Secop Group Holding GmbH

Interim Report
Q4-2023

MANAGEMENT REPORT

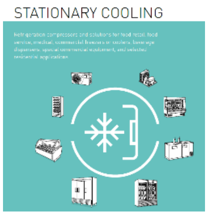
The Secop Group

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.

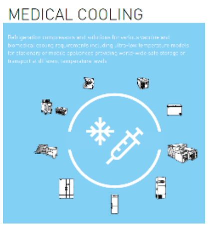
Secop has a long track record of successful projects to adopt energy efficient and green refrigerants that feature innovative solutions for both compressors and control electronics.

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 final quarter of 2023 showed encouraging signs of recovery in comparison to the preceding quarter, despite a reduction in overall revenue and result compared to the same period of the previous year.

In China, Q4-2023 experienced a demand slightly above Q4-2022, accompanied by a healthy order book. Across the Americas, the demand in Q4-2023 ended slightly below the same period of 2022, but there were optimistic indicators of recovery and good projections for the quarters to come. Meanwhile, in Europe, the Middle East and Africa, persistent economic and political uncertainties continued to have a negative influence on the overall demand across all segments, resulting in figures below Q4-2022. South-East Asia experienced a lower order level in Q4-2023 compared to the corresponding period of the previous year but showed a still good progression for the full year.

Within our supply chain, raw materials and energy prices stabilized, and key materials were consistently supplied without encountering critical bottlenecks. However, the adverse impact of the CNY exchange rate persisted, negatively affecting our consolidated result in EUR currency.

Throughout the fourth quarter of 2023, we achieved a significant milestone by completing the development of the new BD Nano compressor for the automotive sector. Production commenced for automotive OEMs in China, supported by a surge in domestic demand for electric cars. Additionally, we secured initial orders for new projects in the medical cold chain market during Q4-2023. Progress was also made in bringing new models of KLF compressors to the market, and we continued to advance the rollout of our new platforms in the food and beverage industry. Our commitment to growth with sustainable and efficient solutions remains unwavering.

Key Highlights Q4-2023

Q4-2023

- **Net Sales** reached EUR 52,2m in Q4-2023 and thereby decreased by almost 20% compared to previous year's quarter (Q4-2022*: EUR 64,5m) due to a lower demand in all segments.
- The **Contribution Margin in %** of Net Sales improved significantly to 25,6% (Q4-2022*: 18,8%), reflecting an improved product mix and better raw material, energy and freight costs.
- The **Internal Adjusted EBITDA** ended with EUR 4,3m below Q4-2022 (Q4-2022*: EUR 6,8m) because of lower sales and the lack of operational year-end-closing effects, which were only partly compensated by a better Contribution Margin.
- Our **Bond EBITDA** followed the Internal Adjusted EBITDA but was affected by a limitation of Adjustments according to the Bond Terms & Conditions. It finished with EUR 2,0m (Q4-2022*: EUR 6,8m).
- The **EBIT** amounted to EUR -1,2m with a corresponding EBIT-margin of -2,3% (Q4-2022*: 10,0%). The higher 2022-value was benefitting from the settlement of an arbitration proceeding with the former shareholder (Q4-2022*: EUR 6,4m).
- **Net Income** reached EUR -9,5m (Q4-2022*: EUR 3,2m).
- With EUR 6,0m, the **Operating Cash-flow** showed a good development but undercut the performance of previous year's period with an even stronger reduction of the Trade Working Capital (Q4-2022*: EUR 17,6m).

Q1-2023 - Q4-2023

- Net Sales reduced to EUR 235,5m (PY: EUR 277,8m) due to a softening demand in different areas and segments following several uncertainties globally.
- The **Contribution Margin in %** of Net Sales improved significantly to 23,8% (PY: 17,9%), reflecting an improved product mix and a balance between own prices and stabilized raw material, energy and freight costs.
- The **Internal Adjusted EBITDA** ended with EUR 18,4m (PY: EUR 18,2m) despite the softer sales-development, which was overcompensated by a better Contribution Margin.
- The **Bond EBITDA** followed the Internal Adjusted EBITDA but was affected by a limitation of Adjustments according to the Bond Terms & Conditions. It finished with EUR 15,5m (PY: EUR 18,2m).
- The **EBIT** amounted to EUR 5,9m (PY: EUR 7,9m) with a corresponding EBIT-margin of 2,5% (PY: 2,8%).
- **Net Income** reached EUR -10,9m (PY: EUR -2,6m).
- With EUR 25,6m, the **Operating Cash-flow** is strongly supported by the Trade Working Capital reduction (PY: EUR 19,3m).

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Business Development Q4-2023

General

In Q4-2023, China maintained a robust demand in line with the positive development of previous quarter. Other regions, notably Europe, faced challenges with demand levels compared to previous year's quarter but showed promising signs of a positive shift on the horizon.

Regions

Net Sales in the different regions developed as follows:

EUR M	Q4 2023	Q4 2022*	Q1-Q4 2023	Q1-Q4 2022
Europe	14,2	22,9	79,7	106,0
China	26,5	25,8	102,7	91,0
Americas	5,1	5,5	19,1	28,5
Middle East, Africa & South Asia	6,4	10,3	34,0	52,3
Net Sales	52,2	64,5	235,5	277,8

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Europe: Despite the cautious investment atmosphere in the food and beverage industry during Q4-2023, businesses displayed resilience in navigating uncertainties. While the demand level was lower than in 2022, customers strategically adjusted order levels to maintain balanced stock levels for year-end stability.

China: Q4-2023 experienced a positive trajectory in order levels, above those of the previous year. The mobile cooling market excelled, driven by robust demand in the domestic electric cars market, and the light commercial sector experienced notable growth sustained by market demand.

Americas: While the USA market faced challenges with low demand in the mobile cooling segment, attributed to higher inventories of unsold finished goods in recreation vehicles, there was a notable positive shift. Q4-2023 experienced a recovery in order levels within the food retail and food service segments, indicating a promising further development.

Middle East, Africa, Southeast Asia: Q4-2023 presented economic-political uncertainties impacting the Middle East, leading to a decline compared to the previous year. Conversely, Southeast Asia experienced a modest decrease in order levels compared to Q4-2022, reflecting stability regional dynamics.

Segments

Within the business segments, Net Sales developed as follows:

EUR M	Q4 2023	Q4 2022*	Q1-Q4 2023	Q1-Q4 2022
Stationary Cooling	32,8	40,9	154,6	190,8
Mobil Cooling	17,6	21,4	74,4	79,8
Medical Cooling	1,8	2,3	6,5	7,2
Net Sales	52,2	64,5	235,5	277,8

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Stationary Cooling: While Net Sales experienced a decline in Europe and the Middle East compared to previous year, there was a notable uptick in China and America in Q4-2023. The positive trend in China's food service and food retail sectors from previous quarter continued. Also the demand in America showed a positive trend, with order levels slightly surpassing the same period of last year. In Europe, Net Sales were influenced by a soft demand in the food retail segment and a demand below Q4-2022 in the food service segment. Overall, despite challenges with the demand for legacy product in certain areas, Secop capitalized on the positve reception of new platforms developed for green refrigerant applications. These innovations, together with the new generation of electronic controls targeting efficient cabinets in compliance with regulations, contributed to positive dynamics.

Mobile Cooling: In Q4-2023, the demand for mobile cooling products was still influenced by lower recreational vehicle demand in America and Europe, attributed to high finished goods stock levels. Europe's automotive industry also faced reduced demand compared to the previous year, but this was partially offset by an increasing demand for e-cars in China. Secop demonstrated resilience by sustaining the ramp-up of new e-car projects, particularly in China, where integrated fridges in new e-car concepts confirmed forecasts for rapid growth. The completion of the innovative BD Nano platform for automotive applications fosters various projects for the new generation of vehicles, equipped with premium solutions designed to enhance fridge performance and efficiency.

Medical Cooling: Q4-2023 saw the medical cold chain segment's demand still below the previous year's levels in America, Europe, and China, aligning with trends from the preceding quarter. However, Secop's proactive approach was evident in completing new projects that offer green and efficient solutions to support the industry. The reception of first orders for the new generation of cabinets indicates a positive outlook, showcasing Secop's commitment to providing cutting-edge solutions to meet evolving market needs.

Profit

Main KPI’s developed as follows:

EUR M	Q4 2023	Q4 2022*	Q1-Q4 2023	Q1-Q4 2022
Internal Adjusted EBITDA	4,3	6,8	18,4	18,2
Bond EBITDA	2,0	6,8	15,5	18,2
Reported EBITDA	1,7	12,5	17,7	23,9
Net Income	-9,5	3,2	-10,9	-2,6

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

In Q4-2023, the **Internal Adjusted EBITDA** was lower than in previous year’s period, however, the Contribution Margin in % of Net Sales improved significantly from 18,8% in Q4-2022 to 25,6% in the current quarter. This development reflects an improved customer and product mix and own price levels being back in sync with stabilized prices for raw materials, energy and transportation. These positive effects were overcompensated by lower volumes and – compared with Q4-2022 – the lack of operational year-end closing effects.

The **Bond EBITDA** follows the Internal Adjusted EBITDA, however, the current year’s figures were affected by a limitation of adjustments for extraordinary or non-recurring items according to the Bond Terms & Conditions. In 2022, the Bond EBITDA was not influenced by any limitations.

The **Reported EBITDA** of Q4-2023 was additionally negatively affected by an impairment of receivables from customers in emerging markets following political restrictions, while the arbitration settlement with Secop’s former shareholder Nidec affected previous year’s Reported EBITDA positively.

The **Net income** of Q4-2023 was additionally negatively influenced by a reassessment of withholding tax liabilities for intercompany payments from China and Deferred Tax liabilities in the Chinese subsidiary.

Supply Chain

Raw material prices remained in Q4-2023 on the levels of the previous quarter. Negotiations with major Western suppliers to reduce prices further faced a big pushback, but we could achieve some minor improvements. Negotiations will continue in Q1-2024. Cost optimizations through technical changes and improvements started to bear fruits with major projects being competed in Q4-2023. The availability and supply of electronics continued on a stable level.

Investments

In total, Q4-2023 registered investments of EUR 8,0m (Q4-2022: EUR 6,1m), including R&D capitalization of EUR 1,9m (Q4-2022: EUR 2,4m). Main investments were for the development of the new SCE platform and for the ramp-up of the BD Nano production capacity, where the first pre-production samples had been assembled.

Trade Working Capital The Trade Working Capital amounted to EUR 17,0m at the end of 2023, which is a reduction of EUR 11,2m vs. December 2022. The total Inventory value was reduced by EUR 2,6m, while Trade Receivables decreased by EUR 11,2m due to lower business activities compared to Q4-2022 and a fair value adjustment on receivables from emerging markets (EUR -2,1m). Also Account Payables decreased by EUR 2,6m because of the lower business activities compared to Q4-2022.

Cash & Bank With EUR 8,1m, the Cash & Bank balance of 31 December 2023 decreased by EUR 9,0 m vs. the respective 2022-figure. Main contributor to this reduction was the payment to Nidec Europe B.V. as part of the arbitration settlement in 2022. With its refinancing process concluded mid-2023, the company received a net cash of EUR 11,3m and used the additional funds to fully amortize existing short-term Bank Liabilities and for investment spendings.

Equity The equity as of 31 December 2023 amounted to EUR 25,0m; its development reflects the Net Income and Other Comprehensive Income of the period. Including all Shareholder Loans, which experienced and injection of EUR 3,0m in Q1-2023 as part of the arbitration settlement with Nidec and in line with the Terms & Conditions of the previous Bonds, the equity ratio of the Secop Group amounted to 42%.

Net Debt The Net Debt position acc. to the Bond Terms & Conditions decreased by EUR 4,5m vs. December 2022, to EUR 42,3m. The book-value of the Bonds amounted to EUR 50,0m before offsetting capitalized transaction costs. As of 31 December 2023, all short-term Bank Liabilities were repaid and the company used a EUR 0,4m guarantee for business purposes. Compared to December 2022, the increase of the Bond Liabilities and the reduction of the Cash & Bank balance were mostly compensated by the repayment of the Nidec vendor loan and other short-term bank liabilities.

Employees As of 31 December 2023, Secop employed 990 employees based on full-time equivalents (FTE), of which 152 employees in R&D and 744 employees in production facilities. This is a reduction of 156 employees (FTE) compared to 31 December 2022, which was mainly realized in the production area to adjust the capacity of the Slovakian plant to the reduced demand.

Bonds In June 2023, Secop announced that it issued new senior secured Bonds to refinance its existing Bonds. With the fulfilment of the conditions precedent, the company finalized the refinancing and redemption of its existing Bonds. The new Bonds have an initial volume of EUR 50m, mature after 3,5 years and carry a floating coupon of 8,4% above 3-months EURIBOR. The company does not hold any of its new Bonds and is currently not planning to acquire such in the foreseeable future.

Outlook

Business Development

Secop expects an overall rather stable total volume demand in the Stationary Cooling segment with a shift towards new products with better margins. The Mobile Cooling segment is set for a robust upswing, particularly driven by the automotive sector in China, and the Medical Cooling segment is expected to benefit from a new season of customer investments.

In the Stationary Cooling sector, China is poised to maintain a demand on 2023 levels, while both America and Europe are expected to show some improvement. Due to ongoing political and economic uncertainties, the Middle East and Africa are projected to maintain their demand. Also Southeast Asia is anticipated to exhibit a consistent market need. An overall positive development is expected from an increasing demand for recently launched models, including the KL range for green refrigerant applications and the new electronically controlled compressors.

For the Mobile Cooling segment in China, the order level is forecasted to surpass 2023 significantly, primarily propelled by the automotive sector. Moreover, a rebound is expected in the recreational vehicles market in Europe and America, after the low demand level seen in 2023. The launch of the new BD Nano production for e-car projects in China and for the recreation vehicles market is set to be a major driving force of this development.

In the Medical Cooling segment, a positive trend is on the horizon for 2024, with order levels expected to exceed those of 2023. The medical cold chain is anticipated to return to a normal level, no longer impacted by elevated stock levels and cautious investments seen in 2023. The year 2024 should reflect the ramp-up of new platforms approved by leading players in 2023.

Investments

After the strong activities in 2023, the total investments for 2024 are expected to return to the previous years' level. Major capex are considered for the BD Nano capacity increase, the further development of the SCE- and NLE-platforms and for rationalizations, efficiency- and quality-improvements. In addition, the company expects to capitalize slightly lower R&D-expenses than in 2023.

Profit

Given the positive outlook especially for the Mobile Cooling segment, Secop expects for 2024 Net Sales well and an Internal Adjusted EBITDA significantly above the 2023-levels.

FINANCIAL STATEMENTS

Consolidated Income Statement

EUR M	Q4 2023	Q4 2022*	Q1-Q4 2023	Q1-Q4 2022
Net Sales	52,2	64,5	235,5	277,8
Raw Materials & Consumables	-34,6	-48,2	-161,4	-204,0
Labor Production	-3,2	-3,2	-12,9	-15,2
Sales Variable Costs (incl. Royalty Fees)	-0,9	-1,6	-4,3	-8,1
Other Direct Cost	-0,1	0,6	-0,7	-0,7
Contribution Margin	13,4	12,1	56,1	49,7
As Percent of Net Sales	*25,6%*	*18,8%*	*23,8%*	*17,9%*
Fixed Costs	-8,7	-8,2	-36,5	-37,1
As Percent of Net Sales	*-16,7%*	*-12,6%*	*-15,5%*	*-13,3%*
Other Income/Expenses	-2,9	8,5	-2,0	11,3
EBITDA reported	1,7	12,5	17,7	23,9
Depreciation & Amortization	-2,9	-6,0	-11,7	-16,0
EBIT	-1,2	6,4	5,9	7,9
As Percent of Net Sales	*-2,3%*	*10,0%*	*2,5%*	*2,8%*
Interest Result	-3,1	-2,6	-11,3	-9,4
Profit before Tax	-4,3	3,9	-5,4	-1,6
Taxes	-5,2	-0,7	-5,5	-1,0
Net Income	-9,5	3,2	-10,9	-2,6

Adjusted EBITDA Reconciliation

EUR M	Q4 2023	Q4 2022*	Q1-Q4 2023	Q1-Q4 2022
EBITDA reported	1,7	12,5	17,7	23,9
Leasing Costs acc.t to IFRS 16	-0,4	-0,4	-1,8	-1,7
Unrealized Currency Effects	0,5	0,9	-1,8	-0,7
Gains/Losses from Disposed Assets	0,0	0,0	0,0	0,0
EBITDA before Adjustment	1,8	12,9	14,1	21,5
Adjustments:				
Arbitration/SPA	0,0	-7,7	-0,1	-6,4
Restructuring Costs	0,1	1,4	1,2	1,5
Consulting Fees	0,2	0,5	0,9	1,3
Others	2,2	-0,2	2,3	0,2
Internal Adjusted EBITDA	4,3	6,8	18,4	18,2
Adjustment Limitation acc. to Bond T&C	-2,3	0,0	-2,9	0,0
Bond EBITDA	2,0	6,8	15,5	18,2

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Consolidated Balance Sheet

Assets

EUR M	Q4 2023	Q4 2022
Intangible Assets	64,4	63,0
Tangible Assets	95,8	91,1
Total Fixed Assets	160,2	154,1
Deferred Tax Assets	1,2	0,3
Total non-current Assets	161,4	154,4
Inventories	34,1	36,7
Trade Receivables	28,1	39,3
Current Financial Assets	4,8	4,3
Cash & Bank	8,1	17,2
Current non-financial Assets	7,5	6,6
Total current Assets	82,5	104,0
Total Assets	243,8	258,5

EQUITY & LIABILITIES

EUR M	Q4 2023	Q4 2022
Equity	25,0	38,0
Pension provisions	2,9	2,8
Other Provisions	1,7	1,9
Non-current provisions	4,6	4,7
Non-current Financial Liabilities	54,6	44,2
Non-current Payables	76,7	69,1
Deferred Tax Liabilities	18,8	16,1
Non-current Liabilities	150,2	129,3
Non-current non-financial Liabilities	0,0	0,3
Current Personnel-related Payables	3,0	2,9
Other current Payables	7,1	4,1
Current non-financial Liabilities	10,1	7,0
Current Financial Liabilities	1,0	11,5
Bank Liability	0,0	10,1
Accounts Payables	45,2	47,8
Current Provisions	7,6	9,7
Other Current Liabilities	0,1	0,0
Current Liabilities	53,9	79,1
Total equity and liabilities	243,8	258,5

Consolidated Cash Flow Statement

EUR M	Q4 2023	Q4 2022*	Q1-Q4 2023	Q1-Q4 2022
EBIT	-1,2	6,4	5,9	7,9
Amotization & Depreciation	2,9	6,0	11,7	16,0
EBITDA reported	1,7	12,5	17,7	23,9
Change in Working Capital	5,4	14,9	11,1	8,3
Δ Inventory	*2,2*	*12,6*	*1,8*	*14,0*
Δ Trade Receivables	*8,3*	*0,3*	*10,0*	*13,1*
Δ Trade Payables	*-5,1*	*2,1*	*-0,7*	*-18,8*
Other balance sheet items	0,3	-9,5	-1,5	-12,2
Net cash from tax	-1,4	-0,3	-1,6	-0,7
Operating Cash Flow	6,0	17,6	25,6	19,3
CAPEX	-5,9	-3,5	-10,4	-7,1
Capitalized R&D	-1,9	-2,4	-8,1	-8,7
Capitalized IFRS 16	-0,2	-0,2	-1,2	-0,9
Proceeds from disposals	0,0	0,0	0,0	0,0
Cash Flow from Investing Activities	-8,0	-6,1	-19,7	-16,7
Free Cash Flow	-2,1	11,5	5,9	2,6
Change in Deposites/Loans	0,1	-2,5	-6,9	4,6
Interest Result	-1,8	-1,0	-6,8	-3,2
Other Financing	0,0	0,0	-1,2	0,1
Cash Flow from Financing Activities	-1,8	-3,4	-14,9	1,5
Net increase / decrease in Cash	-3,9	8,1	-9,0	4,1
Cash Beginning of Period	12,0	9,4	17,2	13,0
Cash Increase/Decrease	-3,9	8,1	-9,0	4,1
FX-Effects	-0,1	-0,3	-0,2	0,1
Cash End of Period	8,1	17,2	8,1	17,2

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting and to present the repayment of the principal amount of lease liabilities according to IFRS 16.*

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) of the 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.

Changes of Accounting Principles

Since Q1-2023, Secop adopts the IFRS 15 principles also in the quarterly interim reporting. The comparable previous year's figures were adjusted accordingly. The effects on the Q4-2022 figures were EUR -0,9m on Net Sales and EUR -0,1m on Contribution Margin, EBITDA, EBIT, Profit before taxes and Net Income.

Furthermore, since Q1-2023, the company has adjusted the structure of the Cash-flow Statement in accordance with IAS 7. According to the new structure, repayments of the principal amount of lease liabilities are presented under the Cash-flow from Financing Activities in accordance with IFRS 16, while changes of other balance sheet items are reclassified to the Operating Cash-flow. These adjustments changed the Operating Cash Flow and the Cash Flow from Financial Activities for the year 2022 by EUR 0,1m compared to the previous year reported figures.

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

Raw Materials

Raw Material Expenses decreased in Q4-2023 vs. the respective period in 2022 because of a lower business volume and lower price levels for key materials. Also lower energy prices vs. the respective period in 2022 contributed to lower unit costs.

Fixed Costs

The Fixed Costs are split as follows:

EUR M	Q4 2023	Q4 2022	Q1-Q4 2023	Q1-Q4 2022
Fixed Personnel Costs	6,8	5,7	29,1	28,0
Other Fixed Costs	1,9	2,5	7,4	9,1
Total Fixed Costs	8,7	8,2	36,5	37,1

The Fixed Personnel Costs increased vs. Q4-2022 mainly because an increase of employees' remuneration and higher provision for annual bonusses. Other Fixed Costs undercut previous year's level mainly due to the settlement of the arbitration process with Nidec, which caused significant extraordinary legal fees in 2022.

Other Income

In Q4-2022, the Other Income was positively influenced by the settlement of the arbitration proceedings with Secop's former shareholder Nidec, while it was negatively affected in Q4-2023 by a fair value adjustment of receivables from customers in emerging markets following persistent political restrictions for non-domestic USD transfers.

Depreciation & Amortization

An impairment was made in Q4-2022 for specific Intellectual Property, which was connected to the household business and no longer considered to be usable, and for specific Tangible Assets in the Slovakian factory.

Interest Result

Interest expenses increased vs. Q4-2022 due to the higher volume of outstanding Bonds, the higher margin of the new Bonds and higher market interest rates.

Taxes

Taxes were negatively affected by a reassessment of withholding tax liabilities for intercompany charges and the respective cash transfers with China and a reassessment of Deferred Tax liabilities in connection with local fair-value rules for Property, Plant and Equipment in the Chinese entity.

Additional Commentary on the Balance Sheet

Fixed Assets

Intangible Assets ended slightly higher than in Q4-2022. An increasing effect from the capitalization of R&D expenses acc. to IAS 38 was partly compensated by a reclassification of IFRS 16 Right of Use to Tangible Assets (EUR 1,9m).

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. After redemption of the previous Bonds, the current book-value of the outstanding Bonds amounted to EUR 50,0m as of 31 December 2023 before offsetting capitalized transaction costs of EUR 1,2m. The Subordinated Shareholder Loans increased by EUR 11,3m vs. 31 December 2022 following an injection of EUR 3,0m in connection with the payment of the arbitration settlement to Nidec and accrued interests. The increase of Deferred Tax Liabilities is mainly driven by a reassessment in the Chinese factory.
Current non-financial Liabilities	The main items under Current non-financial Liabilities are liabilities for social security, payroll and other taxes and other liabilities. The increase is driven by withholding tax accruals for services rendered from the German to the Chinese entity.
Current Financial Liabilities	The Current Financial Liabilities decreased due to the arbitration settlement with Secop's former shareholder Nidec Europe B.V. and the respective payment in March 2023.
Bank Liabilities	In Q4-2022, Bank Liabilities included supply chain financing loans with Chinese banks and liabilities from Letter of Credits issued in the ordinary course of the business, which were completely repaid during Q3-2023. Secop's super senior revolving credit facility (RCF) was not utilized on 31 December 2023 either.
Current Provisions	The Current Provisions declined because of lower short-term warranty provision and lower provisions for outstanding services not invoiced at year end.

Additional Commentary on the Cash Flow

Other B/S-items	The Change of Other B/S-items in Q4-2022 was mainly driven by a non-cash profit in connection with the Nidec settlement in Q4-2022.
Financing Activities	In Q3-2023, after receiving the funds from the fully placed new Bonds, all short-term Bank Liabilities were fully repaid to optimize interest expenses. At the end of Q4-2023, no short-term loan facilities were utilized. Under Other Financing the capitalized transaction costs for the placement of the new Bonds are reported.

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 or 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 costs originating from the period prior to the acquisition of the Group in September 2019.
Trade Working Capital	The Trade Working Capital comprises of Inventory and Trade Receivables minus Accounts Payable.
Net Debt	According 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.

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 & Israel	The crises in Ukraine and Israel create 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.
ESG	We refer to the most recent nonfinancial report for more details regarding Environment, Social and Governance risks.

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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