demand in China but also the export.

Crisis in Ukraine: The demand from Russia and surrounding countries dropped due to the crisis generated by the conflict in Ukraine. The crisis in Ukraine created in Europe a new uncertainty after Covid waves, impacting a delicate equilibrium for investments in food and beverage industries. **Material cost and FX rate trends:** Raw material price trends in Europe and the exchange rate of CNY and USD had a negative impact on the costs of parts and caused high cost levels of our products. **Supply level for electronics:** Also in Q2 the shortage of electronics continued, and the availability of parts was lower than the demand level for electronic controlled compressors.

The market situation in the **Stationary Cooling** segment was quite different between our segments and regions. Food Retail investments were still limited while Food Service demand was generally good. American demand shows a good trend for all segments. European demand was stable on a low level with some negative effects due to the Ukraine crisis and the rising prices for the food industry. China demand showed a reduction due to Covid lock-downs. South East Asia was still limited in demand due to the Covid consequences.

In **Mobile Cooling**, Q2 showed again a good demand level, however, there was a slow-down from Automotive segment. Leisure experienced a good demand level for recreation vehicles and portable cooling solutions. In Q2 Mobile Cooling segment still suffered from constrains in the supply of electronic components, and the quarter was closed with a high level of order backlog of electronics.

Regarding the **Medical Cooling** we could see a solid and growing demand. Secop continued to grow in volume, working on new projects and opportunities with major medical refrigeration OEMs worldwide.

The price increase for own products executed in Q1 2022 had positive effects on the product margins which suffered strongly from cost increases, but also caused volume drops from markets with high price sensitivities that diverted the attention to lower cost solutions. However, the drop in orders from some specific customers after the price increase was a calculated risk since these customers were trending to insufficient or negative margins without price adjustments due to the strong increase of our product cost. Towards the end of Q2, a **second round of price adjustments** was evaluated to compensate for still rising costs for raw materials, components, utilities, energy.

Net Sales by Region:	Q2 2021 (in k EUR)	Q2 2022 (in k EUR)	Deviation in %
AMERICAS	6.829	8.306	21,6%
SEA (incl. CHINA)	35.589	28.187	-20,8%
EUROPE, SAMEO	38.533	35.302	-8,4%
Total result:	80.951	71.795	-11,3%

CONSOLIDATED INCOME STATEMENT

EUR M	Note	Q2 2021	Q2 2022	Q1-Q2 2021	Q1-Q2 2022
Net Sales		81,0	71,8	156,3	152,0
Raw materials & consumables		-57,4	-52,2	-108,3	-110,6
Labor production		-4,6	-4,0	-8,5	-8,6
Sales variable costs (incl. royalty fees)		-2,1	-2,2	-3,7	-4,6
All other direct costs		-0,8	-0,5	-1,2	-0,9
Contribution margin		16,1	12,9	34,6	27,3
As percent of Net Sales		19,9%	18,0%	22,1%	18,0%
Fixed costs		-9,5	-9,3	-19,5	-18,7
As percent of Net Sales		-11,7%	-13,0%	-12,5%	-12,3%
Currency impact		-0,4	1,4	-1,3	1,0
All extraordinary		0,0	0,0	-0,7	0,3
Depreciation & Amortization		-3,1	-3,2	-5,6	-6,3
EBIT		3,1	1,8	7,5	3,6
As percent of Net Sales		3,8%	2,5%	4,8%	2,4%
Interest expense		-2,1	-2,3	-4,5	-4,5
Profit before Tax		1,0	-0,5	3,0	-0,9
Tax		-0,6	-0,3	-1,2	-0,3
Profit / loss for the period		0,4	-0,8	1,9	-1,2
Memo:					
Leases according to IFRS 16		-0,3	-0,4	-0,6	-0,8
EBITDA Reported *		5,9	4,7	12,5	9,2
As percent of total turnover		7,3%	6,5%	8,0%	6,0%
Adjustments		1,8	-0,4	4,7	0,1
EBITDA Adjusted (R&D capitalized)		7,7	4,3	17,2	9,3
As percent of total turnover		9,5%	6,0%	11,0%	6,1%

* As defined in T's & C's

G1 Increase in inventory

A strategic purchasing of steel took place in Q2 in order to secure price level and material supply in the end second half of 2022.

G2 Trade receivables and Accounts payables

The reductions follow the general softening of the business conditions.

G3 Equity

Including all shareholder loans of the Group, the equity of the group amounts to 106,6m (Equity ratio of 37%)

G4 Refinancing the business

Outstanding Bonds on 30.06.2022 were at a nominal value of 50.0m EUR. Bonds held by the company on 30.06.2022 have a nominal value of 12,5m EUR.

G5 Vendor loan Nidec

A vendor loan to Nidec (former shareholder of the Secop business) was in place with non-cash interest being accrued.

In 2021, Nidec has started an arbitration procedure and both contract parties have open claims to each other. This arbitration is ongoing and management expects a solution not before 2023

CONSOLIDATED BALANCE SHEET (IFRS)

EUR M	Note	Q2 2021	Q2 2022
ASSETS:			
Intangible assets		57,0	63,5
Tangible assets		84,6	90,2
Total fixed assets		141,6	153,7
Deferred tax assets		1,4	1,2
Total non-current financial assets		143,0	154,9
Inventories	G1	37,0	49,0
Trade receivables	G2	62,7	56,2
Current financial assets		5,0	4,3
Cash and bank balance		19,3	12,0
Current non-financial assets		13,8	10,3
Total current assets		137,8	131,8
Total assets		280,8	286,7

EQUITY AND LIABILITIES

Equity	G3	37,2	39,6
Non-current provisions for pensions & similar		4,6	4,1
Other provisions		2,2	2,7
Non-current provisions		6,8	6,8
Non-current financial liabilities	G4	42,8	44,9
Non-current payables	G3	62,6	67,0
Deferred tax liabilities		20,1	16,9
Non current liabilities		125,4	128,8
Non-current non-financial liabilities		0,7	0,5
Current payables from income taxes		0,4	-
Current payables HR		5,3	4,4
All other current payables		3,6	2,1
Current non-financial liabilities		9,2	6,5
Current financial liabilities	G5	20,0	21,6
Short-term loan payables		-	-
Bank liability		-	14,9
Accounts payables	G2	72,2	60,7
Current provisions		9,3	7,3
Other current liabilities		-	-
Current liabilities		101,5	104,5
Total equity and liabilities		280,8	286,7

CONSOLIDATED CASH FLOW STATEMENT

EUR M	Note	Q2 2021	Q2 2022	Q1-Q2 2021	Q1-Q2 2022
EBIT		3,1	1,8	7,5	3,6
Correction for non-cash Items		1,5	1,5	1,6	3,5
Subtotal cash flow from Operations excluding WC		4,5	3,3	9,1	7,1
Change in Working Capital	G1 G2	- 1,3	- 7,4	- 4,6	- 14,5
Subtotal Cash generated from Operating activities		3,4	4,1	4,4	7,4
Net cash used for investment activities		- 4,0	- 4,2	- 8,6	- 7,2
Net cash from financing activities		- 7,2	8,2	- 4,8	13,9
Net cash from tax		- 0,6	- 0,3	- 1,1	- 0,3
Net increase / decrease in Cash		- 8,4	0,4	- 10,0	1,1

GENERAL INFORMATION

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 quarter 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. Unless stated otherwise, all amounts are presented in millions of EUR (m EUR), rounding differences are possible.

KEY RISKS AND UNCERTAINTIES

The Group's key risks and uncertainties relate to fluctuations in the demand and for its products and the prices of steel, copper and semiconductor products as well as other commodity material prices. For a more detailed description of key risks and uncertainties, please refer to Secop Group's latest Annual Report 2021.

Measures to secure semiconductor supplies and limit the impact of increasing commodity prices are ongoing and effective. However, certain shortages which may affect the ability to produce and sell, cannot be predicted easily given the current status of the world economies.

The impact from COVID-19 on the Group has been mostly visible in a lower demand in China due to lock-downs in the wake of the Zero-Covid-strategy. Key operational risks are for example associated to plant, property and staff and our availability and access to raw materials and components as well as to logistics services.

The crisis in Ukraine further increases production costs globally. Different elements contributed to these rising costs: raw materials, components, utilities and energy.

OUTLOOK 2022

Secop may still consider to sell some or all of the bonds it currently holds in the near future.

DEFINITION OF KEY INDICATORS

EBITDA Reported

EBITDA is calculated as the profit of the Group before interest, tax, depreciation and amortization for the relevant period, including IFRS 16 lease costs and after adding back any amount attributable to the amortization, depreciation, depletion or non-cash write-down of assets of members of the Group, according to T's and C's.

EBITDA Adjusted (R&D capitalized)

EBITDA Adjusted (R&D capitalized) is calculated as the profit of the Group before interest, tax, depreciation and amortization including R&D capitalization improving the cost base for relevant items that are capitalized according to IFRS for the relevant period excluding all adjustments that are non-recurring, restructuring and / or acquisition related (enabling a like for like comparison of the real business performance excluding other items), including IFRS 16 lease costs and after adding back any amount attributable to the amortization, depreciation, depletion or non-cash write-down of assets of members of the Group.

COMPANY INFORMATION

Name: Secop Group Holding GmbH

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Registration: HRB 14025

Financial year: January 1 – December 31

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