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SECO to Acquire Garz & Fricke Group Creating the Listed European Champion in the IoT-AI Market



Transaction highlights

- A TRANSFORMATIONAL DEAL REPRESENTING A KEY MILESTONE IN SECO'S GROWTH STRATEGY
- ACHIEVEMENT OF THE OBJECTIVES COMMUNICATED TO THE MARKET DURING THE IPO
- COMBINATION WILL CREATE A GROUP WITH OVER €180m REVENUE AND MORE THAN €40m ADJUSTED EBITDA BY 2022
- TOTAL CONSIDERATION OF €180m (IMPLYING 11.2x EBITDA 2022E POST COST SYNERGIES), OF WHICH €165m CASH CONSIDERATION AND €15m NEWLY ISSUED SECO SHARES
- HIGHLY ACCRETIVE TRANSACTION WITH EXCELLENT STRATEGIC FIT, PROVIDING SIGNIFICANT VALUE CREATION AND SYNERGY POTENTIAL
- REINFORCES STRATEGIC PRESENCE IN THE DACH REGION, ONE OF THE MOST ATTRACTIVE MARKETS IN IOT-AI AND EDGE COMPUTING



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- **COMPLEMENTARY BUSINESS PROFILE AND PRODUCT OFFERING ACROSS ALL KEY AREAS**
- **EXPECTED TO BE SIGNIFICANTLY EPS ACCRETIVE FROM THE FIRST YEAR POST-CLOSING, WITH FURTHER UPSIDE POTENTIAL GENERATED BY SIGNIFICANT INDUSTRIAL SYNERGIES**
- **CLOSING OF THE TRANSACTION IS EXPECTED BY OCTOBER 2021**

Arezzo, October 11, 2021 – SECO S.p.A. (“**SECO**”), reference player in the field of technological innovation, Internet of Things and Artificial Intelligence solutions, listed on the STAR segment of the Italian Stock Exchange (Ticker: IOT:MI), is pleased to announce that it has entered into a binding agreement to acquire the entire share capital of Garz & Fricke Holding GmbH (“**Garz & Fricke Group**” or the “**Company**”), a Hamburg headquartered producer and developer of hardware and software solutions for the industrial Internet of Things (IoT), through AF HMI Holding, ultimately controlled by Afinum Siebte Beteiligungsgesellschaft mbH & Co. KG, advised by Afinum Management GmbH (“**Afinum**”), and other minority shareholders as jointly owners of 100% of the share capital of the Company (the “**Sellers**”). The total consideration amounts to €180m and comprises a cash consideration of €165m and €15m newly issued SECO shares, as described in the following paragraphs.

Founded in 1992, Garz & Fricke Group is a leading supplier of standard and custom edge Human-Machine Interface (HMI) solutions, their building blocks and a tailored ecosystem of IoT, software and payment solutions. The Company was acquired by Afinum in 2017, and has expanded its operations under its ownership completing two strategic acquisitions in the field of edge systems and software applications. Today Garz & Fricke Group operates under three complementary brands: “Garz & Fricke” (HMI solutions), “Keith & Koep” (Systems on Module) and “e-GITS” (Software & Platform).

For the full year ending December 2021, Garz & Fricke Group is expected to generate approximately €45m in revenue and an adjusted EBITDA in excess of €10m. Furthermore, by the end of the year, the Company expects to manage more than 65,000 active IoT and 39,000 payment installations, representing a clear opportunity to roll-out SECO CLEA software into Garz & Fricke Group installed IoT devices. Besides components, the Company focuses is on systems that are seamlessly integrated and customized. These are implemented on the basis of individually adapted standard or custom solutions. Regular customers include OEMs and system integrators from target verticals including medical and laboratory technology (MedTech/LabTech), professional kitchen equipment, vending and diversified industrials. All products are made in Germany in the two modern Company's production facilities.

Garz & Fricke Group has a strong technological footprint with c.28% headcount in R&D, out of c.190 total employees as of September 2021.



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The Company is led by CEO Stefan Heczko.

Massimo Mauri, CEO of SECO, commented: *“The acquisition of Garz & Fricke Group is a landmark moment for SECO’s growth project and a unique opportunity to continue to create value for our shareholders and customers, in line with the strategy we outlined to the market earlier this year during the IPO process. We see the acquisition of Garz & Fricke Group as a key milestone to strengthen our European and global leadership position, reinforcing our strategic access to a key market like Germany and further accelerating the adoption of CLEA on an enlarged customer basis, as well as adding key competences and technologies to our product portfolio in order to continue to deliver the highest standards of quality and service to our customers. Finally, we look forward to welcoming the management team and all the people of Garz & Fricke Group into our organisation and to make them an integral part of our project.”*

Stefan Heczko, CEO of Garz & Fricke Group, commented: *“This combination is an ideal strategic fit and will allow our customers to benefit from the development of a wider product offering and improved operations, integrating existing Garz & Fricke Group solutions into SECO technological and operational platform. Both SECO and Garz & Fricke Group are best-in-class players in the field of HMI/Edge solutions as well as leading developers of Industrial IoT systems. We are delighted to be part of this new journey and to contribute to further accelerate SECO’s growth trajectory.”*

STRATEGIC RATIONALE

- REINFORCES STRATEGIC PRESENCE IN THE DACH REGION, ONE OF THE MOST ATTRACTIVE MARKETS IN IOT/AI AND EDGE COMPUTING
- SIGNIFICANT VALUE CREATION THANKS TO THE UNIQUE STRATEGIC FIT AND STRONG SYNERGY POTENTIAL
- MORE THAN 200,000 DEVICES PRODUCED ANNUALLY (OF WHICH C.65,000 ALREADY RUNNING IOT CONNECTIVITY SOLUTIONS) TO FURTHER ACCELERATE THE DEPLOYMENT OF CLEA PLATFORM IN GERMAN-SPEAKING COUNTRIES
- HIGHLY COMPLEMENTARY ACROSS ALL OPERATING METRICS, WITH SIMILAR FINANCIAL PROFILE (EBITDA MARGIN 20%+)
- BRINGS HIGH QUALITY TEAM LED BY GARZ & FRICKE GROUP’S CEO STEFAN HECZKO, STRENGTHENING SECO’S TALENT POOL
- CLEAR AND DEFINED INTEGRATION PLAN TO BE COMPLETED IN THE NEXT 18 MONTHS



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The acquisition of Garz & Fricke Group represents a unique strategic opportunity for SECO to establish a major international / pan European champion in the IoT/Edge Computing industry, creating the largest listed European player and the world's number 3 player in the industry.

The combination is highly complementary across multiple dimensions, reinforcing SECO's presence in the strategic DACH market and adding scale in attractive growth markets such as the United States. The combined entity will have a reduced customer concentration and will strengthen positioning in additional (e.g. Professional Kitchen Equipment) and shared-presence verticals (e.g. Vending Machine, MedTech/LabTech, Diversified Industrials), thus positively impacting overall business risk profile.

SECO will leverage on Garz & Fricke Group's more than 200,000 new devices produced per year (of which c.65,000 already running IoT connectivity solutions) to further accelerate the deployment of SECO's CLEA IoT-AI platform in German-speaking countries.

The acquisition will also combine Garz & Fricke Group's leading payment system solutions with SECO's CLEA IoT-AI platform, further strengthening SECO's product portfolio and IoT capabilities.

In addition, the transaction represents a significant opportunity to drive already identified cost and revenue synergies thanks to operational and manufacturing efficiencies, fostered by vertical integration into SECO supply chain and manufacturing, improved purchasing conditions and negotiating power for both entities, as well as horizontal and vertical cross/up-selling opportunities.

The integration of SECO and Garz & Fricke Group management skills and professional know-how will create one of the most advanced R&D and technological platforms in the field of IoT/edge computing solutions globally.

SECO has elaborated a full integration strategy including more than 60 implementation initiatives, which are expected to achieve run-rate targets in the next 18 months.

Only a minimal execution risk is expected thanks to core pillars mostly based on direct operational initiatives supported by full involvement of existing Garz & Fricke Group management and shareholders.



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FINANCIAL HIGHLIGHTS AND OTHER TRANSACTION DETAILS

- TRANSACTION FUNDED THROUGH A MIX OF NEW DEBT FACILITIES, CASH ON BALANCE AND SECO NEWLY ISSUED SHARES
- TOTAL EBITDA SYNERGIES OF C.€15M ACHIEVABLE WITHIN 3 YEARS
- C.€4M COST EBITDA SYNERGIES FROM PURCHASING, G&A AND MANUFACTURING EFFICIENCIES TO BE REALIZED IN THE FIRST 12 MONTHS AFTER CLOSING
- C.€25M REVENUE SYNERGIES FROM CROSS-SELLING AND UP-SELLING OPPORTUNITIES, RESULTING IN A C.€11M REVENUE EBITDA SYNERGIES TO BE REALIZED IN 3 YEARS AFTER CLOSING
- STRONG COMBINED FINANCIAL PROFILE AND ROBUST CASH FLOW GENERATION, RETAINING A FLEXIBLE AND SUSTAINABLE CAPITAL STRUCTURE
- HIGHLY ACCRETIVE ACQUISITION WITH EXPECTED EPS ACCRETION ACHIEVED STARTING FROM THE FIRST YEAR FOLLOWING THE ACQUISITION, EVEN BEFORE SYNERGIES

Garz & Fricke Group is expected to contribute revenues of c.€50m and an adjusted EBITDA of c.€12m for the full year ending in December 2022.

SECO expects the combined entity to generate run-rate costs synergies of approximately €4m within 12 months from closing. Key identified synergy levers include purchasing efficiencies, integration of Garz & Fricke Group's glass-touch display procurement into SECO's Fannal production to reduce external sourcing, G&A optimisation and other general manufacturing efficiencies.

Additional Revenue synergies from horizontal and vertical cross/up-selling opportunities (i.e. integration of CLEA on existing Garz & Fricke Group's devices) of approximately €25m, with an effect on EBITDA of approximately €11m, are expected to be achieved in the next 3 years.

The terms of the agreement envisage a total consideration of €180m on a cash-free and debt-free basis, corresponding to an implied EV/EBITDA multiple of 11.2x based on expected Dec-22E adjusted EBITDA



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(incl. run-rate cost synergies) of c.€16m (14.9x excluding synergies or c.7.0x fully synergised including both run-rate cost and revenue synergies).

SECO will correspond to Garz & Fricke Group existing shareholders a €165m cash consideration to be funded through a mix of new acquisition financing facilities (for which SECO has received lender commitments) and cash on hand, resulting in anticipated pro forma net leverage for the combined entity of c.3.0x Net Financial Position over expected pro forma combined EBITDA Dec-21 (including run-rate cost synergies), with expected strong deleverage below c.2.5x by Dec-22 year end.

SECO has entered at signing into a medium-long term financing agreement (the “**Financing Agreement**”) for the scope of the transaction. Intesa Sanpaolo SpA and Unicredit SpA have arranged the financing acting as Co-underwriters and Bookrunners. BancoBPM SpA and Gruppo BNP-Paribas joined as Mandate Lead Arrangers. With the Financing Agreement, SECO intends to fund a portion of the price that will be paid to the Sellers and to refinance the debt of Garz & Fricke Group at closing.

A shareholders’ meeting will be called to approve a share capital increase of approximately €15m. The share capital increase will be paid by the Sellers (i.e. Afinum and existing minority shareholders, including founders Mr. Garz and Mr. Fricke, and current CEO Stefan Heczko) from funds received in the sale and will be for up to a maximum 2.6 million shares in SECO representing a 2.3% stake in SECO share capital (1.5% implied stake on voting rights). The issue price of the shares of €5.86 corresponds to the calendar day volume weighted average of the share price of SECO in the 30 days prior to the signing of the transaction.

A lock-up period of 6 months post-closing shall apply to all new SECO shares issued to the Sellers in the context of the transaction, except for those issued to Mr. Stefan Heczko which will be subject to a lock-up period of 12 months post-closing.

The transaction has already received full support by SECO's major shareholders represented by Mr. Conti, Mr. Secciani, Fondo Italiano di Investimento and Olivetti – TIM Group.

The transaction is expected to be EPS accretive in the first full year after acquisition, before synergies.

In connection with the transaction, SECO was advised by Goldman Sachs (M&A advisor), White&Case (legal advisor Milan and Frankfurt), PwC (financial & tax due diligence) and Deloitte (commercial due diligence and integration plan advisor). The Sellers were advised by goetzpartners and Oaklins (M&A advisors), CMS (legal advisor), and KPMG (financial & tax due diligence).



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Conference call to illustrate the Transaction

On Monday October 11, 2021 at 4.00pm CET, a presentation and a conference call for analysts and institutional investors will be hosted by Massimo Mauri, CEO of SECO, and Stefan Heczko, CEO of Garz & Fricke Group.

Participants can register to the event through the following link:

<https://b1c-co-uk.zoom.us/meeting/register/tZEpdGsrjlrG9OLVtLGjdaVn3Qohr4R8JKH>



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SECO

SECO (IOT.MI), listed on the Italian Stock Exchange (STAR segment), develops and manufactures cutting-edge technological solutions, from miniaturized computers to fully customized integrated systems combining hardware and software. SECO also offers CLEA, a proprietary end-to-end IoT-AI analytics software suite, made available on a SaaS basis, that allows clients to gather insightful data from their on-field devices in real time. SECO employs over 500 people worldwide and operates through 3 production plants, 6 R&D hubs and sales offices in 9 countries. With a turnover of more than €75 million as of December 31, 2020, SECO serves more than 200 blue-chip customers which are leaders in their respective fields, including Medical, Industrial Automation, Aerospace & Defense, Fitness, Vending and many other sectors. SECO R&D capabilities are further enhanced by long-lasting strategic partnerships with tech giants and collaborations with universities, research centers, and innovative start-ups. Corporate social responsibility is part of the strategy of SECO, that undertakes several actions to reduce its environmental footprint and increase its impact on its people and local communities.

For more information: <http://www.seco.com/>

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