

Secop Group Holding GmbH

FINANCIAL STATEMENT
Q3 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 light commercial and DC-powered 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, Mobile Cooling and Medical 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, an operation facility focused on domestic appliances 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 labs and a development center for electrical motors and electronic controls.

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 light commercial segments) provides compressors for food retail, food service, merchandisers, and special applications including 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 and other mobile applications.

Secop's "Medical Cooling" business segment with its stationary and mobile solutions is a reliable partner for leading companies supporting medical cold chain applications such as medical transport boxes, solar driven fridges, Bio-Medical and ULT (ultra-low temperature) fridges.

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

Business Highlights Q3 2022

Q3 2022 market conditions have been driven by different dynamics in the various geographical areas and core

segments, while in parallel several external forces continued to influence business stability and predictability. During Q3 2022 the business in the various regions showed different trends.

In **China**, the slow-down of the demand slightly recovered in Q3, compared to the decreases in Q2, but overall, the orders were still behind projections.

In **Europe**, the demand faced ups and downs depending on specific application segments. The Ho.Re.Ca. (Hotels, Restaurants, Catering) segment could benefit from a good high season, while the food retail market has seen reductions caused by cautious investments in food and beverage distribution, which were a consequence of a high inflation rate and increasing energy costs. The crises in Ukraine generated a level of uncertainty, which negatively influenced investments and related demand for new equipment installation. However, in parallel the demand for service parts increased to maintain existing equipment and the development of high energy efficient solutions, like the ones supported by Secop with the range of premium products developed for green and efficient cabinets, continued.

In **America**, Q3 confirmed a good and stable demand from the USA.

In **Middle East, Africa, Southeast Asia** we experienced demand fluctuations due to economic instability in some countries. Especially in North Africa, new import regulations generated hurdles that hampered the normal flow of goods to the region.

Within our business segments, Q3 developed as follows:

The market situation in **Stationary Cooling** was affected by the slow-down in China and Europe, especially for food retail investments, while the food service demand was boosted by good developments in America and Europe. In Europe and Middle East, the demand in Q3 decreased because of price increases implemented in the first part of 2022. Secop lost demand from price sensitive markets focused on standard applications, especially from Middle East, but at the same time realized improved profitability levels and a focus on core markets with more emphasis on premium solutions.

In **Mobile Cooling**, Q3 offered again a good demand level. The high demand from automotive segment was partially absorbed and the order level started to see a normalization. The recreation segment still experienced a good demand level for both recreation vehicles and portable cooling solutions, and the demand from boat refrigeration segment increased even more. The Mobile Cooling segment still suffered constrains from the supply of electronic components, but there was a visible improvement at the end of Q3, with a subsequent reduction of the accumulated backlog of electronics that caused critical supply constrains during H1 2022.

In the **Medical Cooling** segment, Secop experienced a solid growing demand, with strong commitments to develop

projects for the medical cold chain, delivering green and efficient solutions using the new generation of products developed by Secop for the medical healthcare market and vaccine distribution.

Some external forces still influenced the business in the various areas and segments, especially in Europe.

Costs trends, energy costs and FX-rate fluctuations influenced the production cost in Slovakia with a relevant impact on profitability and a consequent need to constantly monitor and adjust prices for specific products and segments. In parallel, a first normalization of transportation cost and the availability of products from China, which did not experience such cost increases, resulted in a more competitive scenario for some price sensitive markets.

Supply constrains for electronic were reduced in Q3 and the availability of electronic parts to sustain the business of electronic controlled compressors, especially for mobile cooling segment, improved during Q3 and the projection for the rest of the year is more optimistic. The improving situation for electronic supply helped to reduce the backlog of electronic controlled compressors and boosted a recovery in the mobile cooling segment.

The price increase executed in H1 2022 had positive effects on recovering profitability, however, it also had some negative consequences in volume declines from price sensitive markets. In Q3, we have seen a volume reduction for European based products in price driven segments: bottle coolers, freezers, beverage dispensers. These segments are not core business for Secop, despite the good demand from these segments in the recent past due to the scarcity of supply from Far East players.

In Q3, Secop confirmed the road-map of new products at the main refrigeration exhibition Chillventa 2022, which took place in October 2022 in Germany:

- The **new range of high efficiency KLF compressors** for Stationary Cooling applications, optimized for green refrigerants.
- The **new modular electronic controller** for energy efficient variable capacity compressors used in food retail and food service.

- The **new BDnano compressor** for Mobile Cooling, an innovative battery driven solution with smaller dimensions, better performances, premium efficiency and additional connectivity and control features. A solution optimized for the new generation of e-vehicles.
- The **new Solar Direct Drive controller** for photovoltaic driven and weak grid applications, to support enhanced requirements for remote installations.
- The **new Ultra Low Temperature Condensing Unit** for the medical cold chain, an innovative solution for transportation and storage of new generation vaccines. Designed and optimized for the last mile distribution of vaccines, even in extreme ambient conditions. A solution developed in a joint development agreement with the market leader for cold chain storage and transportation appliance.
- The **range of compressors for Medical applications**, a set of electronic controlled compressors optimized for green refrigerant adoption and designed specifically for Medical applications.
- The **new range of R290 condensing units**, developed to support the adoption of new green refrigerants and energy saving regulations in the various commercial installations supported by the distribution network.

Testing phases for new products are running with key customers and various development projects are already in place with top players in different segments. Secop aims to exploit the advantages offered by new products to support the development of new projects, exploiting the boost of demand for green and energy efficient solutions in all segments.

Net Sales by Region:

Net Sales by Region:	Q3 2021 (in k EUR)	Q3 2022 (in k EUR)	Deviation in %
AMERICAS	6.845	8.443	23,3%
SEA (incl. CHINA)	32.193	27.822	-13,6%
EUROPE, SAMEO	38.353	31.883	-16,9%
Total result:	77.391	68.147	-11,9%

CONSOLIDATED INCOME STATEMENT

EUR M	Q3 2021	Q3 2022	Q1-Q3 2021	Q1-Q3 2022
Net Sales	77,4	68,1	233,7	220,1
Raw materials & consumables	-54,9	-50,0	-163,2	-160,6
Labor production	-4,3	-3,4	-12,9	-12,0
Sales variable costs (incl. royalty fees)	-2,5	-2,0	-6,2	-6,6
All other direct costs	-0,4	-0,4	-1,6	-1,3
Contribution margin	15,2	12,3	49,9	39,6
As percent of Net Sales	19,7%	18,1%	21,3%	18,0%
Fixed costs	-8,3	-10,2	-27,8	-28,9
As percent of Net Sales	-10,8%	-15,0%	-11,9%	-13,1%
Currency impact	-0,2	1,4	-1,5	2,5
All extraordinary	-0,2	0,0	-1,0	0,2
Depreciation & Amortization **	-2,9	-3,6	-7,8	-9,9
EBIT	3,8	-0,1	11,8	3,5
As percent of Net Sales	5,0%	-0,2%	5,0%	1,6%
Interest expense	-2,3	-2,3	-6,7	-6,8
Profit before Tax	1,6	-2,4	5,1	-3,3
Tax	-0,3	0,0	-1,5	-0,4
Profit / loss for the period	1,2	-2,5	3,6	-3,7
Memo:				
Leases according to IFRS 16	-0,3	-0,4	-0,8	-1,2
EBITDA Reported *	6,2	3,1	18,7	12,2
As percent of total turnover	8,0%	4,5%	8,0%	5,6%
Adjustments	0,7	-0,5	5,4 -	0,3
EBITDA Adjusted (R&D capitalized)	6,9	2,6	24,1	11,9
As percent of total turnover	9,0%	3,8%	10,3%	5,4%

* As defined in T's & C's

G1 Increase of Inventory

In Q2, a strategic purchase of steel took place in order to secure price level and material supply. This steel is partly still on stock.

G2 Trade receivables and Accounts payables

The reduction followed the general softening of market conditions.

G3 Equity

Including all shareholder loans of the Group, the equity of the group amounts to 105.4m EUR (equity ratio of 39%).

G4 Refinancing the business

Outstanding Bonds on 30.09.2022 were at a nominal value of 50.0m EUR. Bonds held by the company on 30.09.2022 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 a solution is expected by management only in 2023.

CONSOLIDATED BALANCE SHEET (IFRS)

EUR M	Note	Q3 2021	Q3 2022
ASSETS:			
Intangible assets		58,9	64,4
Tangible assets		86,4	89,3
Total fixed assets		145,3	153,7
Deferred tax assets		1,4	1,2
Total non-current financial assets		146,7	154,9
Inventories	G1	41,2	45,2
Trade receivables	G2	62,6	48,3
Current financial assets		4,0	3,9
Cash and bank balance		18,8	9,4
Current non-financial assets		10,2	10,7
Total current assets		136,7	117,4
Total assets		283,5	272,3
EQUITY AND LIABILITIES			
Equity	G3	39,0	37,3
Non-current provisions for pensions & similar		4,6	4,1
Other provisions		2,7	2,9
Non-current provisions		7,3	7,0
Non-current financial liabilities	G4	43,2	44,9
Non-current payables	G3	63,7	68,1
Deferred tax liabilities		20,0	16,9
Non current liabilities		126,9	129,9
Non-current non-financial liabilities		0,8	0,5
Current payables HR		5,7	4,6
All other current payables		3,5	3,1
Current non-financial liabilities		9,2	7,7
Current financial liabilities	G5	20,5	21,9
Bank liability		-	7,5
Accounts payables	G2	70,1	52,9
Current provisions		9,4	7,6
Other current liabilities		0,4	-
Current liabilities		100,4	89,8
Total equity and liabilities		283,5	272,3

CONSOLIDATED CASH FLOW STATEMENT

EUR M	Note	Q3 2021	Q3 2022	Q1-Q3 2021	Q1-Q3 2022
EBIT		3,6	-0,1	11,1	3,5
Correction for non-cash Items		3,6	3,3	6,7	6,8
Subtotal cash flow from Operations excluding WC		7,2	3,1	17,8	10,3
Change in Working Capital	G1 G2	-6,1	5,8	-10,8	-8,8
Subtotal Cash generated from Operating activities		1,0	8,9	7,0	1,5
Net cash used for investment activities		-5,9	-3,5	-14,4	-10,7
Net cash from financing activities		5,2	-8,0	-1,2	5,9
Net cash from tax		-0,9	0,0	-2,0	-0,3
Net increase / decrease in Cash		-0,5	-2,6	-10,5	-3,7

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 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. 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 for its products and the prices of steel, copper and semiconductor products as well as other commodity material prices. Measures to secure semiconductor supplies and to limit the impact of fluctuating commodity prices are ongoing and are effective already. However, certain shortages, which may affect the ability to produce and sell, cannot be predicted easily given the current status of the world economy.

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.

The impact from COVID-19 on the Group has been limited until the date of the publishing of this report. However, given the uncertainty related to the spread of the virus and its associated effects particularly in China with the executed Zero-COVID strategy, it is difficult for the Group to estimate future impacts from the outbreak.

The future effects of the crisis in Ukraine are also difficult to predict. So far, the biggest effects are the reduction of demand and the increase in energy prices and 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 2021.

OUTLOOK 2022

Secop may still consider selling some or all of the bonds it currently holds.

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

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