VECTRON

Half-Year Report
2023

This is a translation of the German half-year report. In case of any divergences, the German original is legally binding.

Contents

For improved readability, we mostly refrain from using gender-related wording in this report. Male wording, when used, represents all genders.

VECTRON

1. Business performance

1.1. Company situation

Vectron Systems AG (hereinafter also referred to as "Vectron") holds a leading position in the European market for intelligent POS systems. The company's products comprise hardware, software and cloud services. According to our estimate, around 60,000 sales outlets, primarily in Germany, actively use our products at present.

The product solutions of Vectron Systems AG are primarily aimed at the gastronomy sector, bakeries and butchers as well as retailers and service providers.

The products are sold through a network of approximately 300 specialised trade partners, mainly in Germany and other European countries. End customers range from single POS installations to chains with more than 1,000 POS.

With effect as of 1 January 2023, Vectron acquired acardo group AG and acardo activation GmbH (hereinafter referred to as acardo).

acardo develops and provides marketing and promotion services and also develops and markets the related software technologies and services.

In particular, acardo provides services within the scope of couponing and cashback campaigns run by customers (such as brand manufacturers) in collaboration with retailers, pharmacists and cinema operators. These services include preparing retail POS systems for these campaigns (setup services) and handling the clearing process where acardo's customers pay settlements to retailers, pharmacists and cinema operators.

1.2. Overall economic development

Russia's war against Ukraine, which has been continuing since February 2022, resulted in the West imposing sanctions against Russia. The war destroyed supply chains. Russia also reduced the sale of gas to Western Europe. These disruptions to the global economic situation primarily showed in a significant rise in inflation of an annual average of 6.9 % in 2022, according to the information provided by the Federal Statistical Office.

The negative effects of the pandemic continue to affect the economy, resulting in reduced materials availability and longer delivery periods.

Due to these general conditions, the gastronomy sector is expected to deteriorate rather than improve in the short term, particularly due to the huge increase in costs that probably cannot be compensated by the slight increase in sales.

According to interim results by the Federal Statistical Office (Destatis), German retailers generated 4.5 % fewer sales in real terms (adjusted for price) in the first half of 2023 than in the first half of 2022. In comparison, nominal sales (not adjusted for price) increased by 3.6 % year-on-year. The difference between nominal and real results reflects the significant increase in retail prices. The continuing inflation is also expected to further slow down developments in the retail sector.

1.3. Sector development

The POS system market is varied, both on the provider and customer side. The diversity of the sector and varying company sizes among users are reflected on the provider side. Only few manufacturers are global players in different markets. Most competitors are small, often only regional providers. Next to established companies such as Vectron and others whose product portfolio contains hardware and software, an increasing number of pure software providers are entering the market.

Surveys by the DFKA (German Association for POS and Invoicing System Technology) in the first quarter of 2023 assume that around 15 % of companies have still not retrofitted their POS systems. Subsequent retrofitting can therefore also be expected in 2023.

The trend toward digitisation in the gastronomy sector continued in the first half of 2023. Government restrictions such as social distancing increased demand for digital POS system services (e.g. payment offers, delivery services, etc.) during the Coronavirus pandemic. The lack of qualified employees in the gastronomy sector is another driver behind digital solutions that can be used for at least partially compensating for a lack of service personnel.

It is therefore expected for Vectron's revenue from POS business to remain on par with the previous year, but for revenue from the digital business to continue to increase considerably.

acardo’s marketing campaigns are aimed at fast moving consumer goods (FMCG), particularly in food outlets (including drug store products) and pharmacies. acardo has a strong competitive position and a manageable number of competitors.

Couponing and cashback campaigns are generally highly popular with end customers in economically difficult periods (e.g. inflation). But customers also profit from the broad effect of these campaigns. According to general estimates, consumers saved around EUR 200 million in 2022 through couponing campaigns. At an average discount rate of 20 %, this corresponds to one billion in goods sales.

It is therefore expected that the budgets of the brand manufacturers for such couponing and cashback campaigns will increase in the future and that acardo will continue on its growth path.

2. Actual assets, financial position and profit position

2.1. Actual assets

Compared to 31 December 2022, total assets increased by EUR 36.226 thousand, from EUR 36,513 thousand to EUR 72,739 thousand.

On the assets side, this is primarily due to the acquisition of acardo group AG. As of the balance sheet date, the acquisition of acardo resulted in carrying amounts for customer relationships (EUR 6,802), technology (EUR 2,135 thousand) and goodwill (EUR 19,689 thousand).

At EUR 7,838 thousand, the capitalised rights of use, which primarily pertain to the use of the office building, remained on par with the previous year. Current and non-current lease receivables also remained on par with the previous year at EUR 3,317 thousand.

Trade receivables increased by EUR 10,285 thousand to EUR 12,862 thousand. The increase resulted from the initial consolidation of the acardo companies. They are due large amounts of receivables from their customers as a result of their clearing activities that are, however, offset against corresponding liabilities to trade partners (transitional items).

Debt increased from EUR 16,047 thousand to EUR 52,747 thousand.

The current liabilities of EUR 19,983 thousand (31/12/2022: EUR 7,171 thousand) are offset by current assets of EUR 28,475 thousand (31/12/2022: EUR 21,222 thousand). This increase also resulted from the acquisition of the acardo companies. As previously mentioned, the receivables and liabilities of the acardo companies are comparatively high due to the clearing business.

The non-current liabilities of EUR 32,764 thousand (31/12/2022: EUR 8,876 thousand) are offset by non-current assets of EUR 44,263 thousand (31/12/2022: EUR 15,291 thousand). The increase in non-current debt was the result of a contingent purchase price liability from the acquisition of the acardo companies.

Equity amounts to EUR 19,991 thousand (31/12/2022: EUR 20,466 thousand). The decrease is the result of losses in the first half of 2023. The subscribed capital remains unchanged at EUR 8,057 thousand.

As of the balance sheet date, the equity ratio was 27.5 % (31/12/2022: 56.1 %). The equity ratio decreased due to the increase in total assets.

2.2. Financial position

The Group completed the majority of its cash outflows in the past half-year from existing cash and cash equivalents. As part of the adjustment of the business model, a former acardo shareholder paid a loan of EUR 1.5 million into acardo's trust accounts. The existing credit facilities did not have to be drawn down otherwise.

All financial liabilities were always repaid on time, if applicable by utilising cash discounts.

As of the balance sheet date on 30 June 2023, the Group's cash and cash equivalents amounted to EUR 7,425 thousand. This corresponds to a decrease of EUR 5,149 thousand compared with 31 December 2022. This decrease resulted from the payment of the first purchase price tranche as part of the acardo acquisition.

In the reporting period, cash flow from operating activities amounted to EUR 4,213 thousand (previous year's period: EUR -3,645 thousand).

Cash flow from financing activities amounted to EUR -1,004 thousand (previous year's period: EUR -569 thousand), which is primarily due to the repayment of financial / lease liabilities plus interest.

The current loan of EUR 1.5 million taken up by acardo in the reporting period was transferred immediately to acardo's trust account as a current loan, meaning that the net cash inflow from this transaction is zero.

Cash flow from investing activities amounted to EUR -8,360 thousand (previous year's period: EUR -172 thousand), of which EUR -8,005 thousand resulted from the acquisition of acardo.

The financing strategy remains geared towards long-term stability.

2.3. Profit situation

Revenue amounted to EUR 18,530 thousand in the first half of 2023. Of this amount, EUR 13,130 thousand (around 71 %) pertain to Vectron and EUR 5,400 thousand (29 %) to acardo. Vectron's recurring revenue amounted to around EUR 6.2 million (33 %). In the previous year's period, Vectron generated revenue in the amount of EUR 12,556 thousand on its own, of which EUR 5.1 million from recurring revenue.

The gross margin of 73.5 % is on par with the previous year. The EBITDA amounted to EUR 1,665 thousand. This figure is considerably above the budget. Vectron contributed EUR 311 thousand and acardo EUR 1,354 thousand to the EBITDA. In the previous year's period, Vectron generated an EBITDA of EUR -542 thousand on its own.

3. Subsequent events after 30 June 2023

No significant reportable events occurred after 30 June 2023.

4. Forecast report

Please refer to the forecast report in the management report for financial year 2022 and our deliberations above in Section 1.3 for the future industry, product and business trends.

Taking into consideration all of these aspects and in view of the positive development in the first half of 2023, we expect that the Group will continue on its growth path. We therefore stick with the guidance for 2023 to 2025 published in March 2023. The positive expectations apply equally to Vectron's and acardo's business segments.

5. Risk reporting

For monitoring purposes and to support decision-making, Vectron Systems AG maintains a risk management system and appointed a risk management officer who reports directly to the executive board. The risks and counter-measures are monitored and recorded on a regular basis. The risks are classified and appraised both qualitatively and quantitatively. Changes are documented so that historical developments are transparent. The results of each audit are reported to the executive board. If additional counter-measures are required, these are initiated directly by the executive board. A performance indicator is calculated from the probability of occurrence and potential damage. This forms the basis for inclusion in the risk report.

5.1. Business risks and opportunities

The long-standing pricing pressure in the industry may result in a narrowing of the margins for the sale of POS systems. By offering unique selling points, Vectron has so far largely disconnected itself from the general pricing competition within the sector. The development and expansion of the new business fields with recurring revenues will lead to a great degree of independence from single revenues and general pricing pressure. The internal project for increasing recurring revenue, which was specifically initiated for this purpose, was a success, which shows not least in the increase in income and recurring revenue margins.

Various technical developments have lowered market entry hurdles for new providers and lead to a continuous change of products and business models. Missing a new trend could damage Vectron's profitability in the long-term. The monitoring of competitors and other sectors in order to constantly check and adjust the company strategy thus remains of great importance. For this reason, product developments are continually adjusted to current findings. All developments continue to be based on agile methods (Scrum) to ensure maximum reaction speeds.

Economic fluctuations impact users' willingness to invest in POS systems, meaning that an economic downturn (potentially only in individual sales countries) can lead to significant sales decreases. We regard the overall economic and global security situation, which was shaken by the aggressive war initiated by Russia against Ukraine on 24 February 2022, which violates international law, as continuously challenging. Its further developments and effects are unforeseeable. Indirect consequences include significant unwillingness to consume and invest, including in our target industries, as well as rising energy costs and selected costs of materials. This only rather indirectly affected Vectron up to now. No procurement or sales bottlenecks were and are discernible at present. The aim remains to gain independence from economic cycles as much as possible by focusing on high-quality and complex system solutions as well as transitioning to business models with recurring instead of single revenues.

The general economic conditions previously described also affect specialist retailers which provide a major part of sales and services for Vectron. It cannot be ruled out that the number of specialist retailers actively engaged by

Vectron will decrease slightly as a result. Vectron specifically supports the specialist retailers' sales performance with systematic tests and rollouts of direct marketing measures, thus developing its sales landscape further in close cooperation with selected partners. A deliberately further developed special retail sector will therefore play a key role in Vectron's future sales, even though direct marketing will be an additional building block.

We expect the acquisition of acardo at the beginning of 2023 to generate synergies as Vectron POS systems are an ideal vehicle for selling the marketing services (couponing) provided by acardo and also as the marketing services provided by acardo increase the attractiveness of the service packages offered by Vectron.

acardo's customer base contains only few major customers in the fast moving consumer goods segment, which causes a certain degree of dependence on customers. It is also technically difficult and expensive to replace the technology used by acardo in the POS systems. It is therefore unlikely that major customers will be lost, as particularly in times of high inflation, coupon campaigns are a popular marketing instrument amongst all market participants.

The risk of Vectron having paid too much for the investment in acardo was counteracted by agreeing an earn-out clause in the purchase agreement, which states that the majority of the purchase price is variable and based on the future earnings power of acardo. The majority of the risk of falling below budget was thus transferred to the sellers.

5.2. Process and value creation risks

The company's growth and adjustment processes, particularly for the development of the new business fields and the expansion in other countries may lead to the complexity of internal processes increasing too quickly, thus leading to loss of efficiency and lack of quality. During corresponding changes, particular importance is thus placed on suitable project management and involvement of employees. A new project management standard was launched throughout the company.

The process development and invoicing of digital services is generally complex and prone to errors. Problems can have considerable negative effects on sales, revenues and customer satisfaction. This continues to be primarily counteracted with the launch of suitable IT solutions.

The COVID-19 pandemic has disrupted parts of the global supply chains and the delivery times for electronic components have increased significantly in recent months, a situation that has been further exacerbated by an increase in global demand for electronic components. Peripheral products, in particular, cannot be delivered by some manufacturers at present. Delivery difficulties can therefore generally not be ruled out for the future. This risk was, and is being, counteracted by increasing stocks of finished products and spare parts as well as organisational measures.

As a technology company, Vectron may become the target of industrial espionage. Due to the particular market characteristics and the specialist knowledge required to use the technology, the actual risk is considered relatively small. Comprehensive protective measures, such as IT system security, internal access restrictions and non-disclosure agreements, continue to be implemented regardless.

5.3. Finance risks

Sales variations may have a significant short-term effect on the available cash flow and thus endanger the overall financing of the company. Vectron therefore aims for a high equity ratio. Additionally, sufficient levels of liquidity are maintained so that the stability of the company is ensured at all times, even during longer periods of weak economic performance.

Dependencies on individual, major customers always pose a risk, such as in the case of payment default. However, this risk is currently low for Vectron (the largest Vectron customer accounted for at least 3 % of total sales in financial year 2022), but may increase due to individual major orders. The general default risk of the debtors is counteracted with various audits at portfolio and individual level, including a regular check of credit limits, regular exchange with customers, prompt and regular reminder and collection activities, which are executed by the legal unit, and additional measures.

As the company buys a significant share of the material in foreign currency (primarily US dollar), and/or prices are directly impacted by exchange rates, unfavourable effects of exchange rate changes on cash and cash equivalents may have a significantly negative impact on profits. Depending on historical and expected exchange rate developments, foreign currency items continue to be processed via spot purchases or hedged with derivative financial instruments.

Longer-term business interruption, e.g. as a result of a fire, could have considerable financial costs. This risk is mitigated through a business interruption insurance, if possible. However, certain risks, such as force majeure, cannot be insured or would be too expensive to insure to be economically viable.

5.4. Technical and IT risks

The company is highly dependent on numerous IT systems and other technology. Breakdowns, malfunctions, data losses or cyber attacks, which reached a new record high in Germany in recent years, particularly amongst SMEs, can endanger the continued existence of a company as a going concern. This particularly applies to the digital services offered as cloud solutions where even short breakdowns have considerable effects on users. Vectron places great importance on state-of-the-art security measures and backup solutions as well as regular IT system updates and the continuous further development of IT security management. The requirements regarding reliability and resilience are taken into consideration in the architecture and operating concept of the cloud solution.

5.5. Purchasing and cooperation risks

A price increase for purchased components can result in a narrowing of the margin. To avoid this issue, the aim is to conclude fixed-price contracts, which prevent direct price increases by the supplier, which is becoming increasingly challenging in the current market environment. As the exchange rate trend is used for calculating the fixed price, there is nevertheless an indirect potential currency risk. The procurement prices and costs are increasing continuously and have levelled out considerably higher than before the COVID-19 pandemic. It is impossible to fix prices in the long term.

Price savings for electronic assemblies, components and finished devices can generally only be achieved by purchasing larger quantities. However, larger purchasing volumes require more tied capital and bear the risk of impairments in the event of products being cancelled. The company therefore only concludes framework agreements for quantities whose sale is largely secured.

In the case of Vectron-specific or single-source components, the downtime of a pre-supplier can result in delivery delays. To avoid shortages, minimum amounts of all critical components are stocked so that there is sufficient lead time for a reaction to downtimes. Replacement suppliers are on stand-by if technically and economically feasible. Please note that Vectron's most important supplier is based in a politically unstable region. We will therefore implement further measures to reduce any existing dependencies through diversified sourcing.

Parts of the globally linked supply chains have been disrupted by the COVID-19 pandemic. This primarily shows in longer delivery times. It has been possible up to now to fully compensate for this development with increased stocks and the change to alternative components.

5.6. Personnel risks

In view of the lack of qualified employees in recent years, problems with the acquisition of qualified employees may result in the company being unable to implement its planned product developments and sales activities and exploit corresponding business opportunities. Numerous individual measures are being implemented to position Vectron as an attractive employer.

The unavailability of key employees can lead to noticeable problems with operations. A risk in this respect is that it may be impossible to retain these key employees in the company. In order to promote employee retention, Vectron places great importance on a good working climate and the targeted promotion of cooperation amongst colleagues. Managers are tied to the company with share options programmes.

5.7. Product and product development risks

The product portfolio undergoes ongoing adjustments, changes and expansions. The resulting development and production complexity can lead to delays and product errors that can have a significant effect on the company's profit situation. There is also a risk of developing products that do not meet requirements in the market. Both planning and development are therefore as iterative as possible to ensure that findings in the market flow into these activities as quickly as possible. A new product development process is being implemented by the product management department to reduce the risk. Software tests are automated as much as possible. The risk is further limited through business liability insurance.

5.8. Legal risks

Vectron processes and stores large volumes of personal data of operators and customers. Vectron further engages third parties to process the corresponding data and processes personal data in joint responsibility with the specialist trade partners and operators. Vectron has to comply with corresponding legal requirements for this processing. Non-compliance with these and controls by the regulatory authorities could result in heavy fines. To adequately counteract these risks, Vectron collaborates with relevant specialist law firms and continues to ensure compliance with the legal bases, such as the conclusion of data processing agreements with all cloud customers, service providers and specialist trade partners that process personal data for Vectron.

Errors can occur in publications that are relevant to the capital market (adhoc announcements and/or corporate news) which can result in a damaged reputation, uncertainty amongst investors as well as heavy fines. These are the consequences primarily of non-compliance with the BaFin provisions for corresponding publications. Ad-hoc announcements, for instance, must be brief and informative and must, in particular, not be misused as advertising or marketing messages. Such violations incur fines. Early reconciliation with qualified service providers and law firms will counteract this risk.

Insider information could also be created within the company which must be published immediately or whose publication must be delayed according to corresponding postponement orders in accordance with the Market Abuse Regulation (Marktmissbrauchsverordnung). The group of persons with knowledge of the respective information must also be kept as small as possible. The Legal and Human resources departments are therefore responsible for raising awareness of which information must be regarded as insider information from which date and limit the group of employees involved/informed and also add provisions regarding compliance with insider regulations to the respective employment contracts.

Since the fourth quarter of 2022, the organisational structures have been deliberately streamlined and process, structural and personnel changes implemented within the company that also affect the way company agreements are handled. The executive board, executive and expert employees have been made aware accordingly and are ready to intervene directly. A broadly diversified local law firm and a renowned national/international law firm have been engaged as a necessary precaution and to make it possible to respond immediately and appropriately to any abnormalities and urgent matters and to prevent and/or avert potential legal risks.

The governance and risk management principles of Vectron Systems AG are being gradually transferred to acardo group AG and acardo activation GmbH as from their acquisition on 1 January 2023.

Münster, 31 August 2023

Vectron Systems AG
The executive board

Thomas Stümmler
CEO

Dr. Ralf-Peter Simon
COO

Christoph Thye
CMO

Balance sheet

in EUR thousand ASSETS	30/06/2023	31/12/2022
Non-current assets		
Intangible assets and goodwill	29,844	929
Property, plant and equipment	755	891
Right-of-use assets	7,838	7,738
Participations	404	526
Non-current lease receivables	1,933	1,848
Non-current trade receivables	176	176
Other non-current financial assets	641	642
Deferred tax assets	2,673	2,541
Total non-current assets	**44,263**	**15,291**
Current assets		
Inventories	3,242	3,771
Trade receivables	12,862	2,577
Receivables from affiliated companies	13	13
Current lease receivables	1,384	1,416
Income tax receivables	9	9
Other current financial assets	3,178	681
Other current assets	363	180
Cash and cash equivalents	7,425	12,575
Total current assets	**28,475**	**21,222**
Total assets	**72,739**	**36,513**

in EUR thousand EQUITY AND LIABILITIES	30/06/2023	31/12/2022
Equity		
Subscribed capital	8,057	8,057
Capital reserve	20,417	20,424
Balance sheet loss	-8,482	-8,015
Equity	**19,991**	**20,466**
Non-current liabilities		
Non-current financial liabilities	22,262	1,632
Non-current lease liabilities	6,960	7,009
Non-current provisions	244	230
Non-current employee benefits	5	5
Deferred tax liabilities	3,294	–
Total non-current liabilities	**32,764**	**8,876**
Current liabilities		
Trade payables	4,520	1,947
Liabilities to affiliated companies	–	19
Current lease liabilities	970	799
Current financial liabilities	1,694	1,951
Income tax liabilities	359	338
Current employee benefits	648	1,710
Other current financial liabilities	1,734	215
Other current liabilities	10,058	192
Total current liabilities	**19,983**	**7,171**
Total liabilities	**52,747**	**16,047**
Total equity and liabilities	**72,739**	**36,513**

Statement of comprehensive income

in EUR thousand	01/01–30/06/2023	01/01–30/06/2022
Revenue	18,530	12,556
Change in inventories	-232	-866
Material expenses and purchased services	-4,714	-2,303
Other own work capitalised	31	-
Gross profit	**13,615**	**9,387**
Other operating income	1,073	61
Personnel costs	-6,542	-5,176
Other operating expenses	-6,091	-4,561
Expenses/income from the impairment of financial assets	-383	-248
Other taxes	-9	-5
EBITDA*	**1,665**	**-542**
Depreciations and amortisations	-2,077	-783
Earnings before interest and taxes (EBIT)	**-412**	**-1,325**
Financial income	198	116
Financing expenses	-210	-183
Financial income/expenses	**-12**	**-67**
Earnings before taxes (EBT)	**-424**	**-1,392**
Income tax expenses	-44	412
Half-year loss	**-467**	**-980**

Earnings per share		
Undiluted earnings per share	-0.06	-0.12
Diluted earnings per share	-0.06	-0.12

*EBITDA is an alternative performance indicator that is not defined in the IFRS.

Statement of changes in equity

in EUR thousand	Subscribed capital	Capital reserve	Balance sheet loss	Total Equity
Balance as of 1 January 2023	**8,057**	**20,424**	**-8,015**	**20,466**
Income for the period	-	-	-467	-467
Other income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-467**	**-467**
Share-based payment	-	-7	-	-7
Balance as of 30 June 2023	**8,057**	**20,417**	**-8,482**	**19,991**

For first half financial year 2022:

in EUR thousand	Subscribed capital	Capital reserve	Balance sheet loss	Total Equity
Balance as of 1 January 2022	**8,057**	**20,239**	**-2,744**	**25,552**
Income for the period	-	-	-980	-980
Other income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-980**	**-980**
Capital increase	-	-	-	-
Share-based payment	-	3	-	3
Balance as of 30 June 2022	**8,057**	**20,242**	**-3,724**	**24,575**

Cash flow statement

in EUR thousand		01/01-30/06/2023	01/01-30/06/2022
1. Cash flow from operating activities			
Earnings before taxes		**-424**	**-1,392**
+	Depreciation, amortisation and write-downs	+2,077	+783
+/-	Increase/decrease in provisions	+13	+21
+/-	Other non-operative expenditures/income	-75	+19
+/-	Decrease/increase in inventories, trade receivables as well as other assets not allocated to investment or financing activities	+5,477	+373
+/-	Increase/decrease in trade payables as well as other liabilities not allocated to investment or financing activities	-2,844	-3,632
+/-	Share-based payments (equity-settled)	-7	0
+/-	Loss/profit from the disposal of fixed assets	-1	0
+/-	Interest expenses and income	+12	+67
+	Interest received	+198	+116
+/-	Tax payments/refunds	-213	0
Cash flow from operating activities		**4,213**	**-3,645**
2. Cash flow from investing activities			
-	Cash payments made for investments in intangible assets	**-112**	-122
+	Cash inflows from the disposal of property, plant and equipment	0	0
-	Cash payments made for investments in property, plant and equipment	-242	-50
-	Acquisition of a subsidiary, less acquired cash and cash equivalents	-8,005	0
Cash flow from investing activities		**-8,359**	**-172**
3. Cash flow from financing activities			
+	Net deposits from taking up/granting current loans	+577	+1,296
-	Cash payments made from the redemption of financial liabilities	-834	-1,270
-	Cash payments made from the redemption of lease liabilities	-538	-412
-	Interest paid	-210	-183
Cash flow from financing activities		**-1,004**	**-569**
Changes in cash and cash equivalents		**-5,150**	**-4,386**
Cash and cash equivalents as of 1 January		12,575	19,868
Effects of exchange rate changes on cash and cash equivalents		-	-12
Cash and cash equivalents as of 30 June		**7,425**	**15,470**

Notes

1. General disclosures

Vectron Systems AG (hereinafter also referred to as "company" or "Vectron") is a stock corporation domiciled at Münster, Germany. It is registered in the commercial register at Münster District Court under commercial register number HRB 10502. On 1 March 2017, the company's shares started trading in the "Scale" segment for SMEs of Deutsche Börse AG. The company's main activities are to develop, distribute and sell integrated solutions for POS systems and related systems, including software and cloud-based data analysis, data management, goods management, CRM and service modules, interfaces for third parties, related services of any kind, and the production of the required hardware, particularly POS systems and accessories. Since acquiring acardo group, the Group also provides couponing services.

Vectron Systems AG, Münster and its subsidiaries (jointly referred to as the Group), prepared interim financial statements for the first half of 2023 until 30 June 2023 in accordance with the International Financial Reporting Standards (IFRS) and their interpretations as applicable in the European Union as of the balance sheet date. The interim financial statements are published in abbreviated form in accordance with IAS 34 "Interim Financial Reporting". These interim financial statements therefore should be read in conjunction with the audited single financial statements of Vectron Systems AG for the financial year ended on 31 December 2022.

Vectron Systems AG, together with its subsidiaries, prepares and publishes its interim financial statements in euros. Figures are rounded to thousand euros unless otherwise stated. Due to rounding, individual figures in these single financial statements may not add up to the exact total stated and the percentages may not reflect the exact absolute figures to which they relate.

The financial year matches the calendar year.

The abbreviated interim financial statements and interim management report as of 30 June 2023 were neither checked nor audited by an auditor.

2. Summary of key accounting policies

The accounting methods applied are the same as in the previous reporting period and the related interim period. Exceptions are the preparation of consolidated financial statements as of 1 January 2023 and the application of new standards that are applicable as of 1 January 2023.

The Group did not apply any standards, interpretations or amendments early.

Several amendments and interpretations must be applied as from financial year 2023 but do not affect the interim financial statements.

3. Segments

The identification of reportable operating segments is based on the management approach. When using this approach, external segment reporting is based on the Group's internal organisational and management structure as well as internal financial reporting to the responsible corporate instance (Chief Operating Decision Maker). Within the Group, Vectron's executive board is responsible for assessing and managing the segments and is therefore classified as the responsible corporate instance.

The executive board determines the segments according to their services provided. To do this, the services are broken down by their relation to Vectron's POS systems and the couponing services of acardo's companies.

Segment	Allocated companies	Purpose
POS systems	Vectron Systems AG	Developing, selling and renting of integrated solutions for POS installations and related systems, including accessories
Couponing	acardo group AG, acardo activation GmbH	Developing MarTech solutions and sales promotion concepts for certain industries

Unlike in the previous year, where only one segment was included in the annual financial statements of Vectron Systems AG, Vectron reported on two operating segments with independent managements following the acquisition of acardo group.

The management regularly checks the composition of the segments and their operating income/expenses with regard to decisions on the allocation of resources. The segments' income development is also checked, analysed and managed on a regular basis and adjustments are made if deemed necessary.

The accounting principles used for the Group's segment reporting are based on the IFRSs applied in the consolidated financial statements. Vectron assesses the segments' performance on indicators such as the EBITDA.

In the first half of 2023, Vectron generated sales in the amount of EUR 13,130 thousand and an EBITDA in the amount of EUR 311 thousand.

acardo generated revenue in the amount of EUR 5,400 thousand and an EBITDA in the amount of EUR 1,354 thousand in the same period.

4. Mergers

On 1 January 2023, Vectron acquired all of the shares in acardo group AG and acardo activation GmbH, one of the leading consumer activation providers in Germany. acardo develops innovative MarTech solutions and sales promotion concepts for the food retailers, drug stores, non-food stores, gastronomy establishments, bakeries, entertainment businesses and healthcare facilities.

The strategic goal of this transaction is to complement Vectron's and acardo's product portfolios with the companies' respective software solutions.

4.1. Transferred consideration

The transferred consideration for the acquisition of acardo is a fixed purchase price in the amount of EUR 10,714 thousand, payable in two instalments of EUR 6,700 thousand on 2 January 2023 and EUR 4,014 thousand on 31 January 2023. Of the second instalment, EUR 2,000 thousand is being deferred until 2026 at an interest rate of 6.00 % p.a. As agreed, we discounted the deferred portion, including interest payments, with Vectron Group's borrowing costs as of the balance sheet date.

The fair value of the non-deferred fixed purchase price amounts to EUR 8,714 thousand and that of the deferred fixed purchase price, including interest payments, to EUR 2,339 thousand.

Two earn-out components were also agreed. Earn-out Component I will be calculated on the basis of the average EBIT in 2024 and 2025 plus a multiplier that depends on the amount of the EBIT. 20 % of the net profit generated in financial years 2023, 2024 and 2025 will be paid out as Earn-out Component II. During the fair value measurement, the corresponding earn-out payments were derived from the existing business plan and discounted as of the balance sheet date. The fair value of the total earn-out payments amounts to EUR 18,696.6 thousand.

The fair value of the total purchase price therefore amounts to EUR 29,750.4 thousand.

4.2. Merger-related costs

The Group incurred merger-related costs in the amount of EUR 291 thousand for legal and notary fees. These costs are recognised in other operating expenses.

4.3. Identifiable acquired assets and assumed liabilities

This is a summary of the effects from the purchase price allocation:

in EUR thousand	2022
Acquired net assets before PPA	3,307.5
Effects from the PPA	
Customer relationships	7,486.6
Technology	2,247.1
Order backlog	316.5
Risk provisions	-
Deferred tax liabilities	-3,296.5
Acquired net assets	**10,061.3**
Purchase price	29,750.4
Goodwill	**19,689.1**

4.4. Fair value measurements

These are the methods used for determining the fair values of the material acquired assets:

	Measuring method
Technology	License fee analogy method: The license fee analogy method takes into account the estimated discounted payments of license fees that are expected to be saved due to the Group owning the patents.
Customer relationships	Residual value method: The residual value method measures an asset on the basis of the expected profit. The expected revenue, the Group's own cost of sales and other operating expenses as well as returns required by the capital used must be accounted for.

4.5. Goodwill

Due to the acquisition, goodwill was recognised as follows:

in EUR thousand	2022
Transferred consideration	29,750.4
Fair value of the identifiable net assets	10,061.3
Goodwill	**19,689.1**

The majority of goodwill resulted from the market shares and expected synergies from the pooling of the services. Of the recognised goodwill, none is expected to be deductible for tax purposes.

5. Measurement of financial instruments at fair value

5.1. Classifications and fair values of financial instruments

The table below shows the carrying amount and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not contain any information on the fair value for financial assets and liabilities that were not measured at fair value if the carrying amount constitutes a reasonable estimate of the fair value.

The fair value of cash and cash equivalents, current trade receivables, other current financial assets, current trade payables, current loans and other current liabilities essentially almost correspond with their carrying amount due to the short maturities of these instruments. Please refer to the list in the table below.

30/06/2023	IFRS 9 Category	Amortised costs EUR thousand	Fair value EUR thousand	Fair value Level
Financial assets				
Lease receivables	FAAC	3,316	3,316	3
Non-current trade receivables	FAAC	176	176	3
Other non-current financial assets	FAAC	642	642	3
Financial liabilities				
Borrowings	FLAC	-	-	-
Liabilities from the sales support model	FLAC	2,093	2,093	3
Liabilities from refinancing transactions	FLAC	711	711	3
Liabilities from hire purchases	FLAC	405	405	3
Earn-out liability	FLTPL	18,697	18,697	3

The Group uses data observed in the market whenever possible for determining the fair value of assets or liabilities. Based on the input factors used in the measurement methods, the fair values are broken down into the different levels of the fair value hierarchy:

- Level 1: List prices (unadjusted) in active markets for identical assets and liabilities,
- Level 2: Measurement parameters that are not list prices included in Level 1 that, however, can be directly (i.e. as a price) or indirectly (i.e. as a derivation from the price) observed for the asset or liability,
- Level 3: Measurement parameters for assets or liabilities that are not based on observable market data.

If the input factors used for determining the fair value of assets or liabilities can be allocated to different levels of the fair value hierarchy, the entire fair value measurement is allocated to the level of the fair value hierarchy that corresponds to the lowest input factor that applies to the measurement overall. The Group recognises reallocations between different fair value hierarchy levels at the end of the reporting period in which the change occurred.

The Group engaged external independent measurement experts with the determination of the material fair values, including Level 3 fair values, and is auditing the evidence and findings obtained by third parties.

5.2. Fair value measurement methods

The fair value was determined on the basis of the discounted cash flow, using a current borrowing rate. Due to unobservable input parameters, including the counterparty default risk, it is classified as level 3 within the fair value hierarchy.

The fair values of the non-current financial liabilities are based on the discounted cash flows, using the current market rate for such financing. They are classified as level 3 within the fair value hierarchy due to the use of unobservable input factors including the company's own default risk. Expected cash flows for contingent considerations are estimated on the basis of the purchase agreement modalities and the Company's knowledge about the business and the probable effects of the current economic environment on it.

As of 1 January 2023, payable contingent considerations in the amount of EUR 18,696 thousand were received.

The measurement of the payable contingent considerations bases the EBIT earn-out on a risk-adjusted discount rate of 11.05 % and an expected EBIT between EUR 4,557.5 thousand and EUR 5,789.4 thousand. For the net profit earn-out, the discount rate was the WACC (between 11.05 % and 11.13%) at an expected net profit of EUR 1,895.1 thousand (2023), EUR 3,190.2 thousand (2024) and EUR 4,052.6 thousand (2025).

Thomas Stümmler
CEO

Dr. Ralf-Peter Simon
COO

Christoph Thye
CMO

VECTRON

Vectron Systems AG
Willy-Brandt-Weg 41
48155 Münster,
Germany
T +49 (0)251 2856 0
F +49 (0)251 2856 560
www.vectron.de
ir@vectron.de