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31.10.2023 - GBC Management Interview – Vectron Systems AG

Company: Vectron Systems AG*^{5a,5b,6a,7,11}

ISIN: DE000A0KEXC7

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Date (time) completion (german): 31.10.2023 (08:29 am)

Date (time) first transmission (german): 31.10.2023 (10:00 am)

Date (time) completion (english): 31.10.2023 (3:30 pm)

Date (time) first transmission (english): 02.11.2023 (10:00 am)

* catalogue of possible conflicts of interests on page 5

acardo acquisition and digitisation strategy have positive influence; risk from purchase price payment practically non-existent

After the fiscalisation effect has largely expired, Vectron Systems AG is currently in a transformation process. Their focus is on the expansion of digital services, so that in future the predominant part of Vectron's business will consist of recurring revenues. One-off revenues from cash sales are taking a back seat. The increase in recurring income by around 48% to € 9.6 million is a clear indication of the success of this strategy. At the same time, the current financial year is significantly influenced by the inorganic effects of the acquired couponing specialist acardo Group AG. GBC analyst Cosmin Filker spoke with Vectron board member Thomas Stümmler:

GBC AG: At the beginning of the current financial year 2023, you acquired the couponing specialist acardo Group AG. What interim conclusion can you draw about this acquisition after three quarters?

Thomas Stümmler: We are still very happy to have acquired such an exciting company. acardo serves around half of the German coupon market within the food retail sector. Furthermore, acardo operates two popular apps in this field, Couponplatz and Scondoo. In addition, acardo operates or supports the apps of large retail chains, such as Edeka, with content. acardo software runs on the cash register systems of many large retail companies. This fits in perfectly with Vectron's strategy. With acardo we also seek to spread couponing throughout the gastronomy sector and make ourselves more independent of individual industry trends.

GBC AG: What are the possibilities of a stronger cooperation between the two segments "POS systems" and "couponing"?

Thomas Stümmler: We think that couponing will also play a big role in the gastronomy sector. We also want to give restaurant owners the opportunity to market special offers via acardo's end-customer apps. Furthermore, we want to give the supply industry the opportunity to advertise beverages, for example, not only in trade with coupons, but also in the field of gastronomy. For this, we want to convince our massive customer base of the advantages of couponing, while acardo can market this new marketing platform through its existing contacts to the industry.

GBC AG: In the first three quarters of 2023, you generated strong revenue growth of almost 50% to € 27.9m (PY: € 18.3m). EBITDA climbed significantly to € 2.8 million (previous year: € -2.6 million). What were the most important drivers behind this?

Thomas Stümmler: In addition to the acquisition of acardo and the associated positive results, a pleasing increase in recurring revenues was primarily responsible for the improvement in the group result. We have really only scratched the surface of the potential of these digital services.

GBC AG: You've mentioned the strong increase in recurring revenues which are primarily related to the expansion of the digital business. Which modules are to be introduced to the market in the near future?

Thomas Stümmler: To give you a few examples:

- A web shop for "take away" with a connection to the cash register.
- Ordering by QR code and paying at the table
- Online table reservation
- Couponing for gastronomy
- ...etc...

GBC AG: EBITDA in the first nine months was positively affected by special effects totalling € 0.9 million. What are these related to and what will its further development be?

Thomas Stümmler: These were mainly one-off effects from provisions that could be released. This will, therefore, not continue.

GBC: Are the "aftermaths" of the implemented cost-saving programme now over and which cost savings could Vectron finally realise?

Thomas Stümmler: We have reduced our staff from about 200 employees to about 150. This means considerable monthly savings, which, however, have only occurred slowly this year, because many long-serving employees had long notice periods. As you know, we have decided to source hardware from external partners in the future. Therefore, we have cut most of the jobs in hardware manufacturing and development and have not made any cuts in software development, for example. Our digital growth strategy was thus not affected by the savings.

GBC AG: Back to the acardo acquisition. Depending on acardo's earnings performance, an earn-out in a wide range of € 4 to € 25 million will be due in the 2026 financial year. What result would acardo have to achieve for the maximum earn-out to be due? How should this be financed?

Thomas Stümmler: For this, acardo would have to generate an average EBIT of € 5.5 million in the financial years 2024 and 2025. If this is missed by a significant margin, the earn-out could be as low as € 4 million. Regardless of how high the earn-out ultimately turns out to be, we can pay a significant part of the claim from the accrued acardo profits and finance the rest, which should then be possible with such a profitable subsidiary. So, actually, every scenario has its appeal. You should not forget that we can use the profits from the current year and partly from 2026, because we expect to have to pay first in Q2 2026. Before that, all the financial statements have to be available.

GBC AG: A follow-up question on this. What happens if you do not have sufficient liquid funds at the time of the earn-out payment? What risks do you face?

Thomas Stümmler: We have tried to structure the deal in such a way that all conceivable scenarios remain manageable. That's why we agreed that in this case that we would NOT have to pay, but that the ex-owners of acardo could then buy the company back at the purchase price at the time. The accumulated profits would remain with us. Should the ex-owners then also not be able or willing to pay this, the company would remain with us until one of the two parties finally buys it.

GBC AG: Mr. Stümmler, finally a question for investors with a long-term investment horizon. Where do you see Vectron in five years?

Thomas Stümmler: We seek to become the leading provider of a complete digital ecosystem for retail and gastronomy. Digital services can multiply the turnover per customer. If we consistently and patiently continue along the path we have now embarked on, then the largest cash register base in the market should automatically make us the largest digital provider. The growth of these digital products is already clearly visible today and shows that the strategy is working.

GBC AG: Mr Stümmler, thank you for the interview.

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I.

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